



# First Quarter

Three months ended March 31, 2010



## **Canexus Delivers Solid First Quarter with TCP on Track For May Startup**

### Highlights

- Fund declared cash distributions of \$4.7 million during first quarter, for a payout ratio of 83 percent, consistent with guidance
- Six strategic growth projects on schedule for completion in the second and third quarters of 2010, expected to generate an incremental \$50 million of operating cash flow on an annual basis; startup of the Technology Conversion Project ("TCP") at our North Vancouver plant is scheduled for late May and is expected to contribute an estimated \$35 to \$43 million in incremental annual operating cash flow; startup of the 4,400 MT sodium chlorate expansion, one of three projects in Brazil expected to contribute a total of \$5 million of incremental operating cash flow per annum, occurred on May 6, 2010
- North America sodium chlorate benefitted from stronger pulp markets, with improved volumes from previous quarter mostly offset by a decrease in realized selling prices; improving sodium chlorate industry operating rates expected to add to upward price momentum for remainder of 2010
- North America chlor-alkali revenues increased from previous quarter due to stronger caustic soda demand from pulp producers partially offset by lower MECU realized selling prices due to seasonal softening in chlorine demand in the first quarter; caustic soda is being purchased for resale during the first half of 2010 to support higher contracted sales volumes in 2010 in preparation for the startup of the TCP
- South America business unit generated gross margin of \$8 million, up 16 percent from the previous quarter on higher chlor-alkali operating rates and chlorine sales volumes due to improved merchant market demand reflective of the economic recovery; March was a record production month
- Completion of the second major rail line project into our North American Terminal Operations ("NATO") site at Bruderheim, Alberta is expected in the second quarter and should add \$2 million of incremental operating cash flow annually
- Call option contracts in place protect US \$5 million per month at US \$0.9302 from April 1 to June 30, 2010 and US \$5 million per month at US \$0.9523 from July 1 to September 30, 2010

Dear Unitholders,

On behalf of the Board and the management team of Canexus Income Fund, I am pleased to report our results for the first quarter of 2010. The Fund had a good start to what will be a very exciting year for our company. We continue to be comfortable with the guidance and outlook provided in December 2009.

Results for North America sodium chlorate are consistent with our outlook, reflecting significant improvement in the global pulp market over the last year. North America chlor-alkali is seeing improving volumes but lagging prices, with industry operating rates reaching 90 percent in March. Our Brazil business had a great start to the year as strong pulp markets and a solidly recovering economy in Brazil helped drive cash flow and significantly stronger margins compared to the first quarter last year. Our NATO business has made solid progress during its first year and we are nearing completion of the project to build access for a second major rail line into our Bruderheim site.

The completion of our current portfolio of strategic growth projects over the upcoming months will drive our transition to a new level of financial performance in 2011 and beyond. The majority of the expected \$50 million of increased annual cash flow will come from TCP, the biggest and most complex project ever undertaken by our company.

We have initiated our final transition to the new TCP plant at North Vancouver. We expect to complete our final construction tie-ins, commission the remaining systems and begin our startup sequence later in May. We look forward to the reduced costs and additional cash flow that TCP is expected to contribute.

Also, we have confirmed our intention to convert from an income trust to a corporation in 2011 and expect to maintain our distributions at current levels. As a corporation, we believe the competitive strengths and operating cash flow of our strategic business units can support current distributions in 2011 and beyond at an after-tax payout ratio of between 55 and 65 percent.

Gary Kubera  
President and Chief Executive Officer

# Management's Discussion and Analysis

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of May 11, 2010. This MD&A should be read in conjunction with:

- the unaudited consolidated financial statements of Canexus Income Fund (the "Fund") and Canexus Limited Partnership ("Canexus LP") and the notes thereto for the three months ended March 31, 2010 included in this report; and
- the audited consolidated financial statements of the Fund and Canexus LP and the notes thereto as at and for the year ended December 31, 2009 available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

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

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

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

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

Additional information relating to the Fund and Canexus LP is available on the Fund's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Non-GAAP Measures

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

EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments. EBITDA is calculated as Net Income (Loss) (a GAAP measure) plus/minus the provision for income taxes, amortization and interest expense. A reconciliation of EBITDA to Net Income (Loss) for Canexus LP for each financial period covered by this MD&A is provided on pages 12 and 13 under "Summary of Quarterly Results".

Gross Margin is a non-GAAP measure that represents the contribution of product sales and service revenues after taking into consideration the direct costs to produce products and deliver services. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions. Gross Margin is calculated as Sales Revenue less Cost of Goods Sold (both GAAP measures). Gross Margin Percentage is calculated as Gross Margin divided by Sales Revenue. The calculation of Gross Margin and Gross Margin Percentage for each financial period covered by this MD&A is provided on pages 12 and 13 under "Summary of Quarterly Results".

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

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

Distributable Cash within Canexus LP represents Cash from Operating Activities (a GAAP measure) adjusted for temporary changes in non-cash operating working capital and due from/to affiliates and other non-cash impacting expenses less maintenance capital expenditures. Maintenance capital expenditures are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels. Distributable Cash is not a recognized measure under

Canadian GAAP and therefore, the Fund's and Canexus LP's method of calculating Distributable Cash is unlikely to be comparable to methods used by other trusts. A reconciliation of Distributable Cash to Cash from Operating Activities for Canexus LP for each financial period covered by this MD&A is provided on page 5 under "Statement of Distributable Cash".

## General Description of the Fund and Canexus LP

At March 31, 2010, the Fund held a 34.9 percent (December 31, 2009 – 34.2 percent; March 31, 2009 – 35.4 percent) interest in Canexus LP, and Nexen Inc. ("Nexen") held a 65.1 percent (December 31, 2009 – 65.8 percent; March 31, 2009 – 64.6 percent) controlling interest in Canexus LP. On December 9, 2009, Nexen announced that they expect to dispose of non-core assets including their interest in Canexus in the following 12 to 24 months.

Canexus LP, through its various direct and indirect subsidiaries, produces sodium chlorate and chlor-alkali products in four plants located in Canada and one in South America, largely for the pulp and paper and water treatment industries. Canexus LP also provides fee-for-service hydrocarbon transloading services to the oil and gas industry from its terminal at Bruderheim, Alberta.

## Canexus Income Fund

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

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

## Highlights (See also "Highlights" of Canexus LP)

- Distributions to Unitholders of \$4.7 million (\$0.1368 per Unit) declared for the three months ended March 31, 2010. Distribution Reinvestment Program ("DRIP") participation by Fund Unitholders continued at an average participation rate of approximately 17 percent with \$0.8 million of distributions being reinvested during the three months ended March 31, 2010.
- Distributable Cash available to Canexus Income Fund of \$5.6 million resulted in a payout ratio of 83 percent. Distributable Cash in excess of distributions was retained to partially fund the technology conversion project ("TCP") at our North Vancouver chlor-alkali facility and other expansion projects. See "Liquidity and Capital Resources" of Canexus LP beginning on page 24.
- On May 5, 2010, the Fund announced its intention to convert to a corporation in 2011 and that it expects to maintain distributions at \$0.5472 per Unit annualized. The post conversion timing of payment of distributions is anticipated to change from monthly to quarterly.

## Summary of Quarterly Results

The changes in equity income (loss) for each of the three month periods were due to changes in the net income (loss) of Canexus LP for the same periods. The equity loss from the investment in Canexus LP for the three months ended December 31, 2008 was primarily due to charges to Canexus LP's net income for unrealized currency translation losses on its US dollar denominated long-term debt.

CAD thousands, except per unit amounts	Three Months Ended			
	March 31 2010	December 31 2009	September 30 2009	June 30 2009
Equity Income from Investment in Canexus LP	5,567	4,239	13,179	5,994
Net Income	2,906	6,806	12,835	5,716
Net Income Per Unit (\$/Unit)	0.09	0.21	0.38	0.17
Diluted Net Income Per Unit (\$/Unit)	0.08	0.18	0.36	0.17
Distributions Declared	4,704	4,611	4,573	4,541
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	5,648	4,734	7,417	6,742

Note:

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

	Three Months Ended			
	March 31	December 31	September 30	June 30
<i>CAD thousands, except per unit amounts</i>	2009	2008	2008	2008
Equity Income (Loss) from Investment in Canexus LP	2,062	(6,243)	1,791	3,602
Net Income (Loss)	2,168	(5,731)	2,122	2,922
Net Income (Loss) Per Unit (\$/Unit)	0.07	(0.18)	0.07	0.09
Diluted Net Income (Loss) Per Unit (\$/Unit)	0.07	(0.18)	0.07	0.09
Distributions Declared	4,500	5,926	4,406	4,370
Distributions Declared (\$/Unit)	0.1368	0.1824	0.1368	0.1368
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	9,737	7,174	9,248	6,774

Note:

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

## Results of Operations

### Investment in Canexus LP

At March 31, 2010, the Fund had an investment in 34,683,405 Ordinary LP Units (34.9 percent) of Canexus LP at a cost of \$330.7 million. At December 31, 2009, the Fund had an investment in 33,701,807 Ordinary LP Units (34.2 percent) of Canexus LP at a cost of \$324.7 million. The Fund accounts for this investment using the equity method.

For the three months ended March 31, 2010, the Fund's equity income from Canexus LP was \$5.6 million (March 31, 2009 – \$2.1 million) and the carrying value of this investment at March 31, 2010 was \$ 302.2 million (December 31, 2009 – \$295.6 million).

### Investment in Debentures of Canexus LP

At March 31, 2010, the Fund held \$81.5 million of Debentures of Canexus LP (March 31, 2009 – NIL) which bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2014. The Fund recognized \$1.7 million of interest income on the Debentures for the three months ended March 31, 2010.

### Expenses

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

The Fund recognized \$1.7 million of interest expense and \$0.3 million of accretion expense on the Convertible Debentures for the three months ended March 31, 2010 (see "Convertible Debentures" on page 8).

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

On March 3, 2010, the Board of Directors of Canexus Limited approved an amendment to the TUIP to allow recipients of grants awarded in 2005 the option to receive cash or Units upon exercise of their 2005 grants. As a result of this amendment, the fair value of these awards at the date of amendment (\$0.4 million) was transferred from contributed surplus to a liability. The liability is remeasured at each subsequent reporting period end to its fair value. During the three months ended March 31, 2010, recipients of 2005 grants exercised 33,000 options for cash. As the expense related to 2005 options exercised is related to employees of either Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus U.S. Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovers this expense at the time of exercise from either CCCLP, CUI or Canexus Brazil as applicable.

Under the TUIP (excluding 2005 grants), expense is recognized over the vesting period or other expected term of service with a corresponding increase to contributed surplus since these instruments are settled by issuing units of the Fund ("Unit" or "Units") and are not settled in cash. Under the UARP and for 2005 grants under the TUIP, expense is recognized over the vesting period or other expected term of service with a corresponding increase in liabilities as these instruments are settled in or may be settled in cash. As the expense for the UARP is related to employees of CCCLP it will be recovered from CCCLP at the time of exercise

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

**Statement of Distributable Cash**

<i>CAD thousands, except as noted</i>	Three Months Ended	
	March 31, 2010	March 31, 2009
<b>Canexus LP</b>		
Net Income	16,141	5,749
Realized Foreign Exchange Losses on Cash	571	36
Charges and Credits to Income Not Involving Cash		
Provision for (Recovery of) Future Income Taxes	(854)	1,993
Amortization	11,543	11,743
Unrealized (Gains) Losses on Currency Translation	(7,344)	5,124
Change in Fair Value of Foreign Exchange Options	587	5,949
Change in Fair Value of Foreign Exchange Forward	-	1,916
Change in Fair Value of Interest Rate Swaps	510	509
Accrual for Future TCP Severance Costs	-	(981)
Other	1,066	1,629
Total Charges and Credits to Income Not Involving Cash	5,508	27,882
Contributions to / Payments for Defined Benefit Plans	(570)	(1)
Interest Income on Restricted Investments	(1)	(163)
Expenditures on Asset Retirement Obligations	(25)	(33)
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net and Interest Payable to Affiliates	2,416	(4,748)
Cash From Operating Activities	24,040	28,722
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net and Interest Payable to Affiliates	(2,416)	4,748
Maintenance Capital Expenditures	(2,440)	(3,111)
Amortization of the Purchase Cost of Foreign Exchange Options	(1,057)	(1,253)
Realized Foreign Exchange Losses on Cash	(571)	(36)
Operating Non-Cash Items	(644)	(1,595)
Distributable Cash within Canexus LP <sup>(1)</sup>	16,912	27,475
<b>Canexus Income Fund</b>		
Share of Canexus LP's Distributable Cash	5,823	9,848
Trust Administration Expenses	(175)	(111)
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	5,648	9,737
Distributions Declared	4,704	4,500
Payout Ratio <sup>(1)</sup>	83%	46%

Note:

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

Net income for the three months ended March 31, 2010 increased from the three months ended March 31, 2009 primarily as a result of unrealized currency translation gains on our US dollar denominated long-term debt, changes in fair value of held-for-trading financial instruments and a recovery of future income taxes, as compared to a provision for future income taxes for the three months ended March 31, 2009, partially offset by lower Gross Margin. See Canexus LP "Changes in Net Income Three Months Ended March 31, 2010 versus Three Months Ended March 31, 2009" on page 14 for further discussion.

See Canexus LP "Cash Flow from Operating Activities" on page 26 for a discussion of changes in cash flow from operating activities.

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

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

### **Income Taxes**

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

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts received Royal Assent (the "SIFT Rules"). As a result, the Fund has recognized a \$9.4 million future income tax liability on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

Commencing in 2011, a federal tax will be applied to distributions from publicly traded income trusts (the "SIFT tax") which could result in reduced cash available for distributions. The rate of SIFT tax will be equal to the prevailing general federal corporate income tax rate (slated to be 16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial SIFT tax rate" which under enacted regulations will be based on the prevailing provincial corporate income tax rates in the provinces where the Specified Investment Flow-Through ("SIFT") has a permanent establishment. Based on current enacted rates it is anticipated that the provincial SIFT tax rate will be approximately 11.1 percent in 2011 and 2012. This will result in a combined federal and provincial tax rate of approximately 27.6 percent for 2011 and 26.1 percent for 2012 and subsequent years. Under the Tax Act, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to avoid being subject to the SIFT tax before then. On December 15, 2006 the Government issued guidelines with respect to what it would consider normal growth for existing income trusts. Under these guidelines, the amount of equity units that an income trust can issue prior to 2011 may not exceed the greater of \$50 million and the value of its publicly traded equity units on October 31, 2006 (subject to annual limits). In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

On December 4, 2008, the Minister of Finance released explanatory notes for the Notice of Ways and Means Motion that was tabled on November 28, 2008. The explanatory notes contain revisions to the "normal growth" guidelines. Under the revised normal growth guidelines the "safe harbour" amount has been accelerated. The revised guidelines permit a SIFT to immediately issue new equity to bring its cumulative growth up to 100 percent of its October 31, 2006 capitalization. Under the normal growth guidelines, the Fund had available at March 31, 2010 a "safe harbour" amount of \$102.9 million. This amount does not include equity that the Fund could issue to replace debt that was outstanding at October 31, 2006 nor does it include equity that would be issued for the Exchangeable LP Units issued to Nexen outstanding at October 31, 2006.

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

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

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

On July 14, 2008, the Department of Finance released draft legislation to enable the conversion of existing publicly traded trusts into public corporations without immediate tax consequences to the trusts or their investors. This legislation, with some amendments, received Royal Assent on March 12, 2009.

On May 5, 2010, the Fund announced its intention to convert to a corporation in 2011 and that it expects to maintain distributions at \$0.5472 per Unit annualized. Any distributions made as an income trust in 2011, prior to conversion to a corporation, are expected to be a return of capital to Unitholders.

## Distributions

The Fund made monthly distributions of \$0.0456 per Unit for the period January 1, 2010 to March 31, 2010 for total distributions declared of \$4.7 million (\$0.1368 per Unit) for the three months ended March 31, 2010.

At March 31, 2010, the Fund had distributions receivable from Canexus LP of \$1.6 million. Upon receipt of these distributions in April 2010, the Fund paid distributions payable of \$1.6 million outstanding at March 31, 2010.

## Selected Annual Financial Information

<i>CAD thousands, except per unit amounts</i>	2009	2008	2007
Equity Income (Loss) from Investment in Canexus LP	25,474	(2,141)	21,047
Net Income (Loss)	27,525	(2,587)	5,533
Net Income (Loss) (\$/Unit)	0.83	(0.08)	0.17
Diluted Net Income (Loss) (\$/Unit)	0.78	(0.08)	0.17
Distributions Declared	18,225	19,048	26,908
Distributions Declared (\$/Unit)	0.5472	0.5928	0.8475
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	28,630	31,165	22,141
	2009	2008	2007
Total Assets	383,350	287,519	304,183
Total Long-Term Financial Liabilities	78,496	-	-

Note:

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

## Liquidity and Capital Structure Outstanding Securities of the Fund

At March 31, 2010, the Fund had 34,897,416 Units outstanding (May 11, 2010 – 35,980,316).

At March 31, 2010, Nexen held 64,835,420 Exchangeable LP Units of Canexus LP (May 11, 2010 – 64,835,420) each of which is exchangeable into one Unit of the Fund at no cost at any time at the option of Nexen and each of which carries a special voting right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

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

## Convertible Debentures

At March 31, 2010 and December 31, 2009, the Fund had two series of convertible unsecured subordinated debentures denoted as Series I Debentures and Series II Debentures (the "Convertible Debentures") outstanding as follows:

	Series I		Series II	
Maturity Date	December 31, 2014		December 31, 2014	
Fixed Distribution Rate	8.00%		8.00%	
Conversion Price	\$5.10		\$5.10	
	Series I	Series II	Unamortized Discount	Total Carrying Value
Outstanding, December 31, 2009	45,780	40,000	(7,284)	78,496
Issued	-	-	-	-
Converted	(4,299)	-	358	(3,941)
Accretion of Discount	-	-	263	263
Outstanding, March 31, 2010	41,481	40,000	(6,663)	74,818
Quoted Market Value				
March 31, 2010	50,192	48,400		
December 31, 2009	50,129	43,800		

Interest is payable on the Convertible Debentures of both series on December 31 and June 30 of each year.

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

The Series II Debentures were issued through a private placement to Nexen, an affiliate. The terms and conditions of the Series II Debentures are as disclosed above for the Series I Debentures with certain exceptions, including that they are convertible into Exchangeable LP Units of Canexus LP and that the Fund may elect to pay principal and interest upon maturity or redemption by issuing Exchangeable LP Units of Canexus LP.

