



# 1st Quarter

Three months ended March 31, 2011



## ***Strong Market Dynamics Expected to Drive Performance in 2011***

### **Highlights**

- Distributable Cash was \$9.1 million for the first quarter of 2011, resulting in a payout ratio of 173%. The first quarter is typically our weakest quarter due to the seasonality of chlorine demand for water treatment. We took advantage of this to perform a planned maintenance shutdown of our North Vancouver chlor-alkali facility for 12 days in March and made minor modifications to enhance production reliability. The plant set a production record of just over 18,000 metric electrochemical units ("MECU") in April and is expected to continue to run at near capacity for the next two quarters. Despite a very strong Canadian dollar, we continue to expect to deliver significantly increasing operating cash flow over the balance of the year, resulting in a payout ratio of 90 to 95%.
- North America sodium chlorate sales volumes increased 1% over the first quarter of 2010, benefiting from continued strength in pulp markets. All of our sodium chlorate plants are running at capacity which is expected to continue through 2011 and into 2012. Realized netback prices, despite being negatively affected by the stronger Canadian dollar relative to the US dollar, increased 4% over the first quarter of 2010. Price increases of \$50 per metric tonne ("MT") took effect in the second quarter of 2011 where contracts allow. North American sodium chlorate industry operating rates are currently estimated to be 96%, which should allow for continued pricing momentum in 2011 and 2012. Sodium chlorate production in the quarter was 93,171 MT's of which 82% came from our low-cost Brandon plant. The power line capacity upgrade to our Brandon plant is expected to be completed in 2012, setting the stage for further possible expansion opportunities.
- Sales revenue for the North American chlor-alkali business was 16% higher than the prior year quarter, resulting from higher sales volumes of chlorine and hydrochloric acid, offset by lower realized netback prices for both products. Caustic soda volumes were flat between periods and realized netback prices increased 17% over the first quarter of 2010. Electricity consumption per MECU produced decreased 21% with the benefit of the new membrane plant technology over the prior year period but was offset by 19% higher effective electricity prices per unit due to the plant running at about 70% of practical capacity in the quarter. Chlor-alkali price increases of about \$40/MT for caustic soda and \$35/MT for chlorine have been announced for the second quarter of 2011, where contracts allow.
- Higher sales volumes for all products in our South American business unit resulted in first quarter 2011 operating cash flow of \$6.9 million, despite the impact of the stronger Canadian dollar on our US dollar fixed margin contract with our major customer and higher maintenance costs resulting from a planned chlor-alkali plant maintenance shutdown. Demand from our major customer was strong in the first quarter and is expected to continue for the balance of 2011, keeping our plants running at or close to capacity.
- In late March, we completed the transloading facilities to handle biodiesel at our North American Terminal Operations ("NATO") site at Bruderheim. Mechanical integrity re-verification of our two 650,000 barrel salt caverns is expected to be completed in the third quarter. This will support the potential large-scale development of the site to service the oilsands region.
- On February 7, 2011, Nexen disposed of its entire interest in Canexus through a secondary offering on a bought deal basis. Nexen no longer owns any Fund Units or securities convertible into Fund Units and the Fund owns 100 percent of Canexus LP.

**Dear Unitholders,**

For Canexus, 2011 is a year in which we will benefit from our recent investment program and rapidly improving market conditions. First quarter performance was below our expectations due to higher costs and lower volumes at North Vancouver, as well as a stronger Canadian dollar. However, the first quarter is historically our lowest quarter and we expect significant improvement during the balance of the year.

A strong pulp market has led to increased demand for sodium chlorate in North America, in part from several pulp mill restarts. Canexus is operating its plants at full rates and began implementing price increases in the second quarter of last year. Tight market conditions are expected to continue, further supporting price momentum in this business.

The North American chlor-alkali industry operated at an estimated 91% of effective capacity in the first quarter of 2011, a result of increased chlorine derivative exports to Asia from the US Gulf Coast. Strong chlorine derivative exports to Asia are projected to continue over the near to mid term. North American hydrochloric acid supply currently exceeds demand, putting pressure on prices. North America MECU price increases were realized in the quarter due to caustic soda price improvement. Additional price increases announced for both chlorine and caustic soda are expected to result in further MECU price improvement in the second quarter of 2011. Supply disruptions resulting from the Japanese earthquake and tsunami have resulted in increased Asian caustic soda prices, raising the cost of imports into Western Canada at a time when demand is strong. With no planned downtime at North Vancouver, we believe that the second quarter will be the first quarter that demonstrates the potential of our TCP investment.

In South America, Brazilian pulp production was slightly lower than the prior quarter, reflecting a generally stable market throughout the first quarter. However, market fundamentals increased as the quarter progressed, with March pulp exports 14% higher than February. Strong shipments to China during March are consistent with the robust demand in China. Canexus Brazil's major sodium chlorate customer, Fibria, is on track to meet their 2011 pulp production targets. Accordingly, Canexus' sodium chlorate plant is projected to operate at maximum rates for the duration of 2011.

We are pleased to report that Unitholder approval of our previously announced plan to convert to a corporate structure in July 2011 was confirmed by vote at Canexus' Annual and Special Meeting on May 5, 2011 and final court approval has also been obtained. We believe the new structure effectively supports the future success of the business by broadening our peer group, providing greater access to capital markets, as well as attracting the attention of a wider base of investors.



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 June 13, 2011. This MD&A should be read in conjunction with:

- the unaudited condensed consolidated financial statements (the "consolidated financial statements") of Canexus Income Fund (the "Fund", "we", or "our") and the notes thereto for the three months ended March 31, 2011 prepared in accordance with International Financial Reporting Standards ("IFRS") representing generally accepted accounting principles for publicly accountable enterprises in Canada included in this report; and
- the audited consolidated financial statements of the Fund and Canexus Limited Partnership ("Canexus LP") and the notes thereto as at and for the year ended December 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("Previous GAAP") in effect prior to the transition to IFRS which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The unaudited condensed consolidated financial statements of the Fund have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards as issued by the International Accounting Standards Board. The Fund adopted IFRS on January 1, 2011 with a transition date of January 1, 2010 (the "Transition Date"). Previously, the Fund and Canexus LP prepared their consolidated financial statements in accordance with Previous GAAP. The Fund has provided IFRS accounting policies and prepared reconciliations between Previous GAAP and IFRS in Notes 4 and 26 of its March 31, 2011 consolidated financial statements.

Until February 7, 2011, (the date of Nexen Inc.'s ("Nexen") disposition of its entire interest in the Fund – see "Highlights"), the Fund earned income from its interest in Canexus LP and interest revenue on the unsecured subordinated debentures of Canexus LP (the "Debentures") and accounted for its investment using the equity method. At March 31, 2011, the Fund consolidated the results of operations of Canexus LP for the period February 7, 2011 to March 31, 2011 and the financial position of Canexus LP at March 31, 2011. 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).

References herein to "Canexus" mean, collectively, the Fund and its direct and indirect subsidiaries (including, for purposes of this MD&A, Canexus LP and its direct and indirect subsidiaries from February 7, 2011 onwards).

## Non-IFRS Measures

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

EBITDA is a Non-IFRS 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) (an IFRS measure) plus/minus the provision for income taxes, depreciation and amortization and interest expense. A reconciliation of EBITDA to net income (loss) for Canexus LP for each financial period covered by this MD&A is provided on pages 12 and 13 under "Summary of Quarterly Results – Canexus LP".

Operating Profit is a Non-IFRS measure that represents the contribution of product sales and service revenues after taking into consideration direct costs to produce products and deliver services, distribution, selling and marketing expense and general and administrative expense. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund capital investment, meet financial obligations and fund distributions. Operating Profit is calculated as sales revenue less cost of sales (including depreciation and amortization), distribution, selling and marketing expense and general and administrative expense (including depreciation and amortization) (all IFRS measures).

Cash Operating Profit is a Non-IFRS measure that is defined as Operating Profit before depreciation and amortization included in cost of sales and general and administrative expense. Cash Operating Profit Percentage is calculated as Cash Operating Profit divided by sales revenue.

Gross Margin is a Non-Previous 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, financial obligations and distributions. Gross Margin is calculated as sales revenue less cost of sales (both Previous GAAP measures). Gross Margin Percentage is calculated as Gross Margin divided by sales revenue. Gross Margin and Gross Margin Percentage are applicable for 2009 and prior years under Previous GAAP.

Distributable Cash and Payout Ratio are Non-IFRS 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 Fund unit holders ("Unitholders"). The Payout Ratio is calculated as distributions declared divided by Distributable Cash.

Distributable Cash within Canexus LP represents cash generated from operating activities (an IFRS measure) of Canexus LP 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 IFRS 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 generated from operating activities of the Fund for the three months ended March 31, 2011 is provided on page 8 under "Statement of Distributable Cash – The Fund". A reconciliation of Distributable Cash within Canexus LP to cash generated from operating activities of Canexus LP for the three months ended March 31, 2011 and 2010 is provided on page 11 under "Statement of Distributable Cash".

## The 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 (the "Corporation"), a wholly owned subsidiary of the Fund. The Fund owns 100 percent of the shares of the Corporation but has not historically accounted for its investment on a consolidated basis due to Nexen having the ability to appoint the majority of the board positions. As a result of Nexen disposing of its entire interest in Canexus on February 7, 2011 (see "Highlights" below), the Fund has accounted for its interest in the Corporation on a consolidated basis since that date.

Canexus LP 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 two plants located at one site in Brazil, 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 LP has 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 and a South

American sodium chlorate and chlor-alkali production facility 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, 2011, the Fund held a 100 percent interest in Canexus LP. At December 31, 2010 and March 31, 2010, the Fund held a 36.7 and 34.9 percent equity interest respectively in Canexus LP and Nexen Inc. ("Nexen") held a 63.3 and 65.1 percent controlling interest respectively in Canexus LP. Canexus LP is managed by its general partner, the Corporation, which holds a 0.01 percent interest in Canexus LP.

## Highlights

Unless otherwise noted, the discussion which follows in the Highlights and Executive Summary are for the 100 percent results of Canexus LP.

- Distributable Cash was \$9.1 million for the first quarter of 2011 resulting in a payout ratio of 173 percent, inclusive of technology conversion project ("TCP") severance payments of \$1.6 million in the quarter (see Canexus LP's "Statement of Distributable Cash" on page 11). The first quarter is typically our weakest quarter due to the seasonality of chlorine demand for water treatment. We took advantage of this to perform a planned maintenance shutdown of our North Vancouver chlor-alkali facility for 12 days in March and also made minor modifications to enhance production reliability. The plant set a production record of just over 18,000 metric electrochemical units ("MECU") in the month of April and is expected to continue to run at or near capacity for the next two quarters. Despite a very strong Canadian dollar, we continue to expect to deliver significantly increasing Cash Operating Profit over the balance of the year, resulting in an expected payout ratio of 90 to 95 percent. Our original guidance for 2011 was established assuming a Canadian dollar exchange rate of US \$0.97 which we have now modified to US \$1.02. We expect to deliver Cash Operating Profit of \$25 to \$30 million in the second quarter of 2011, \$35 to \$40 million in the third quarter of 2011 and \$30 to \$35 million in the fourth quarter of 2011. Our guidance for 2012 is unchanged with an expected payout ratio of approximately 70 percent, despite also modifying our Canadian dollar exchange rate assumption from US \$0.97 to US \$1.02 for 2012. Sustainable high North American sodium chlorate industry operating rates, combined with termination of contract price increase restrictions affecting 2011 (on contracts negotiated in 2009 during the economic crisis), are expected to support upward price momentum that should offset the impact of the stronger Canadian dollar.
- North America sodium chlorate sales volumes increased one percent over the first quarter of 2010 and two percent over the fourth quarter of 2010, benefiting from the continued strength in pulp markets. All of our sodium chlorate plants are running at capacity which is expected to continue through 2011 and into 2012. Realized selling prices net of freight ("realized netback selling prices") increased one percent over the fourth quarter of 2010 and four percent over the first quarter of 2010, despite being negatively affected by the stronger Canadian dollar relative to the US dollar (first quarter 2011 – US \$1.00; fourth quarter 2010 – US \$0.98; and first quarter 2010 – US \$0.95). Price increases of \$50 per metric tonne ("MT") took effect in the second quarter of 2011 where contracts allow. North American sodium chlorate industry operating rates are currently estimated to be 96 percent, which should allow for continued pricing momentum in 2011 and 2012. Sodium chlorate production in the first quarter of 2011 was 93,171 MT's of which 82 percent came from our low-cost Brandon, Manitoba plant. The power line capacity upgrade to our Brandon plant is expected to be completed in 2012, setting the stage for further possible expansion opportunities.
- Sales revenue for the North American chlor-alkali business was 16 percent higher than the prior year, resulting from higher sales volumes of chlorine (28 percent) and hydrochloric acid (30 percent) offset by lower realized netback selling prices for both chlorine (28 percent) and hydrochloric acid (16 percent). Caustic soda sales volumes (including significant volumes purchased for resale) for the first quarter of 2011 were comparable with the first quarter of 2010 and realized netback selling prices increased 17 percent over the first quarter of 2010. Electricity consumption per MECU produced decreased 21 percent with the benefit of the new membrane plant technology over the first quarter of 2010 but was offset by 19 percent higher effective electricity prices per unit due to the plant running at approximately 70 percent of practical capacity in the first quarter (the demand charge component for electricity was spread over fewer units of production). Variable costs for the first quarter of 2011 were also negatively impacted by \$0.6 million of salt handling charges relating to the fourth quarter of 2010, and plant fixed costs were \$1.7 million higher than the first quarter of 2010 due to the maintenance shutdown in March referred to above which added approximately \$1.4 million of costs. Plant fixed costs were also higher than expected due to a slight delay in realizing all of the expected cost reduction benefits from the TCP relating to manpower reductions and natural gas consumption which added approximately \$1.5 million of costs in the first quarter. We expect to achieve the

remaining cost reduction benefits of the TCP over the balance of 2011. Sales revenue for the North American chlor-alkali business increased five percent compared to the fourth quarter of 2010. Higher hydrochloric acid (21 percent) and chlorine (15 percent) sales volumes were offset by lower realized netback selling prices of about 10 percent for each product. Caustic soda realized netback selling prices improved seven percent over the fourth quarter of 2010 with caustic soda sales volumes down seven percent (which impacted caustic soda resale volumes only and not produced volumes). Chlor-alkali price increases of approximately \$40 per MT for caustic soda and \$35 per MT for chlorine have been announced for the second quarter of 2011 where contracts allow.

- Higher sales volumes in our South American business unit for all products resulted in first quarter 2011 Cash Operating Profit of \$6.9 million, as compared to \$3 million in the fourth quarter of 2010 and \$6.9 million in the first quarter of 2010, despite the impact of the stronger Canadian dollar on our US dollar fixed margin contract with our major customer, and higher maintenance costs in the first quarter of 2011 which resulted in higher plant fixed costs of \$1.5 million as compared to the first quarter of 2010. Demand from our major customer was strong in the first quarter and is expected to continue for the balance of 2011, keeping our plants running at or close to capacity.
- In late March, we completed the transloading facilities to handle biodiesel at our North American Terminal Operations (“NATO”) site at Bruderheim, Alberta. Mechanical integrity re-verification of our two 650,000 barrel salt caverns is expected to be completed in the third quarter. This will support the potential large-scale development of the site to service the oilsands region.
- Long-term debt is borrowed in US dollars to manage our US dollar currency exposure. This resulted in \$7.2 million of unrealized foreign currency translation gains in the first quarter of 2011.
- Effective February 22, 2011, maturity of our senior secured revolving credit facilities was extended to June 30, 2014, resulting in lower borrowing costs of 50 basis points (“bps”) and revised financial covenants with relaxation modified and extended through September 30, 2011. At March 31, 2011, total borrowings under committed credit facilities were \$338 million with remaining available undrawn capacity of approximately \$93 million.
- On February 7, 2011, Nexen disposed of its entire interest in Canexus through a secondary offering on a bought deal basis. Nexen no longer owns any Fund units or securities convertible into Fund units and the Fund owns 100 percent of Canexus LP. Immediately prior to Nexen’s disposition, the Fund owned 34.1 percent of Canexus LP.
- Subsequent to March 31, 2011, Canexus LP entered into the following US dollar foreign exchange option contracts:
  - US \$3.75 million for May 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
  - US \$5 million for June 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
  - US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.026 per Canadian dollar from July 1, 2011 to September 30, 2011; and
  - US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.02 per Canadian dollar from October 1, 2011 to December 31, 2011.