## Business Risks

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

For a discussion of certain risks related to Canexus LP's operations, see the "Market and Financial Risk Analysis" discussion relating to Canexus LP beginning on page 30. Additional risk factors relating to the Fund and Canexus LP's operations are contained in the Fund's Annual Information Form filed on the Fund's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Guarantees

The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's extendible revolving credit facilities and senior secured notes ("Senior Secured Notes") in "events of default" as defined in each of the extendible revolving credit facilities agreements and the note indenture governing the Senior Secured Notes filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### Transactions With Related Parties

Due from affiliates, net, at March 31, 2010 and December 31, 2009 represent amounts owing to the Fund by Canexus Limited.

Canexus Limited, as administrator of the Fund and indirectly, the Trustee of Canexus Commercial Trust and the General Partner of Canexus LP, incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the three months ended March 31, 2010 and 2009 was \$23,000.

The Series II Convertible Debentures outstanding at March 31, 2010 are held by Nexen. Interest expense recognized on the Series II Debentures for the three months ended March 31, 2010 was \$0.8 million. The accretion of the Series II Debentures for the three months ended March 31, 2010 was \$0.1 million. At March 31, 2010, \$0.8 million of interest was payable to Nexen on the Series II Debentures (December 31, 2009 – \$9,000).

At March 31, 2010 and December 31, 2009, the Fund held Debentures of Canexus LP as follows:

	March 31, 2010	December 31, 2009
Outstanding, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(4,299)	(220)
Outstanding, End of Period	81,481	85,780

Interest income recognized on these Debentures for the three months ended March 31, 2010 was \$1.7 million. At March 31, 2010, \$1.7 million was receivable from Canexus LP for interest income on the Debentures (December 31 – \$19,000). At March 31, 2010, \$0.7 million of promissory notes were payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP (December 31, 2009 - \$0.2 million). Promissory notes payable are included in Due to Affiliates, Net, at March 31, 2010 and December 31, 2009 in the Fund's unaudited consolidated balance sheet at March 31, 2010 and audited consolidated balance sheet at December 31, 2009.

### Critical Accounting Estimates

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

## Canexus Limited Partnership

Canexus Limited Partnership (hereinafter referred to as “Canexus LP”, “we” or “our”) is a limited partnership established under the laws of Alberta. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in four plants located in Canada and one plant located in South America, largely for the pulp and paper and water treatment industries. Canexus LP also provides fee-for-service hydrocarbon transloading services to the oil and gas industry from its terminal at Bruderheim, Alberta.

We have Canadian sodium chlorate production facilities located in Beauharnois, Quebec; Brandon, Manitoba and Nanaimo, British Columbia; and a chlor-alkali production facility located in North Vancouver, British Columbia. Our South American sodium chlorate and chlor-alkali production facility is located in Espirito Santo, Brazil. Canexus LP’s head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

At March 31, 2010, Canexus Income Fund (“the Fund”) held a 34.9 percent (December 31, 2009 – 34.2 percent; March 31, 2009 – 35.4 percent) interest, and Nexen Inc. (“Nexen”) held a 65.1 percent (December 31, 2009 – 65.8 percent; March 31, 2009 – 64.6 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner (“General Partner”), which holds a 0.01 percent interest in Canexus LP.

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

### Executive Summary

First quarter 2010 financial results for Canexus LP were consistent with the guidance provided in December 2009 with Distributable Cash within Canexus LP of \$16.9 million and a payout ratio of 83 percent. Distributable Cash within Canexus LP was 38 percent lower than the first quarter of 2009 primarily due to lower realized selling prices resulting from anticipated softer market pricing and the stronger Canadian dollar, partially offset by improved customer demand. Our focus through the first quarter of 2010 continued to be on the advancement of our portfolio of strategic growth projects which will enhance our low-cost advantages and increase cash flow for the long term. We continue to expect financial performance to improve in the second half of 2010 with strengthening sales volumes and pricing for our products, realization of the benefits of reduced costs from the technology conversion project (“TCP”) at our North Vancouver chlor-alkali facility and the contributions from our other strategic growth projects which are expected to come on stream during 2010.

An increase in sales volumes for the first quarter of 2010 in our North America sodium chlorate business unit, as compared to the first quarter of 2009, was more than offset by lower realized selling prices resulting in a seven percent decline in sales revenue. Gross Margin Percentage declined as a result of lower realized selling prices, partially mitigated by lower fixed costs and higher production volumes. Modest price increases are being realized for the second quarter of 2010 as a result of first quarter price increase announcements.

Our North American Terminal Operations project to construct rail infrastructure for access by a second major rail carrier at the Bruderheim, Alberta site is nearing completion and is anticipated to add an incremental \$2 million in annual operating cash flow. Discussions with parties interested in the significant advantages of this site resulting from existing cavern storage and pipeline proximity for accessing the oilsands region continued through the first quarter.

Our North America chlor-alkali business unit also saw a decline in sales revenue and Gross Margin Percentage for the first quarter of 2010 as compared to the first quarter of 2009. This decline was primarily the result of softer market pricing, partially mitigated by lower natural gas costs and lower fixed costs.

The TCP is nearing completion and is expected to start-up in the second quarter. Our North Vancouver chlor-alkali facility was shut down on April 30, 2010 for completion of final construction and commissioning and implementation of the start-up transition plan and is expected to begin production utilizing the membrane technology in late May. The TCP is anticipated to add \$35 to \$43 million in incremental annual operating cash flow.

The hydrochloric acid expansion project at our North Vancouver chlor-alkali facility to expand capacity by 70,000 wet metric tonnes is on track for start-up in July 2010 and is expected to add \$2 million in incremental annual operating cash flow.

Gross Margin Percentage for our South America business unit increased to 34 percent for the first quarter of 2010 from 19 percent for the first quarter of 2009. Lower fixed costs and higher production volumes contributed to this increase. Absolute Gross Margin was \$8 million in the first quarter of 2010 versus \$4.6 million in the first quarter of 2009 due to an annual plant maintenance shut down in 2009 and to the purchase of caustic soda up to our chlor-alkali plant's operating capacity volume at market prices which were higher than the price we could bill our primary customer.

Both the 4,400 metric tonne sodium chlorate expansion project and the project to sell excess hydrogen underway at our South America facility are on track for start-up in the second quarter of 2010. The hydrochloric acid expansion project, which is supported by a long-term take-or-pay contract and will provide flexibility for managing chlorine production, is on schedule for start-up in the third quarter. These three projects are anticipated to provide incremental annual operating cash flow of \$5 million.

Effective April 15, 2010, Canexus LP's Extendible Revolving Credit Facility has been increased from \$420 million to \$440 million and its US \$20 million Senior Secured Revolving Credit Facility has been repaid and cancelled. Maturity of Canexus LP's senior secured credit facilities (which now includes the \$440 million Extendible Revolving Credit Facility and the US \$10 million EDC Extendible Revolving Credit Facility) has been extended to August 18, 2012. The amended senior secured credit facilities agreements and the note indenture governing Canexus LP's Senior Secured Notes conditionally provide for further relaxation of financial covenants for an extended period to potentially finance a possible next phase of expansion at our North American Terminal Operations at Bruderheim, Alberta. See "Capital Resources" on 28.

## Highlights

- Distributable Cash within Canexus LP of \$16.9 million for the three months ended March 31, 2010.
- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder were \$0.1368 per LP Unit for total distributions declared of \$13.6 million.
- Six strategic growth projects on schedule for completion in the second and third quarters of 2010 are expected to generate an incremental \$50 million of operating cash flow on an annual basis. The start-up of the TCP at our North Vancouver chlor-alkali facility is scheduled for late May and is expected to add \$35 to \$43 million in incremental annual operating cash flow. Start-up of the 4,400 metric tonne sodium chlorate expansion, one of three projects at our South American facility which are expected to contribute a total of \$5 million of incremental operating cash flow per annum, occurred on May 6, 2010.
- Our North America sodium chlorate business unit benefitted from stronger pulp markets, with improved volumes from the fourth quarter of 2009 mostly offset by a decrease in realized selling prices. Improving sodium chlorate industry operating rates are expected to add to upward price momentum for the remainder of 2010.
- North America chlor-alkali sales revenue increased from the fourth quarter of 2009 due to stronger caustic soda demand from pulp producers, partially offset by lower metric electro-chemical unit ("MECU") realized selling prices due to seasonal softening in chlorine demand in the first quarter. We are purchasing caustic soda for resale during the first half of 2010 to support higher contracted sales volumes in 2010 in preparation for the start-up of the TCP. Our North Vancouver chlor-alkali plant's operating rate was 92 percent in the first quarter of 2010; above the average industry operating rate of 85 percent.
- Our South America business unit generated \$8 million of Gross Margin in the first quarter of 2010, up 16 percent from the fourth quarter of 2009, on higher chlor-alkali operating rates and chlorine sales volumes due to improved merchant market demand reflective of the economic recovery. March 2010 was a record production month for this business unit.
- Completion of the project to build access for a second major rail line into our North America Terminal Operations site at Bruderheim, Alberta is expected in the second quarter and is expected to add \$2 million in incremental operating cash flow annually.
- Canadian dollar foreign exchange call option contracts in place protect US \$5 million per month at US \$0.9302 from April 1, 2010 to June 30, 2010 and US \$5 million per month at US \$0.9523 from July 1, 2010 to September 30, 2010.
- Effective April 15, 2010, Canexus LP's Extendible Revolving Credit Facility has been increased from \$420 million to \$440 million and its US \$20 million Senior Secured Revolving Credit Facility has been repaid and cancelled. Maturity of Canexus LP's senior secured credit facilities (which now includes the \$440 million Extendible Revolving Credit Facility and the US \$10 million EDC Extendible Revolving Credit Facility) has been extended to August 18, 2012. Total borrowings under committed credit facilities were \$298 million with remaining available undrawn capacity of approximately \$163 million.

## Summary of Quarterly Results

CAD thousands, except as noted	Three Months Ended			
	March 31 2010	December 31 2009	September 30 2009	June 30 2009
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	108	103	106	92
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	40	42	48	44
Sales Revenue	113,715	110,508	114,883	109,237
Cost of Goods Sold	81,805	81,657	78,239	74,583
Gross Margin <sup>(1)</sup>	31,910	28,851	36,644	34,654
Gross Margin Percentage <sup>(1)</sup>	28%	26%	32%	32%
Net Income	16,141	12,407	38,364	17,132 <sup>(3)</sup>
Plus: Provision for Income Taxes	450	1,481	2,546	3,619
Plus: Amortization	11,543	11,159	11,775	11,644
Plus: Interest Expense	1,571	2,037	1,864	1,552
EBITDA <sup>(1)</sup>	29,705	27,084	54,549	33,947 <sup>(3)</sup>
Distributions Declared	13,574	13,482	13,352	13,025
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP <sup>(1)</sup>	16,912	14,066	21,854	19,489
Capital Expenditures				
Maintenance	2,440	6,747	6,244	4,000
Remediation <sup>(2)</sup>	877	1,033	2,469	1,159
Continuous Improvement	208	5,326	437	1,258
Expansion	45,046	40,073	44,321	64,975
Total Capital Expenditures	48,571	53,179	53,471	71,392
Average Foreign Exchange Rate (CAD \$)	US \$0.95	US \$0.94	US \$0.90	US \$0.82

*Notes:*

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

(2) These expenditures are being funded by restricted investments.

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

	Three Months Ended			
	March 31	December 31	September 30	June 30
<i>CAD thousands, except as noted</i>	2009	2008	2008	2008
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	99	104	118	114
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	41	41	53	46
Sales Revenue	123,819	124,493	130,373	110,763
Cost of Goods Sold	77,801	87,129	90,503	83,928
Gross Margin <sup>(1)</sup>	46,018	37,364	39,870	26,835
Gross Margin Percentage <sup>(1)</sup>	37%	30%	31%	24%
Net Income (Loss)	5,749	(16,910)	4,768	9,454
Plus: Provision for (Recovery of) Income Taxes	2,194	(3,387)	(2,526)	1,810
Plus: Amortization	11,743	11,594	11,151	10,721
Plus: Interest Expense	2,208	3,478	2,992	2,746
EBITDA <sup>(1)</sup>	21,894	(5,225)	16,385	24,731
Distributions Declared	12,617	16,682	11,757	11,496
Distributions Declared (\$/Unit)	0.1368	0.1824 <sup>(2)</sup>	0.1368	0.1368
Distributable Cash within Canexus LP <sup>(1)</sup>	27,475	19,601	24,776	18,009
Capital Expenditures				
Maintenance	3,111	9,166	2,126	2,372
Remediation	497	1,638	-	-
Continuous Improvement	1,685	576	1,665	1,659
Expansion	30,949	20,319	20,703	14,487
Total Capital Expenditures	36,242	31,699	24,494	18,518
Average Foreign Exchange Rate (CAD \$)	US \$0.81	US \$0.87	US \$0.97	US \$1.00

Notes:

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

(2) Includes a special distribution of \$0.0456 per LP Unit declared December 11, 2008.

## Results of Operations

### Changes in Net Income Three Months Ended March 31, 2010 versus Three Months Ended March 31, 2009

Net Income for the Three Months Ended March 31, 2009	5,749
Items Increasing (Decreasing) Net Income	
Sales Revenue	(10,104)
Cost of Goods Sold	(4,004)
Amortization	200
General and Administrative Expense	929
Interest Expense	637
Change in Fair Value and Realized Gains on Foreign Exchange Options	6,091
Change in Fair Value and Realized Losses on Interest Rate Swaps	(170)
Change in Fair Value of Foreign Exchange Forward	1,916
Currency Translation Gains (Losses)	13,387
Income Taxes	1,744
Accrual for Future TCP Severance Costs	(981)
Allowance for Doubtful Accounts	650
Reversal of Impairment in Value of Asset Backed Commercial Paper ("ABCP")	172
Other	(75)
Net Income for the Three Months Ended March 31, 2010	16,141

Net income for the three months ended March 31, 2010 increased by \$10.4 million from the three months ended March 31, 2009 primarily as a result of unrealized currency translation gains on our US dollar denominated long-term debt, changes in fair value of held-for-trading financial instruments and a recovery of future income taxes, as compared to a provision for future income taxes for the three months ended March 31, 2009, partially offset by lower Gross Margin.

#### A decrease in Gross Margin of \$14.1 million decreased net income

CAD thousands, except as noted

	North America			Total
	Sodium Chlorate <sup>(2)</sup>	Chlor-alkali	South America	
<b>Three Months Ended March 31, 2010</b>				
Sales Revenue	52,938	37,062	23,715	113,715
Cost of Goods Sold	35,847	30,284	15,674	81,805
Gross Margin <sup>(1)</sup>	17,091	6,778	8,041	31,910
Gross Margin Percentage <sup>(1)</sup>	32%	18%	34%	28%

CAD thousands, except as noted

	North America			Total
	Sodium Chlorate	Chlor-alkali	South America	
<b>Three Months Ended March 31, 2009</b>				
Sales Revenue	57,209	42,362	24,248	123,819
Cost of Goods Sold	33,531	24,597	19,673	77,801
Gross Margin <sup>(1)</sup>	23,678	17,765	4,575	46,018
Gross Margin Percentage <sup>(1)</sup>	41%	42%	19%	37%

Notes:

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

(2) Revenues and costs for the North American Terminal Operations for the three months ended March 31, 2010 are included in North America Sodium Chlorate.

#### North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment decreased seven percent to \$52.9 million for the three months ended March 31, 2010 from \$57.2 million for the three months ended March 31, 2009 due to a 20 percent decrease in realized selling prices, partially offset by a 12 percent increase in sales volumes. The decrease in realized selling prices was due to somewhat lower delivered selling prices and the stronger Canadian dollar in the first quarter of 2010 (US \$0.95) as compared to the first quarter of 2009 (US \$0.81). The increase in sales volumes was due to increased operating rates at customer facilities as the global economy continues to recover from the recession. The Gross Margin Percentage decreased to 32 percent from 41 percent due to the decrease in realized selling prices, partially offset by lower fixed costs and higher production volumes.

### *North America Chlor-alkali*

Sales revenue for the North America chlor-alkali segment decreased 13 percent to \$37.1 million for the three months ended March 31, 2010 from \$42.4 million for the three months ended March 31, 2009 primarily due to lower MECU realized selling prices and lower hydrochloric acid sales volumes, partially offset by higher caustic soda sales volumes. The increase in caustic soda sales volumes was due to improved demand from pulp producers. Lower hydrochloric acid sales volumes and lower MECU realized selling prices were due to excess capacity in the market resulting from the economic downturn. North American chlor-alkali industry operating rates improved to 90 percent in March 2010. The Gross Margin Percentage decreased to 18 percent from 42 percent primarily due to lower MECU realized selling prices, partially offset by lower electricity and natural gas prices, and lower fixed costs.

### *South America*

Sales revenue in South America decreased two percent to \$23.7 million for the three months ended March 31, 2010 from \$24.2 million for the three months ended March 31, 2009 primarily as a result of lower caustic soda and sodium chlorate sales volumes and lower caustic soda realized selling prices, partially offset by higher chlorine sales volumes. The decrease in sodium chlorate sales volumes was due to reduced demand from our primary customer in January and February. The increase in chlorine sales volumes was due to improved demand in the merchant market reflective of the economic recovery. Lower caustic soda realized selling prices were primarily due to the stronger Canadian dollar in the first quarter of 2010 (US \$0.95) versus the first quarter of 2009 (US \$0.81). The Gross Margin Percentage increased to 34 percent from 19 percent due to lower fixed costs and higher production. Absolute Gross Margin was \$8 million in the first quarter of 2010 as compared to \$4.6 million in the first quarter of 2009 due to an annual plant maintenance shut down in 2009 and to the purchase of caustic soda up to our chlor-alkali plant's operating capacity volume at market prices, which were higher than the price we could bill our primary customer.

### *Lower amortization expense increased net income by \$0.2 million*

Amortization expense decreased for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, due to the closure of our Bruderheim, Alberta sodium chlorate plant in the second quarter of 2009, partially offset by an increase in amortization resulting from the amortization of maintenance capital projects completed during 2009 and the assets of our North American Terminal Operations.

### *Lower general and administrative expense increased net income by \$0.9 million*

General and administrative expense was lower for the three months ended March 31, 2010 as a result of lower costs associated with the review and implementation of SAP chemicals best practices processes and to lower bonus amounts paid.

### *Lower interest expense increased net income by \$0.6 million*

The decrease in interest expense for the three months ended March 31, 2010 was due to lower interest rates and higher interest capitalized to major projects, partially offset by higher borrowings and interest on the Debentures.

The amount outstanding on our Extendible Revolving Credit Facility (see "Capital Resources" on page 28) at March 31, 2010 was US \$225.5 million, as compared to US \$177 million at March 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2010 as compared to 2.20 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2009.

The amount outstanding on our Senior Secured Revolving Credit Facility (see "Capital Resources" on page 28) at March 31, 2010 was US \$12 million as compared to US \$7.4 million at March 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent for the three months ended March 31, 2010 as compared to 2.20 percent for the three months ended March 31, 2009.

The amount outstanding on Canexus Quimica Brasil Ltda.'s ("Canexus Brazil", an indirect wholly owned subsidiary of Canexus LP) EDC Extendible Revolving Credit Facility (see "Capital Resources" on page 28) was US \$6 million at March 31, 2010 as compared to US \$6 million at March 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent for the three months ended March 31, 2010 as compared to 2.26 percent for the three months ended March 31, 2009.

At March 31, 2010, Canexus LP had \$81.5 million of Debentures outstanding (March 31, 2009 – NIL) which are held by the Fund. The Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014.

Interest capitalized on major projects was \$2.2 million for the three months ended March 31, 2010 as compared to \$0.5 million for the three months ended March 31, 2009.

#### Changes in foreign exchange options increased net income by \$6.1 million

During the three months ended March 31, 2010 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9479 for the period January 1, 2010 to March 31, 2010; and
- US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9302 for the period January 1, 2010 to June 30, 2010.

Realized gains of \$0.7 million and mark-to-market fair value losses of \$0.6 million were recorded on these foreign exchange call option contracts for a net gain of \$0.1 million for the three months ended March 31, 2010. Realized gains resulted from the US dollar being above the foreign exchange call option contracts during the three months ended March 31, 2010. Mark-to-market fair value losses resulted from market expectations of the future value of the Canadian dollar relative to the US dollar during the three months ended March 31, 2010 and to the expiry of foreign exchange call option contracts on March 31, 2010. At March 31, 2010, the fair value of these foreign exchange call option contracts was \$0.9 million.

During the three months ended March 31, 2009 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

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

Mark-to-market fair value losses of \$5.9 million were recorded on these foreign exchange call option contracts for the three months ended March 31, 2009.

#### Changes in interest rate swaps decreased net income by \$0.2 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. Mark-to-market fair value losses of \$0.5 million and realized losses of \$0.4 million were recorded on these interest rate swaps for a total loss of \$0.9 million for the three months ended March 31, 2010. Mark-to-market fair value losses resulted from market expectations of future three month US LIBOR floating rates and the shorter remaining term of these interest rate swap agreements. Realized losses resulted from US LIBOR floating rates being below the fixed rate of interest of 3.2 percent during the three months ended March 31, 2010. At March 31, 2010, the fair value of these interest rate swap agreements resulted in a financial liability of \$2.6 million. Mark-to-market fair value losses of \$0.5 million and realized losses of \$0.2 million for a total loss of \$0.7 million were recorded on these interest rate swaps for the three months ended March 31, 2009.

#### Changes in a foreign exchange forward contract increased net income by \$1.9 million

Canexus LP had a foreign exchange forward contract to buy JPY 1.74 billion at a rate of 108.11 JPY per US dollar in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant which was settled on May 20, 2009. Mark-to-market fair value losses of \$1.9 million were recorded on this foreign exchange forward contract during the three months ended March 31, 2009.

#### Changes in currency translation gains (losses) increased net income by \$13.4 million

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

During the three months ended March 31, 2010 fluctuations in exchange rates resulted in unrealized gains of \$7.3 million and realized losses of \$0.7 million for a net gain of \$6.6 million as compared to unrealized losses of \$5.1 million and realized losses of \$1.6 million for a total loss of \$6.7 million for the three months ended March 31, 2009.

During the three months ended March 31, 2010 we recorded an unrealized currency translation gain of \$8.6 million on our US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar relative to the US dollar during the period. During the three months ended March 31, 2009 we recorded an unrealized currency translation loss of \$7.7 million on our US dollar denominated long-term debt as a result of the significant devaluation of the Canadian dollar during this period and realized losses of \$0.7 million on repayments of US \$9.6 million of our US dollar denominated long-term debt for a total loss of \$8.4 million.

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

#### Lower income taxes increased net income by \$1.7 million

Income taxes decreased for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, primarily due to a decrease in taxable temporary differences between the accounting carrying amount and the tax basis of assets associated with certain Canadian and foreign corporate subsidiaries.

#### Changes in the accrual for estimated future TCP severance costs payable decreased net income by \$1.0 million

During the three months ended March 31, 2009 we lowered our estimate of severance costs payable to employees following start-up in 2010 of the TCP at our North Vancouver chlor-alkali facility by \$1 million as a result of a current assessment of expected total costs. We initially accrued estimated costs of \$7.3 million in 2008 for severance payable to employees. These costs and other terms and conditions governing the treatment of employees impacted by the TCP were negotiated and agreed to with the collective bargaining units in 2007. Following start-up of the TCP we expect to be able to permanently reduce our work force at this facility by approximately one-third.

#### Changes in an allowance for doubtful accounts increased net income by \$0.7 million

During the three months ended March 31, 2009, Canexus LP recorded an increase of \$0.7 million in its general allowance for doubtful accounts to cover potential credit risk loss exposure to existing customers.

#### Reversal of impairment in value of ABCP increased net income by \$0.2 million

We have estimated the fair market value of our \$4.1 million investment in restructured notes, which replaced our investment in non-bank sponsored asset backed commercial paper, to be \$2.5 million at March 31, 2010. During the three months ended December 31, 2008 we recorded \$1.6 million of impairment charges, in addition to \$0.6 million recorded in the three months ended December 31, 2007, for total impairment charges recorded of \$2.2 million. During the three months ended March 31, 2010 we reversed impairment charges of \$0.2 million, in addition to \$0.4 million reversed during the three months ended December 31, 2009, for total impairment charges reversed of \$0.6 million. At March 31, 2010, Canexus LP had a \$1.6 million allowance for an estimated impairment loss on the restructured notes.

### Capital Expenditures

Capital expenditures for the three months ended March 31, 2010 were \$48.6 million as compared to the three months ended March 31, 2009 of \$36.2 million. The increase in capital expenditures was due to an increase in expansion capital expenditures of \$14.1 million and remediation capital expenditures of \$0.4 million, partially offset by a decrease in maintenance capital expenditures of \$0.6 million and continuous improvement capital expenditures of \$1.5 million.

TCP spending at March 31, 2010 was \$246.6 million including capitalized interest of \$8.5 million. The TCP will replace existing 50-year old diaphragm technology and assets with proven membrane technology that is newer, more cost-efficient and environmentally friendly. Project benefits are expected to include incremental annual operating cash flow of between \$35 and \$43 million as a result of decreased production costs and increased plant capacity.

## Changes in Net Income Three Months Ended March 31, 2010 versus Three Months Ended December 31, 2009

Net Income for the Three Months Ended December 31, 2009	12,407
Items Increasing (Decreasing) Net Income	
Sales Revenue	3,207
Cost of Goods Sold	(148)
Amortization	(384)
General and Administrative Expense	188
Interest Expense	466
Change in Fair Value and Realized Gains on Foreign Exchange Options	(52)
Change in Fair Value and Realized Losses on Interest Rate Swaps	(846)
Currency Translation Gains	559
Income Taxes	1,031
Reversal of Impairment in Value of ABCP	(281)
Other	(6)
Net Income for the Three Months Ended March 31, 2010	16,141

Net income for the three months ended March 31, 2010 increased by \$3.7 million from the three months ended December 31, 2009 primarily as a result of higher sales revenue and lower income taxes. Lower future income taxes were partially offset by higher current income taxes.

### An increase in Gross Margin of \$3.1 million increased net income

CAD thousands, except as noted

	North America			Total
	Sodium Chlorate <sup>(2)</sup>	Chlor-alkali	South America	
<b>Three Months Ended March 31, 2010</b>				
Sales Revenue	52,938	37,062	23,715	113,715
Cost of Goods Sold	35,847	30,284	15,674	81,805
Gross Margin <sup>(1)</sup>	17,091	6,778	8,041	31,910
Gross Margin Percentage <sup>(1)</sup>	32%	18%	34%	28%

CAD thousands, except as noted

	North America			Total
	Sodium Chlorate <sup>(2)</sup>	Chlor-alkali	South America	
<b>Three Months Ended December 31, 2009</b>				
Sales Revenue	52,532	34,263	23,713	110,508
Cost of Goods Sold	37,322	27,574	16,761	81,657
Gross Margin <sup>(1)</sup>	15,210	6,689	6,952	28,851
Gross Margin Percentage <sup>(1)</sup>	29%	20%	29%	26%

Notes:

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

(2) Revenues and costs for the North American Terminal Operations for the three months ended March 31, 2010 and December 31, 2009 are included in North America Sodium Chlorate.

### North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased one percent to \$52.9 million for the three months ended March 31, 2010 from \$52.5 million for the three months ended December 31, 2009 due to a four percent increase in sales volumes which was mostly offset by a decrease in realized selling prices. The increase in sales volumes was due to increased operating rates at customer facilities as the global economy continues to recover from the recession. The decrease in realized selling prices was due to lower demand at the time contracts were being renegotiated as a result of the economic downturn. The Gross Margin Percentage increased to 32 percent from 29 percent due to lower fixed costs and higher production, partially offset by the decrease in realized selling prices. Fixed costs were higher in the fourth quarter of 2009 due to higher maintenance expenses as a result of planned maintenance shutdowns at all three of our North American sodium chlorate facilities during the fourth quarter.

### *North America Chlor-alkali*

Sales revenue for the North America chlor-alkali segment increased eight percent to \$37.1 million for the three months ended March 31, 2010 from \$34.3 million for the three months ended December 31, 2009 primarily due to higher caustic soda sales volumes, partially offset by lower chlorine sales volumes and realized selling prices and slightly lower caustic soda realized selling prices. The increase in caustic soda sales volumes was due to improved demand from pulp producers. Lower chlorine sales volumes and realized selling prices were due to the normal seasonal softening in chlorine demand. The Gross Margin Percentage decreased to 18 percent from 20 percent due to lower MECU realized selling prices, lower production volumes and to caustic soda purchased for resale at a cost exceeding our production cost. Caustic soda is being purchased for resale during the first half of 2010 in preparation for the start-up of the TCP.

### *South America*

Sales revenue in South America was consistent for the three months ended March 31, 2010 and December 31, 2009. Higher chlorine sales volumes and realized hydrochloric acid selling prices were offset by lower sodium chlorate and caustic soda sales volumes and lower chlorine realized selling prices. The decrease in caustic soda and sodium chlorate sales volumes was due to reduced demand from our primary customer in January and February. The increase in chlorine sales volumes was due to improved demand in the merchant market reflective of the economic recovery. The Gross Margin Percentage increased to 34 percent from 29 percent due to higher realized hydrochloric acid selling prices and higher chlor-alkali production, partially offset by slightly lower sodium chlorate production.

### Higher amortization expense decreased net income by \$0.4 million

Amortization expense increased for the three months ended March 31, 2010, as compared to the three months ended December 31, 2009, due to the amortization of maintenance capital projects completed during the fourth quarter of 2009.

### Lower general and administrative expense increased net income by \$0.2 million

General and administrative expense was lower for the three months ended March 31, 2010, as compared to the three months ended December 31, 2009, as a result of lower bonus amounts paid.

### Lower interest expense increased net income by \$0.5 million

The decrease in interest expense for the three months ended March 31, 2010, as compared to the three months ended December 31, 2009, was due to lower interest rates, partially offset by slightly higher borrowings.

The amount outstanding on our Extendible Revolving Credit Facility (see "Capital Resources" on page 28) at March 31, 2010 was US \$225.5 million, as compared to US \$203.5 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2010 as compared to 1.99 percent, excluding the impact of the interest rate swaps, for the three months ended December 31, 2009.

The amount outstanding on our Senior Secured Revolving Credit Facility (see "Capital Resources" on page 28) at March 31, 2010 was US \$12 million as compared to US \$11 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent for the three months ended March 31, 2010 as compared to 1.99 percent for the three months ended December 31, 2009.

The amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility (see "Capital Resources" on page 28) was US \$6 million at March 31, 2010 as compared to US \$8 million at December 31, 2009. The weighted average interest rate on borrowings from this credit facility was 1.48 percent for the three months ended March 31, 2010 as compared to 1.99 percent for the three months ended December 31, 2009.

At March 31, 2010, Canexus LP had \$81.5 million of Debentures outstanding (December 31, 2009 – \$85.8 million) which are held by the Fund. The Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014.

Interest capitalized on major projects was \$2.2 million for the three months ended March 31, 2010 as compared to \$2.1 million for the three months ended December 31, 2009.

### Changes in foreign exchange options decreased net income by \$0.1 million

During the three months ended March 31, 2010 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9479 for the period January 1, 2010 to March 31, 2010; and
- US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9302 for the period January 1, 2010 to June 30, 2010.

Realized gains of \$0.7 million and mark-to-market fair value losses of \$0.6 million were recorded on these foreign exchange call option contracts for a net gain of \$0.1 million for the three months ended March 31, 2010. Realized gains resulted from the US dollar being above the foreign exchange call option contracts during the three months ended March 31, 2010. Mark-to-market fair value losses resulted from market expectations of the future value of the Canadian dollar relative to the US dollar during the three months ended March 31, 2010 and to the expiry of foreign exchange call option contracts on March 31, 2010. At March 31, 2010, the fair value of these foreign exchange call option contracts was \$0.9 million.

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

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

Realized gains of \$5.1 million and mark-to-market fair value losses of \$4.9 million were recorded on these foreign exchange call option contracts for a net gain of \$0.2 million for the three months ended December 31, 2009.

#### Changes in interest rate swaps decreased net income by \$0.8 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. Mark-to-market fair value losses of \$0.5 million and realized losses of \$0.4 million were recorded on these interest rate swaps for a total loss of \$0.9 million for the three months ended March 31, 2010. Mark-to-market fair value losses resulted from market expectations of future three month US LIBOR floating rates and the shorter remaining term of these interest rate swap agreements. Realized losses resulted from US LIBOR floating rates being below the fixed rate of interest of 3.2 percent during the three months ended March 31, 2010. At March 31, 2010, the fair value of these interest rate swap agreements resulted in a financial liability of \$2.6 million. Mark-to-market fair value gains of \$0.3 million and realized losses of \$0.4 million were recorded on these interest rate swaps for a net loss of \$0.1 million for the three months ended December 31, 2009.

#### Changes in currency translation gains increased net income by \$0.6 million

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

During the three months ended March 31, 2010 fluctuations in exchange rates resulted in unrealized gains of \$7.3 million and realized losses of \$0.7 million for a net gain of \$6.6 million as compared to unrealized gains of \$6 million and realized gains of \$0.1 million for a total gain of \$6.1 million for the three months ended December 31, 2009.

During the three months ended March 31, 2010 we recorded an unrealized currency translation gain of \$8.6 million on our US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar relative to the US dollar during the period. During the three months ended December 31, 2009 we recorded an unrealized currency translation gain of \$6.8 million on our US dollar denominated long-term debt.

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

#### Lower income taxes increased net income by \$1.0 million

Income taxes decreased for the three months ended March 31, 2010, compared to the three months ended December 31, 2009, primarily due to a decrease in taxable temporary differences between the accounting carrying amount and the tax basis of assets associated with certain Canadian and foreign corporate subsidiaries.

### Changes in the reversal of impairment in value of ABCP decreased net income by \$0.3 million

We have estimated the fair market value of our \$4.1 million investment in restructured notes, which replaced our investment in non-bank sponsored asset backed commercial paper, to be \$2.5 million at March 31, 2010. During the three months ended December 31, 2008 we recorded \$1.6 million of impairment charges, in addition to \$0.6 million recorded in the three months ended December 31, 2007, for total impairment charges recorded of \$2.2 million. During the three months ended March 31, 2010 we reversed impairment charges of \$0.2 million, in addition to \$0.4 million reversed during the three months ended December 31, 2009, for total impairment charges reversed of \$0.6 million. At March 31, 2010, Canexus LP had a \$1.6 million allowance for an estimated impairment loss on the restructured notes.

### Capital Expenditures

Capital expenditures for the three months ended March 31, 2010 were \$48.6 million as compared to the three months ended December 31, 2009 of \$53.2 million. The decrease in capital expenditures was due to a decrease in maintenance capital expenditures of \$4.3 million, continuous improvement capital expenditures of \$5.1 million and remediation capital expenditures of \$0.2 million, partially offset by an increase in expansion capital expenditures of \$5 million.

### Income Taxes

Canexus LP, as a flow through entity, calculates taxable income and allocates such income to its partners. Included in the computation of taxable income are deductions for income tax purposes that differ from accounting income. To the extent that deductions are different for income tax a future income tax liability or asset will arise. At March 31, 2010, the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately \$115 million (December 31, 2009 - \$114 million) which is comprised of the following:

	March 31, 2010	December 31, 2009
Unrealized Foreign Exchange Gains	(34,200)	(23,758)
Property, Plant and Equipment, Net	(87,265)	(97,478)
Other	6,889	7,199
	114,576	114,037

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

	March 31, 2010	December 31, 2009
Undepreciated Capital Cost	100,000	107,000
Assets Under Construction	287,340	246,000
	387,340	353,000

## Selected Annual Financial Information

CAD thousands, except as noted	For the Years Ended December 31		
	2009	2008	2007
<b>Sales Volumes</b>			
Sodium Chlorate (000s Metric Tonnes (MT))	400	449	433
Chlor-alkali (000s Metric Electro-Chemical Units (MECU))	175	187	188
<b>Sales Revenue</b>			
Sales Revenue	458,447	474,357	413,607
Cost of Goods Sold	312,280	339,060	295,725
Gross Margin <sup>(1)</sup>	146,167	135,297	117,882
Gross Margin Percentage <sup>(1)</sup>	32%	29%	29%
<b>Net Income (Loss)</b>			
Net Income (Loss)	73,652	(6,035)	54,547
Plus: Provision for (Recovery of) Income Taxes	9,840	(3,776)	6,884
Plus: Amortization	46,321	43,408	44,370
Plus: Interest Expense	7,661	11,658	11,377
EBITDA <sup>(1)</sup>	137,474	45,255	117,178
<b>Distributions Declared</b>			
Distributions Declared	52,476	51,218	70,319
Distributions Declared (\$/Unit)	0.5472	0.5928	0.8475
Distributable Cash within Canexus LP <sup>(1)</sup>	82,884	83,289	58,116
<b>Capital Expenditures</b>			
Maintenance	20,102	15,100	12,731
Remediation	5,158	1,638	-
Infrastructure and IT	-	-	395
Continuous Improvement	8,706	4,540	1,479
Expansion	180,318	67,213	46,722
Total Capital Expenditures	214,284	88,491	61,327
Average Foreign Exchange Rate (CAD \$)	US \$0.87	US \$0.96	US \$0.92
<b>At December 31</b>			
Total Assets	683,940	582,354	488,199
Total Long-Term Financial Liabilities	368,308	291,034	201,572

Note:

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

The operations of Canexus LP currently include sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in South America. Canexus LP also provides fee-for-service hydrocarbon transloading services to the oil and gas industry from its terminal at Bruderheim, Alberta.