## Executive Summary

For Canexus, 2011 is a year in which we will benefit from our recent investment program and rapidly improving market conditions. First quarter 2011 financial results fell short of our expectations as a result of both lower production and sales volumes in our North American chlor-alkali business unit combined with a slight delay in realizing the full cost savings benefits from the TCP, and a strong Canadian dollar. Distributable Cash was \$9.1 million for the first quarter of 2011 (see Canexus LP’s “Statement of Distributable Cash” on page 11) resulting in a payout ratio of 173 percent, inclusive of TCP severance payments of \$1.6 million in the quarter. The first quarter is typically our weakest quarter due to the seasonality of chlorine demand for water treatment. We took advantage of this to perform a planned maintenance shutdown of our North Vancouver chlor-alkali facility for 12 days in March and also made minor modifications to enhance production reliability. The plant set a production record of 18,000 MECU’s in the month of April and is expected to continue to run at or near capacity for the next two quarters. Despite a very strong Canadian dollar, we continue to expect to deliver significantly increasing Cash Operating Profit over the balance of the year resulting in an expected payout ratio of 90 to 95 percent. Our original guidance for 2011 was established assuming a Canadian dollar exchange rate of US \$0.97 which we have now modified to US \$1.02. We expect to deliver Cash Operating

Profit of \$25 to \$30 million in the second quarter, \$35 to \$40 million in the third quarter and \$30 to \$35 million in the fourth quarter. Our guidance for 2012 is unchanged with an expected payout ratio of about 70 percent, despite also modifying our Canadian dollar exchange rate assumption from US \$0.97 to US \$1.02 for 2012. Sustainable high North American sodium chlorate industry operating rates combined with termination of contract price increase restrictions affecting 2011 (on contracts negotiated in 2009 during the economic crisis) are expected to support upward price momentum that should offset the stronger Canadian dollar.

Our North American sodium chlorate business unit sales volumes and delivered (in local currencies) netback selling prices were both slightly lower than expected in the quarter. The most significant variance from our expected results related to the strong Canadian dollar. Production volumes and costs were as expected in the quarter. North America sodium chlorate sales volumes increased one percent over the first quarter 2010 and two percent over the fourth quarter 2010 benefiting from the continued strength in pulp markets. All of our sodium chlorate plants are running at capacity which is expected to continue through 2011 and into 2012. Realized netback selling prices, despite being negatively affected by the stronger Canadian dollar relative to the US dollar (first quarter 2011 – US \$1.00; fourth quarter 2010 – US \$0.98; first quarter 2010 – US \$0.95), increased one percent over the fourth quarter 2010 and four percent over the first quarter 2010. Price increases of \$50 per MT took effect in the second quarter of 2011 where contracts allow. North American sodium chlorate industry operating rates are currently estimated to be 96 percent, which should allow for continued pricing momentum in 2011 and 2012. Sodium chlorate production in the quarter was 93,171 MT's of which 82 percent came from our low-cost Brandon plant. The power line capacity upgrade to our Brandon plant is expected to be completed in 2012, setting the stage for further possible expansion opportunities.

Our North American chlor-alkali business unit sales volumes and production volumes were both below expectations in the quarter, by nine percent and 13 percent respectively. Delivered (in local currencies) netback selling prices in the US for chlorine (where over 90 percent of our chlorine is sold) were below expectations by about nine percent whereas caustic soda delivered netback selling prices in Canada (where 85 to 90 percent of our caustic soda is sold) were just slightly lower than expected. Sales volumes were lower due to lower demand, in part due to customer downtime. Hydrochloric acid sales volumes into the US were also down due to excess supply of domestic by-product acid in the US. Production volumes were lower due to a combination of lower market demand and plant uptime. Our planned maintenance outage at the North Vancouver facility was longer than expected by approximately three days. Sales revenue for the North American chlor-alkali business was 16 percent higher than the prior year quarter resulting from higher sales volumes of chlorine (28 percent) and hydrochloric acid (30 percent) offset by lower realized netback selling prices for both chlorine (28 percent) and hydrochloric acid (16 percent). Caustic soda sales volumes were flat between periods (includes significant volumes purchased for resale) and realized netback selling prices increased 17 percent over the first quarter 2010. Electricity consumption per MECU produced decreased 21 percent with the benefit of the new membrane plant technology over the prior year period but was offset by 19 percent higher effective electricity prices per unit due to the plant running at about 70 percent of practical capacity in the quarter (the demand charge component for electricity was spread over fewer units of production). First quarter 2011 variable costs were also negatively impacted by \$0.6 million of salt handling charges relating to the fourth quarter of 2010. Plant fixed costs were \$1.7 million higher than the year ago quarter due to the maintenance shutdown in March referred to above which added about \$1.4 million of costs, and a slight delay in realizing all of the expected cost reduction benefits from the TCP relating to manpower reductions and natural gas consumption which added approximately \$1.5 million in the quarter. We expect to achieve the remaining cost reduction benefits of TCP over the balance of 2011. Sales revenue for the North American chlor-alkali business increased five percent compared to the fourth quarter 2010. Higher hydrochloric acid (21 percent) and chlorine (15 percent) sales volumes were partially offset by lower realized netback selling prices of about 10 percent for each product. Caustic soda realized netback selling prices improved seven percent over the fourth quarter 2010 with caustic soda sales volumes down seven percent (which impacted caustic soda resale volumes only and not produced volumes). Chlor-alkali price increases of approximately \$40 per MT for caustic soda and \$35 per MT for chlorine have been announced for the second quarter 2011 where contracts allow.

Higher sales volumes in our South American business unit for all products met our expectations and resulted in first quarter 2011 Cash Operating Profit of \$6.9 million as compared to \$3 million in the fourth quarter of 2010 and \$6.9 million in the first quarter of 2010. This improvement was despite the impact of the stronger Canadian dollar on our US dollar fixed margin contract with our major customer and higher maintenance costs in the first quarter of 2011 that resulted in higher plant fixed costs of \$1.5 million as compared to the first quarter of 2010. Demand from our major customer was strong in the first quarter and is expected to continue for the balance of 2011 keeping our plants running at or close to capacity.

We completed bio-diesel transloading facilities at our NATO business unit late in the first quarter and began providing services under a recently awarded contract. The cavern integrity re-verification of our two 650,000 barrel salt caverns is expected to be completed in the third quarter of 2011.

Effective February 22, 2011, maturity of Canexus LP's senior secured revolving credit facilities was extended to June 30, 2014, resulting in lower borrowing costs of 50 bps and revised financial covenants with relaxation modified and extended through September 30, 2011. At March 31, 2011, total borrowings under committed credit facilities were \$338 million with remaining available undrawn capacity of approximately \$93 million. Long-term debt is borrowed in US dollars to manage our US dollar currency exposure which resulted in \$7.2 million of unrealized foreign currency translation gains in the quarter.

On February 7, 2011, Nexen disposed of its entire interest in Canexus through a secondary offering on a bought deal basis. Nexen no longer owns any Fund units or securities convertible into Fund units and the Fund owns 100 percent of Canexus LP.

On May 5, 2011, Unitholders approved the conversion of the Fund to a corporate structure pursuant to a plan of arrangement (the "Arrangement") which is anticipated to occur on or about July 1, 2011.

## Summary of Quarterly Results – The Fund

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. Equity income from the investment in Canexus LP for the three months ended March 31, 2011 represents the Fund's share of the net income of Canexus LP for the period January 1, 2011 to February 6, 2011. As a result of Nexen disposing of its entire interest in Canexus, effective February 7, 2011 the Fund owns 100 percent of Canexus LP and consolidated the results of operations of Canexus LP for the period February 7, 2011 to March 31, 2011 and the financial position of Canexus LP at March 31, 2011.

See also "Summary of Quarterly Results – Canexus LP" on pages 12 and 13.

<i>CAD thousands, except per unit amounts</i>	Three Months Ended			
	March 31 2011	December 31 2010	September 30 2010	June 30 2010
Sodium Chlorate Sales Volume (000's MT) <sup>(5)</sup>	73	-	-	-
Chlor-alkali Sales Volume (000's MECU) <sup>(5)</sup>	27	-	-	-
Sales Revenue	84,085	-	-	-
Cost of Sales	60,593	-	-	-
Distribution, Selling and Marketing	13,909	-	-	-
General and Administrative	6,742	-	-	-
Operating Profit <sup>(1)</sup>	2,841	-	-	-
Add:				
Depreciation and Amortization included in Cost of Sales	7,173	-	-	-
Depreciation and Amortization included in General and Administrative	166	-	-	-
Cash Operating Profit <sup>(1)</sup>	10,180	-	-	-
Cash Operating Profit Percentage <sup>(1)</sup>	12%	-	-	-
Equity Income (Loss) from Investment in Canexus LP <sup>(4)</sup>	12,496	(12,973)	(302)	(3,392)
Net Income (Loss)	16,657	(53,403)	(12,496)	(10,591)
Net Income (Loss) Per Unit (\$/Unit)	0.20	(1.37)	(0.33)	(0.29)
Diluted Net Income (Loss) Per Unit (\$/Unit)	0.17	(1.37)	(0.33)	(0.29)
Distributions Declared <sup>(3)</sup>	12,260	5,344	5,201	5,021
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	5,721	2,337	10,680	2,762

CAD thousands, except per unit amounts	Three Months Ended			
	March 31 2010	December 31 2009 <sup>(2)</sup>	September 30 2009 <sup>(2)</sup>	June 30 2009 <sup>(2)</sup>
Equity Income (Loss) from Investment in Canexus LP <sup>(4)</sup>	(10,986)	4,239	13,179	5,994
Net Income (Loss)	(41,042)	6,806	12,835	5,716
Net Income (Loss) Per Unit (\$/Unit)	(1.20)	0.21	0.38	0.17
Diluted Net Income (Loss) Per Unit (\$/Unit)	(1.20)	0.18	0.36	0.17
Distributions Declared <sup>(3)</sup>	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

**Notes:**

- (1) See Non-IFRS Measures on pages 1 and 2.
- (2) Quarterly results for the three month periods ended June 30, 2009, September 30, 2009 and December 31, 2009 were prepared in accordance with Previous GAAP.
- (3) Distributions declared for the three month periods ended March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010 were classified as finance income (expense) due to the classification of the Fund's units as liabilities. See Note 22(a) to the consolidated financial statements of the Fund for the three months ended March 31, 2011.
- (4) Equity income (loss) for the three month periods ended March 31, 2011, March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010 includes the Fund's proportionate share of the change in fair value of the exchangeable limited partnership units ("Exchangeable LP Units") of Canexus LP. See Note 9(a) to the consolidated financial statements of the Fund for the three months ended March 31, 2011.
- (5) Sodium chlorate and chlor-alkali sales volume information is for the period February 7, 2011 to March 31, 2011. For sales volume information for the three months ended March 31, 2011 see "Summary of Quarterly Results – Canexus LP" on pages 12 and 13.

## Results of Operations

### Investment in Canexus LP

At March 31, 2011, the Fund had an investment in 113,446,550 ordinary limited partnership units ("Ordinary LP Units") (100 percent) of Canexus LP. At December 31, 2010, the Fund had an investment in 38,368,048 Ordinary LP Units (36.7 percent) of Canexus LP. The Fund accounted for its investment using the equity method until February 7, 2011. As a result of Nexen's disposition of its entire interest in Canexus on February 7, 2011, the Fund owns 100 percent of Canexus LP and consolidated the results of operations of Canexus LP for the period February 7, 2011 to March 31, 2011 and the financial position of Canexus LP at March 31, 2011.

For the period January 1, 2011 to February 6, 2011, the Fund's equity income from Canexus LP was \$12.5 million (three months ended March 31, 2010 – loss of \$11 million).

### Expenses

General and administrative expenses of the Fund included in the consolidated results of operations of the Fund for the period January 1, 2011 to February 6, 2011 include an allocation of costs including directors' fees, directors' travel, directors and officers liability insurance, professional fees, office rent and public issuer reporting costs.

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

All unit-based compensation plans are accounted for as cash-settled plans as a result of the ability of Unitholders to redeem their Fund units for cash or other financial assets pursuant to the terms of the Fund's trust indenture. The fair value of unit-based compensation is determined at the grant date and is expensed on a graded vesting basis for grants to employees and immediately for grants to members of the Board of Directors based on the Fund's estimate of the number of instruments that will eventually vest. Unit-based compensation liabilities are remeasured to their fair value at each reporting period end with changes in fair value included in unit-based compensation expense. The fair value of the TUIP options and UARs at grant date and at each subsequent reporting date are determined using the Black-Scholes option pricing model. The fair value of the DTUs at

grant date and each subsequent reporting date is based on the closing unit price on the TSX which represents fair value at that date. Changes in fair value are recognized in cost of sales, selling, distribution and marketing expense or general and administrative expense (corresponding with where the associated salaries and wages of the employee, officer or director who received the TUIP option, UAR, or DTU are recorded) with a corresponding adjustment to unit-based compensation liabilities.

The DTUCP provides that any transaction which results in the exchange of the Fund units for cash or securities of another issuer (or combination thereof) results in the termination of the DTUCP and entitles participants therein to a lump sum cash payout equivalent to the market price of the Fund units underlying the DTUs, adjusted for monthly distributions to be paid in respect of any record dates up to the effective date of the transaction. The Arrangement approved by Unitholders at the Annual and Special Meeting of Unitholders on May 5, 2011, satisfies the preconditions to the lump sum cash payment obligation and will result in the payment of cash to directors on the effective date of the Arrangement. However, the directors have unanimously agreed to reinvest the net after-tax cash proceeds of such payment in Canexus Corporation shares within 60 days of their receipt thereof. See Notice of Annual and Special Meeting of Unitholders and Management Information and Proxy Statement dated March 28, 2011 available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### Statement of Distributable Cash – The Fund

As a result of Nexen's disposition of its entire interest in the Fund on February 7, 2011, the Fund holds 100 percent of the limited partnership units ("LP Units") of Canexus LP. The consolidated financial statements of the Fund include the Fund's share of the results of operations of Canexus LP for the period January 1, 2011 to February 6, 2011, the 100 percent results of operations of Canexus LP for the period February 7, 2011 to March 31, 2011 and the financial position of Canexus LP at March 31, 2011. The "Statement of Distributable Cash – The Fund" reconciles cash generated from operating activities per the Statement of Cash Flow included in the Fund's consolidated financial statements for the three months ended March 31, 2011 to Distributable Cash available to the Fund.

See Canexus LP's "Statement of Distributable Cash" for the three months ended March 31, 2011 and 2010 on page 11 for Distributable Cash for the 100 percent results of Canexus LP less 100 percent of the cash general and administrative expenses of the Fund.

<i>CAD thousands, except as noted</i>	Three Months Ended March 31, 2011
Net Income	16,657
Realized Foreign Currency Translation Gains on Cash	(77)
Provision for Current Income Taxes	652
Income Taxes Paid	(157)
Interest Expense	4,549
Interest Paid and not Capitalized	(3,424)
Interest Income	(744)
Charges and Credits to Income Not Involving Cash	
Equity Income from Investment in Canexus LP and Canexus Limited	(12,496)
Depreciation, Amortization and Accretion	7,732
Unrealized Foreign Currency Translation Gains	(9,365)
Deferred Income Taxes	2,555
Unit-based Compensation	1,464
Loss on Conversion of Series II Convertible Debentures	567
Change in Fair Value of Foreign Exchange Options	238
Change in Fair Value of Interest Rate Swaps	(83)
Other	732
Contributions to / Payments for Defined Benefit Plans	(587)
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	14,048
Cash Generated from Operating Activities	22,261
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	(14,048)
Non-Cash Change in Income Tax Payable and Interest Payable	(1,620)
Interest Income	744
Maintenance Capital Expenditures	(3,184)
Realized Foreign Currency Translation Gains on Cash	77
TCP Severance Costs Paid	(181)
Operating Non-Cash Items	(358)
Fund's Share of Canexus LP's Distributable Cash <sup>(2)</sup>	1,703
Distributable Cash available to the Fund <sup>(1)</sup>	5,394

Notes:

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

(2) The Fund's share of the Distributable Cash within Canexus LP for the period January 1, 2011 to February 6, 2011.

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

Operating non-cash items represent items such as pension expense in excess of pension funding and for 2010 and prior years, an add back for expenditures on asset retirement obligations financed from restricted investments established at the time of the initial public offering of the Fund. It also includes the cost of foreign exchange option contracts described further in the preceding paragraph.

### **Income Taxes**

As a result of the Fund's increased interest in Canexus LP an additional deferred tax liability of \$19 million was recorded in the Fund's consolidated financial statements for the three months ended March 31, 2011.