The decline in revenues in 2009 from 2008 was primarily the result of the downturn in the economy. A decline in North American sodium chlorate revenues of one percent was the result of a 13 percent decline in sales volumes mostly offset by a 12 percent increase in realized selling prices. Higher caustic soda sales volumes in our North America chlor-alkali business unit offset lower caustic soda realized selling prices, lower chlorine-equivalent sales volumes and lower chlorine realized selling prices resulting in a two percent increase in revenues. Lower sales revenue in our South America business unit of 14 percent were primarily due to no longer purchasing caustic soda for resale to our primary customer as a service at no Gross Margin. We are still required to supply our primary customer with caustic soda up to our chlor-alkali plant's operating capacity and accordingly, to the extent we are unable to operate the chlor-alkali plant at capacity we may purchase caustic soda at market prices for resale which could

affect Gross Margin. See “Market and Financial Risk Analysis – South American Chlor-alkali Plant Operating Rate Risk” on page 31.

The Gross Margin Percentage of 32 percent for the year ended December 31, 2009 increased from 29 percent for the year ended December 31, 2008 as a result of an increase in North American sodium chlorate realized selling prices, an increase in the percentage of sodium chlorate production from our low-cost Brandon, Manitoba facility, lower electricity costs and lower fixed costs in our North America sodium chlorate business unit and to no longer purchasing caustic soda for resale to our primary customer in Brazil at no Gross Margin, partially offset by lower MECU realized selling prices and higher maintenance costs in our North America chlor-alkali business unit.

Capital expenditures for the year ended December 31, 2009 were \$214.3 million as compared to the year ended December 31, 2008 of \$88.5 million. This increase was due to increases in maintenance capital expenditures of \$5 million, continuous improvement capital expenditures of \$4.2 million and expansion capital expenditures of \$113.1 million. In addition, remediation capital expenditures of \$5.2 million, an increase of \$3.5 million from 2008, were incurred to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver chlor-alkali facility to comply with regulations enacted in British Columbia regarding the use of ozone depleting substances.

## **Outlook**

### **North America Sodium Chlorate**

Global pulp and paper markets continued to strengthen during the first quarter of 2010. Pulp inventories remained below 30 days through February. Pulp markets experienced a significant supply disruption during the months of February and March following the severe earthquake in Chile. Pulp producers in Chile, which provide approximately eight percent of the global market pulp supply, were forced to declare Force Majeure for several weeks and are still engaged in the recovery process. It is anticipated that the Chilean supply disruption will exacerbate the already tight market conditions and that global pulp inventories and production rates will remain below normal levels for several months. Accordingly, pulp producers have continued to successfully increase market pulp prices; prices have now surpassed previous peak pricing reached during the third quarter of 2008, before the recessionary trough. Demand for pulp is expected to strengthen as the global economy continues to recover from the recession.

In conjunction with the strength in global pulp markets, demand for sodium chlorate was strong during the first quarter of 2010. North American shipment volumes in the first quarter of 2010 were approximately six percent higher than in the fourth quarter of 2009 driven by higher operating rates at customer facilities. The strong pulp market conditions are creating an incentive for currently operating pulp mills to maximize operating rates and for owners of idle facilities to re-start mills in North America. Currently, three facilities in North America are evaluating re-starting, which could increase annual sodium chlorate demand by 25,000 to 40,000 metric tonnes depending on the number of mills that actually restart.

North American sodium chlorate operating rates have improved in the first quarter of 2010 and price increases have been announced. Modest price increases are being realized for second quarter 2010 shipments as a result of the first quarter price increase announcements. As noted above, pulp mill re-starts are a possibility; both sodium chlorate demand and the North American sodium chlorate industry operating rate are expected to increase in the second half of 2010 as a result. Continued improvement in operating rates is expected to strengthen upward price momentum for the remainder of 2010.

### **North America Chlor-alkali**

The North America chlor-alkali industry operated at 85 percent of capacity in the first quarter of 2010 as compared to 78 percent in the prior quarter and 69 percent in the first quarter of 2009. Chlorine demand increased four percent compared to the fourth quarter of 2009 due to increased exports of PVC-chain chemicals. Export demand is driven by the current North American production cost advantage versus Asian producers because US producer ethylene, a key component in PVC chemical production, is generally based on natural gas while Asian ethylene supply is generally based on crude oil.

As economic conditions improved, fluorocarbon and isocyanate chemical production rates increased; both processes generate byproduct acid. As a result of the increased “byproduct” acid production, the total North American hydrochloric acid supply increased in the first quarter of 2010. Reduced demand from one significant acid consumer resulted in additional supply being made available to the merchant market. Overall, in spite of otherwise steady demand in the first quarter, the supply/demand balance for hydrochloric acid weakened due to the additional byproduct supply.

North American caustic soda production increased four percent in the first quarter of 2010 compared to the fourth quarter of 2009. Increased supply from North American producers did not impact the continental supply/demand balance however, as it

was offset by a corresponding decrease in imports. Caustic soda demand improved moderately as a result of increasing demand from pulp producers. Caustic soda inventories at producers and distributors declined to more sustainable levels than those experienced in recent past quarters.

MECU prices declined slightly in the first quarter of 2010 compared with the fourth quarter of 2009 as seasonal chlorine price erosion outpaced caustic soda price recovery. Hydrochloric acid prices eroded in most US regions due to the excess supply conditions. MECU prices are expected to remain flat in the second quarter of 2010 with modest gains in the second half of 2010 on the strength of continued caustic soda price improvement.

### **South America**

Demand for Brazilian-produced pulp continued to be strong. In 2009, pulp production increased 13.5 percent versus 2008. As of February 2010, Brazilian pulp production reached 1.2 million metric tonnes, 12.9 percent higher than the same period in 2009. The increase continues to be driven primarily by exports, which increased 20 percent in the first quarter of 2010 as compared to the first quarter of 2009. March year-to-date Brazilian exports have reached 885,000 metric tonnes, a 35 percent increase over February 2010 and a 66 percent increase in the first quarter of 2010 as compared to the first quarter of 2009. Exports are at the highest level since July 2008, primarily due to earthquake-curtailed Chilean production and pulp production curtailments in Finland due to a major port strike. China continues to be the primary buyer of the incremental Brazilian pulp exports. Although April export demand is projected to be lower than March, demand will continue to be strong due to the supply disruption at the Chilean mills.

Canexus Brazil's major customer, Fibria, operated their mill at near capacity rates at the end of the first quarter of 2010. Accordingly, March was a record production month for both Fibria and Canexus Brazil. Higher sodium chlorate consumption by Fibria in March partially offset lower consumption in January and February. Fibria's production rate is projected to remain high for the balance of the year, which will support strong operating rates for Canexus Brazil.

Brazilian chlorine production in the first quarter of 2010 increased 10.3 percent compared to the same period in 2009, which reflects economic recovery. Approximately 88 percent of all chlorine consumed in Brazil is used in industrial production applications; demand in the industrial market increased by 9.5 percent in the first quarter of 2010 versus the same period in 2009. The remainder of Brazilian chlorine is sold in the merchant market, largely for water treating applications. The merchant market, into which Canexus Brazil markets chlorine, sustained a demand increase of about 16 percent in the first quarter of 2010 versus the same period in 2009. Although the overall chlorine market in Brazil has yet to fully recover from the impacts of the global recession, Canexus Brazil realized a 6 percent increase in chlorine equivalent product sales in the first quarter of 2010 as compared to the first quarter of 2009. Canexus Brazil's chlor-alkali plant ran at 89 percent capacity utilization through the first quarter of 2010. An operating rate increase to 93 percent for the year is projected based on improving demand, the start-up of the new hydrochloric acid burner targeted for third quarter 2010, and an associated 10 year supply take-or-pay hydrochloric acid contract.

### **Liquidity and Capital Resources**

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

The table below presents the excess (shortfall) of cash flow from operating activities and the excess (shortfall) of net income (loss), over distributions declared for the first quarter of 2010, the first quarter of 2009 and the years ended December 31, 2007 through December 31, 2009.

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

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

The ability of Canexus LP to pay distributions and to fund expansion projects is primarily dependent upon future levels of cash flow from operating activities and Distributable Cash within Canexus LP. Cash flow from operating activities is sensitive to sales volumes, selling prices, electricity prices and foreign currency exchange rates. For a discussion of these risks and their potential impact on Canexus LP's cash flow from operating activities see "Market and Financial Risk Analysis" beginning on page 30.

Distributable Cash within Canexus LP is dependent on the amount of maintenance capital expenditures, interest and cash income taxes. In addition, Canexus LP has committed credit facilities which can be utilized to fund expansion projects and for other general corporate purposes (see "Capital Resources" on page 28).

Distributable Cash for the three months ended March 31, 2010 and March 31, 2009 and the years ended December 31, 2009 and December 31, 2008 exceeded distributions declared as Distributable Cash within Canexus LP was retained to partially fund the TCP and other expansion projects.

	Three Months Ended		Years Ended December 31		
	March 31		2009	2008	2007
	2010	2009	2009	2008	2007
Cash Flow from Operating Activities	24,040	28,722	117,263	72,140	81,344
Net Income (Loss)	16,141	5,749	73,652	(6,035)	54,547
Distributions Declared <sup>(1)</sup>	13,574	12,617	52,476	51,218	70,319
Excess of Cash Flow from Operating Activities over Distributions Declared	10,466	16,105	64,787	20,922	11,025
Excess (Shortfall) of Net Income (Loss) over Distributions Declared	2,567	(6,868)	21,176	(57,253)	(15,772)

Note:

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

### Three Months Ended March 31, 2010

Cash flow from operating activities exceeded distributions declared for the three months ended March 31, 2010 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects.

Net income exceeded distributions declared for the three months ended March 31, 2010 as cash was retained to partially finance the TCP and other expansion projects as noted in the preceding paragraph. Non-cash expenses including amortization and changes in fair value of held-for-trading financial instruments reduced net income, partially offset by unrealized currency translation gains and a future income tax recovery.

### Three Months Ended March 31, 2009

Cash flow from operating activities exceeded distributions declared for the three months ended March 31, 2009 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects.

Distributions declared exceeded net income for the three months ended March 31, 2009 due to non-cash expenses including amortization, unrealized currency translation losses, changes in fair value of held-for-trading financial instruments and future income taxes.

### Years Ended December 31, 2007 through December 31, 2009

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

Cash flow from operating activities exceeded distributions declared for the year ended December 31, 2008 as cash was retained to partially finance the expansion of our Brandon, Manitoba sodium chlorate plant, the TCP at our North Vancouver chlor-alkali facility and other expansion projects. Distributions declared exceeded net loss for the year ended December 31, 2008 due to non-cash expenses including amortization, unrealized currency translation losses, the recording of estimated severance costs

payable to employees in 2010 following the start-up of the TCP at our North Vancouver chlor-alkali facility and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP, partially offset by changes in fair value of held-for-trading financial instruments.

Cash flow from operating activities exceeded distributions declared for the year ended December 31, 2007 as cash was retained to partially finance the expansion of our Brandon, Manitoba sodium chlorate plant, the TCP at our North Vancouver chlor-alkali facility and other expansion projects. Distributions declared exceeded net income for the year ended December 31, 2007 due to non-cash expenses including amortization, changes in fair value of held-for-trading financial instruments, future income taxes and the recording of an estimated impairment loss on our investment in non-bank sponsored ABCP, partially offset by unrealized currency translation gains.

### Net Debt and Total Equity

	March 31, 2010	December 31, 2009
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	298,078	285,199
Debentures (excluding Unamortized Fund Convertible Debenture Transaction Costs)	81,481	85,780
Less: Cash and Cash Equivalents	(2,372)	(13,200)
Less: Non-Cash Working Capital	(17,402)	(22,321)
Total Net Debt <sup>(1)</sup>	359,785	335,458
Total Equity <sup>(2)</sup>	203,385	197,045

Notes:

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

(2) At March 31, 2010 there were 34,683,405 Ordinary LP Units (held by the Fund) and 64,835,420 Exchangeable LP Units outstanding. At December 31, 2009 there were 33,701,807 Ordinary LP Units (held by the Fund) and 64,835,420 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Units of the Funds at the option of Nexen at any time.

### Liquidity

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

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

	Three Months Ended		Change
	March 31, 2010	March 31, 2009	
Cash Flow from Operating Activities	24,040	28,722	(4,682)
Cash Flow from Financing Activities	12,405	3,521	8,884
Cash Flow used in Investing Activities	(46,721)	(32,526)	(14,195)

### Cash Flow from Operating Activities

Cash flow from operating activities is generated primarily from the sale of sodium chlorate and chlor-alkali products and is reduced by the purchase of raw materials and utilities, as well as transportation, labour costs and general and administrative expenditures.

Cash flow from operating activities decreased for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, due to a decrease in Gross Margin, partially offset by a net increase in non-cash operating working capital and due from/to affiliates, net, and interest payable to affiliates.

The change in non-cash operating working capital and due from/to affiliates, net, and interest payable to affiliates for the three months ended March 31, 2010 increased cash flow from operating activities primarily due to the increase in interest payable to affiliates on the Debentures.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended March 31, 2009 decreased cash flow from operating activities primarily due to a temporary net decrease in accounts payable related to operating activities.

#### Cash Flow from Financing Activities

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

	Three Months Ended		Change
	March 31, 2010	March 31, 2009	
Proceeds from (Repayments of) Short-Term Borrowings, Net	2,677	(3,670)	6,347
Proceeds from Extendible Revolving Credit Facility	22,704	10,171	12,533
Proceeds from Senior Secured Revolving Credit Facility	1,068	12,107	(11,039)
Repayments of Extendible Revolving Credit Facility	-	(8,181)	8,181
Repayments of Senior Secured Revolving Credit Facility	-	(3,148)	3,148
Repayments of EDC Extendible Revolving Credit Facility	(2,114)	-	(2,114)
Credit Facility Transaction Costs	-	(17)	17
Distributions Paid to Ordinary and Exchangeable LP Unitholders	(12,760)	(4,717)	(8,043)
Funding of Asset Retirement Expenditures from Restricted Investments	830	976	(146)
	12,405	3,521	8,884

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

#### Cash Flow used in Investing Activities

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

	Three Months Ended		Change
	March 31, 2010	March 31, 2009	
Expenditures on Property, Plant and Equipment	(48,571)	(36,242)	(12,329)
Changes in Non-Cash Investing Working Capital	1,850	3,716	(1,866)
	(46,721)	(32,526)	(14,195)

#### Future Liquidity

The future liquidity of Canexus LP will be primarily dependent on cash flows from operating activities which will be used to finance its ongoing maintenance capital expenditures, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in sales volumes and selling prices, electricity costs and foreign currency exchange rates and any changes in these will impact future liquidity. See "Market and Financial Risk Analysis" on page 30. Management believes cash flows from operating activities will be sufficient for Canexus LP to meet future obligations and commitments that arise in the normal course of its business activities. In addition, Canexus LP has committed credit facilities which can be used for general corporate purposes and to fund capital expenditures. See "Capital Resources" on page 28.

## Debt Covenants

At March 31, 2010, Canexus LP was in compliance with all ongoing covenants (financial and non-financial) and conditions contained in its credit facilities agreements and the note indenture governing the Senior Secured Notes. Our debt covenants specifically exclude the Convertible Debentures issued by the Fund, as well as the Debentures issued by Canexus LP to the Fund.

	Twelve Months Ended	
	March 31, 2010	December 31, 2009
Net Income	84,044	73,652
Interest	7,024	7,661
Income Taxes	8,096	9,840
Amortization	46,119	46,321
Non-Cash (Income) Expense Items	(42,503)	(23,926)
Canexus Income Fund Trust Administration Expenses	(412)	(348)
<b>Consolidated EBITDA</b>	<b>102,368</b>	<b>113,200</b>
Short-Term Borrowings	2,677	-
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	298,078	285,199
<b>Consolidated Senior Debt</b>	<b>300,755</b>	<b>285,199</b>
<b>Consolidated Total Debt</b>	<b>300,755</b>	<b>285,199</b>
Interest	7,024	7,661
Capitalized Interest and Letter of Credit Fees	6,662	5,070
<b>Consolidated Interest Expense</b>	<b>13,686</b>	<b>12,731</b>
Consolidated Senior Debt to EBITDA Ratio	2.94:1	2.52:1
Consolidated Total Debt to EBITDA Ratio	2.94:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio	7.48:1	8.89:1

## Capital Resources

Canexus LP had commitments of \$26.9 million at March 31, 2010 and \$23 million at May 11, 2010 related to expansion capital projects. At March 31, 2010, Canexus LP had commitments of \$11.2 million, in addition to project inception-to-date expenditures of \$246.6 million including capitalized interest of \$8.5 million, for the TCP at our North Vancouver chlor-alkali facility. The TCP is being financed from excess Distributable Cash within Canexus LP, the DRIP and our existing credit facilities. Management anticipates ongoing annual maintenance capital expenditures of approximately \$15 to \$20 million which will be financed primarily out of cash flows from operating activities. Maintenance capital expenditures are expected to be \$17 million in 2010 as a result of accelerating our electrolyzer recoating programs at our Brandon, Manitoba and Brazil plants. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Units of the Fund or other securities of the Fund.

Effective April 15, 2010, Canexus LP's Extendible Revolving Credit Facility was increased from \$420 million to \$440 million and its US \$20 million Senior Secured Revolving Credit Facility was repaid and cancelled. Maturity of Canexus LP's senior secured credit facilities (which now includes the \$440 million Extendible Revolving Credit Facility and the US \$10 million EDC Extendible Revolving Credit Facility) was extended to August 18, 2012.

Canexus LP has a \$440 million (March 31, 2010 - \$420 million), four year extendible revolving credit facility (the "Extendible Revolving Credit Facility") which matures August 18, 2012 (March 31, 2010 – August 18, 2011). This credit facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. This credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down this credit facility in either Canadian or US dollars. At March 31, 2010, Canexus LP had \$229 million (US \$225.5 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet at March 31, 2010. Short-term swing line loans of up to \$35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$420 million. At March 31, 2010, Canexus LP had \$2.7 million of swing line loans outstanding.

At March 31, 2010, Canexus LP had a US \$20 million senior secured revolving credit facility (the “Senior Secured Revolving Credit Facility”). This credit facility bore interest at a rate based on either the US base rate or the US LIBOR rate, at our option and was cancelled effective April 15, 2010. Proceeds from this facility were available for general corporate and partnership purposes including capital expenditures and acquisitions and the construction and completion of the TCP. At March 31, 2010, we had \$12.2 million (US \$12 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP’s unaudited consolidated balance sheet at March 31, 2010.

Canexus Brazil has a US \$10 million extendible revolving credit facility with Export Development Canada (the “EDC Extendible Revolving Credit Facility”) which bears interest at a rate based on the US LIBOR rate and matures August 18, 2012 (March 31, 2010 – August 18, 2011). Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At March 31, 2010, we had \$6.1 million (US \$6 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP’s unaudited consolidated balance sheet at March 31, 2010.

Canexus LP has US \$50 million of senior secured notes (the “Senior Secured Notes”) outstanding which, effective May 1, 2010, bear interest at a fixed interest rate of 7.32 percent (March 31, 2010 – 6.57 percent) and mature May 1, 2013. The Canadian dollar equivalent of the US \$50 million of Senior Secured Notes of \$50.8 million is included in Long-Term Debt on Canexus LP’s unaudited consolidated balance sheet at March 31, 2010.

At March 31, 2010, Canexus LP had \$81.5 million of Debentures outstanding, excluding unamortized transaction costs, held by the Fund. The Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014.

At March 31, 2010, the Fund had \$41.5 million of convertible Series I Debentures and \$40 million of convertible Series II Debentures held by Nexen, an affiliate, outstanding (the “Convertible Debentures”), before unamortized discount. The Convertible Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. See “Convertible Debentures” on page 8.

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

### Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. At March 31, 2010 (April 15, 2010 for Long-Term Debt) these obligations and commitments were as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
Operating Leases <sup>(1)</sup>	119,833	15,344	16,493	14,827	13,052	12,221	47,896
Purchase Obligations <sup>(2)</sup>	151,792	32,308	35,972	36,960	38,294	8,258	-
Expansion Capital Expenditures <sup>(3)</sup>	26,882	25,392	-	1,490	-	-	-
Asset Retirement Obligations <sup>(4)</sup>	121,807	435	1,730	920	245	295	118,182
Long-Term Debt <sup>(5)</sup>	298,078	-	-	247,298	50,780	-	-
Interest Payments on Senior Secured Notes <sup>(5)</sup>	12,080	2,787	3,717	3,717	1,859	-	-
Debentures <sup>(6)</sup>	81,481	-	-	-	-	81,481	-
Interest Payments on Debentures <sup>(6)</sup>	32,590	6,518	6,518	6,518	6,518	6,518	-
<b>Total</b>	<b>844,543</b>	<b>82,784</b>	<b>64,430</b>	<b>311,730</b>	<b>110,748</b>	<b>108,773</b>	<b>166,078</b>

Notes:

- <sup>(1)</sup> Payments for operating leases reduce cash flow from operating activities. Operating leases include minimum lease payment obligations associated with leases for office space, rail cars, vehicles, software maintenance contracts and other property and equipment leases.
- <sup>(2)</sup> Purchase obligations include the contractual commitment for the purchase of electricity in South America, 90 to 100 percent of the cost of which is passed through to our primary customer and minimum purchase commitments under some multi-year salt supply contracts.
- <sup>(3)</sup> Capital expenditures committed at March 31, 2010 are related to expansion capital projects including the TCP and the hydrochloric acid expansion project at our North Vancouver chlor-alkali facility, the Brazil sodium chlorate and hydrochloric acid expansions and our North American Terminal Operations.
- <sup>(4)</sup> At March 31, 2010, undiscounted asset retirement obligations were \$121.8 million. The estimated fair value (\$33.8 million) of these obligations is provided for in Canexus LP’s unaudited consolidated financial statements for the three months ended March 31, 2010 (See Note 13). The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates. At March 31, 2010, Canexus LP had

\$2.5 million of restricted investments to be used for future site remediation and asset retirement obligations (See Note 9 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2010).

- (5) Long-Term Debt amounts are included in Canexus LP's March 31, 2010 unaudited consolidated balance sheet (See Note 11 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2010). The Extendible Revolving Credit Facility balance will fluctuate and, effective April 15, 2010, matures August 18, 2012. Interest is payable on the outstanding balance at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. The EDC Extendible Revolving Credit Facility balance will fluctuate and, effective April 15, 2010, matures August 18, 2012. Interest is payable at a rate based on the US LIBOR rate. Interest payments on the Extendible Revolving Credit Facility and the EDC Extendible Revolving Credit Facility have been excluded from the table above as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Interest is payable quarterly (February 1, May 1, August 1 and November 1) on the US dollar Senior Secured Notes at a fixed rate of interest of 7.32 percent effective May 1, 2010 (March 31, 2010 – 6.57 percent). Interest payments have been included in the table above at the Canadian dollar equivalent of the US dollar interest payments using the March 31, 2010 Bank of Canada noon day US dollar to Canadian dollar foreign exchange rate. Interest is payable semi-annually on June 30 and December 31 on the Debentures at a fixed rate of interest of 8 percent.
- (6) See "Capital Resources" on page 28 and "Transactions with Related Parties" on page 33.

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

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

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

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

### **Contingent Liabilities**

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

### **Guarantees**

All of the credit facilities and the Senior Secured Notes (see "Capital Resources" on page 28) are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided unlimited liability guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's credit facilities and Senior Secured Notes in "events of default" as defined in each of the credit facility agreements and the note indenture governing the Senior Secured Notes filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Market and Financial Risk Analysis**

Canexus LP is exposed to normal market risks inherent in the chemicals business, as well as financial risks. Included in the risks faced by Canexus LP are product price and volume risk, South American chlor-alkali plant operating rate risk, electricity price risk, foreign currency rate risk, interest rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Product Price and Volume Risk**

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$75 change in the price per MT of North American produced sodium chlorate, net income before income taxes for the three months

ended March 31, 2010 would have changed by \$7 million. For every \$100 change in the price per MECU of chlor-alkali products produced in North America, net income before income taxes for the three months ended March 31, 2010 would have changed by \$3 million. These sensitivities to changes in prices are based on 93,000 MT of North American sodium chlorate sales and 30,000 MECU's of North American chlor-alkali sales for the three months ended March 31, 2010. Sensitivities of \$75 per MT for sodium chlorate and \$100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

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

#### South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America, Fibria, typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). During the three months ended March 31, 2010 the price of purchased caustic soda did not exceed the Canexus Price. During the three months ended March 31, 2010 we acquired 508 MT of caustic soda to make up for our production shortfall below operating capacity.

#### Electricity Price Risk

The cost of electricity is a key production cost. For every three percent change in the price of electricity in North America, net income before income taxes would have changed by \$0.6 million for the three months ended March 31, 2010. This sensitivity to changes in electricity prices is based on North American electricity consumption of 575,000 MWh for the three months ended March 31, 2010. A three percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

#### Foreign Currency Rate Risk

A substantial portion of the sales revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. The average Canadian to US dollar foreign exchange rate for the three month period ended March 31, 2010 was US \$0.95. An increase in the Canadian to US dollar exchange rate to US \$1.10 for the three month period would have decreased net income before income taxes by \$4.7 million for the three months ended March 31, 2010, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US \$0.90 for the three month period would have increased net income before income taxes by \$1.9 million for the three months ended March 31, 2010. A range of US \$0.90 to US \$1.10 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has entered into US dollar denominated long-term debt and incurs other expenditures in US dollars. During the three months ended March 31, 2010 Canexus LP had Canadian dollar foreign exchange call option contracts on a total of US \$10 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9479 (US \$5 million per month) and US \$0.9302 (US \$5 million per month) for an average of US \$0.9391 per Canadian dollar from January 1, 2010 to March 31, 2010. Canexus LP has Canadian dollar foreign exchange call option contracts on US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010 and US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9523 from July 1, 2010 to September 30, 2010. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flows to benefit from any devaluation of the Canadian dollar relative to the US dollar.

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

### Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. The average 30 day US LIBOR base rate was 0.23 percent for the three month period ended March 31, 2010. A change in the 30 day US LIBOR base rate to 0.2 percent for the three month period would have increased net income before income taxes by \$17,400 for the three months ended March 31, 2010. A change in the 30 day US LIBOR base rate to 3 percent for the three month period would have decreased net income before income taxes by \$1.3 million for the three months ended March 31, 2010. A range of 0.2 to 3 percent for the 30 day US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

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

### Credit Risk

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

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

Our North American customers are diverse with no one customer accounting for more than 5 percent of total trade accounts receivable at March 31, 2010 (December 31, 2009 – 8 percent). The majority of our South American production is sold to Fibria under a long-term sales agreement. At March 31, 2010, trade amounts owing from Fibria represented 19 percent of total trade accounts receivable (December 31, 2009 – 17 percent).

Management evaluates the collectability of accounts receivable on an ongoing basis and establishes an allowance for doubtful accounts to approximate future expected credit risk loss exposure to existing customers. We have been focusing additional effort on counterparty credit risk as a result of the recent global economic situation. We are enforcing credit terms, monitoring customer order patterns for abnormalities and are attempting to better understand the financing arrangements of key customers.

Our credit facilities and financial derivative transactions are predominantly with the major Canadian chartered banks.

### Derivative Financial Instruments and Off-Balance Sheet Arrangements

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

At March 31, 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010. The fair value of these contracts is included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at March 31, 2010 and changes in their fair value are included in Other Income (Expense) (See Note 18 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2010). During the three months ended March 31, 2010 Canexus LP had Canadian dollar foreign exchange call option contracts on a total of US \$10 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9479 (US \$5 million per month) and US \$0.9302 (US \$5 million per month) for an average of US \$0.9391 per Canadian dollar from January 1, 2010 to March 31, 2010. On May 6, 2010, Canexus LP secured Canadian dollar foreign exchange call option contracts on US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9523 from July 1, 2010 to September 30, 2010. These options are designed to protect our cash flows if the Canadian dollar strengthens while still allowing our cash flows to benefit from any devaluation of the Canadian dollar relative to the US dollar.

At March 31, 2010, Canexus LP had interest rate swap agreements under which we swap three month US LIBOR floating interest for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. These interest rate swap agreements are settled quarterly. The fair value of these interest rate swap agreements is included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at March 31, 2010 and changes in their fair value are included in Other Income (Expense) (See Note 18 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2010).

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

### Transactions with Related Parties

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

The General Partner, Canexus Limited, employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by the General Partner are recovered at cost from CCCLP. In addition, the General Partner pays other general and administrative expenses on behalf of Canexus LP which it recovers at cost.

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. The amount owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at March 31, 2010 was \$40,000 (December 31, 2009 – \$NIL).

	Three Months Ended	
	March 31, 2010	March 31, 2009
Electricity Purchases and Retail Service Fees	111	1,573
Natural Gas Purchases and Retail Service Fees	961	1,435
Lease of Office Space	207	210
	1,279	3,218

Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for Nexen owned condensate for a term of 5 years for a total contract value of approximately \$2.1 million. Revenue recognized from the Nexen affiliate for the provision of these services was \$0.3 million for the three months ended March 31, 2010 and the amount owing by the Nexen affiliate at March 31, 2010 for these services was \$0.3 million.

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

At March 31, 2010, Canexus LP had \$81.5 million of Debentures outstanding, excluding unamortized transaction costs, which are held by the Fund. The Debentures bear interest at 8 percent payable semi-annually in arrears on December 31 and June 30 of each year and mature December 31, 2014. Interest expense recognized on the Debentures for the three months ended March 31, 2010 was \$1.7 million. At March 31, 2010, interest payable to the Fund on the Debentures was \$1.7 million.

Pursuant to the Series I Debenture agreement between Canexus LP and the Fund, in the event a holder of Series I Convertible Debentures exercises their right to convert Series I Debentures into Fund Units, Canexus LP shall issue to the Fund Ordinary LP Units that are equal in number to the Fund Units issued by the Fund on conversion of the Series I Debentures at a subscription price equal to fair market value. At that same time, Canexus LP shall redeem that portion of the principle amount of the Debentures that are equal to the principle amount of Series I Debentures of the Fund that were converted. At March 31, 2010, \$0.7 million of promissory notes were receivable from the Fund for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP (December 31, 2009 - \$0.2 million). Promissory notes receivable are included in Due from Affiliates, Net, at March 31, 2010 and December 31, 2009 in Canexus LP's unaudited consolidated balance sheet at March 31, 2010 and audited consolidated balance sheet at December 31, 2009.

	March 31, 2010	December 31, 2009
Debentures, Beginning of Period	85,780	-
Issued	-	86,000

Redeemed	(4,299)	(220)
	81,481	85,780
Fund Convertible Debenture Transaction Costs Reimbursed to the Fund	(2,436)	(2,436)
Accumulated Amortization, Fund Convertible Debenture Transaction Costs	292	113
Unamortized Fund Convertible Debenture Transaction Costs	(2,144)	(2,323)
Debentures, Net, End of Period	79,337	83,457

### Critical Accounting Estimates

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

#### Impairment of Long Lived Assets

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

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

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

#### Asset Retirement Obligations

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

Asset retirement obligations for Canexus LP's North America sodium chlorate, North America chlor-alkali and South America operating segments, as well as for the North American Terminal Operations, are recorded in the unaudited consolidated financial statements of Canexus LP by discounting the estimated retirement obligations associated with its chemical plants and terminals to the present value using a weighted average credit-adjusted risk free rate of 6.25 percent. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment ("PP&E") which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

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

## **Future Accounting Pronouncements**

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

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

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

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

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

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

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

### **Conversion to International Financial Reporting Standards**

In February 2008, the Accounting Standards Board ("AcSB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that PAE's be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Fund and Canexus LP for their year ended December 31, 2010 and of their opening balance sheets at January 1, 2010.

The Fund and Canexus LP commenced their IFRS conversion project in 2008 with the development of a conversion implementation plan which was reviewed with the Audit Committee. Reporting to the Audit Committee on the status of the conversion implementation and review of the results of the project team's assessment of the impacts of IFRS on the Fund and Canexus LP occurred quarterly throughout 2008 and 2009.

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

The Scoping and Project Plan Development phase has been completed and consisted of project planning, staffing, core project team training and the identification of high level differences between Canadian GAAP and IFRS.

The Analysis and Development phase has been completed. This phase involved a detailed evaluation of the impacts of various options and alternative methodologies provided for under IFRS; the identification of changes required to operational and financial processes and controls; further training of staff and other key stakeholders, including the Board of Directors; analysis of IFRS 1 optional and mandatory exceptions to full retrospective application of IFRS; identification and development of IFRS disclosure requirements for 2011 reporting and the identification of impacts on information technology systems and development of solutions to address such impacts.

Based on the analysis completed during the Analysis and Development phase the areas of accounting difference of highest impact to the Fund are accounting for unit-based payments, accounting for investments in associates and the initial adoption of IFRS under the provisions of IFRS1, First-Time Adoption of IFRS. The areas of accounting difference of highest impact to Canexus LP include property, plant and equipment and the initial adoption of IFRS under the provisions of IFRS1, First-Time Adoption of IFRS. The transition to IFRS is not expected to have any impact on the calculation of any of the financial covenants contained in our existing credit facility agreements or the note indenture governing the Senior Secured Notes.

The Implementation phase is underway and involves the development of opening IFRS balance sheets for the Fund and Canexus LP at January 1, 2010, changes to information technology systems to facilitate the dual capture of IFRS and Canadian GAAP financial information in 2010 and IFRS financial information ongoing in 2011 and beyond; design and execution of changes to operational and financial processes; design, implementation and testing of internal controls over financial reporting; formal management and Audit Committee approval for the IFRS 1 exemptions utilized and accounting policy and disclosure changes required to become IFRS compliant, further training of staff, as required, and the development and delivery of communication plans regarding the identified and anticipated impacts of the transition to IFRS on the Fund and Canexus LP's financial position and results of operations. Completion of this phase will result in operational and financial processes and information technology systems which enable the collection and reporting of IFRS compliant financial statements and the approval by the Board of Directors of IFRS compliant financial statements. We currently anticipate the majority of this phase to be completed by the end of the second quarter of 2010 with design and execution of changes to operational and financial processes; design, implementation and testing of internal controls over financial reporting and communications to stakeholders continuing throughout 2010.

During the three months ended March 31, 2010, significant progress was made in the following areas:

- Completed the design, testing and implementation of system changes to enable the capture of dual Canadian GAAP and IFRS financial information for 2010;
- Commenced the capture of IFRS financial information in the Fund's and Canexus LP's financial systems;
- Completed a preliminary analysis and selection of optional IFRS 1 exemptions to be utilized by each of the Fund and Canexus LP;
- Completed the preparation of draft IFRS accounting policy and disclosure changes for the Fund and Canexus LP; and
- Prepared draft opening balance sheets at January 1, 2010 for each of the Fund and Canexus LP.

Due to ongoing analysis and validation of the above preliminary information we are not able to quantify the impact that the adoption of IFRS will have on the Fund's or Canexus LP's future results of operations or financial position at this time. At the current time, it is anticipated that Audit Committee approval for the IFRS 1 exemptions to be utilized by each of the Fund and Canexus LP will occur in the second quarter of 2010 and Audit Committee approval for opening balance sheet adjustments arising from the adoption of IFRS for each of the Fund and Canexus LP will occur in the third quarter of 2010.