Commencing in 2011, a federal tax is being applied to distributions for publicly traded income trusts (the "SIFT tax"). The rate of SIFT tax is equal to the prevailing general federal corporate income tax rate (16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial SIFT tax rate" which under enacted regulations is 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 the provincial SIFT tax rate will be approximately 11.1 percent in 2011 and 2012. This results in a combined federal and provincial tax rate of approximately 27.6 percent for 2011 and 26.1 percent for 2012 and subsequent years.

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, 2011, the Fund received Unitholder approval to convert to a corporate structure pursuant to the Arrangement which is anticipated to occur on or about July 1, 2011. Any distributions made as an income trust in 2011, prior to conversion to a corporate structure, are expected to be a return of capital to Unitholders and the Fund is not expected to have any current Canadian income taxes payable as a result of tax shelter in the operating partnerships.

### **Distributions**

The Fund made monthly distributions of \$0.0456 per Unit for the period January 1, 2011 to March 31, 2011 for total distributions declared of \$12.3 million (\$0.1368 per Unit) for the three months ended March 31, 2011.

### **Liquidity and Capital Resources** **Outstanding Securities of the Fund**

At March 31, 2011, the Fund had 114,760,701 Units outstanding (December 31, 2010 – 39,341,055).

## Net Debt and Total Equity

At March 31, 2011, the Fund owns 100 percent of Canexus LP and consolidated the financial position of Canexus LP. See also “Liquidity and Capital Resources” of Canexus LP beginning on page 25.

	March 31, 2011
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	330,412
Convertible Debentures <sup>(2)</sup>	95,050
Less:	
Cash and Cash Equivalents	(6,879)
Non-Cash Working Capital	(19,264)
Total Net Debt <sup>(1)</sup>	399,319
Total Equity	133,629

Notes:

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

(2) The Fund has designated the Convertible Debentures at fair value through profit or loss and recognizes changes in their fair value in net income (loss). See “Convertible Debentures” on the following page.

## Convertible Debentures

At March 31, 2011, the Fund had two series of convertible unsecured subordinated debentures denoted as series I (“Series I Convertible Debentures”) and series III (“Series III Convertible Debentures”) outstanding. The Fund also had a third series of convertible unsecured subordinated debentures denoted as series II (“Series II Convertible Debentures”) and, together with the Series I Convertible Debentures and Series III Convertible Debentures, collectively the “Convertible Debentures”) which had been issued to Nexen on August 31, 2009 and which were converted into Exchangeable LP Units on January 27, 2011 in connection with Nexen’s secondary offering.

As a result of the ability of Unitholders to redeem their Fund Units for cash or other financial assets pursuant to the terms of the Fund’s trust indenture, the Convertible Debentures are a financial liability containing an embedded derivative under IFRS. The Fund has designated the Convertible Debentures at fair value through profit or loss and recognizes changes in their fair value in net income (loss). The maximum liability exposure is the principal amount of the Convertible Debentures outstanding at March 31, 2011 of \$83 million.

	Series I	Series III
Maturity Date	December 31, 2014	December 31, 2015
Fixed Distribution Rate	8.00%	5.75%
Conversion Price	\$5.10	\$8.30

	Series I	Series II	Series III	Total Carrying Value
Outstanding, January 1, 2010	50,130	43,800	-	93,930
Issued	-	-	60,000	60,000
Converted	(26,503)	-	-	(26,503)
Changes in Fair Value	10,247	11,260	1,194	22,701
Outstanding, December 31, 2010	33,874	55,060	61,194	150,128
Converted	(2,221)	(52,688)	-	(54,909)
Changes in Fair Value	1,117	(2,372)	1,086	(169)
Outstanding, March 31, 2011	32,770	-	62,280	95,050

## Selected Annual Financial Information – The Fund

<i>CAD thousands, except per unit amounts</i>	2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
Equity Income (Loss) from Investment in Canexus LP	(27,654)	25,474	(2,141)
Net Income (Loss)	(117,531)	27,525	(2,587)
Net Income (Loss) (\$/Unit)	(3.20)	0.83	(0.08)
Diluted Net Income (Loss) (\$/Unit)	(3.20)	0.78	(0.08)
Distributions Declared	20,270	18,225	19,048
Distributions Declared (\$/Unit)	0.5472	0.5472	0.5928
Distributable Cash available to Canexus Income Fund <sup>(1)</sup>	21,427	28,630	31,165

	2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
Total Assets	501,413	383,367	287,519
Total Long-Term Financial Liabilities	397,900	78,516	-

*Notes:*

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

(2) Annual financial information for 2008 and 2009 was prepared in accordance with Previous GAAP.

## Canexus LP

### Statement of Distributable Cash

<i>CAD thousands, except as noted</i>	Three Months Ended	
	March 31, 2011	March 31, 2010
Net Income	8,929	19,294
Realized Foreign Currency Translation (Gains) Losses on Cash	(139)	571
Provision for Current Income Taxes	1,134	1,304
Income Taxes Paid	(160)	(931)
Interest Expense	6,229	1,571
Interest Paid and not Capitalized	(4,927)	-
Interest Income	(92)	(48)
Charges and Credits to Income Not Involving Cash		
Depreciation, Amortization and Accretion	11,600	7,932
Deferred Income Taxes	820	(550)
Unrealized Foreign Currency Translation Gains	(6,913)	(7,344)
Change in Fair Value of Foreign Exchange Options	405	587
Change in Fair Value of Interest Rate Swaps	(383)	510
Other	1,515	1,039
Contributions to / Payments for Defined Benefit Plans	(589)	(570)
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	(1,791)	650
Cash Generated from Operating Activities	15,638	24,015
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	1,791	(650)
Non-Cash Changes in Income Tax Payable and Interest Payable	(2,276)	(1,944)
Interest Income	92	48
Maintenance Capital Expenditures	(3,684)	(2,440)
Amortization of the Purchase Cost of Foreign Exchange Options	(211)	(1,057)
Realized Foreign Currency Translation Gains (Losses) on Cash	139	(571)
TCP Severance Costs Paid	(1,567)	-
Operating Non-Cash Items	(438)	(489)
Distributable Cash within Canexus LP <sup>(1)</sup>	9,484	16,912
Fund Cash General and Administrative Expenses	(415)	(175)
Distributable Cash <sup>(1)</sup>	9,069	16,737
Distributions Declared	15,661	13,574
Payout Ratio <sup>(1)</sup>	173%	81%

Note:

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

The cost of foreign exchange option contracts is recognized as a decrease in cash generated 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 option contracts. Operating non-cash items represent items such as pension expense in excess of pension funding and for 2010 and prior years, an add back for expenditures on asset retirement obligations financed from restricted investments established at the time of the initial public offering of the Fund. It also includes the cost of foreign exchange option contracts described further in the preceding paragraph.

## Summary of Quarterly Results – Canexus LP

CAD thousands, except as noted	Three Months Ended			
	March 31 2011	December 31 2010	September 30 2010	June 30 2010
Sodium Chlorate Sales Volume (000's MT)	111	108	115	103
Chlor-alkali Sales Volume (000's MECU)	51	44	46	42
Sales Revenue	125,976	120,278	119,040	104,324
Cost of Sales	87,218	86,035	82,508	79,264
Distribution, Selling and Marketing	20,501	18,931	18,260	18,453
General and Administrative	7,305	7,297	7,910	6,487
Operating Profit <sup>(1)</sup>	10,952	8,015	10,362	120
Add:				
Depreciation and Amortization included in Cost of Sales	10,752	11,556	7,582	6,982
Depreciation and Amortization included in General and Administrative	253	433	422	422
Cash Operating Profit <sup>(1)</sup>	21,957	20,004	18,366	7,524
Cash Operating Profit Percentage <sup>(1)</sup>	17%	17%	15%	7%
Net Income (Loss)	8,929	9,605	12,795	(15,962)
Plus: Provision for (Recovery of) Income Taxes	1,954	912	(1,453)	5,312
Plus: Depreciation and Amortization	11,005	11,989	8,004	7,404
Plus: Interest Expense <sup>(3)</sup>	7,429	8,119	9,058	3,119
EBITDA <sup>(1)</sup>	29,317	30,625	28,404	(127)
Distributions Declared	15,661	14,343	14,072	13,894
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP <sup>(1)</sup>	9,484	6,698	29,442	7,970
Capital Expenditures				
Maintenance	3,684	5,073	2,185	4,448
Remediation <sup>(2)</sup>	-	22	859	1,430
Continuous Improvement	3,354	4,085	547	1,968
Expansion	4,395	4,381	14,605	46,198
Total Capital Expenditures	11,433	13,561	18,196	54,044
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$1.00	US \$0.98	US \$0.96	US \$0.98

### Notes:

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

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

(3) Interest expense for the three month periods ended March 31, 2011, December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010 includes the amortization of deferred financing transaction costs and accretion on provisions which are classified as finance income (expense) under IFRS.

	Three Months Ended			
	March 31	December 31	September 30	June 30
<i>CAD thousands, except as noted</i>	2010	2009 <sup>(4)</sup>	2009 <sup>(4)</sup>	2009 <sup>(4)</sup>
Sodium Chlorate Sales Volume (000's MT)	108	103	106	92
Chlor-alkali Sales Volume (000's MECU)	41	44	50	46
Sales Revenue	113,715	110,508	114,883	109,237
Cost of Sales	71,522	81,657	78,239	74,583
Distribution, Selling and Marketing	18,391	-	-	-
General and Administrative	7,619	-	-	-
Operating Profit <sup>(1)</sup>	16,183	-	-	-
Add:				
Depreciation and Amortization included in Cost of Sales	6,930	-	-	-
Depreciation and Amortization included in General and Administrative	419	-	-	-
Cash Operating Profit <sup>(1)</sup>	23,532	-	-	-
Cash Operating Profit Percentage <sup>(1)</sup>	21%	-	-	-
Gross Margin <sup>(1)</sup>	-	28,851	36,644	34,654
Gross Margin Percentage <sup>(1)</sup>	-	26%	32%	32%
Net Income	19,294	12,407	38,364	17,132 <sup>(3)</sup>
Plus: Provision for Income Taxes	754	1,481	2,546	3,619
Plus: Depreciation and Amortization	7,349	11,159	11,775	11,644
Plus: Interest Expense <sup>(5)</sup>	2,244	2,037	1,864	1,552
EBITDA <sup>(1)</sup>	29,641	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 \$ to US \$)	US \$0.95	US \$0.94	US \$0.90	US \$0.82

Notes:

- (1) See Non-IFRS Measures on pages 1 and 2.
- (2) These expenditures were funded from restricted investments.
- (3) Includes impairment of \$17.2 million on Bruderheim, Alberta sodium chlorate assets.
- (4) Quarterly results for the three month periods ended June 30, 2009, September 31, 2009 and December 31, 2009 were prepared in accordance with Previous GAAP.
- (5) Interest expense for the three month periods ended March 31, 2011, December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010 includes the amortization of deferred financing transaction costs and accretion on provisions which are classified as finance income (expense) under IFRS.

## Seasonality

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

## Results of Operations – Canexus LP

### Changes in Net Income Three Months Ended March 31, 2011 versus Three Months Ended March 31, 2010

Net Income for the Three Months Ended March 31, 2010	19,294
Items Increasing (Decreasing) Cash Operating Profit and Net Income	
Sales Revenue	12,261
Cost of Sales excluding Depreciation and Amortization	(11,874)
Distribution, Selling and Marketing Expense	(2,110)
General and Administrative Expense excluding Depreciation and Amortization	148
Cash Operating Profit	(1,575)
Depreciation and Amortization included in Cost of Sales	(3,822)
Depreciation and Amortization included in General and Administrative	166
Interest Expense excluding Amortization of Transaction Costs and Accretion	(4,658)
Change in Fair Value and Realized Gains on Foreign Exchange Options	(48)
Change in Fair Value and Realized Losses on Interest Rate Swaps	922
Foreign Currency Translation Gains	219
Income Taxes	(1,200)
Other	(369)
Net Income for the Three Months Ended March 31, 2011	8,929

The decrease in Cash Operating Profit was due to higher cost of sales as a result of higher caustic soda purchased for resale of \$3.2 million. Net income for the three months ended March 31, 2011 decreased by \$10.4 million from the three months ended March 31, 2010 primarily as a result of lower Cash Operating Profit, higher depreciation and amortization, higher interest expense and higher income taxes, partially offset by changes in fair value of interest rate swaps.

### Lower Cash Operating Profit of \$1.6 million decreased net income

CAD thousands, except as noted	North America				Total
	Sodium Chlorate	Chlor-alkali <sup>(2)</sup>	South America	Other	
<b>Three Months Ended March 31, 2011</b>					
Sales Revenue	54,677	43,338	27,961	-	125,976
Cost of Sales	32,945	33,177	21,096	-	87,218
Distribution, Selling and Marketing	7,160	12,540	339	462	20,501
General and Administrative <sup>(3)</sup>	2,084	2,641	1,105	1,475	7,305
Operating Profit <sup>(1)</sup>	12,488	(5,020)	5,421	(1,937)	10,952
Add:					
Depreciation and Amortization included in Cost of Sales	3,513	5,781	1,458	-	10,752
Depreciation and Amortization included in General and Administrative	-	-	-	253	253
Cash Operating Profit <sup>(1)</sup>	16,001	761	6,879	(1,684)	21,957
Cash Operating Profit Percentage <sup>(1)</sup>	29%	2%	25%	-	17%

Notes:

- (1) See Non-IFRS Measures on pages 1 and 2.
- (2) Revenues and costs for NATO for the three months ended March 31, 2011 are included in North America Chlor-alkali.
- (3) General and administrative expenses are for functional areas such as human resources, finance, information technology and legal and are allocated to the operating segments based on production volumes.

CAD thousands, except as noted

Three Months Ended March 31, 2010	North America				Total
	Sodium Chlorate	Chlor-alkali <sup>(2)</sup>	South America	Other	
Sales Revenue	52,624	37,376	23,715	-	113,715
Cost of Sales	32,419	22,658	16,445	-	71,522
Distribution, Selling and Marketing	6,977	10,472	353	589	18,391
General and Administrative <sup>(3)</sup>	2,294	2,546	1,126	1,653	7,619
Operating Profit <sup>(1)</sup>	10,934	1,700	5,791	(2,242)	16,183
Add:					
Depreciation and Amortization included in Cost of Sales	4,320	1,485	1,125	-	6,930
Depreciation and Amortization included in General and Administrative	-	-	-	419	419
Cash Operating Profit <sup>(1)</sup>	15,254	3,185	6,916	(1,823)	23,532
Cash Operating Profit Percentage <sup>(1)</sup>	29%	9%	29%	-	21%

Notes:

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

(2) Revenues and costs for NATO for the three months ended March 31, 2010 are included in North America Chlor-alkali.

(3) General and administrative expenses are for functional areas such as human resources, finance, information technology and legal and are allocated to the operating segments based on production volumes.

### North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased four percent to \$54.7 million for the three months ended March 31, 2011 from \$52.6 million for the three months ended March 31, 2010. Sales volumes increased one percent over the three months ended March 31, 2010 benefiting from the continued strength in pulp markets. Realized netback selling prices, despite being negatively affected by the stronger Canadian dollar relative to the US dollar (US \$1.00 for the three months ended March 31, 2011 as compared to US \$0.95 for the three months ended March 31, 2010), increased four percent over the three months ended March 31, 2010. Cash Operating Profit Percentage was flat for the three months ended March 31, 2011 and 2010 at 29 percent as a result of higher realized netback selling prices, slightly higher production volumes and lower general and administrative expense allocated to this segment, offset by higher electricity costs.

### North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment increased 16 percent to \$43.3 million for the three months ended March 31, 2011 from \$37.4 million for the three months ended March 31, 2010 primarily due to higher sales volumes of chlorine (28 percent) and hydrochloric acid (30 percent), partially offset by lower realized netback selling prices for both chlorine (28 percent) and hydrochloric acid (16 percent). Caustic soda sales volumes were flat for the three months ended March 31, 2011 and 2010 (including significant volumes purchased and resold which results in both higher sales revenue and higher cost of sales with little impact on Operating Profit) and realized netback selling prices increased 17 percent over the three months ended March 31, 2010. Caustic soda purchased for resale in the three months ended March 31, 2011 was \$3.2 million higher than during the three months ended March 31, 2010. Cash Operating Profit decreased from \$3.2 million for the three months ended March 31, 2010 to \$0.8 million for the three months ended March 31, 2011. Electricity consumption per MECU produced decreased 21 percent with the benefit of the new membrane plant technology as compared to the three months ended March 31, 2010 but was offset by 19 percent higher effective electricity prices per unit due to the plant running at approximately 70 percent of practical capacity during the three months ended March 31, 2011 (the demand charge component of electricity costs was spread over fewer units of production). Variable costs for the three months ended March 31, 2011 were also negatively impacted by \$0.6 million of salt handling charges recorded related to the fourth quarter of 2010. Plant fixed costs were \$1.7 million higher than the three months ended March 31, 2010 due to a planned maintenance shutdown in March 2011 which added about \$1.4 million of costs, and a slight delay in realizing all of the expected cost reduction benefits from the TCP relating to manpower reductions and natural gas consumption (added approximately \$1.5 million of costs). Freight costs (included in distribution, selling and marketing) were \$1.8 million higher for the three months ended March 31, 2011 due to higher volumes and higher chlorine transportation costs.