### **Forward Looking Statements and Information**

This MD&A contains forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries including with respect to the estimated cost, timing of completion and expected benefits from growth projects including the TCP, the Brazil sodium chlorate and hydrochloric acid expansions, the North Vancouver hydrochloric acid expansion and the construction of rail infrastructure at the North American Terminal Operations site in Bruderheim, Alberta, expected levels of sodium chlorate and chlor-alkali product selling prices, expected demand / sales volumes of sodium chlorate and chlor-alkali products, anticipated future sodium chlorate and chlor-alkali industry and Canexus operating rates, expected demand for / supply of pulp, expected operating rates of Canexus Brazil's primary customer, expected future levels of maintenance capital expenditures and the anticipated conversion process. Information about the anticipated conversion process and plan of Arrangement is subject to change, including benefits of the Arrangement, the occurrence of the effective date of the Arrangement, the treatment of Unitholders under tax laws, the business strategy of Canexus post-conversion, the business to be carried on by Canexus following the Arrangement and the potential for a payment of a dividend by Canexus post-conversion. Investors should be cautioned that any decision to pay dividends following the conversion will be made by the board of directors of Canexus on the basis of Canexus' earnings, financial requirements and other conditions existing at such future time. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form filed on the Fund's SEDAR profile at [www.sedar.com](http://www.sedar.com). Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities) designed by, or caused to be designed under the supervision of the President and Chief Executive Officer and Chief Financial Officer, to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified and that material information is accumulated and communicated to our management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Internal Controls over Financial Reporting**

We are responsible for establishing and maintaining internal control over financial reporting (as defined under Multilateral Instrument 52-109 of the Canadian securities regulatory authorities) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. We have designed our internal controls over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

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

# Unaudited Consolidated Statements of Income and Comprehensive Income

## Canexus Income Fund

### For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands, except per unit amounts</i>	2010	2009
<b>Revenues</b>		
Equity Income from Investment in Canexus Limited Partnership ("Canexus LP") (Note 6)	5,567	2,062
Interest Income on Debentures of Canexus LP (Note 5)	1,672	-
	7,239	2,062
<b>Expenses</b>		
Trust Administration Expenses	175	111
Accretion of Convertible Debentures (Notes 4 and 5)	263	-
Interest on Convertible Debentures (Note 4)	1,672	-
Unit Based Compensation (Note 12)	326	222
	2,436	333
Income Before Future Income Taxes	4,803	1,729
Provision for (Recovery of) Future Income Taxes (Note 8)	1,897	(439)
Net Income and Comprehensive Income	2,906	2,168
Net Income Per Unit (Note 13)	0.09	0.07
Diluted Net Income Per Unit (Note 13)	0.08	0.07

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Statements of Deficit

## Canexus Income Fund

### For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands</i>	2010	2009
Beginning of Period	(44,662)	(53,962)
Net Income	2,906	2,168
Distributions Declared	(4,704)	(4,500)
End of Period	(46,460)	(56,294)

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Balance Sheets

## Canexus Income Fund

At March 31, 2010 and December 31, 2009

<i>CAD thousands, except unit amounts</i>	2010	2009
<b>ASSETS</b>		
Current Assets		
Cash	90	394
Interest Receivable on Debentures of Canexus LP (Note 5)	1,691	19
Due from Affiliates, Net (Note 5)	-	17
Distribution Receivable from Canexus LP	1,591	1,544
Prepaid Expenses	55	23
<b>Total Current Assets</b>	<b>3,427</b>	<b>1,997</b>
Investment in Debentures of Canexus LP (Note 5)	81,481	85,780
Investment in Canexus LP (Note 6)	302,202	295,590
<b>Total Assets</b>	<b>387,110</b>	<b>383,367</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	44	1
Due to Affiliates, Net (Note 5)	345	-
Distribution Payable to Unitholders (Note 7)	1,591	1,544
Unit Based Compensation (Note 12)	671	-
Interest Payable on Convertible Debentures (Notes 4 and 5)	1,626	19
<b>Total Current Liabilities</b>	<b>4,277</b>	<b>1,564</b>
Convertible Debentures, Net (Note 4)	74,818	78,496
Future Income Tax (Note 8)	9,376	7,479
Unit Based Compensation (Note 12)	107	20
<b>Total Liabilities</b>	<b>88,578</b>	<b>87,559</b>
Equity		
Equity Component of Convertible Debentures	7,252	7,634
Unitholders' Equity (34,897,416 Units outstanding) (Note 9)	331,049	325,620
Contributed Surplus (Note 12)	6,691	7,216
Deficit	(46,460)	(44,662)
<b>Total Equity</b>	<b>298,532</b>	<b>295,808</b>
<b>Total Liabilities and Equity</b>	<b>387,110</b>	<b>383,367</b>

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Statements of Cash Flows

## Canexus Income Fund

### For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands</i>	2010	2009
<b>Operating Activities</b>		
Net Income	2,906	2,168
Charges and Credits to Income Not Involving Cash		
Equity Income from Investment in Canexus LP	(5,567)	(2,062)
Unit Based Compensation	326	222
Future Income Taxes	1,897	(439)
Accretion of Convertible Debentures (Notes 4 and 5)	263	-
Cash Distributions Received from Canexus LP	3,890	4,715
Change in Due from/to Affiliates, Net, and Interest Due from/to Affiliates	(1,203)	95
Change in Non-Cash Operating Working Capital	830	16
<b>Total Operating Activities</b>	<b>3,342</b>	<b>4,715</b>
<b>Financing Activities</b>		
Cash Distributions Paid	(3,890)	(4,715)
Proceeds from Exercise of Unit Options	244	-
<b>Total Financing Activities</b>	<b>(3,646)</b>	<b>(4,715)</b>
<b>Decrease in Cash</b>	<b>(304)</b>	<b>-</b>
<b>Cash – Beginning of Period</b>	<b>394</b>	<b>1</b>
<b>Cash – End of Period</b>	<b>90</b>	<b>1</b>

See accompanying notes to the Unaudited Consolidated Financial Statements

# Notes to Unaudited Consolidated Financial Statements

## Canexus Income Fund

### For the Three Months Ended March 31, 2010 and 2009

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

#### 1. Organization and Business of the Fund

Canexus Income Fund (“the Fund”, “we” or “our”) is an unincorporated open-ended trust established by the Fund Trust Indenture dated June 28, 2005, as amended and restated August 18, 2005, under the laws of Alberta. The Fund is a “mutual fund trust” for the purposes of the Income Tax Act (Canada). The head office and principal business office of the Fund is located in Calgary, Alberta. Canexus Limited is the administrator of the Fund and the general partner (“General Partner”) of Canexus LP in which it holds a 0.01 percent interest.

At March 31, 2010, the Fund held a 34.9 percent (December 31, 2009 – 34.2 percent) interest in Canexus LP. Nexen Inc (“Nexen”) held a 65.1 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP.

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

#### 2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2009. The Fund does not have any other comprehensive income.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund’s financial position at March 31, 2010 and the results of its operations and cash flows for the three months ended March 31, 2010 and 2009. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2009.

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

#### 3. Future Accounting Pronouncements

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

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

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

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

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

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

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

#### 4. Convertible Debentures

At March 31, 2010 and December 31, 2009, the Fund had two series of convertible unsecured subordinated debentures denoted as Series I Debentures and Series II Debentures (the "Convertible Debentures") as follows:

	Series I	Series II		
Maturity Date	December 31, 2014	December 31, 2014		
Fixed Distribution Rate	8.00%	8.00%		
Conversion Price	\$5.10	\$5.10		
	Series I	Series II	Unamortized Discount	Total Carrying Value
Outstanding, December 31, 2009	45,780	40,000	(7,284)	78,496
Issued	-	-	-	-
Converted	(4,299)	-	358	(3,941)
Accretion of Discount	-	-	263	263
Outstanding, March 31, 2010	41,481	40,000	(6,663)	74,818
Quoted Market Value				
March 31, 2010	50,192	48,400		
December 31, 2009	50,129	43,800		

Interest is payable on the Convertible Debentures of both series on December 31 and June 30 of each year.

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

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

#### 5. Related Party Transactions

Due from affiliates, net, at March 31, 2010 and December 31, 2009 represent amounts owing to the Fund by Canexus Limited.

Canexus Limited, as administrator of the Fund and indirectly, the Trustee of Canexus Commercial Trust and the General Partner of Canexus LP, incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the three months ended March 31, 2010 and 2009 were \$23,000.

The Series II Convertible Debentures (see Note 4) outstanding at March 31, 2010 are held by Nexen. Interest expense recognized on the Series II Debentures for the three months ended March 31, 2010 was \$0.8 million. The accretion of the Series II Debentures for the three months ended March 31, 2010 was \$0.1 million. At March 31, 2010, \$0.8 million of interest was payable to Nexen on the Series II Debentures (December 31, 2009 – \$9,000).

At March 31, 2010 and December 31, 2009, the Fund had an investment in unsecured subordinated debentures of Canexus LP (the "Debentures") as follows:

	March 31, 2010	December 31, 2009
Outstanding, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(4,299)	(220)
Outstanding, End of Period	81,481	85,780

Interest income recognized on these Debentures for the three months ended March 31, 2010 was \$1.7 million. At March 31, 2010, \$1.7 million was receivable from Canexus LP for interest income on the Debentures (December 31 – \$19,000). At March 31, 2010, \$0.7 million of promissory notes were payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP (see Note 6). Promissory notes payable are included in due to affiliates, net at March 31, 2010 and December 31, 2009.

## 6. Investment in Canexus LP

	March 31, 2010		December 31, 2009	
	Number of Ordinary LP Units	Amount	Number of Ordinary LP Units	Amount
Beginning of Period	33,701,807	295,590	32,570,814	284,240
Equity Income from Investment in Canexus LP	-	5,567	-	25,474
Distributions Reinvested Pursuant to the DRIP <sup>(1)</sup>	138,660	766	1,087,857	3,876
Issue of Units Pursuant to Conversion of Series I Debentures	842,938	4,982	43,136	225
Distributions Received from Canexus LP	-	(3,112)	-	(16,681)
Distribution Receivable from Canexus LP	-	(1,591)	-	(1,544)
End of Period	34,683,405	302,202	33,701,807	295,590

Note:

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

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

## 7. Distributions

The Fund declared distributions of \$4.7 million (\$0.1368 per Unit) for the three months ended March 31, 2010 and \$4.5 million (\$0.1368 per Unit) for the three months ended March 31, 2009. Of the total distributions declared for the three months ended March 31, 2010, \$0.8 million (March 31, 2009 – \$1.3 million) were reinvested by Unitholders in additional Fund Units pursuant to the DRIP. At March 31, 2010, the Fund had a distribution payable of \$1.6 million.

## 8. Income Taxes

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

The Fund, a specified investment flow-through entity, will be subject to income tax beginning in 2011. As a result, the Fund has recognized a \$9.4 million future income tax liability at March 31, 2010 (December 31, 2009 – \$7.5 million) on temporary differences in reported amounts for financial statement and tax purposes in the property, plant and equipment underlying its investment in Canexus LP. These differences are expected to reverse subsequent to 2010.

## 9. Unitholders' Equity

	March 31, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
Beginning of Period	33,848,871	325,620	32,570,814	320,801
Fund Units Issued Pursuant to the DRIP	138,660	766	1,087,857	3,876
Fund Units Issued on Exercise of Options	66,947	340	147,064	723
Fund Units Issued on Conversion of Convertible Debentures	842,938	4,323	43,136	220
End of Period	34,897,416	331,049	33,848,871	325,620

DRIP participants may elect, in the case of holders of Units of the Fund ("Units" or "Fund Units"), to automatically reinvest monthly distributions in additional Fund Units and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP. The Fund has reserved 17,000,000 Units for the issuance of Fund Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between the Fund, Canexus Commercial Trust, Canexus LP and Nexen, the Exchangeable LP Units held by Nexen are exchangeable for Fund Units on a one-for-one basis. The Fund has reserved 64,835,420 Units at March 31, 2010 (December 31, 2009 – 64,835,420 Units) for the exchange of the Exchangeable LP Units. An exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to the Fund. As a result of the above transactions, the Fund's indirect interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange.

## 10. Financial Instruments and Financial Risk Management

### (a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Held-For-Trading, measured at fair value				
Cash	90	90	394	394
Loans and Receivables, measured at amortized cost				
Interest Receivable on Debentures of Canexus LP	1,691	1,691	19	19
Due from Affiliates, Net	-	-	17	17
Distribution Receivable from Canexus LP	1,591	1,591	1,544	1,544
Investment in Debentures of Canexus LP	81,481	83,952	85,780	87,944
<b>Total Financial Assets</b>	<b>84,853</b>	<b>87,324</b>	<b>87,754</b>	<b>89,918</b>
<b>Financial Liabilities</b>				
Other Financial Liabilities, measured at amortized cost				
Accounts Payable and Accrued Liabilities	44	44	1	1
Due to Affiliates, Net	345	345	-	-
Distribution Payable to Unitholders	1,591	1,591	1,544	1,544
Short-Term Unit Based Compensation	671	671	-	-
Interest Payable on Convertible Debentures	1,626	1,626	19	19
Long-Term Unit Based Compensation	107	107	20	20
Convertible Debentures, Net	74,818	98,592	78,496	93,929
<b>Total Financial Liabilities</b>	<b>79,202</b>	<b>102,976</b>	<b>80,080</b>	<b>95,513</b>

The Fund did not have available-for-sale financial instruments as at or during the three months ended March 31, 2010 or for the year ended December 31, 2009.

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

The Fund categorizes its financial instruments carried at fair value into one of three different levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement of their fair value. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. Credit risk associated with counterparty default, as well as our own credit risk, is included in our estimates of fair value. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. Cash is the only financial instrument carried at fair value and, consistent with December 31, 2009, has been valued using Level 1 inputs. At March 31, 2010, the Fund does not have any assets valued using Level 2 or 3 inputs. This is consistent with December 31, 2009.

The carrying value of interest receivable on Debentures of Canexus LP, due from/to affiliates, net, distribution receivable from Canexus LP, accounts payable and accrued liabilities, distribution payable to Unitholders, short-term unit based compensation, and interest payable on Convertible Debentures approximates their fair value as these financial instruments are near maturity. The carrying value of the long-term unit based compensation approximates the fair value as the carrying value does not significantly differ from the expected settlement amounts. At March 31, 2010, the fair value of the Investment in Debentures of Canexus LP was \$84 million excluding transaction costs. At March 31, 2010, the fair value of the Convertible Debentures was \$98.6 million (see Note 4). The fair value of the Investment in Debentures of Canexus LP was determined by comparison to what the present value of a similar instrument, with a similar time to maturity would have been at March 31, 2010. The fair value of the Series I Convertible Debentures was based on a quoted market price in an active market. The fair value of the Series II Debentures was calculated by comparison to quoted prices for similar instruments traded in an active market.

#### (b) Financial Risk Management

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

### 11. Capital Risk Management

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

	March 31, 2010	December 31, 2009
Cash	90	394
Convertible Debentures, Net	(74,818)	(78,496)
Unitholders' Equity	(331,049)	(325,620)
	(405,777)	(403,722)

### 12. Unit Based Compensation

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

On March 3, 2010, the Board of Directors of Canexus Limited approved an amendment to the TUIP to allow recipients of options awarded in 2005 ("2005 TUIP") the choice to receive cash or Units upon exercise of their options. As a result of this amendment, the fair value of these awards at the date of amendment (\$0.4 million) was transferred from contributed surplus to a liability. The liability is remeasured at each subsequent reporting period end to its fair value. As the expense related to the 2005 TUIP's

exercised is related to employees of either Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus U.S. Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovers this expense at the time of exercise from either CCCLP, CUI or Canexus Brazil as applicable.

(a) TUIP

(i) TUIP (excluding 2005 TUIP for the three months ended March 31, 2010)

Number of Unit Options	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	3,057,820	2,874,900
Granted	-	35,000
Exercised	(49,844)	-
Forfeited	(7,920)	(69,500)
2005 Unit Options as per Amendment	(450,500)	-
Outstanding, End of Period	2,549,556	2,840,400
Exercisable, End of Period	1,291,908	1,186,551

Weighted Average Exercise Prices	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	5.78	5.85
Granted	-	7.47
Exercised	4.90	-
Forfeited	4.01	6.34
2005 Unit Options as per Amendment	9.73	-
Outstanding, End of Period	5.10	5.79
Exercisable, End of Period	5.98	7.84

(ii) 2005 TUIP

Number of Unit Options	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	-	-
2005 Unit Options as per Amendment	450,500	-
Exercised <sup>(1)</sup>	(33,000)	-
Outstanding, End of Period	417,500	-
Exercisable, End of Period	417,500	-

Note:

(1) 33,000 2005 TUIP options were exercised during the three months ended March 31, 2010 and settled for \$44,000 in cash which was recovered from either CCCLP, CUI or Canexus Brazil, as applicable.

Weighted Average Exercise Prices	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	-	-
2005 Unit Options as per Amendment	9.73	-
Exercised	9.59	-
Outstanding, End of Period	9.74	-
Exercisable, End of Period	9.74	-

The range of exercise prices for Unit options outstanding at March 31, 2010 under the TUIP, including the 2005 TUIP, was \$2.99 to \$10.00 per Unit and the weighted average remaining contractual life was 3.08 years.

The Fund recognized TUIP unit based compensation expense for the three months ended March 31, 2010 of \$0.2 million, excluding the 2005 TUIP, with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash. The expense associated with the 2005 TUIP was recognized in prior years over the vesting period of the 2005 TUIP.

The Fund has granted options and corresponding bonus rights to officers and employees under the TUIP. Each option permits the holder to purchase one Unit at a stated exercise price. The options granted vest over three years and expire in five years. The 2005 TUIP options expire in 2010 and therefore the associated unit based compensation liability is considered to be short-term. Each option's exercise price equals the market price at the time of grant.

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

The number of Units reserved under the TUIP and the DTUCP (the "Plans") is equal to 5 percent of the aggregate issued and outstanding Units and Exchangeable LP Units (on a non-diluted basis) (March 31, 2010 – 4,986,642), which is the maximum allowable under the Plans. Of the maximum allowable under the Plans, the aggregate number of Units reserved under the DTUCP is 400,000 (see 12(c) below). At March 31, 2010, 4,094,711 Units (March 31, 2009 – 3,672,864 Units) are reserved and available for issue upon the exercise of options and redemption of bonus rights under the TUIP (including the 2005 TUIP) and 247,554 Units (March 31, 2009 – 167,401 Units) are reserved and available for issuance under the DTUCP.

At March 31, 2010, a total of 2,967,056 Unit options and 2,967,056 corresponding bonus rights are outstanding under the TUIP (including 2005 TUIP). Accumulated notional bonus Units on these bonus rights were 1,127,655 at March 31, 2010. At March 31, 2010, there were 1,709,408 vested Unit options exercisable into 1,709,408 Units, as well as 1,709,408 corresponding bonus rights redeemable into 878,288 notional bonus Units accumulated thereon.

At March 31, 2009, a total of 2,840,400 Unit options and 2,840,400 corresponding bonus rights were outstanding. Accumulated notional bonus Units on these bonus rights were 832,464 at March 31, 2009. At March 31, 2009, there were 1,186,551 vested Unit options exercisable into 1,186,551 Units, as well as 1,186,551 corresponding bonus rights redeemable into 533,340 notional bonus Units accumulated thereon.

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

	Three Months Ended	
	March 31, 2010	March 31, 2009
Risk-Free Interest Rate (%)	-	4.14
Estimated Hold Period Prior to Exercise (years)	-	5
Expected Volatility in the Price of Units (%)	-	32.2
Expected Annual Distributions per Unit	-	0.6731
Fair Value of Options Granted	-	0.86

The method of estimating the weighted average fair value of Unit options issued was revised during the three months ended June 30, 2009 to better reflect that the issue of bonus rights associated with the Unit options account for expected annual distributions while the Unit options are outstanding. This change in estimate did not have a material impact on the weighted average fair value of the Unit options.

#### (b) UARP

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

Each UAR entitles the holder to a cash payment equal to the excess of the market price of Fund Units over the exercise price of the right. The UARs granted vest over three years and expire on December 15 of the third calendar year following the year in which the UAR was granted. Each UARs exercise price equals the market price at the time of grant.

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

Under the UARP, expense is recognized over the vesting period or other expected term of service with a corresponding increase to liabilities as these instruments are settled in cash. The Fund recognized UAR unit based compensation expense for the three months ended March 31, 2010 of \$0.1 million. The portion of the UARP unit based compensation liability that vests within one year is considered short term and the remaining portion is considered long term at March 31, 2010.