### South America

Sales revenue for the South America segment increased 18 percent to \$28 million for the three months ended March 31, 2011 from \$23.7 million for the three months ended March 31, 2010 primarily as a result of higher sodium chlorate sales volume (17 percent) and higher caustic soda sales volume (six percent). The increase in sodium chlorate sales volume was due to higher plant capacity (from the 4,400 MT annual capacity addition completed in the second quarter of 2010) and strong demand for both sodium chlorate and caustic soda from our major customer, as compared to the reduced demand we experienced from our major customer in January and February of 2010. Cash Operating Profit was flat for the three months ended March 31, 2011 and 2010 at \$6.9 million with the benefit of higher sales volumes being offset by higher plant fixed costs of \$1.5 million for the three months ended March 31, 2011 as a result of a planned chlor-alkali plant maintenance shutdown. We expect reliable performance from this plant going forward.

### Higher depreciation and amortization decreased net income by \$3.7 million

The increase in depreciation and amortization for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, was due to the depreciation of the TCP and other expansion projects completed in the second through fourth quarters of 2010.

### Higher interest expense decreased net income by \$4.7 million

The increase in interest expense for the three months ended March 31, 2011 was due to higher interest rates and higher borrowings on the credit facilities, interest on the Series III Debentures (as defined below) issued on September 28, 2010 and lower borrowing costs capitalized to major projects, partially offset by lower borrowings and lower interest on the Series I and Series II Debentures (each as defined below) resulting from redemptions. During the period April 1, 2010 to January 1, 2011 \$16.8 million principal amount of the Series I Debentures were redeemed. The Series II Debentures were redeemed in their entirety on January 27, 2011.

The amount outstanding on Canexus LP's Extendible Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) at March 31, 2011 was US \$280 million, as compared to US \$225.5 million at March 31, 2010. The weighted average interest rate on borrowings from this credit facility was 4.55 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2011 as compared to 1.48 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2010.

Swing Line Loans under the Extendible Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) were \$7.6 million at March 31, 2011 as compared to Nil at March 31, 2010. The weighted average interest rate on the Swing Line Loans was 6.32 percent for the three months ended March 31, 2011.

The Senior Secured Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) was cancelled and repaid on April 15, 2010. At March 31, 2010, there was US \$12 million outstanding on this credit facility. The weighted average interest rate on borrowings from this credit facility was 1.48 percent for the three months ended March 31, 2010.

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 pages 30 and 31) was US \$10 million at March 31, 2011 as compared to US \$6 million at March 31, 2010. The weighted average interest rate on borrowings from this credit facility was 4.55 percent for the three months ended March 31, 2011 as compared to 1.48 percent for the three months ended March 31, 2010.

At March 31, 2011, Canexus LP had \$23 million principal amount of unsecured subordinated series I debentures ("Series I Debentures") and \$60 million principal amount of unsecured subordinated series III debentures ("Series III Debentures") outstanding which were held by the Fund. The Series I Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. The Series III Debentures bear interest at 5.75 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2015. At March 31, 2010, Canexus LP had \$41.5 million of Series I Debentures and \$40 million of unsecured subordinated series II debentures ("Series II Debentures") and, together with the Series I Debentures and Series III Debentures, collectively the "Debentures") outstanding

which were held by the Fund. The Series II Debentures bore interest at 8 percent payable semi-annually on December 31 and June 30 of each year and were redeemed in their entirety on January 27, 2011.

The principal amount and coupon rate of the Debentures outstanding in Canexus LP mirror the Convertible Debentures outstanding in the Fund, as the proceeds received from the Convertible Debentures were used by Canexus LP.

Interest capitalized on major projects was \$76,000 for the three months ended March 31, 2011 as compared to \$2.2 million for the three months ended March 31, 2010.

#### Changes in foreign exchange options had an insignificant impact on net income

During the three months ended March 31, 2011, Canexus LP had a US dollar foreign exchange option contract on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9804 per Canadian dollar for the period January 1, 2011 to March 31, 2011.

Realized gains of \$0.5 million and mark-to-market fair value losses of \$0.4 million were recorded on this foreign exchange option contract for a net gain of \$0.1 million for the three months ended March 31, 2011. Realized gains resulted from the value of the US dollar weakening above the strike price in the foreign exchange option contract during the three months ended March 31, 2011. 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, 2011 and to the expiry of the foreign exchange option contract on March 31, 2011.

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

- US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9479 per Canadian dollar for the period January 1, 2010 to March 31, 2010; and
- US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9302 per Canadian dollar 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 option contracts for a net gain of \$0.1 million for the three months ended March 31, 2010.

Subsequent to March 31, 2011, Canexus LP entered into the following US dollar foreign exchange option contracts:

- US \$3.75 million for May 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million for June 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.026 per Canadian dollar from July 1, 2011 to September 30, 2011; and
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.02 per Canadian dollar from October 1, 2011 to December 31, 2011.

#### Changes in Interest rate swaps increased net income by \$0.9 million

Canexus LP has interest rate swap agreements under which Canexus LP swaps 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 gains of \$0.4 million and realized losses of \$0.4 million were recorded on these interest rate swaps for the three months ended March 31, 2011. Mark-to-market fair value gains resulted from market expectations of future three month US LIBOR floating rates, partially offset by 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, 2011. At March 31, 2011, 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 \$0.4 million were recorded on these interest rate swaps for a total loss of \$0.9 million for the three months ended March 31, 2010.

#### Changes in foreign currency translation gains increased net income by \$0.2 million

Foreign 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, 2011, fluctuations in exchange rates resulted in unrealized foreign currency translation gains of \$6.9 million and realized foreign currency translation losses of \$0.1 million for a net foreign currency translation gain of \$6.8 million as compared to unrealized foreign currency translation gains of \$7.3 million and realized foreign currency translation losses of \$0.7 million for a net foreign currency translation gain of \$6.6 million for the three months ended March 31, 2010.

During the three months ended March 31, 2011, Canexus LP recorded an unrealized foreign currency translation gain of \$7.2 million on its US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar relative to the US dollar during the period and a realized foreign currency translation gain of \$0.1 million on a repayment of its Extendible Revolving Credit Facility.

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

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.

#### Higher income taxes decreased net income by \$1.2 million

Income taxes increased for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, primarily due to foreign exchange fluctuations in foreign subsidiaries.

#### Capital Expenditures

Capital expenditures for the three months ended March 31, 2011 were \$11.4 million as compared to the three months ended March 31, 2010 of \$48.6 million. The decrease in capital expenditures was due to a decrease in expansion capital expenditures of \$40.7 million and remediation capital expenditures of \$0.9 million, partially offset by increases in maintenance capital expenditures of \$1.2 million and continuous improvement capital expenditures of \$3.1 million.

The decrease in expansion capital expenditures was primarily due to the completion and startup of the TCP in late June 2010, as well as other expansion capital projects completed in 2010. The decrease in remediation capital expenditures was primarily due to the completion of the project to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver facility. The increase in maintenance capital expenditures was primarily due to the acceleration of the electrolyzer recoating programs at our Brandon, Manitoba and Brazil sodium chlorate plants. The increase in continuous improvement capital expenditures was primarily due to a project to enhance the reliability of the North Vancouver chlor-alkali facility.

### Changes in Net Income Three Months Ended March 31, 2011 versus Three Months Ended December 31, 2010

Net Income for the Three Months Ended December 31, 2010	9,605
Items Increasing (Decreasing) Cash Operating Profit and Net Income	
Sales Revenue	5,698
Cost of Sales excluding Depreciation and Amortization	(1,987)
Distribution, Selling and Marketing Expense	(1,570)
General and Administrative Expense excluding Depreciation and Amortization	(188)
Cash Operating Profit	1,953
Depreciation and Amortization included in Cost of Sales	804
Depreciation and Amortization included in General and Administrative	180
Interest Expense excluding Amortization of Transaction Costs and Accretion	727
Change in Fair Value and Realized Gains on Foreign Exchange Options	(245)
Change in Fair Value and Realized Losses on Interest Rate Swaps	(217)
Foreign Currency Translation Gains	(3,462)
Income Taxes	(1,042)
Other	626
Net Income for the Three Months Ended March 31, 2011	8,929

Cash Operating Profit increased \$2 million as a result of higher Cash Operating Profit in the North America sodium chlorate and South American segments, partially offset by lower Cash Operating Profit in the North America chlor-alkali segment as a result of higher purchases of caustic soda for resale of \$2.9 million. For further discussion see pages 19 and 20. Net income for the three months ended March 31, 2011 decreased by \$0.7 million from the three months ended December 31, 2010 as a result of lower foreign currency translation gains and higher income taxes, partially offset by higher Cash Operating Profit, lower depreciation and amortization and lower interest expense.

## An increase in Cash Operating Profit of \$2 million increased net income

CAD thousands, except as noted	North America				Total
	Sodium Chlorate	Chlor-alkali <sup>(2)</sup>	South America	Other	
<b>Three Months Ended March 31, 2011</b>					
Sales Revenue	54,677	43,338	27,961	-	125,976
Cost of Sales	32,945	33,177	21,096	-	87,218
Distribution, Selling and Marketing	7,160	12,540	339	462	20,501
General and Administrative <sup>(3)</sup>	2,084	2,641	1,105	1,475	7,305
Operating Profit <sup>(1)</sup>	12,488	(5,020)	5,421	(1,937)	10,952
Add:					
Depreciation and Amortization included in Cost of Sales	3,513	5,781	1,458	-	10,752
Depreciation and Amortization included in General and Administrative	-	-	-	253	253
Cash Operating Profit <sup>(1)</sup>	16,001	761	6,879	(1,684)	21,957
Cash Operating Profit Percentage <sup>(1)</sup>	29%	2%	25%	-	17%

CAD thousands, except as noted	North America				Total
	Sodium Chlorate	Chlor-alkali <sup>(2)</sup>	South America	Other	
<b>Three Months Ended December 31, 2010</b>					
Sales Revenue	53,413	41,083	25,782	-	120,278
Cost of Sales	32,668	30,378	22,947	42	86,035
Distribution, Selling and Marketing	7,170	10,966	306	489	18,931
General and Administrative <sup>(3)</sup>	2,470	2,742	1,020	1,065	7,297
Operating Profit <sup>(1)</sup>	11,105	(3,003)	1,509	(1,596)	8,015
Add:					
Depreciation and Amortization included in Cost of Sales	3,494	6,581	1,481	-	11,556
Depreciation and Amortization included in General and Administrative	-	-	-	433	433
Cash Operating Profit <sup>(1)</sup>	14,599	3,578	2,990	(1,163)	20,004
Cash Operating Profit Percentage <sup>(1)</sup>	27%	9%	12%	-	17%

### Notes:

- (1) See Non-IFRS Measures on pages 1 and 2.
- (2) Revenues and costs for NATO for the three months ended March 31, 2011 and December 31, 2010 are included in North America Chlor-alkali.
- (3) General and administrative expenses are for functional areas such as human resources, finance, information technology and legal and are allocated to the operating segments based on production volumes.

### North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment increased two percent to \$54.7 million for the three months ended March 31, 2011 from \$53.4 million for the three months ended December 31, 2010. Sales volumes increased two percent benefiting from the continued strength in pulp markets. Realized netback selling prices, despite being negatively affected by the stronger Canadian dollar relative to the US dollar (three months ended March 31, 2011 – US \$1.00 as compared to three months ended December 31, 2010 – US \$0.98), increased one percent over the three months ended December 31, 2010. Cash Operating Profit Percentage increased to 29 percent for the three months ended March 31, 2011 from 27 percent for the three months ended December 31, 2010 as a result of higher realized netback selling prices, higher sales volumes and lower general

and administrative expense allocated to this segment, more than offsetting lower plant fixed costs for the three months ended December 31, 2010 and slightly lower production volumes for the three months ended March 31, 2011.

#### *North America Chlor-alkali*

Sales revenue for the North America chlor-alkali segment increased five percent to \$43.3 million for the three months ended March 31, 2011 from \$41.1 million for the three months ended December 31, 2010. Higher hydrochloric acid (21 percent) and chlorine (15 percent) sales volumes were offset by lower realized netback selling prices of approximately 10 percent for each product. Caustic soda realized netback selling prices improved seven percent over the three months ended December 31, 2010 with caustic soda sales volumes down seven percent (which impacted caustic soda resale volumes but had little impact on Operating Profit). Caustic soda purchased for resale in the three months ended March 31, 2011 was higher than in the three months ended December 31, 2010 by \$2.9 million. Cash Operating Profit decreased from \$3.6 million for the three months ended December 31, 2010 to \$0.8 million for the three months ended March 31, 2011. Variable costs for the three months ended March 31, 2011 were negatively impacted by \$0.6 million of salt handling charges recorded related to the three months ended December 31, 2010. Freight costs (included in distribution, selling and marketing) were also \$1.4 million higher due to higher sales volumes and higher chlorine transportation costs.

#### *South America*

Sales revenue for the South America segment increased eight percent to \$28 million for the three months ended March 31, 2011 from \$25.8 million for the three months ended December 31, 2010 primarily due to higher sodium chlorate (seven percent) and caustic soda (three percent) sales volumes due to increased demand from our major customer during the quarter. Cash Operating Profit was \$6.9 million for the three months ended March 31, 2011 as compared to \$3 million for the three months ended December 31, 2010 as a result of the benefit of higher sales volumes, partially offset by higher plant fixed costs for the three months ended December 31, 2010 from an unplanned shutdown of the chlor-alkali plant in October 2010, and costs incurred during the three months ended December 31, 2010 to purchase product for customers.

#### *Lower depreciation and amortization increased net income by \$1 million*

The decrease in depreciation and amortization for the three months ended March 31, 2011, as compared to the three months ended December 31, 2010, was due to assets being fully depreciated in Q4 2010 that were replaced by the TCP at the North Vancouver chlor-alkali facility.

#### *Lower interest expense increased net income by \$0.7 million*

The decrease in interest expense for the three months ended March 31, 2011, as compared to the three months ended December 31, 2010, was due to lower interest rates and lower interest on the Debentures as a result of redemptions during the three months ended March 31, 2011, partially offset by higher borrowings. During the three months ended March 31, 2011, \$1.6 million principal amount of Series I Debentures were redeemed. On January 27, 2011, the Series II Debentures were redeemed in their entirety.

The amount outstanding on our Extendible Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) at March 31, 2011 was US \$280 million, as compared to US \$264 million at December 31, 2010. The weighted average interest rate on borrowings from this credit facility was 4.55 percent, excluding the impact of the interest rate swaps, for the three months ended March 31, 2011 as compared to 4.76 percent, excluding the impact of the interest rate swaps, for the three months ended December 31, 2010.

Swing Line Loans under the Extendible Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) were \$7.6 million at March 31, 2011 as compared to \$10.5 million at December 31, 2010. The weighted average interest rate on the Swing Line Loans was 6.32 percent for the three months ended March 31, 2011 and 6.5 percent for the three months ended December 31, 2010.

The amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility (see "Capital Resources" on pages 30 and 31) was US \$10 million at March 31, 2011 and December 31, 2010. The weighted average interest rate on borrowings from this credit facility was 4.55 percent for the three months ended March 31, 2011 as compared to 4.68 percent for the three months ended December 31, 2010.

At March 31, 2011, Canexus LP had \$23 million principal amount of Series I Debentures and \$60 million principal amount of Series III Debentures outstanding which are held by the Fund. At December 31, 2010, Canexus LP had \$24.6 million principal amount of Series I Debentures, \$40 million principal amount of Series II Debentures and \$60 million principal amount of Series III Debentures outstanding which were held by the Fund. The Series I Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2014. The Series III Debentures bear interest at 5.75 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2015. The Series II Debentures bore interest at 8 percent payable semi-annually on December 31 and June 30 of each year and were redeemed in their entirety on January 27, 2011.

The principal amount and coupon rate of the Debentures outstanding in Canexus LP mirror the Convertible Debentures outstanding in the Fund, as the proceeds received from the Convertible Debentures were used by Canexus LP.

Interest capitalized on major projects was \$76,000 for the three months ended March 31, 2011 as compared to \$66,000 for the three months ended December 31, 2010.

#### Changes in foreign exchange options decreased net income by \$0.2 million

During the three months ended March 31, 2011, Canexus LP had a US dollar foreign exchange option contract on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9804 per Canadian dollar for the period January 1, 2011 to March 31, 2011.

Realized gains of \$0.5 million and mark-to-market fair value losses of \$0.4 million were recorded on this foreign exchange option contract for a net gain of \$0.1 million for the three months ended March 31, 2011. Realized gains resulted from the value of the US dollar weakening above the strike price in the foreign exchange option contract during the three months ended March 31, 2011. 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, 2011 and to the expiry of the foreign exchange option contract on March 31, 2011.

During the three months ended December 31, 2010, Canexus LP had a US dollar foreign exchange option contract on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9434 per Canadian dollar for the period October 1, 2010 to December 31, 2010. Mark-to-market fair value losses of \$0.4 million and realized gains of \$0.7 million were recorded on this foreign exchange option contract for a net gain of \$0.3 million for the three months ended December 31, 2010.

Subsequent to March 31, 2011, Canexus LP entered into the following US dollar foreign exchange option contracts:

- US \$3.75 million for May 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million for June 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.026 per Canadian dollar from July 1, 2011 to September 30, 2011; and
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.02 per Canadian dollar from October 1, 2011 to December 31, 2011.

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

Canexus LP has interest rate swap agreements under which Canexus LP swaps 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 gains of \$0.4 million and realized losses of \$0.4 million were recorded on these interest rate swaps for the three months ended March 31, 2011. Mark-to-market fair value gains resulted from market expectations of future three month US LIBOR floating rates, partially offset by 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, 2011. At March 31, 2011, the fair value of these interest rate swap agreements resulted in a financial liability of \$2.6 million.

During the three months ended December 31, 2010, mark-to-market fair value gains of \$0.6 million and realized losses of \$0.4 million were recorded on these interest rate swaps for a net gain of \$0.2 million.

#### Changes in foreign currency translation gains decreased net income by \$3.5 million

Foreign 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, 2011, fluctuations in exchange rates resulted in unrealized foreign currency translation gains of \$6.9 million and realized foreign currency translation losses of \$0.1 million for a net foreign currency translation gain of \$6.8 million as compared to unrealized foreign currency translation gains of \$10 million and realized foreign currency translation gains of \$0.3 million for a total foreign currency translation gain of \$10.3 million for the three months ended December 31, 2010.

During the three months ended March 31, 2011, Canexus LP recorded an unrealized foreign currency translation gain of \$7.2 million on its US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar relative to the US dollar during the period and a realized foreign currency translation gain of \$0.1 million on a repayment of its Extendible Revolving Credit Facility. During the three months ended December 31, 2010, Canexus LP recorded an unrealized foreign currency translation gain of \$10.7 million on its US dollar denominated long-term debt and realized foreign currency translation gains of \$0.7 million on repayments of its Extendible Revolving Credit Facility for a total foreign currency translation gain of \$11.4 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.

#### Higher income taxes decreased net income by \$1 million

Income taxes increased for the three months ended March 31, 2011, as compared to the three months ended December 31, 2010, primarily due to foreign exchange fluctuations in foreign subsidiaries.

#### Changes in other income and expense items increased net income by \$0.6 million

During the three months ended March 31, 2011, \$0.2 million of impairment charges previously recorded on the restructured notes, which replaced the asset backed commercial paper ("ABCP"), were reversed. During the three months ended December 31, 2010, Canexus LP recorded a loss of \$0.2 million on the disposal of assets replaced during the performance of plant maintenance and \$0.1 million of other closure related costs associated with the shutdown in 2009 of the Bruderheim, Alberta sodium chlorate plant.

#### Capital Expenditures

Capital expenditures for the three months ended March 31, 2011 were \$11.4 million as compared to the three months ended December 31, 2010 of \$13.6 million. The decrease was due to a decrease in maintenance capital expenditures of \$1.4 million and continuous improvement capital expenditures of \$0.7 million. The decrease in maintenance capital expenditures was due to the timing of maintenance projects. The decrease in continuous improvement capital expenditures was due to the completion of NATO continuous improvement projects in 2010.

#### Income Taxes

At March 31, 2011, the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately \$90 million (December 31, 2010 - \$82 million) which is comprised of the following:

	March 31, 2011	December 31, 2010
Unrealized Foreign Exchange Gains	(24,665)	(16,668)
Property, Plant and Equipment, Net	(91,403)	(77,482)
Other	26,036	11,925
	(90,032)	(82,225)

At March 31, 2011 and December 31, 2010, Canexus LP's major tax pools were as follows:

	March 31, 2011	December 31, 2010
Undepreciated Capital Cost	389,000	406,000
Assets Under Construction	27,000	18,000
	416,000	424,000

## Selected Annual Financial Information – Canexus LP

<i>CAD thousands, except as noted</i>	For the Years Ended December 31		
	2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
Sales Volumes			
Sodium Chlorate (000's MT)	434	400	449
Chlor-alkali (000's MECU)	173 <sup>(3)</sup>	181	187
Sales Revenue	457,357	458,447	474,357
Cost of Sales	319,329	312,280	339,060
Distribution, Selling and Marketing	74,035	-	-
General and Administrative	29,313	-	-
Operating Profit <sup>(1)</sup>	34,680	-	-
Add:			
Depreciation and Amortization included in Cost of Sales	33,050	-	-
Depreciation and Amortization included in General and Administrative	1,696	-	-
Cash Operating Profit <sup>(1)</sup>	69,426	-	-
Cash Operating Profit Percentage <sup>(1)</sup>	15%	-	-
Gross Margin <sup>(1)</sup>	-	146,167	135,297
Gross Margin Percentage <sup>(1)</sup>	-	32%	29%
Net Income (Loss)	25,732	73,652	(6,035)
Plus: Provision for (Recovery of) Income Taxes	5,525	9,840	(3,776)
Plus: Depreciation and Amortization	34,746	46,321	43,408
Plus: Interest Expense <sup>(5)</sup>	22,540	7,661	11,658
EBITDA <sup>(1)</sup>	88,543	137,474	45,255
Distributions Declared	55,883	52,476	51,218
Distributions Declared (\$/Unit)	0.5472	0.5472	0.5928
Distributable Cash within Canexus LP <sup>(1)</sup>	61,022	82,884	83,289
Capital Expenditures			
Maintenance	14,146	20,102	15,100
Remediation <sup>(4)</sup>	3,188	5,158	1,638
Continuous Improvement	6,808	8,706	4,540
Expansion	110,230	180,318	67,213
Total Capital Expenditures	134,372	214,284	88,491
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.97	US \$0.87	US \$0.96

	At December 31		
	2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
Total Assets	747,526	683,940	582,354
Total Long-Term Financial Liabilities	446,293	370,414	291,034

Notes:

- (1) See *Non-IFRS Measures* on pages 1 and 2.
- (2) Annual financial information for the years ended December 31, 2008 and 2009 was prepared in accordance with Previous GAAP.
- (3) Excludes volumes purchased for resale.
- (4) These expenditures were funded by restricted investments. During the fourth quarter of 2010, restricted investments were fully utilized.
- (5) Interest expense for the year ended December 31, 2010 includes the amortization of deferred financing transaction costs and accretion on provisions which are classified as finance income (expense) under IFRS.

Sales revenue for the year ended December 31, 2010 was consistent with sales revenue for the year ended December 31, 2009. Lower North America sodium chlorate sales revenue was mostly offset by higher sales revenue in South America. North America chlor-alkali sales revenue was consistent for the years ended December 31, 2010 and 2009. The Gross Margin Percentage of 22 percent, as previously reported under Previous GAAP (see Management's Discussion and Analysis for the year ended December 31, 2010 available on the Fund's profile on the SEDAR website [www.sedar.com](http://www.sedar.com)), for the year ended December 31, 2010 decreased from 32 percent for the year ended December 31, 2009 as a result of lower realized selling prices for sodium chlorate and chlor-alkali products, the delay in completing the startup of the TCP resulting in almost no production for three months, higher electricity costs in North America and higher fixed costs in South America, partially offset by lower fixed costs in North America and higher production volumes in North America sodium chlorate and South America.

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

## Outlook

### North America Sodium Chlorate

Global pulp markets remained strong during the first quarter of 2011. Bleached softwood pulp inventory decreased during the quarter, closing March at 24 days of supply, a level generally regarded as tight for pulp markets. Softwood pulp prices have begun to increase accordingly. In some markets, softwood pulp prices are again approaching the record levels experienced in the first half of 2010. The majority of market pulp produced in North America is softwood; therefore, softwood pulp is the market of greatest importance to North American producers. Global hardwood pulp inventory decreased to 29 days in March reflecting a very strong month. Hardwood pulp availability, as reflected by the current inventory level, is sufficient to meet demand. Accordingly, pricing in the hardwood pulp markets has been stable and has not demonstrated the upward momentum observed in the softwood pulp markets.

While the global hardwood pulp inventory, and the lack of upward price momentum in the hardwood pulp market, primarily impacts South American pulp producers, it can result in a moderating effect on overall pulp markets, in general. Never-the-less, global pulp demand continues to be strong, particularly in China. In February, market pulp imports to China were 45.5 percent higher than for the same period in 2010. Chinese demand has been a key driver for global pulp markets over the past 12 months. Looking ahead, global pulp demand is expected to grow in 2011 consistent with global economic growth. With little new global pulp capacity projected to become operational over the next two years, we continue to anticipate a healthy pulp market in the medium-term.

North America bleached pulp production was strong during the first quarter of 2011. In January, total United States paper and paperboard production exceeded January production levels in both 2009 and 2010. Consequently, sodium chlorate demand was

also very strong during the quarter. In addition to strong demand from North American sodium chlorate customers, export demand has grown substantially and now consumes 10 percent of North American production. Export demand growth is projected to continue as pulp production increases in regions outside North America. Sodium chlorate industry operating rates are currently estimated to be approximately 96 percent. The high sodium chlorate capacity utilization during the first quarter translated to price increases realized during the quarter. Sustained high operating rates are expected to support further upward price momentum during the remainder of 2011.

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

The North America chlor-alkali industry operated at an estimated 90 percent of capacity in the first quarter of 2011, compared with 84 percent in the prior quarter and 87 percent in the first quarter of 2010. The improvement in operating rates is a result of increased chlorine derivative exports to Asia from the US Gulf Coast. Strong chlorine derivative exports to Asia are projected to continue over the near to mid term. Moderate North American ethylene feedstock prices (supported by the supply and pricing of the lighter feedstocks resulting from increased shale-based natural gas production development) favorably position North American chlorine derivative production economics in comparison to naphtha-based production in Asia.

North American hydrochloric acid supply continues to exceed demand. Increased first quarter 2011 demand for hydrochloric acid in the oil and gas and steel industries was offset by increased supply from higher burner and byproduct production. Overall, little change occurred in the supply/demand balance during the quarter.

Higher chlorine derivative exports during the first quarter of 2011 were supported by higher chlor-alkali operating rates, accordingly, North America caustic soda production increased during the quarter. North American demand for caustic soda was strong during the quarter; the strong domestic demand coupled with lower caustic soda imports and increased exports offset the caustic soda production increase. US caustic soda exports increased in the first quarter of 2011 to fill a void created by reduced supply from China and Japan during the period. The reduced supply from Japan was directly related to the March 2011 Miyagi earthquake and subsequent tsunami. The reduction in Chinese exports was attributable to chlor-alkali production rate reductions made to compensate for increased chlorine derivative imports from the US, and from stronger domestic Chinese caustic soda demand.

North America MECU price increases were realized during the first quarter due to caustic soda price improvement. Additional price increases announced for both chlorine and caustic soda are expected to result in further MECU price improvement in the second quarter of 2011.

Minor modifications to increase production reliability at the Canexus membrane technology chlor-alkali plant at North Vancouver, British Columbia were completed during the annual maintenance shutdown in March 2011.

### **South America**

Brazilian pulp production during the quarter was one percent lower than the prior quarter, reflecting a generally stable market on average throughout the quarter. However, market fundamentals were increasing as the quarter progressed, with March pulp exports 14 percent higher than February. Strong shipments to China during March are consistent with the robust demand in China.

Canexus Brazil's major sodium chlorate customer, Fibria Celulose S.A. (formerly Aracruz Celulose S.A.) ("Fibria"), is on track to meet 2011 pulp production targets. Accordingly, Canexus Brazil's sodium chlorate plant is projected to operate at maximum rates for the duration of 2011.

The first quarter 2011 Brazilian chlorine capacity utilization rate was 77 percent, 15 percent lower than the same quarter in 2010. The decreased production rate was the result of demand reduction associated with a power outage at a chlorine consuming petrochemical manufacturing plant in Northeast Brazil and major plant planned outages at several chlor-alkali facilities during the quarter. In spite of the significant shift in the Brazilian chlorine supply/demand balance during the quarter, Canexus Brazil's chlorine sales were not impacted. The majority of chlorine supply or demand changes that resulted in the first quarter 2011 disruption in the Brazilian chlorine market were associated with captive chlorine consumers that are not a part of the market

segments into which Canexus Brazil sells. In contrast to the Brazilian market as a whole, Canexus Brazil's chlor-alkali capacity utilization was 97 percent during the first quarter of 2011.

### 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 Canexus LP's cash from operating activities and the excess (shortfall) of Canexus LP's net income (loss), over distributions declared to Ordinary LP Unit holders and the Exchangeable LP Unit holder for the first quarter of 2011, the first quarter of 2010 and the years ended December 31, 2008 through December 31, 2010.

The Fund considers the amount of Canexus LP's cash from operating activities and Distributable Cash within Canexus LP, as well as any required funding of expansion projects, in determining the level of distributions to Unitholders on an annual basis. Changes in non-cash operating working capital that are considered to be temporary in nature are not taken into account. Distributable Cash within Canexus LP (see Canexus LP's "Statement of Distributable Cash" on page 11 for a reconciliation of Canexus LP's cash 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.

The Fund does not consider net income (loss) to be a cash flow measure and does not consider it in the determination of the level of distributions. Net income (loss) includes significant non-cash items including depreciation, amortization and accretion and unrealized foreign currency translation gains (losses).

The ability of the Fund to pay distributions and to fund expansion projects is primarily dependent upon future levels of Canexus LP's cash from operating activities and Distributable Cash within Canexus LP. Canexus LP's 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 from operating activities see "Market and Financial Risk Analysis" beginning on page 32.

Distributions declared exceeded Distributable Cash within Canexus LP for the three months ended March 31, 2011 as a result of lower cash generated from operating activities for the three months ended March 31, 2011 (see discussion which follows), higher maintenance capital expenditures and TCP severance costs paid, partially offset by lower amortization of the purchase cost of foreign exchange options. Distributable Cash within Canexus LP for the three months ended March 31, 2010 and the years ended December 31, 2008 and December 31, 2009 exceeded distributions declared as Distributable Cash within Canexus LP was retained to partially fund the TCP and other expansion projects. Distributable Cash within Canexus LP exceeded distributions declared for the year ended December 31, 2010 primarily due to the intentional triggering of \$19.4 million of realized foreign currency translation gains on temporary repayments of the Extendible Revolving Credit Facility during the third quarter of 2010 to minimize borrowing costs.

	Three Months Ended		Years Ended December 31		
	March 31		2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
	2011	2010	2010	2009 <sup>(2)</sup>	2008 <sup>(2)</sup>
Cash Generated from Operating Activities	15,638	24,015	86,950	117,263	72,140
Net Income (Loss)	8,929	19,294	25,732	73,652	(6,035)
Distributions Declared <sup>(1)</sup>	15,661	13,574	55,883	52,476	51,218
Excess (Shortfall) of Cash from Operating Activities over Distributions Declared	(23)	10,441	31,067	64,787	20,922
Excess (Shortfall) of Net Income (Loss) over Distributions Declared	(6,732)	5,720	(30,151)	21,176	(57,253)

Notes:

- (1) Distributions declared payable to Ordinary LP Unit holders and the Exchangeable LP Unit holder. On December 11, 2008, the Board of Directors of the Corporation declared a special distribution of \$0.0456 per LP Unit payable by Canexus LP to LP Unit holders of record December 31, 2008. In addition, on December 11, 2008, the Board of Directors of the Corporation 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.*

- (2) Cash generated from operating activities and net income (loss) for the years ended December 31, 2009 and 2008 was prepared in accordance with Previous GAAP.