The weighted average remaining contractual life for UARs outstanding at March 31, 2010 was 2.72 years.

At March 31, 2010, a total of 436,100 UARs and 436,100 corresponding bonus rights are outstanding. Accumulated notional bonus Units on these bonus rights were 14,467 at March 31, 2010.

<b>Number of UARs</b>	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	430,100	-
Granted	6,000	-
Outstanding, End of Period	436,100	-
Exercisable, End of Period	-	-

  

<b>Weighted Average Exercise Prices</b>	Three Months Ended	
	March 31, 2010	March 31, 2009
Outstanding, Beginning of Period	5.19	-
Granted	5.63	-
Outstanding, End of Period	5.20	-
Exercisable, End of Period	-	-

**(c) DTUCP**

At March 31, 2010, there were 247,554 DTUs outstanding under the DTUCP comprised of 186,000 DTUs granted and 61,554 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. At March 31, 2009, there were 167,401 DTUs outstanding under the DTUCP comprised of 134,000 DTUs granted and 33,401 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

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

The Fund recognized DTUCP unit based compensation expense for the three months ended March 31, 2010 of \$NIL (March 31, 2009 – \$0.3 million) with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash.

### 13. Net Income Per Unit

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

	Three Months Ended	
	March 31, 2010	March 31, 2009
Weighted Average Number of Units Outstanding	34,136,315	32,815,323
Units Issuable Pursuant to DTUs and Notional Reinvestments	244,749	167,401
Units Issuable Pursuant to Options and Corresponding Bonus Rights	3,494,800	892,496
Notional Units to be Purchased from Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	(2,278,648)	(865,506)
Weighted Average Number of Diluted Units Outstanding	35,597,216	33,009,714

During the three months ended March 31, 2010 outstanding options and corresponding bonus rights, DTUs and notional reinvestments, and Series I and II Debentures were the only potential dilutive instruments. The Series I Debentures are potentially dilutive as their conversion would result in the issue of additional Fund Units and an increase in the Fund's equity income from its investment in Canexus LP resulting from a reduction in interest expense on the Debentures of Canexus LP due to the simultaneous redemption of Debentures of Canexus LP. The Series II Debentures are also potentially dilutive as their conversion would result in the issue of Exchangeable LP Units of Canexus LP to Nexen which would result in a change in the interest of the Fund in Canexus LP. However, any subsequent exchange by Nexen of the Exchangeable LP Units for Fund Units would not be dilutive (see Note 9). The conversion of the Series I and II Debentures were anti-dilutive for the three months ended March 31, 2010 and were therefore not included in the diluted net income per Unit calculation.

In calculating the weighted average number of diluted Units outstanding for the three months ended March 31, 2010, 186,000 weighted average DTUs and 58,749 corresponding weighted average additional DTUs (from notional reinvestments) were included and 2,612,056 weighted average unit options and 882,744 corresponding weighted average notional bonus Units were included.

During the three months ended March 31, 2010, \$4.3 million of Convertible Debentures were converted. If all of the Convertible Debentures had been converted, the Fund's interest in Canexus LP would have been 37 percent and Nexen would have held a 63 percent controlling interest in Canexus LP at March 31, 2010.

### 14. Economic Dependence

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

# Unaudited Consolidated Statements of Income and Comprehensive Income

## Canexus Limited Partnership

### For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands</i>	2010	2009
Revenues		
Sales	113,715	123,819
Expenses		
Cost of Goods Sold	81,805	77,801
Amortization	11,543	11,743
General and Administrative	8,331	9,260
Interest	1,571	2,208
	103,250	101,012
Income before Other Income (Expense) and Income Taxes	10,465	22,807
Other Income (Expense) (Note 18)	6,126	(14,864)
Income before Income Taxes	16,591	7,943
Provision for (Recovery of) Income Taxes		
Current	1,304	201
Future	(854)	1,993
	450	2,194
Net Income	16,141	5,749
Other Comprehensive Income (Loss), Net of Tax (Note 18)	(1,975)	2,552
Comprehensive Income	14,166	8,301

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss

## Canexus Limited Partnership

### For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands</i>	2010	2009
<b>Deficit</b>		
Beginning of Period	(73,254)	(94,430)
Net Income	16,141	5,749
Distributions Declared	(13,574)	(12,617)
End of Period	(70,687)	(101,298)
<b>Accumulated Other Comprehensive Loss</b>		
Beginning of Period	(27,510)	(14,724)
Other Comprehensive Income (Loss), Net of Tax (Note 18)	(1,975)	2,552
End of Period	(29,485)	(12,172)

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Balance Sheets

## Canexus Limited Partnership

At March 31, 2010 and December 31, 2009

<i>CAD thousands</i>	2010	2009
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents (Note 19 (c))	2,372	13,200
Accounts Receivable (Note 4)	57,154	53,786
Inventories and Operating Supplies (Note 5)	34,057	31,404
Derivative Financial Instruments (Note 6)	945	1,532
Prepaid Expenses (Note 7)	2,605	3,537
Total Current Assets	97,133	103,459
Property, Plant and Equipment, Net (Note 8 (a))	594,189	559,233
Intangible Assets, Net (Note 8 (b))	1,534	1,522
Restricted Investments (Note 9)	2,481	3,137
Future Income Tax	8,519	7,941
Other Long-Term Assets (Note 10)	4,378	8,648
Total Assets	708,234	683,940

# Unaudited Consolidated Balance Sheets

## Canexus Limited Partnership

At March 31, 2010 and December 31, 2009

<i>CAD thousands, except unit amounts</i>	2010	2009
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Short-Term Borrowings (Note 11)	2,677	-
Accounts Payable and Accrued Liabilities	64,700	60,119
Distribution Payable to Ordinary LP Unitholders	1,585	1,544
Distribution Payable to Exchangeable LP Unitholder, Nexen Inc. ("Nexen")	2,963	2,957
Interest Payable	1,008	1,021
Interest Payable on Debentures (Note 12)	1,691	19
Derivative Financial Instruments (Note 6)	2,616	2,106
Due to Affiliates, Net (Note 12)	119	172
Total Current Liabilities	77,359	67,938
Long-Term Debt (Note 11)	297,754	284,851
Debentures, Net (Note 12)	79,337	83,457
Future Income Tax	13,250	13,900
Asset Retirement Obligations (Note 13)	33,015	33,072
Other Long-Term Liabilities (Note 10)	4,134	3,677
Total Liabilities	504,849	486,895
Equity		
Ordinary Limited Partnership ("LP") Units (34,683,405 outstanding) (Note 15)	314,900	309,152
Exchangeable Limited Partnership ("LP") Units (64,835,420 outstanding) (Note 15)	(11,343)	(11,343)
Total LP Units	303,557	297,809
Deficit	(70,687)	(73,254)
Accumulated Other Comprehensive Loss	(29,485)	(27,510)
Total Deficit and Accumulated Other Comprehensive Loss	(100,172)	(100,764)
Total Equity	203,385	197,045
Commitments, Contingencies and Guarantees (Note 17)		
Total Liabilities and Equity	708,234	683,940

See accompanying notes to the Unaudited Consolidated Financial Statements

# Unaudited Consolidated Statements of Cash Flows

## Canexus Limited Partnership

For the Three Months Ended March 31, 2010 and 2009

<i>CAD thousands</i>	2010	2009
<b>Operating Activities</b>		
Net Income	16,141	5,749
Realized Foreign Exchange Losses on Cash	571	36
Charges and Credits to Income Not Involving Cash (Note 19 (a))	5,508	27,882
Contributions to / Payments for Defined Benefit Plans	(570)	(1)
Expenditures on Asset Retirement Obligations (Note 13)	(25)	(33)
Interest Income on Restricted Investments (Note 9)	(1)	(163)
Change in Due to Affiliates, Net, and Interest Payable to Affiliates	2,023	(1,473)
Changes in Non-Cash Operating Working Capital (Note 19 (b))	393	(3,275)
<b>Total Operating Activities</b>	<b>24,040</b>	<b>28,722</b>
<b>Financing Activities</b>		
Proceeds from (Repayments of) Short-Term Borrowings	2,677	(3,670)
Proceeds from Extendible Revolving Credit Facility	22,704	10,171
Proceeds from Senior Secured Revolving Credit Facility	1,068	12,107
Repayments of Extendible Revolving Credit Facility	-	(8,181)
Repayments of Senior Secured Revolving Credit Facility	-	(3,148)
Repayments of Export Development Canada ("EDC") Extendible Revolving Credit Facility	(2,114)	-
Credit Facility Transaction Costs	-	(17)
Cash Distributions Paid to Ordinary LP Unitholders	(3,891)	(4,717)
Cash Distributions Paid to Nexen, Exchangeable LP Unitholder	(8,869)	-
Funding of Asset Retirement Expenditures from Restricted Investments (Note 9)	830	976
<b>Total Financing Activities</b>	<b>12,405</b>	<b>3,521</b>
<b>Investing Activities</b>		
Expenditures on Property, Plant and Equipment	(48,571)	(36,242)
Changes in Non-Cash Investing Working Capital (Note 19(b))	1,850	3,716
<b>Total Investing Activities</b>	<b>(46,721)</b>	<b>(32,526)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(552)</b>	<b>54</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(10,828)</b>	<b>(229)</b>
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>13,200</b>	<b>3,948</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>2,372</b>	<b>3,719</b>
Supplemental Cash Flow Information (Note 19 (c))		

See accompanying notes to the Unaudited Consolidated Financial Statements

# Notes to Unaudited Consolidated Financial Statements

## Canexus Limited Partnership

### For the Three Months Ended March 31, 2010 and 2009

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

#### 1. Organization and Business of Canexus Limited Partnership

Canexus Limited Partnership (“Canexus LP”, “we” or “our”) is a limited partnership established under the laws of Alberta. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in South America, largely for the pulp and paper and water treatment industries. The head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

Canexus Income Fund (“the Fund”) holds a 34.9 percent (December 31, 2009 – 34.2 percent) interest and Nexen holds a 65.1 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner (“General Partner”), which holds a 0.01 percent interest in Canexus LP.

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

#### 2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2009.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP’s financial position at March 31, 2010 and the results of its operations and cash flows for the three months ended March 31, 2010 and 2009. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2009.

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

#### 3. Future Accounting Pronouncements

##### [Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests](#)

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

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

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

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

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

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

#### 4. Accounts Receivable

	March 31, 2010	December 31, 2009
Accounts Receivable – Trade	44,280	43,849
Allowance For Doubtful Accounts	(2,614)	(2,614)
	41,666	41,235
Accounts Receivable – Value Added Taxes and Other	15,488	12,551
	57,154	53,786

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

	North America	South America	Asia	Total
Current	26,207	10,253	619	37,079
Past Due 0 – 30 days	4,723	5	-	4,728
Past Due 31 – 60 days	370	1	-	371
Past Due 61 – 90 days	67	10	-	77
Past Due Greater than 90 Days	1,756	269	-	2,025
	33,123	10,538	619	44,280

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

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

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

#### 5. Inventories and Operating Supplies

	March 31, 2010	December 31, 2009
Raw Materials and Work-in-Progress	7,490	5,985
Finished Goods	11,486	10,769
Operating Supplies	15,081	14,650
	34,057	31,404

## 6. Financial Instruments and Financial Risk Management

### (a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	2,372	2,372	13,200	13,200
Derivative Financial Instruments				
Foreign Exchange Options	945	945	1,532	1,532
<b>Total Held-For-Trading</b>	<b>3,317</b>	<b>3,317</b>	<b>14,732</b>	<b>14,732</b>
Loans and Receivables, measured at amortized cost				
Accounts Receivable	57,154	57,154	53,786	53,786
Long-Term Deposits with Energy Utilities Board	130	130	130	130
Long-Term Accounts Receivable – Value Added Taxes and Other	2,757	2,757	6,755	6,755
<b>Total Loans and Receivables</b>	<b>60,041</b>	<b>60,041</b>	<b>60,671</b>	<b>60,671</b>
Held-to-Maturity, measured at amortized cost				
Restricted Investments	2,481	2,481	3,137	3,137
<b>Total Financial Assets</b>	<b>65,839</b>	<b>65,839</b>	<b>78,540</b>	<b>78,540</b>
<b>Financial Liabilities</b>				
Held-For-Trading, measured at fair value				
Derivative Financial Instruments				
Interest Rate Swaps	2,616	2,616	2,106	2,106
<b>Total Held-For-Trading</b>	<b>2,616</b>	<b>2,616</b>	<b>2,106</b>	<b>2,106</b>
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	2,677	2,677	-	-
Accounts Payable and Accrued Liabilities	64,700	64,700	60,119	60,119
Distributions Payable	4,548	4,548	4,501	4,501
Interest Payable	1,008	1,008	1,021	1,021
Interest Payable on Debentures	1,691	1,691	19	19
Due to Affiliates, Net	119	119	172	172
Debentures, Net	79,337	83,952	83,457	87,944
Long-Term Debt	297,754	295,999	284,851	284,104
<b>Total Other Financial Liabilities</b>	<b>451,834</b>	<b>454,694</b>	<b>434,140</b>	<b>437,880</b>
<b>Total Financial Liabilities</b>	<b>454,450</b>	<b>457,310</b>	<b>436,246</b>	<b>439,986</b>

Canexus LP did not have available-for-sale financial instruments as at or during the three months ended March 31, 2010 or for the year ended December 31, 2009.

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

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

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

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

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	2,372	-	-	2,372
Foreign Exchange Options	-	945	-	945
Interest Rate Swaps	-	(2,616)	-	(2,616)
	2,372	(1,671)	-	701

The carrying value of accounts receivable approximate their fair value as these financial instruments are near maturity. The carrying value of the long-term deposits with the energy utilities board and the long-term accounts receivable – value added taxes and other approximates their fair value as the carrying value does not significantly differ from their expected settlement amounts. The carrying value of restricted investments, net of an allowance for impairment, approximates their fair value. The carrying value of short-term borrowings, accounts payable and accrued liabilities, distributions payable, interest payable, interest payable on debentures, and due to affiliates, net approximate their fair value as these financial instruments are near maturity. The carrying value of the revolving credit facilities loans approximates their fair value as these loans bear interest at floating rates. At March 31, 2010, the fair value of the Debentures issued to the Fund was \$84 million excluding transaction costs (December 31, 2009 – \$87.9 million). At March 31, 2010, the fair value of the US \$50 million Senior Secured Notes (“Senior Secured Notes”) was \$49 million (US \$48.3 million) excluding transaction costs (December 31, 2009 – \$51.6 million (US \$49.3 million)). The fair value of the Debentures and the Senior Secured Notes were determined by comparison to what the present value of a similar instrument with a similar time to maturity would have been at March 31, 2010.

## (b) Financial Risk Management

### (i) Overview

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

### (ii) Liquidity Risk

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

### (iii) Credit Risk

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

Industry	North America		South America		Asia		Total	
	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	25,830	78	8,531	81	619	100	34,980	79
Water Treatment	2,438	7	413	4	-	-	2,851	6
Chemicals	2,007	6	79	1	-	-	2,086	5
Oil and Gas	1,366	4	-	-	-	-	1,366	3
Other	1,482	5	1,515	14	-	-	2,997	7
	33,123	100	10,538	100	619	100	44,280	100

<b>Geographical Area</b>	<b>Carrying Value</b>	<b>Percent</b>
Canada	16,809	38
United States	16,314	37
South America	10,538	24
Asia	619	1
	44,280	100

Our North American customers are diverse with no one customer accounting for more than 5 percent of total trade accounts receivable at March 31, 2010 (December 31, 2009 – 8 percent).

The majority of our South American production is sold to Fibria Celulose S.A. (“Fibria”), formerly Aracruz Celulose S.A., under a long-term sales agreement. At March 31, 2010, trade amounts owing from Fibria represented 19 percent of total trade accounts receivable (December 31, 2009 – 17 percent).

*(iv) Market Risks*

**Foreign Currency Rate Risk**

A substantial portion of the sales revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP’s North American expenses are denominated in Canadian dollars. The average Canadian to US dollar foreign exchange rate for the three month period ended March 31, 2010 was US \$0.95. An increase in the Canadian to US dollar exchange rate to US \$1.10 for the three month period would have decreased net income before income taxes by \$4.7 million for the three months ended March 31, 2010, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US \$0.90 for the three month period would have increased net income before income taxes by \$1.9 million for the three months ended March 31, 2010. A range of US \$0.90 to \$1.10 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has borrowed US dollar denominated debt and incurs other expenditures in US dollars. During the three months ended March 31, 2010, Canexus LP had foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9479 (US \$5 million per month) and US \$0.9302 (US \$5 million per month) for an average of US \$0.9391 per Canadian dollar from January 1, 2010 to March 31, 2010. Canexus LP has foreign exchange call option contracts on US \$5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010.

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

**Product Price and Volume Risk**

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$75 change in the price per metric tonne (“MT”) of North American produced sodium chlorate, net income before income taxes for the three months ended March 31, 2010 would have changed by \$7 million. For every \$100 change in the price per metric electro-chemical unit (“MECU”) of chlor-alkali products produced in North America, net income before income taxes for the three months ended March 31, 2010 would have changed by \$3 million. These sensitivities to changes in prices are based on 93,000 MT of North American sodium chlorate sales and 30,000 MECU’s of North American chlor-alkali sales for the three months ended March 31, 2010. Sensitivities of \$75 per MT for sodium chlorate and \$100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

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

### South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America, Fibria, typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). During the three months ended March 31, 2010, the price of purchased caustic soda did not exceed the Canexus Price. During the three months ended March 31, 2010 we acquired 508 MT of caustic soda to make up for our production shortfall below operating capacity.

### Electricity Price Risk

The cost of electricity is a key production cost. For every three percent change in the price of electricity in North America, net income before income taxes would have changed by \$0.6 million for the three months ended March 31, 2010. This sensitivity to changes in electricity prices is based on North American electricity consumption of 575,000 MWh for the three months ended March 31, 2010. A three percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

### Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. The average 30 day US LIBOR base rate was 0.23 percent for the three month period ended March 31, 2010. A change in the 30 day US LIBOR base rate to 0.2 percent for the three month period would have increased net income before income taxes by \$17,400 for the three months ended March 31, 2010. A change in the 30 day US LIBOR base rate to 3 percent for the three month period would have decreased net income before income taxes by \$1.3 million for the three months ended March 31, 2010. A range of 0.2 to 3 percent for the 30 day US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

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

## 7. Prepaid Expenses

	March 31, 2010	December 31, 2009
Prepaid Insurance	1,184	2,200
Prepaid Freight	637	584
Prepaid Property Tax	3	-
Other	781	753
	2,605	3,537

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

## 8. Property, Plant and Equipment and Intangible Assets

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

<b>March 31, 2010</b>	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	595,812	368,759	227,053
North America Chlor-alkali	430,610	140,599	290,011
South America	124,535	49,219	75,316
Corporate	10,813	9,004	1,809
	1,161,770	567,581	594,189

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

The balances at March 31, 2010 include capitalized costs of \$301.9 million relating primarily to the TCP at our North Vancouver facility (\$246.6 million including capitalized interest of \$8.5 million) as well as other projects under construction or development. The balances at December 31, 2009 included capitalized costs of \$258.6 million relating primarily to the TCP at our North Vancouver facility (\$209.6 million including capitalized interest of \$6.4 million) as well as other projects under construction or development. These costs are not being amortized.