### Three Months Ended March 31, 2011

Distributions declared slightly exceeded cash generated from operating activities for the three months ended March 31, 2011. Cash generated from operating activities declined from the three months ended March 31, 2010 primarily due to higher interest expense and lower Cash Operating Profit for the three months ended March 31, 2011, as well as cash generated from operating activities was reduced by temporary changes in non-cash operating working capital and due from/to affiliates, net (see "Results of Operations – Canexus LP" beginning on page 14).

Distributions declared exceeded net income for the three months ended March 31, 2011 due to higher interest expense and lower Cash Operating Profit as noted in the preceding paragraph. Non-cash expenses including depreciation, amortization and accretion and deferred income taxes reduced net income, partially offset by unrealized foreign currency translation gains.

### Three Months Ended March 31, 2010

Cash generated 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 depreciation, amortization and accretion and changes in fair value of held-for-trading financial instruments reduced net income, partially offset by unrealized foreign currency translation gains and a deferred income tax recovery.

### Years Ended December 31, 2008 through December 31, 2010

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

Cash generated 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 depreciation and amortization, changes in fair value of held-for-trading financial instruments, deferred income taxes and the impairment of sodium chlorate assets reduced net income, partially offset by unrealized foreign currency translation gains.

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

## Net Debt and Total Equity

	March 31, 2011	December 31, 2010
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	330,412	322,250
Debentures, Principal Amount	82,995	124,609
Less:		
Cash and Cash Equivalents	(5,523)	(3,223)
Non-Cash Working Capital	(41,490)	(26,347)
Total Net Debt <sup>(1)</sup>	366,394	417,289
Total Equity <sup>(2)</sup>	195,810	139,261

Notes:

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

(2) At March 31, 2011 there were 113,446,550 Ordinary LP Units outstanding (held directly and indirectly by the Fund). On February 7, 2011, Nexen exchanged all of its Exchangeable LP Units for Fund Units on a one-for-one basis and subsequently disposed of its Fund Units. At December 31, 2010 there were 38,368,048 Ordinary LP Units (held directly and indirectly by the Fund) and 66,238,563 Exchangeable LP Units (held by Nexen) outstanding.

## Liquidity

Canexus LP generated positive cash from operating activities for the three months ended March 31, 2011 and March 31, 2010. Cash generated from operating activities was used to pay distributions for the three months ended March 31, 2011. Cash generated from operating activities in excess of distributions for the three months ended March 31, 2010 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, 2011 and March 31, 2010:

	Three Months Ended		Change
	March 31, 2011	March 31, 2010	
Cash from Operating Activities	15,638	24,015	(8,377)
Cash from (used in) Financing Activities	(1,354)	12,405	(13,759)
Cash used in Investing Activities	(11,933)	(46,696)	34,763

## Cash Generated from Operating Activities

Cash generated 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, labour costs and utilities, as well as distribution, selling and marketing expense and general and administrative expense.

Cash generated from operating activities decreased for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, due to a decrease in Cash Operating Profit (see "Results of Operations – Canexus LP" beginning on page 14), higher interest paid and not capitalized and a net increase in non-cash operating working capital and due from/to affiliates, net.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended March 31, 2011 decreased cash flow from operating activities primarily due to an increase in raw materials and work-in-progress inventories.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended March 31, 2010 slightly increased cash flow from operating activities due to a decrease in prepaid expenses and an increase in trade and other payables related to operating activities, partially offset by an increase in trade and other receivables and inventories and operating supplies.

### Cash from (used in) Financing Activities

Changes in cash from (used in) financing activities for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 were comprised of:

	Three Months Ended		Change
	March 31, 2011	March 31, 2010	
Proceeds from (Repayments of) Short-Term Borrowings, Net	(2,945)	2,677	(5,622)
Proceeds from Extendible Revolving Credit Facility	18,728	22,704	(3,976)
Proceeds from Senior Secured Revolving Credit Facility	-	1,068	(1,068)
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	(3,262)	-	(3,262)
Distributions Paid to Ordinary LP Unit holders and Exchangeable LP			
Unit holder	(10,727)	(12,760)	2,033
Funding of Expenditures on Decommissioning Liabilities from			
Restricted Investments	-	830	(830)
	(1,354)	12,405	(13,759)

Cash generated from financing activities for the three months ended March 31, 2010 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 used in Investing Activities

Changes in cash used in investing activities for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 were comprised of:

	Three Months Ended		Change
	March 31, 2011	March 31, 2010	
Expenditures on Property, Plant and Equipment	(11,433)	(46,306)	34,873
Expenditures on Decommissioning Liabilities	2	(25)	27
Changes in Non-Cash Investing Working Capital	(518)	1,850	(2,368)
Capitalized Borrowing Costs	(76)	(2,265)	2,189
Interest Income Received	92	50	42
	(11,933)	(46,696)	34,763

### Future Liquidity

The future liquidity of the Fund will be primarily dependent on cash generated from operating activities of Canexus LP 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" beginning on page 32. Management believes cash generated from operating activities will be sufficient for the Fund to meet future obligations and commitments that arise in the normal course of its business activities. In addition, Canexus LP has committed credit facilities which can be used for general corporate purposes and to fund capital expenditures. See "Capital Resources" on pages 30 and 31.

## Debt Covenants

At March 31, 2011, 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, 2011	December 31, 2010 <sup>(2)</sup>
Net Income	2,160	9,372
Interest (including Realized Losses on Interest Rate Swaps and Interest on Convertible Debentures)	22,656	18,028
Income Taxes	6,707	5,204
Depreciation and Amortization	57,695	57,030
Non-Cash (Income) Expense Items	7,261	8,570
Fund General and Administrative Expense	(699)	(459)
Consolidated EBITDA <sup>(1)</sup>	95,780	97,745
Short-Term Borrowings	7,566	10,512
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	330,412	322,250
<b>Consolidated Senior Debt <sup>(1)</sup></b>	<b>337,978</b>	<b>332,762</b>
<b>Consolidated Total Debt <sup>(1)</sup></b>	<b>337,978</b>	<b>332,762</b>
Interest (including Realized Losses on Interest Rate Swaps)	15,986	11,223
Capitalized Interest and Letter of Credit Fees	5,386	7,140
<b>Consolidated Interest Expense</b>	<b>21,372</b>	<b>18,363</b>
Consolidated Senior Debt to EBITDA Ratio <sup>(1)</sup>	3.53:1	3.40:1
Consolidated Total Debt to EBITDA Ratio <sup>(1)</sup>	3.53:1	3.40:1
Consolidated EBITDA to Interest Expense Ratio <sup>(1)</sup>	4.48:1	5.32:1

Notes:

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

(2) December 31, 2010 debt covenant comparative information was calculated in accordance with Previous GAAP.

## Capital Resources

The Fund had commitments of \$8.7 million at March 31, 2011 and \$9 million at June 13, 2011 related primarily to expanding the rail yard at the North Vancouver chlor-alkali facility and upgrading the power line capacity at our Brandon, Manitoba sodium chlorate facility. Management anticipates ongoing annual maintenance capital expenditures of approximately \$15 to \$20 million which will be financed primarily out of cash generated from operating activities. Maintenance capital expenditures are expected to be \$20 million in 2011 and \$18 million in 2012 as a result of accelerating our electrolyzer recoating programs at our Brandon, Manitoba and Brazil sodium chlorate plants. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Fund Units or other securities of the Fund.

Canexus LP has a \$440 million extendible revolving credit facility (the "Extendible Revolving Credit Facility") that matures June 30, 2014. The Extendible Revolving Credit Facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. This credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down this credit facility in either Canadian or US dollars. At March 31, 2011, Canexus LP had \$272 million (US \$280 million) outstanding on this credit facility which is included in Long-Term Debt on the Fund's unaudited condensed consolidated statement of financial position at March 31, 2011. Short-term swing line loans of up to \$35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$440 million. At March 31, 2011, Canexus LP had \$7.6 million of swing line loans outstanding.

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.

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 June 30, 2014. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At March 31, 2011, Canexus Brazil had \$9.7 million (US \$10 million) outstanding on this credit facility which is included in Long-Term Debt on the Fund’s unaudited condensed consolidated statement of financial position at March 31, 2011.

Canexus LP has US \$50 million of senior secured notes (the “Senior Secured Notes”) outstanding which bear interest at a fixed interest rate of 7.32 percent and mature May 1, 2013. The Canadian dollar equivalent of the US \$50 million of Senior Secured Notes of \$48.6 million is included in Long-Term Debt on the Fund’s unaudited condensed consolidated statement of financial position at March 31, 2011.

At March 31, 2011, the Fund had \$83 million principal amount of Convertible Debentures outstanding (Series I Convertible Debentures - \$23 million and Series III Convertible Debentures - \$60 million). The Series I Convertible Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014 and the Series III Convertible Debentures bear interest at 5.75 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2015.

Canexus LP is the applicant on one Letter of Credit at March 31, 2011; a standby letter of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.5 million) which expires January 1, 2012 and fully covers the actuarially determined obligation. This letter of credit is automatically renewed for one year periods unless otherwise advised.

### Summary of Contractual Obligations

The Fund 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, 2011 these obligations and commitments were as follows:

	Total	2011	2012	2013	2014	2015	Thereafter
Operating Leases <sup>(1)</sup>	108,203	14,145	15,350	13,653	12,889	11,982	40,184
Purchase Obligations <sup>(2)</sup>	120,530	27,557	37,986	39,183	7,902	7,902	-
Expansion Capital Expenditures <sup>(3)</sup>	8,695	7,205	1,490	-	-	-	-
Provisions <sup>(4)</sup>	93,799	889	2,920	1,295	745	270	87,680
Long-Term Debt <sup>(5)</sup>	330,412	-	-	48,590	281,822	-	-
Interest on Senior Secured Notes <sup>(5)</sup>	7,188	2,445	3,557	1,186	-	-	-
Debentures <sup>(6)</sup>	82,995	-	-	-	22,995	60,000	-
Interest on Debentures <sup>(6)</sup>	24,610	5,290	5,290	5,290	5,290	3,450	-
<b>Total</b>	<b>776,432</b>	<b>57,531</b>	<b>66,593</b>	<b>109,197</b>	<b>331,643</b>	<b>83,604</b>	<b>127,864</b>

Notes:

- Payments for operating leases reduce cash generated 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.*
- 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 major customer, and minimum purchase commitments under some multi-year salt supply contracts.*
- Capital expenditures committed at March 31, 2011 are primarily related to expanding the rail yard at the North Vancouver chlor-alkali facility and to upgrading the power line capacity at our Brandon, Manitoba sodium chlorate production facility.*
- At March 31, 2011, the undiscounted provision for decommissioning liabilities was \$153.1 million. The estimated fair value (\$65.6 million) of these obligations is provided for in the Fund’s consolidated financial statements for the three months ended March 31, 2011 (See Note 19). The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates.*
- Long-Term Debt amounts are included in the Fund’s March 31, 2011 unaudited consolidated statement of financial position (See Note 17 Long-Term Debt and Short-Term Borrowings and Note 18 Convertible Debentures to the consolidated financial statements of the Fund for the three months ended March 31, 2011). The principal amount and coupon rate of the Debentures outstanding in Canexus LP mirror the Convertible Debentures in the Fund, as proceeds received from the Convertible Debentures were used by Canexus LP. The Extendible Revolving Credit Facility balance will fluctuate and matures June 30, 2014. Interest is payable on the outstanding balance at rates which vary depending on the consolidated debt to EBITDA ratio of*

Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. The EDC Extendible Revolving Credit Facility balance will fluctuate and matures June 30, 2014. Interest is payable at a rate based on the US LIBOR rate. Interest payments on the Extendible Revolving Credit Facility and the EDC Extendible Revolving Credit Facility have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Interest is payable quarterly (May 1, August 1, November 1 and February 1) on the US dollar Senior Secured Notes at a fixed rate of interest of 7.32 percent. Interest payments have been included in the table above at the Canadian dollar equivalent of the US dollar interest payments using the March 31, 2011 Bank of Canada noon day US dollar to Canadian dollar foreign exchange rate. Interest is payable semi-annually on June 30 and December 31 on the Series I Debentures at a fixed rate of interest of 8 percent and at a fixed rate of interest of 5.75 percent on the Series III Debentures. The \$40 million principal amount of the Series II Debentures which bore interest at 8 percent per annum were redeemed on January 27, 2011 and accordingly, the interest thereon is no longer included in the above table.

(6) See "Capital Resources" on pages 30 and 31 and "Transactions with Related Parties" on page 34.

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

Deferred 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, 2011 unaudited condensed consolidated statement of financial position of the Fund, 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, the Fund 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, the Fund 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 the Fund's liquidity, consolidated financial position or results of operations.

### **Contingent Liabilities**

In the normal course of business, the Fund 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 the Fund's liquidity, consolidated financial position or results of operations. The Fund records costs as they are incurred or become determinable. Additionally, the income tax filings of taxable legal entities included in the companies comprising the Fund are subject to audit by taxation authorities. Management believes that the Fund has recorded an adequate provision for income taxes based on available information. The Fund is indemnified by Nexen for any claims for income tax re-assessments for periods prior to August 18, 2005.

### **Guarantees**

All of the credit facilities and the Senior Secured Notes (see "Capital Resources" on pages 30 and 31) are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, the Corporation 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**

The Fund is exposed to normal market risks inherent in the chemicals business, as well as financial risks. Included in the risks faced by the Fund 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. The Fund 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 the 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, income before income taxes for the three months ended March 31, 2011 would have changed by \$7 million. For every \$100 change in the price per MECU of chlor-alkali products

produced in North America, income before income taxes for the three months ended March 31, 2011 would have changed by \$3.9 million. These sensitivities to changes in prices are based on 93,000 MT of North American sodium chlorate sales and 39,000 MECU of North American chlor-alkali sales for the three months ended March 31, 2011. 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 2,500 MT would have changed income before income taxes for the three months ended March 31, 2011 by \$0.5 million. A change in sales volumes for North American chlor-alkali products of 1,250 MECU would have changed income before income taxes for the three months ended March 31, 2011 by \$0.5 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 major customer in South America, Fibria, typically consumes more caustic soda than our Brazil 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 major customer for our production cost plus a fixed margin (the "Canexus Price"). During the three months ended March 31, 2011, there was no production shortfall below operating capacity and therefore, we did not acquire any caustic soda.

#### Electricity Price Risk

The cost of electricity is a key production cost. For every four percent change in the price of electricity in North America, income before income taxes would have changed by \$0.8 million for the three months ended March 31, 2011. This sensitivity to changes in electricity prices is based on North American electricity consumption of 568,000 MWh for the three months ended March 31, 2011. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

#### Foreign Currency Rate Risk

A substantial portion of the sales revenue of Canexus LP is 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, 2011 was US \$1.00. An increase in the Canadian to US dollar exchange rate to US \$1.10 for the three month period would have decreased income before income taxes by \$2.6 million for the three months ended March 31, 2011, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US \$0.95 for the three month period would have increased income before income taxes by \$1.6 million for the three months ended March 31, 2011. A range of US \$0.95 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, 2011, Canexus LP had a US dollar foreign exchange option contract on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9804 from January 1, 2011 to March 31, 2011. At March 31, 2011, Canexus LP had the following US dollar foreign exchange option contracts:

- US \$3.75 million for May 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million for June 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.026 per Canadian dollar for the period July 1, 2011 to September 30, 2011; and

- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.02 per Canadian dollar from October 1, 2011 to December 31, 2011.

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 Canexus LP's revolving credit facilities. The average 30 day US LIBOR base rate was 0.26 percent for the three month period ended March 31, 2011. A change in the 30 day US LIBOR base rate to 0.2 percent for the three month period would have increased income before income taxes by \$33,000 for the three months ended March 31, 2011. A change in the 30 day US LIBOR base rate to 2 percent for the three month period would have decreased income before income taxes by \$0.9 million for the three months ended March 31, 2011. A range of 0.2 to 2 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 Canexus LP swaps 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, 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 9 percent of total trade accounts receivable at March 31, 2011. The majority of our South American production is sold to Fibria under a long-term sales agreement. At March 31, 2011, trade amounts owing from Fibria represented 24 percent of total trade accounts receivable (December 31, 2010 – 18 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.

### Transactions With Related Parties

The Corporation, 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. The Corporation sub leases office space from Nexen on behalf of the Fund for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the period January 1, 2011 to February 6, 2011 and for the three months ended March 31, 2010 were \$15,000 and \$23,000 respectively.

Proceeds from the Convertible Debentures issued by the Fund were used to purchase the Debentures of Canexus LP. Interest Income recognized on the Debentures for the period January 1, 2011 to February 6, 2011 and for the three months ended March 31, 2010 was \$0.7 million and \$1.7 million respectively.

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

At March 31, 2011, Canexus LP did not have any material off-balance sheet arrangements.

During the three months ended March 31, 2011, Canexus LP had a US dollar foreign exchange option contract on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$0.9804 per Canadian dollar for the period January 1, 2011 to March 31, 2011. The change in fair value of this foreign exchange option contract was a loss of \$0.4 million for the three months ended March 31, 2011.

Subsequent to March 31, 2011, Canexus LP entered into the following US dollar foreign exchange option contracts:

- US \$3.75 million for May 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million for June 2011 which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.03 per Canadian dollar;
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.026 per Canadian dollar for the period July 1, 2011 to September 30, 2011; and
- US \$5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at an exchange rate of US \$1.02 per Canadian dollar from October 1, 2011 to December 31, 2011.

At March 31, 2011, Canexus LP had interest rate swap agreements under which Canexus LP swaps 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 change in fair value of these interest rate swaps was a gain of \$0.4 million for the three months ended March 31, 2011.

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

### **Critical Accounting Estimates**

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

#### **Impairment of Long Lived Assets**

The Fund 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, discounted future cash flows for the assets are estimated to determine if the assets are impaired. The assets would then be written down to their fair value.

At March 31, 2011, 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 the Fund. Estimates of future operating costs are made by the Fund. 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.

#### **Decommissioning Liabilities**

The Fund 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

decommissioning liabilities 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 the Fund operates.

Decommissioning liabilities for the Fund's North America sodium chlorate, North America chlor-alkali and South America operating segments, as well as for NATO, are recorded in the consolidated financial statements of the Fund for the three months ended March 31, 2011 by discounting the estimated obligations associated with its chemical plants and terminals to the present value using a weighted average risk-free rate of 3.51 percent. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, risk free discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected decommissioning liabilities recorded result in an increase to the carrying value of property, plant and equipment ("PP&E") which is depreciated over the useful life of the plant to which the PP&E relates. The decommissioning liability accretes until the time the obligation is expected to settle.

A change in any one of the assumptions could impact the decommissioning liabilities, PP&E and net income. It is difficult to determine the impact of a change in any one of the assumptions. As a result, the Fund 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 the Fund believes that the assumptions it has made are reasonable.

## **Transition to IFRS – Canexus LP**

### **First-Time Adoption IFRS Exemptions**

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

Canexus LP elected to utilize the following IFRS 1 exemptions on initial adoption of IFRS on the Transition Date which were approved by the Board of Directors of the Corporation.

### ***Business Combinations***

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

### ***Leases***

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

### ***Employee Benefits***

A first-time adopter can elect to recognize all cumulative actuarial gains and losses related to defined benefit plans at the date of transition even if it chooses another alternative for recognizing actuarial gains and losses permitted by IAS 19 Employee Benefits

for post transition actuarial gains and losses. If a first-time adopter elects to use this exemption it must do so for all defined benefit plans. Canexus LP elected to use this exemption and recognize all actuarial gains and losses for its defined benefit pension plan, executive benefit pension plan and post retirement benefit plans. At December 31, 2009, Canexus LP had a net cumulative actuarial loss of \$9.7 million on its defined benefit plans which was recognized in deficit at the Transition Date.

#### *Cumulative Translation Differences*

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

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

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

#### *Borrowing Costs*

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

#### *Other exemptions not used*

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

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

#### *Other*

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

## Accounting Policy Choices

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

IFRS	Alternatives		Choice
IAS 2 – Inventories	Measure cost of inventories using the first-in, first-out (“FIFO”) method	Measure cost of inventories using the weighted average cost method	Weighted average cost method
IAS 16 – Property, Plant and Equipment	Cost Model	Revaluation Model	Cost Model
IAS 19 – Employee Benefits	Recognition of actuarial gains and losses in statement of comprehensive income using the: 1) Corridor method; 2) “Faster method” than the corridor method	Recognition of actuarial gains and losses in other comprehensive income (“OCI”) in the period in which they occur	Recognize in OCI in the period in which they occur

The above accounting policies adopted by Canexus LP were approved by the Board of Directors of the Corporation.

### Reconciliation between IFRS and Previous GAAP

The following reconciliation outlines the differences between IFRS and Previous GAAP based on Canexus LP's accounting policy choices and the mandatory exceptions and optional IFRS 1 exemptions described on the preceding pages.

#### Reconciliation of the Consolidated Statement of Comprehensive Income for the Three Months Ended March 31, 2010

CAD thousands	March 31, 2010		IFRS
	Previous GAAP	Effect of Transition to IFRS	
Sales Revenue	113,715	-	113,715
Cost of Sales	81,805	(10,283)	71,522
Gross Profit	31,910	(10,283)	42,193
Distribution, Selling and Marketing	-	(18,391)	18,391
General and Administrative	8,331	(712)	7,619
Interest	1,571	(1,571)	-
Depreciation and Amortization	11,543	(11,543)	-
Operating Profit	10,465	5,718	16,183
Finance Income	-	6,416	6,416
Income before Other Income (Expense) and Income Taxes	10,465	12,134	22,599
Other Income (Expense)	6,126	(8,677)	(2,551)
Income before Income Taxes	16,591	3,457	20,048
Provision for (Recovery of) Income Taxes			
Current	1,304	-	1,304
Deferred	(854)	304	(550)
	450	304	754
Net Income	16,141	3,153	19,294
Other Comprehensive Loss			
Actuarial Losses on Defined Benefit Pension Plans	-	(2,401)	(2,401)
Foreign Currency Translation Adjustment, Net of Tax	(1,975)	750	(1,225)
Other Comprehensive Loss	(1,975)	(1,651)	(3,626)
Total Comprehensive Income	14,166	1,502	15,668

Adjustments to net income and comprehensive income for the three months ended March 31, 2010 are the result of (i) adjustments at Transition Date and for the three months ended March 31, 2010; (ii) changes in accounting policies between Previous GAAP and IFRS; and (iii) reclassification of expenses to comply with IFRS presentation requirements.

### **IFRS 1 Transition Changes and Accounting Policy Changes**

The following expenses were impacted by IFRS 1 transition and/or accounting policy changes:

#### ***Depreciation and Amortization***

Transition to IFRS resulted in an overall average shorter useful life for PP&E due to further componentization of assets which caused an overall increase in depreciation and amortization expense for the three months ended March 31, 2010 as compared to Previous GAAP. Depreciation and amortization is included in cost of sales and general and administrative expense based on the function of the assets to which it relates.

#### ***Accretion***

Accretion expense increased for the three months ended March 31, 2010 as compared to Previous GAAP as a result of an increase in the provision at Transition Date. Accretion expense is included in finance income under IFRS, as compared to Previous GAAP where it was included in depreciation and amortization. See "Presentation of Expense by Function" below.

#### ***Employee Benefits Expense***

Employee benefits expense decreased for the three months ended March 31, 2010 as compared to Previous GAAP primarily due to the recognition of actuarial losses in other comprehensive loss. Under Previous GAAP, actuarial losses were amortized to net income over the average remaining service life of the employee group. Employee benefits expense is included in cost of sales, distribution, selling and marketing expense and general and administrative expense corresponding with where the salaries and wages of employees in receipt of the benefits are included.

#### ***Finance Income***

Transaction costs incurred for the issue of the Convertible Debentures by the Fund were reimbursed by Canexus LP. The principal amount and coupon rate of the Debentures in Canexus LP mirror those of the Convertible Debentures in the Fund, as Canexus LP used the proceeds from the issue of the Convertible Debentures.

Under Previous GAAP, transaction costs were deferred and amortized over the term of the Debentures in Canexus LP. Under IFRS, transaction costs are expensed as incurred due to the designation of the Convertible Debentures at fair value through profit or loss. The amortization of transaction costs was included in interest expense under Previous GAAP. Transaction costs are included in finance income under IFRS.

#### ***Presentation of Expense by Function***

Under IFRS, Canexus LP is required to present expenses in the consolidated statement of comprehensive income either by nature or by function. Canexus LP chose to present expenses based on function which resulted in the following presentation differences from Previous GAAP.

Distribution, selling and marketing expense – all expenses associated with the distribution, selling and marketing function including transportation expense, operating expense, salaries and wages, employee benefits expense, office expense, energy and utilities, communication expense and computer expense are classified as distribution, selling and marketing. Under Previous GAAP, these expenses were reported as cost of sales or general and administrative expense.

Depreciation and amortization – depreciation and amortization expense is included in cost of sales or general and administrative expense based on the function or use of the underlying assets. Under Previous GAAP, depreciation and amortization was reported as a separate line item in the consolidated statement of comprehensive income.

Employee benefits expense – employee benefits expense is included in cost of sales, distribution, selling and marketing expense and general and administrative expense based on the function of the employees to which the employee benefits expense relates. Under Previous GAAP, employee benefits expense was included in cost of sales and general and administrative expense.

Accretion expense – accretion expense is included in finance income. Under Previous GAAP, accretion expense was included in depreciation and amortization.

Foreign currency translation – realized and unrealized foreign currency translation gains (losses) related to borrowings are included in finance income and all other realized and unrealized foreign currency translation gains (losses) are included in other income (expense). Under Previous GAAP, all foreign currency translation gains (losses) were included in other income (expense).

Interest income – interest income is included in finance income. Under Previous GAAP, interest income was included in other income (expense).

Interest expense – interest expense is included in finance income. Under Previous GAAP, interest expense was reported as a separate line item in the consolidated statement of comprehensive income.

## Future Accounting Pronouncements

Standard	Description of Change	Effective Date
IFRS 7	<i>Financial Instruments: Disclosures</i> – Amendments to disclosures for transfers of financial assets.	Effective for annual periods beginning on or after July 1, 2011.
IFRS 9	<i>Financial Instruments – New Standard</i> that is part of a three phase project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> .	Effective for annual periods beginning on or after January 1, 2013.
IFRS 10	<i>Consolidated Financial Statements</i> – New Standard which supercedes IAS 27 and SIC 12 to provide consistency in the standards.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 12	<i>Disclosure of Interests in Other Entities</i> – New Standard to provide consistent disclosure requirements of interests in subsidiaries, joint ventures, associates and other unconsolidated entities.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 13	<i>Fair Value Measurement</i> – New Standard to provide consistency among the IFRSs that deal with fair value measurements.	Effective for annual periods beginning on or after January 1, 2013.
IAS 12	<i>Income Taxes</i> – Amendments regarding deferred tax and the recovery of underlying assets.	Effective for annual periods beginning on or after January 1, 2012.

The impact of the initial application of the Standards listed above was not known or reasonably estimable at the time of authorization of the consolidated financial statements of the Fund for the three months ended March 31, 2011.

## 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 Canexus including with respect to pricing for sodium chlorate and chlor-alkali products, expected volumes of and demand for sodium chlorate and chlor-alkali products, production capacity, pulp and paper demand and production, expected currency exchange rates, the expected payout ratio, global caustic soda demand, expectations for MECU prices, expectations regarding North Vancouver facility operations, cost savings to be realized from the TCP and its contribution to Cash Operating Profit, the timing of completion and contribution to Cash Operating Profit of growth projects, the NATO salt cavern re-verification, anticipated future sodium chlorate and chlor-alkali industry and Canexus operating rates, expected growth trends in exports for both sodium chlorate and chlor-alkali products, expected operating rates of Canexus Brazil's major customer, expected future

levels of maintenance capital expenditures and the timing of conversion to a corporate structure and the characterization of 2011 distributions prior to such conversion. 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 disclaims 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**

The Fund maintains 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**

The Fund is 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 IFRS, which represent generally accepted accounting principles for publicly accountable entities in Canada. We have designed 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.

The conversion to IFRS from Previous GAAP impacts the way Canexus presents its financial results. Canexus has evaluated the impact of the conversion on its accounting and financial reporting systems and updated the requisite systems to enable our reporting of Previous GAAP information related to our initial IFRS adoption and for future periods to be reported under IFRS. 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, 2011.

# Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)

## Canexus Income Fund

For the Three Months Ended March 31, 2011 and 2010

<i>CAD thousands, except per unit amounts</i>	2011	2010
	(Notes 3 and 25)	(Notes 3 and 25)
Sales Revenue	84,085	-
Cost of Sales (Notes 7, 8, 15 and 20)	60,593	160
Gross Profit (Loss)	23,492	(160)
Distribution, Selling and Marketing (Notes 7, 8 and 20)	13,909	106
General and Administrative (Notes 7, 8, 15 and 20)	6,742	1,178
Operating Profit (Loss)	2,841	(1,444)
Equity Income (Loss) from Investment in Canexus Limited Partnership ("Canexus LP") (Note 9)	12,496	(10,986)
Finance Income (Expense) (Note 10)	4,707	(26,345)
Other Expense (Note 11)	(180)	-
Income (Loss) Before Income Taxes	19,864	(38,775)
Provision for Income Taxes (Note 12)		
Current	652	-
Deferred	2,555	2,267
	3,207	2,267
Net Income (Loss)	16,657	(41,042)
Other Comprehensive Income (Loss)		
Foreign Currency Translation Adjustment Losses, Net of Tax	(1,382)	(422)
Actuarial Gains (Losses) on Defined Benefit Pension Plans, Net of Tax	859	(502)
Other Comprehensive Loss (Note 9)	(523)	(924)
Total Comprehensive Income (Loss)	16,134	(41,966)
Net Income (Loss) Per Unit (Note 13)	0.20	(1.20)
Diluted Net Income (Loss) Per Unit (Note 13)	0.17	(1.20)

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements

# Unaudited Condensed Consolidated Statement of Equity

## Canexus Income Fund

For the Three Months Ended March 31, 2011

<i>CAD thousands</i>	Fund Units (Note 22)	Accumulated Other Comprehensive Loss	Retained Earnings	Total
<b>Balance at January 1, 2011</b>	-	(863)	86,114	85,251
<b>Total Comprehensive Income</b>				
Net Income	-	-	16,657	16,657
Foreign Currency Translation Adjustment Losses, Net of Tax (Note 9)	-	(1,382)	-	(1,382)
Actuarial Gains on Defined Benefit Pension Plans, Net of Tax (Note 9)	-	-	859	859
<b>Total Comprehensive Income (Loss)</b>	-	(1,382)	17,516	16,134
<b>Transactions with Unitholders</b>				
Reclassification of Fund Units	247,772	-	-	247,772
Fund Units Issued Pursuant to the DRIP	1,495	-	-	1,495
Fund Units Issued on Exercise of Options	2,191	-	-	2,191
Fund Units Issued on Conversion of Series I Convertible Debentures	2,221	-	-	2,221
Fund Units Issued on Fund's Indirect Acquisition of Canexus LP (Note 3)	(209,175)	-	-	(209,175)
Distributions Declared (Note 21)	-	-	(12,260)	(12,260)
<b>Total Transactions with Unitholders</b>	44,504	-	(12,260)	32,244
<b>Balance at March 31, 2011</b>	44,504	(2,245)	91,370	133,629

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements

# Unaudited Condensed Consolidated Statement of Equity

## Canexus Income Fund

For the Three Months Ended March 31, 2010

<i>CAD thousands</i>	Accumulated Other Comprehensive Loss	Retained Earnings	Total
<b>Balance at January 1, 2010</b>	-	205,733	205,733
<b>Total Comprehensive Loss</b>			
Net Loss	-	(41,042)	(41,042)
Foreign Currency Translation Adjustment Losses, Net of Tax (Note 9)	(422)	-	(422)
Actuarial Losses on Defined Benefit Pension Plans, Net of Tax (Note 9)	-	(502)	(502)
Total Comprehensive Loss	(422)	(41,544)	(41,966)
<b>Balance at March 31, 2010</b>	(422)	164,189	163,767

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements

# Unaudited Condensed Consolidated Statement of Financial Position

## Canexus Income Fund

At March 31, 2011, December 31, 2010 and January 1, 2010

<i>CAD thousands</i>	March 31 2011	December 31 2010	January 1 2010
<b>ASSETS</b>	(Note 3)		
Current Assets			
Cash and Cash Equivalents	6,879	83	394
Trade and Other Receivables	56,140	-	-
Interest Receivable on Debentures of Canexus LP	-	912	19
Distribution Receivable from Canexus LP	-	1,794	1,544
Inventories and Operating Supplies	36,212	-	-
Prepaid Expenses	2,951	105	23
Due from Affiliates, Net	-	-	84
<b>Total Current Assets</b>	<b>102,182</b>	<b>2,894</b>	<b>2,064</b>
Property, Plant and Equipment, Net (Note 15)	628,797	-	-
Intangible Assets, Net	1,458	-	-
Investment in Debentures of Canexus LP	-	124,609	85,780
Investment in Canexus LP (Note 9)	-	373,910	396,946
Long-Term Investments	2,861	-	-
Deferred Tax Assets	10,144	-	-
Other Long-Term Assets (Note 16)	7,775	-	-
<b>Total Assets</b>	<b>753,217</b>	<b>501,413</b>	<b>484,790</b>