### (b) Intangible Assets

<b>March 31, 2010</b>	Cost	Accumulated Amortization	Net Book Value
North America Chlor-alkali	631	-	631
Corporate	2,406	1,503	903
	3,037	1,503	1,534

<b>December 31, 2009</b>	Cost	Accumulated Amortization	Net Book Value
Corporate	2,945	1,423	1,522

Intangible assets consist of software.

## 9. Restricted Investments

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

	March 31, 2010	December 31, 2009
Beginning of Period	3,137	8,943
Interest Earned	1	262
Funding of Asset Retirement Obligation Expenditures	(830)	(6,521)
Reversal of Impairment	173	453
End of Period	2,481	3,137

We have estimated the fair market value of our \$4.1 million investment in restructured notes, which replaced our investment in non-bank sponsored asset backed commercial paper ("ABCP"), to be \$2.5 million at March 31, 2010 (December 31, 2009 – \$2.4 million). During the three months ended December 31, 2008, we recorded \$1.6 million of impairment charges in addition to \$0.6 million recorded in the three months ended December 31, 2007, for total impairment charges of \$2.2 million. During the three months ended March 31, 2010, we reversed impairment charges of \$0.2 million, in addition to \$0.4 million reversed during the

three months ended December 31, 2009, for total impairment charges of \$0.6 million. The fair market value of our investment in the Restructured Notes was determined by estimating the yield that a prospective purchaser would require for each class of notes. Our estimates of required yield ranged from 7 to 27 percent for the classes of Restructured Notes now held with a maturity date of December 20, 2016.

#### 10. Other Long-Term Assets and Liabilities

	March 31, 2010	December 31, 2009
<b>Other Long-Term Assets</b>		
Credit Facility Transaction Costs, Net	1,491	1,763
Deposits with Energy Utilities Board	130	130
Accounts Receivable – Value Added Taxes and Other	2,757	6,755
<b>Total Other Long-Term Assets</b>	<b>4,378</b>	<b>8,648</b>
<b>Other Long-Term Liabilities</b>		
Defined Benefit Pension Liability	2,037	1,662
Post Retirement Benefit Liability	1,957	1,869
Other	140	146
<b>Total Other Long-Term Liabilities</b>	<b>4,134</b>	<b>3,677</b>

#### 11. Long-Term Debt and Short-Term Borrowings

	Maturity	March 31, 2010	December 31, 2009
<b>Short-Term Borrowings</b>			
Swing Line Loans under Extendible Revolving Credit Facility	August 18, 2012	2,677	-
<b>Long-Term Debt</b>			
<b>Credit Facilities</b>			
Extendible Revolving Credit Facility	August 18, 2012	229,018	212,983
EDC Extendible Revolving Credit Facility	August 18, 2012	6,093	8,373
Senior Secured Revolving Credit Facility	April 15, 2010	12,187	11,513
<b>Total Credit Facilities</b>		<b>247,298</b>	<b>232,869</b>
Senior Secured Notes	May 1, 2013	50,780	52,330
Unamortized Senior Secured Notes Transaction Costs, Net		(324)	(348)
		50,456	51,982
<b>Total Long-Term Debt</b>		<b>297,754</b>	<b>284,851</b>

At March 31, 2010, we had \$229 million (US \$225.5 million) outstanding on the Extendible Revolving Credit Facility. The weighted average interest rate for the three months ended March 31, 2010, including the rate applicable on the interest rate swaps, was 2.19 percent and total interest and standby fees incurred were \$0.8 million. Total interest paid on the interest rate swaps was \$0.4 million for the three months ended March 31, 2010 which is included in Other Income (Expense). At March 31, 2009, we had \$223.1 million (US \$177 million) outstanding on this credit facility. The weighted average interest rate for the three months ended March 31, 2009, including the rate applicable on the interest rate swaps, was 2.97 percent and total interest and standby fees incurred were \$1.6 million. Total interest paid on the interest rate swaps was \$0.2 million for the three months ended March 31, 2009 which was included in Other Income (Expense).

The weighted average interest rate on the swing line loans for the three months ended March 31, 2010 was 2.5 percent and total interest and standby fees incurred were \$0.2 million. The weighted average interest rate on the swing line loans for the three months ended March 31, 2009 was 3.47 percent and total interest and standby fees incurred were \$48,000.

At March 31, 2010, we had \$12.2 million (US \$12 million) outstanding on the Senior Secured Revolving Credit Facility. The weighted average interest rate for the three months ended March 31, 2010 was 1.48 percent and total interest and standby fees incurred were \$51,000. At March 31, 2009, we had \$9.3 million (US \$7.4 million) outstanding on this credit facility. The weighted

average interest rate for the three months ended March 31, 2009 was 2.20 percent and total interest and standby fees incurred were \$44,000.

At March 31, 2010, we had \$6.1 million (US \$6 million) outstanding on the EDC Extendible Revolving Credit Facility. The weighted average interest rate for the three months ended March 31, 2010 was 1.48 percent and total interest and standby fees incurred were \$51,000. At March 31, 2009, we had \$7.6 million (US \$6 million) outstanding on this credit facility. The weighted average interest rate for the three months ended March 31, 2009 was 2.26 percent and total interest and standby fees incurred were \$0.1 million.

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

Effective April 15, 2010, Canexus LP's Extendible Revolving Credit Facility has been increased from \$420 million to \$440 million and its US \$20 million Senior Secured Revolving Credit Facility has been repaid and cancelled. Maturity of Canexus LP's senior secured credit facilities (which now includes the \$440 million Extendible Revolving Credit Facility and the US \$10 million EDC Extendible Revolving Credit Facility) has been extended to August 18, 2012.

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

## 12. Amounts Due from/to Affiliates and Related Party Transactions

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

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

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. The amount owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at March 31, 2010 was \$40,000 (December 31, 2009 – \$NIL).

	Three Months Ended	
	March 31, 2010	March 31, 2009
Electricity Purchases and Retail Service Fees	111	1,573
Natural Gas Purchases and Retail Service Fees	961	1,435
Lease of Office Space	207	210
	1,279	3,218

Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for Nexen owned condensate for a term of 5 years for a total contract value of approximately \$2.1 million. Revenue recognized from the Nexen affiliate for the provision of these services was \$0.3 million for the three months ended March 31, 2010 and the amount owing by the Nexen affiliate at March 31, 2010 for these services was \$0.3 million.

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

Canexus LP has the following unsecured subordinated debentures (the “Debentures”) held by the Fund outstanding:

	March 31, 2010	December 31, 2009
Debentures, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(4,299)	(220)
	81,481	85,780
Fund Convertible Debenture Transaction Costs	(2,436)	(2,436)
Accumulated Amortization, Fund Convertible Debenture Transaction Costs	292	113
Unamortized Fund Convertible Debenture Transaction Costs	(2,144)	(2,323)
Debentures, Net, End of Period	79,337	83,457

Interest expense recognized on the Debentures for the three months ended March 31, 2010 was \$1.7 million. At March 31, 2010, interest payable to the Fund on the Debentures was \$1.7 million

### 13. Asset Retirement Obligations

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

	March 31, 2010	December 31, 2009
Beginning of Period	33,072	44,771
Disposals	(150)	-
Expenditures on Asset Retirement Obligations	(25)	(869)
Accretion Expense	518	2,870
Effect of Foreign Exchange	(10)	(672)
Change in Obligations Reclassified to Current Liabilities <sup>(1)</sup>	(390)	965
Changes in Cash Flow Estimates and Timing	-	(13,993)
End of Period	33,015	33,072

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At March 31, 2010, \$810,000 was included in accounts payable and accrued liabilities (December 31, 2009 – \$420,000).

Our total estimated undiscounted asset retirement obligations at March 31, 2010 is \$121.8 million (December 31, 2009 – \$121.8 million). The expected timing of settling our obligations is determined on a plant by plant basis and is currently expected to occur between the years of 2015 to 2050. We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 6.25 percent. Approximately \$3.1 million included in our asset retirement obligations are expected to be settled over the next three years.

### 14. Pension and Other Post Retirement Benefits

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

	Three Months Ended	
	March 31, 2010	March 31, 2009
Cost of Benefits Earned by Employees	750	690
Interest Cost on Benefits Earned	1,037	986
Expected Return on Plan Assets	(935)	(844)
Net Amortization and Deferral	83	46
Net Pension Expense	935	878

#### (b) Employer Funding Contributions

Total funding contributions for 2010 for our defined benefit pension plans are estimated to be \$2.6 million.

#### (c) Contributions Under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were \$0.2 million for the Canadian plan; \$38,400 for the US plan and \$50,100 for the South American plan for

the three months ended March 31, 2010 and \$0.2 million for the Canadian plan; \$50,300 for the US plan and \$41,800 for the South American plan for the three months ended March 31, 2009.

#### (d) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work, however these future obligations are not funded. The expense recognized for the three months ended March 31, 2010 was \$82,900 (March 31, 2009 – \$75,000). At March 31, 2010 other long-term liabilities includes a \$1.9 million (December 31, 2009 – \$1.8 million) post retirement benefit liability.

Post retirement benefits in the US consist of a medical benefits bonus plan. Under the bonus plan, US employees as of December 9, 2006 who attain a minimum of 10 years of completed service are entitled to a benefit of US \$4,000 for every year of completed service. The expense recognized for the three months ended March 31, 2010 was \$18,000 (March 31, 2009 – \$11,000). At March 31, 2010 other long-term liabilities includes a \$97,800 (December 31, 2009 – \$90,800) post retirement benefit liability.

### 15. Equity

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

	March 31, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
<b>General Partner Units</b>				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
<b>Ordinary LP Units</b>				
Beginning of Period	33,701,807	309,152	32,570,814	305,051
Issued Pursuant to the DRIP	138,660	766	1,087,857	3,876
Issued Pursuant to Redemption of Debentures	842,938	4,982	43,136	225
End of Period	34,683,405	314,900	33,701,807	309,152
<b>Exchangeable LP Units</b>				
Beginning of Period	64,835,420	(11,343)	56,637,539	(38,929)
Issued Pursuant to the DRIP	-	-	8,197,881	27,586
End of Period	64,835,420	(11,343)	64,835,420	(11,343)

Under the Distribution Reinvestment Plan (“DRIP”) participants may elect, in the case of holders of Units of the Fund (“Units” or “Fund Units”), to automatically reinvest monthly distributions in additional Fund Units and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP. The Fund has reserved 17,000,000 Units for the issuance of Fund Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

Canexus LP declared distributions of \$0.1368 per LP Unit for the three months ended March 31, 2010 (December 31, 2009 – \$0.5472) to Ordinary and Exchangeable LP Unitholders. On March 5, 2010, a distribution of \$0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record March 31, 2010 for payment on April 15, 2010.

### 16. Capital Risk Management

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

March 31, 2010      December 31, 2009

Cash and Cash Equivalents	2,372	13,200
Short-Term Borrowings	(2,677)	-
Long-Term Debt	(297,754)	(284,851)
Debtures, Net <sup>(1)</sup>	(79,337)	(83,457)
Ordinary LP Units	(314,900)	(309,152)
Exchangeable LP Units	11,343	11,343
	(680,953)	(652,917)

Note:

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

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

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

Effective for the three months ended June 30, 2011, the Consolidated Senior Debt to EBITDA Ratio is not to exceed 3.5 to 1.0, the Consolidated Total Debt to EBITDA Ratio is not to exceed 4.0 to 1.0 and the Consolidated EBITDA to Interest Expense Ratio is not to be less than 3.0 to 1.0.

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

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

## 17. Commitments, Contingencies and Guarantees

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

	2010	2011	2012	2013	2014	Thereafter
Operating Leases	15,344	16,493	14,827	13,052	12,221	47,896
Purchase Obligations	32,308	35,972	36,960	38,294	8,258	-
Expansion Capital Expenditures	25,392	-	1,490	-	-	-
	73,044	52,465	53,277	51,346	20,479	47,896

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

Expansion capital expenditures include contractual obligations related to expansion projects, including the TCP at our North Vancouver chlor-alkali facility. At March 31, 2010, actual capital expenditures for the TCP were \$246.6 million including capitalized interest of \$8.5 million.

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

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

## 18. Other Income (Expense)

	Three Months Ended	
	March 31, 2010	March 31, 2009
<b>Currency Translation Gains (Losses)</b>		
Unrealized Currency Translation Gains (Losses)		
Debt	8,612	(7,672)
Working Capital	(1,268)	2,548
Total Unrealized Currency Translation Gains (Losses)	7,344	(5,124)
Realized Currency Translation Losses		
Debt	-	(736)
Working Capital	(716)	(899)
Total Realized Currency Translation Losses	(716)	(1,635)
Total Currency Translation Gains (Losses)	6,628	(6,759)
<b>Gains (Losses) on Held-for-Trading Financial Instruments</b>		
Change in Fair Value of Foreign Exchange Options	(587)	(5,949)
Realized Gains on Foreign Exchange Options	729	-
Change in Fair Value of Interest Rate Swaps	(510)	(509)
Realized Losses on Interest Rate Swaps	(387)	(218)
Change in Fair Value of Foreign Exchange Forward	-	(1,916)
Interest Income Earned on Cash and Cash Equivalents	47	8
Total Losses on Held-for-Trading Financial Instruments	(708)	(8,584)
<b>Gains on Held-to-Maturity Financial Instruments</b>		
Interest Income on Restricted Investments	1	163
<b>Other</b>		
Accrual for Future TCP Severance Costs	-	981
Provision for Doubtful Accounts	-	(650)
Reversal of Impairment in Value of ABCP	172	-
Other	33	(15)
Total Other	205	316
Total Other Income (Expense)	6,126	(14,864)

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

## 19. Cash Flows

### (a) Charges and Credits to Income Not Involving Cash

	Three Months Ended	
	March 31, 2010	March 31, 2009
Amortization	11,543	11,743
Change in Fair Value of Foreign Exchange Options	587	5,949
Change in Fair Value of Foreign Exchange Forward	-	1,916
Change in Fair Value of Interest Rate Swaps	510	509
Unrealized (Gains) Losses on Currency Translation	(7,344)	5,124
Provision for (Recovery of) Future Income Taxes	(854)	1,993
Pension and Post Retirement Benefit Expense	1,035	960
Accrual for Future TCP Severance Costs	-	(981)
Reversal of Impairment in Value of ABCP	(172)	-
Allowance for Doubtful Accounts	-	650
Other	203	19
	5,508	27,882

### (b) Changes in Non-Cash Working Capital

	Three Months Ended	
	March 31, 2010	March 31, 2009
Accounts Receivable	(3,367)	176
Inventories and Operating Supplies	(2,812)	1,207
Prepaid Expenses	932	430
Accounts Payable and Accrued Liabilities	8,133	(1,345)
Accrued Interest Payable	(13)	(162)
Effect of Foreign Exchange on Non-Cash Working Capital	(630)	135
Total Change in Non-Cash Working Capital	2,243	441
Relating to:		
Operating Activities	393	(3,275)
Investing Activities	1,850	3,716
Total Change in Non-Cash Working Capital	2,243	441

### (c) Other Cash Flow Information

	Three Months Ended	
	March 31, 2010	March 31, 2009
Interest Paid	1,977	3,002
Income Taxes Paid	931	247
Cash and Cash Equivalents		
Cash	2,263	3,666
Cash Equivalents	109	53
	2,372	3,719

## 20. Operating Segments

Canexus LP's operations are comprised of North American sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; and Nanaimo, British Columbia, as well as a North American chlor-alkali production facility at North Vancouver, British Columbia and a sodium chlorate and chlor-alkali production facility in South America. In South America, most of our sales are made to a single customer, Fibria, under a long-term sales agreement. Canexus also provides fee-for-service hydrocarbon transloading services to the oil and gas industry from its terminal at Bruderheim, Alberta. The accounting policies of our segments are the same as those described in Note 2 of the December 31, 2009 Audited Consolidated Financial Statements. Identifiable assets are those used in the operations of the segments.

(a) Operating Segments

Three Months Ended March 31, 2010	North America				Total
	Sodium Chlorate <sup>(1)</sup>	Chlor-alkali	South America	Corporate	
<b>Revenues</b>					
Sales	52,938	37,062	23,715	-	113,715
<b>Expenses</b>					
Cost of Goods Sold	35,847	30,284	15,674	-	81,805
Amortization	6,477	2,909	1,900	257	11,543
General and Administrative	2,612	2,922	1,131	1,666	8,331
Interest	-	-	-	1,571	1,571
	44,936	36,115	18,705	3,494	103,250
Income (Loss) before Other Income and Income Taxes					
	8,002	947	5,010	(3,494)	10,465
Other Income	-	-	-	6,126	6,126
Income before Income Taxes	8,002	947	5,010	2,632	16,591
<b>Capital Expenditures</b>					
	1,270	40,300	6,992	9	48,571

Note:

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

Three Months Ended March 31, 2009	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
<b>Revenues</b>					
Sales	57,209	42,362	24,248	-	123,819
<b>Expenses</b>					
Cost of Goods Sold	33,531	24,597	19,673	-	77,801
Amortization	6,646	2,852	2,053	192	11,743
General and Administrative	3,493	2,616	1,179	1,972	9,260
Interest	-	-	-	2,208	2,208
	43,670	30,065	22,905	4,372	101,012
Income (Loss) before Other Expense and Income Taxes					
	13,539	12,297	1,343	(4,372)	22,807
Other Expense	-	-	-	(14,864)	(14,864)
Income (Loss) before Income Taxes	13,539	12,297	1,343	(19,236)	7,943
<b>Capital Expenditures</b>					
	1,967	29,698	1,223	3,354	36,242

Identifiable Assets	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
March 31, 2010	265,513	318,944	108,396	15,381	708,234
December 31, 2009	268,795	280,851	108,532	25,762	683,940

(b) Geographic Segments

PP&E, Net	March 31, 2010	December 31, 2009
Canada	518,734	486,264
United States	140	262
South America	75,315	72,707
	594,189	559,233

<b>Sales</b>	Three Months Ended	
	March 31, 2010	March 31, 2009
Canada	41,658	43,139
United States	46,583	54,325
South America	23,715	24,248
Asia	1,759	2,107
	113,715	123,819