# Unaudited Condensed Consolidated Statement of Financial Position

## Canexus Income Fund

At March 31, 2011, December 31, 2010 and January 1, 2010

<i>CAD thousands, except unit amounts</i>	March 31 2011	December 31 2010	January 1 2010
<b>LIABILITIES AND EQUITY</b>	(Note 3)		
Current Liabilities			
Short-Term Borrowings (Note 17)	7,566	-	-
Trade and Other Payables	52,169	1	1
Distribution Payable to Unitholders	5,233	1,794	1,544
Interest Payable	1,401	-	-
Interest Payable on Convertible Debentures (Note 18)	2,208	912	19
Unit-based Compensation (Note 8)	7,462	6,953	3,221
Due to Affiliates, Net	-	1,052	-
<b>Total Current Liabilities</b>	<b>76,039</b>	<b>10,712</b>	<b>4,785</b>
Unit-based Compensation (Note 8)	558	372	356
Derivative Financial Instruments	2,590	-	-
Long-Term Debt (Note 17)	329,830	-	-
Convertible Debentures (Note 18)	95,050	150,128	93,930
Provisions (Note 19)	64,397	-	-
Deferred Tax Liabilities	29,683	7,178	7,887
Unitholders' Interest in the Net Assets of the Fund (Note 22)	-	247,772	172,099
Other Long-Term Liabilities (Note 16)	21,441	-	-
<b>Total Liabilities</b>	<b>619,588</b>	<b>416,162</b>	<b>279,057</b>
Equity			
Fund Units (114,760,701 Fund Units Outstanding) (Note 22)	44,504	-	-
Retained Earnings	91,370	86,114	205,733
Accumulated Other Comprehensive Loss	(2,245)	(863)	-
<b>Total Equity</b>	<b>133,629</b>	<b>85,251</b>	<b>205,733</b>
<b>Total Liabilities and Equity</b>	<b>753,217</b>	<b>501,413</b>	<b>484,790</b>
Commitments, Contingencies and Guarantees (Note 23)			

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements

# Unaudited Condensed Consolidated Statement of Cash Flows

## Canexus Income Fund

For the Three Months Ended March 31, 2011 and 2010

<i>CAD thousands</i>	2011	2010
<b>Operating Activities</b>		
Net Income (Loss)	16,657	(41,042)
Provision for Current Income Taxes	652	-
Income Taxes Paid	(157)	-
Interest Expense (Note 10)	4,549	1,672
Interest Paid	(3,424)	-
Interest Income (Note 10)	(744)	(1,672)
Realized Foreign Currency Translation Gains on Cash	(77)	-
Contributions to / Payments for Defined Benefit Plans	(587)	-
Cash Distributions Received from Canexus LP	-	3,890
Change in Due from / to Affiliates, Net	(64)	(386)
Change in Non-Cash Operating Working Capital	14,112	11
Charges and Credits to Income Not Involving Cash (Note 24)	(8,656)	40,869
<b>Net Cash Generated from Operating Activities</b>	<b>22,261</b>	<b>3,342</b>
<b>Financing Activities</b>		
Repayments of Short-Term Borrowings	(11,570)	-
Proceeds from Extendible Revolving Credit Facility	18,728	-
Extendible Revolving Credit Facility Transaction Costs	(3,262)	-
Cash Distributions Paid	(10,726)	(3,890)
Proceeds from Exercise of Unit Options	1,424	244
<b>Net Cash used in Financing Activities</b>	<b>(5,406)</b>	<b>(3,646)</b>
<b>Investing Activities</b>		
Interest Received on Investments	57	-
Expenditures on Property, Plant and Equipment	(10,425)	-
Expenditures on Decommissioning Liabilities	(213)	-
Capitalized Borrowing Costs	(52)	-
Cash of Canexus LP and Canexus Limited on Consolidation – February 7, 2011 (Note 3)	2,744	-
Changes in Non- Cash Investing Working Capital	(2,069)	-
<b>Net Cash used in Investing Activities</b>	<b>(9,958)</b>	<b>-</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(101)</b>	<b>-</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>6,796</b>	<b>(304)</b>
<b>Cash and Cash Equivalents – Beginning of Period</b>	<b>83</b>	<b>394</b>
<b>Cash and Cash Equivalents – End of Period</b>	<b>6,879</b>	<b>90</b>

See accompanying notes to the Unaudited Condensed Consolidated Financial Statements

# Notes to Unaudited Condensed Consolidated Financial Statements

## Canexus Income Fund

### For the Three Months Ended March 31, 2011 and 2010

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's 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 Fund received approval by unit holders of the Fund ("Unitholder" or "Unitholders") on May 5, 2011 at the Annual and Special Unitholders Meeting to convert to a corporation on July 1, 2011. No change is expected in the amount of the Fund's distributions of \$0.5472 per Fund Unit ("Fund Unit", "Fund Units", "Unit" or "Units") annually, other than payment will occur on a quarterly basis. Any distributions made in 2011, prior to conversion to a corporate structure, are expected to be a return of capital to Unitholders.

At March 31, 2011, the Fund held a 100 percent interest in Canexus Limited Partnership ("Canexus LP"). At December 31, 2010 and March 31, 2010, the Fund held a 36.7 and 34.9 percent equity interest respectively in Canexus LP and Nexen Inc. ("Nexen") held a 63.3 and 65.1 percent controlling interest respectively in Canexus LP. On February 7, 2011, Nexen disposed of its entire interest in Canexus LP (see Note 3 Fund's Indirect Acquisition of Interest in Canexus LP).

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. Canexus LP is a limited partnership that was established under the laws of Alberta, Canada on August 9, 2005. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in four plants located in Canada and two plants at one site in Brazil, largely for the pulp and paper and water treatment industries. Canexus LP also provides hydrocarbon transloading services to the oil and gas industry from its terminal in Alberta, Canada.

The registered and head office of the Fund is located at Suite 600, 801 - 7th Avenue S.W., Calgary, Alberta, T2P 3P7 with a corporate office located in Houston, Texas.

The Fund is listed on the Toronto Stock Exchange ("TSX") under the symbol CUS.UN.

#### 2. Statement of Compliance

These unaudited condensed consolidated financial statements ("consolidated financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards as issued by the International Accounting Standards Board.

These consolidated financial statements should be read in conjunction with the Fund's and Canexus LP's audited consolidated financial statements for the year ended December 31, 2010 prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). An explanation of how the transition to IFRS has affected the consolidated financial position, results of operations and cash flows of the Fund is provided in Note 26 Transition to IFRS.

These consolidated financial statements were authorized for issue by the Board of Directors of Canexus Limited on May 5, 2011.

#### 3. Fund's Indirect Acquisition of Interest in Canexus LP

On February 7, 2011, Nexen exchanged 74,539,604 Exchangeable Limited Partnership Units ("Exchangeable LP Units") of Canexus LP for an equivalent number of Fund Units. Also on February 7, 2011, Nexen disposed of its entire interest in the Fund through a secondary offering on a bought deal basis of 74,539,604 Fund Units at an offering price of \$6.40 per Fund Unit. As a result of the above transactions, as of February 7, 2011, the Fund held a 100 percent interest in Canexus LP.

In accordance with the governance agreement between the Fund, Canexus Commercial Trust, Canexus LP, Canexus Limited, Canexus Holdings Limited and Nexen dated August 18, 2005 (the "Governance Agreement"), upon closing of the secondary offering on February 7, 2011, the Governance Agreement was amended to, among other things, remove Nexen as a party to the Governance Agreement. At the same time, the three Nexen appointees to the Board of Directors of Canexus Limited resigned.

The consolidated statements of financial position, equity, results of operations and cash flows of the Fund include the financial position, equity, results of operations and cash flows of the Fund, Canexus Limited, Canexus LP and the wholly owned subsidiaries of those entities from February 7, 2011. The indirect acquisition by the Fund of Canexus LP was accounted for prospectively as a combination of entities under common control at carrying values.

The consolidated statements of financial position, equity, results of operations and cash flows of the Fund for the comparative periods prior to February 7, 2011 have not been restated as Nexen controlled the Fund prior to the disposition of its interest. Prior to February 7, 2011, the Fund owned 100 percent of the shares of Canexus Limited but did not account for its investment on a consolidated basis due to Nexen having the ability to appoint the majority of the board positions. See Note 25 Canexus LP Comparative Results for Canexus LP's results of operations at March 31, 2011 and March 31, 2010.

The carrying values of the assets and liabilities of Canexus Limited, Canexus LP and the wholly owned subsidiaries of those entities at February 7, 2011 were as follows:

	February 7, 2011
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	2,744
Trade and Other Receivables	58,479
Derivative Financial Instruments	237
Inventories and Operating Supplies	37,078
Prepaid Expenses	3,640
Due from Affiliates, Net	14,559
<b>Total Current Assets</b>	<b>116,737</b>
Property, Plant and Equipment, Net	633,022
Intangible Assets, Net	1,532
Long-Term Investments	2,711
Deferred Tax Assets	9,833
Other Long-Term Assets	4,874
<b>Total Assets</b>	<b>768,709</b>
<b>LIABILITIES</b>	
Current Liabilities	
Short-Term Borrowings	19,136
Trade and Other Payables	44,116
Distribution Payable to Ordinary Limited Partnership Unit holders	1,808
Distribution Payable to Exchangeable LP Unit holder, Nexen	3,399
Interest Payable	1,558
Interest Payable on Debentures	1,600
<b>Total Current Liabilities</b>	<b>71,617</b>
Derivative Financial Instruments	2,672
Long-Term Debt	321,140
Debentures	84,111
Provisions	70,908
Deferred Tax Liabilities	458
Other Long-Term Liabilities	21,221
<b>Total Liabilities</b>	<b>572,127</b>

#### 4. Summary of Significant Accounting Policies

The accounting policies which follow have been applied consistently by all entities within the consolidated group in the preparation of the Fund's consolidated financial statements for the three months ended March 31, 2011.

##### (a) Basis of Presentation

These consolidated financial statements have been prepared on a going concern basis using historical cost, unless otherwise noted in the significant accounting policies which follow.

##### (b) Basis of Consolidation

The consolidated financial statements of the Fund include the accounts of the Fund and its wholly owned subsidiaries. Control is considered to be achieved when the Fund has the power to govern, directly or indirectly, the financial and operating policies of the subsidiary so as to obtain benefits from its activities. All intercompany transactions and balances between the consolidated entities are eliminated upon consolidation.

##### (c) Revenue Recognition

The Fund earns revenue from the sale of products (sodium chlorate and chlor-alkali products) and services (hydrocarbon transloading). Revenue is measured at the fair value of the consideration received or receivable. Revenue is recorded net of sales tax and is reduced for estimated rebates, discounts, commissions and other similar allowances. Revenue from the sale of products meets the criteria for revenue recognition at the time the product is delivered to the customer's premises. Revenue from hydrocarbon transloading services is recognized in the period the services are provided.

##### (d) Cost of Sales

Cost of sales is comprised of costs to manufacture products and provide hydrocarbon transloading services. Product manufacturing costs include items such as: the cost of raw materials; the cost of supplies and energy; depreciation and maintenance costs of manufacturing assets; and salaries, wages and benefit charges for manufacturing personnel. Costs of providing hydrocarbon transloading services include items such as: salaries, wages and benefit charges for service personnel; depreciation and maintenance costs of transloading assets; nitrogen and other operating supplies.

Costs not directly related to the manufacture of products or provision of hydrocarbon transloading services are included in distribution, selling and marketing expense and general and administrative expense as appropriate.

##### (e) Foreign Currencies

The separate financial statements of each entity within the consolidated group are prepared in the currency of the primary economic environment in which each entity operates (the "functional currency"). The functional currency of the Fund and the presentation currency of the consolidated financial statements are Canadian dollars.

In preparing the consolidated financial statements, entities within the consolidated group that have a functional currency other than the Canadian dollar are translated as follows: assets and liabilities are translated at the exchange rate on the reporting date and revenues and expenses are translated at the average exchange rate for the month in which the transactions occurred. All resulting exchange differences are recognized within other comprehensive income (loss).

For entities within the consolidated group with a Canadian dollar functional currency, all revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the month in which the transactions occurred, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate at the reporting date, and nonmonetary assets and liabilities denominated in foreign currencies which are measured at historical cost are translated into Canadian dollars at the exchange rate on the date the transaction occurred. Exchange differences recognized in the consolidated statement of comprehensive income (loss) for our US dollar denominated borrowings are included in finance income (expense). All other exchange differences are included in other expense.

The Fund has no exposure to hyperinflationary currencies.

#### (f) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction, or production of assets that require a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as finance income (expense) in the period in which they are incurred.

#### (g) Retirement Benefit Costs

Net pension expense for the retirement benefit plans (defined benefit pension plans, defined contribution pension plans and post retirement benefit plans) are recognized in cost of sales, distribution, selling and marketing expense or general and administrative expense corresponding with where the associated salaries and wages of the employees who have rendered service entitling them to the benefits are recorded. Employee contributions vest immediately and employer contributions vest following continuous employment for more than two years.

##### (i) *Defined Benefit Pension Plans*

The defined benefit pension plans include the cost of pension benefits earned by employees under the registered Defined Benefit Plan (“DBP”) and under the non-registered Supplemental Plan (“Executive Benefit Plan” or “EBP”), collectively referred to as the (“Defined Benefit Pension Plans”). The cost of providing these benefits is independently actuarially determined using the projected unit credit method and the best estimate of the plan’s investment performance, salary escalations, and various demographic variables and is prorated on employment services and expensed as services are rendered. Net pension expense includes current period service cost, interest cost on the project benefit obligation, expected return on plan assets, and any amortization of unvested past service costs. Past service costs are recognized immediately to the extent benefits have vested or are amortized on a straight-line basis over the average period until benefits vest. Actuarial gains and losses are recognized in other comprehensive income (loss) in the period in which they arise. Employer contributions are recorded against the pension liability which is included in other long-term liabilities in the consolidated statement of financial position.

##### (ii) *Defined Contribution Plans*

Pension benefit and expense are based on plan contributions.

##### (iii) *Post Retirement Benefits*

Post retirement benefits (“PRB”) in Canada consist of a company paid \$5,000 group life insurance policy, the payment of provincial health care premiums where applicable, and coverage under the Employee Family Assistance Program. PRB 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. These costs are fully accrued as compensation expense in the period employees work; however these future obligations are not funded. Actuarial gains and losses are recognized in other comprehensive income (loss) in the period in which they arise.

#### (h) Taxation

Income tax expense is comprised of current and deferred income tax. Income tax related to items recorded directly to other comprehensive income (loss), including foreign currency translation adjustment gains (losses) and actuarial gains (losses) is recorded in other comprehensive income (loss) (see Note 9 Investment in Canexus LP and Related Party Transactions).

##### (i) *Current Income Tax*

Current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date.

##### (ii) *Deferred Income Tax*

Deferred income tax is recognized, using the liability method, on unused tax losses, unused tax credits and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and are based on tax laws that have been

enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the reporting period end date, to recover or settle the carrying value of assets and liabilities.

Deferred tax assets are recognized only to the extent that it is probable that taxable income will be available against which unused tax losses, unused tax credits and deductible temporary differences can be utilized. The carrying value of deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow for all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Fund intends to settle the current tax assets and liabilities on a net basis.

#### (i) Property, Plant and Equipment (“PP&E”) and Intangible Assets

PP&E is measured at historical cost less accumulated depreciation and impairment charges. Historical cost includes expenditures that are directly attributable to the acquisition and installation of the asset, including borrowing costs.

Depreciation on assets is calculated on a straight-line basis to allocate their residual values over their estimated useful lives, as follows:

- Buildings and land improvements – 5 to 40 years;
- Manufacturing machinery and equipment – 2 to 40 years; and
- Other equipment – 5 to 40 years.

Land is not depreciated.

Other equipment includes automobiles and service vehicles, rail shuttle wagons, barges, furniture and fixtures, computer equipment and safety and environmental equipment. Depreciation methods, useful lives and residual values are reassessed at least annually, with the effect of any changes in estimate being accounted for on a prospective basis. Where carrying value exceeds an asset’s estimated recoverable amount an impairment charge is recognized in the consolidated statement of comprehensive income (loss).

Plant decommissioning liabilities are included as a cost of an item of PP&E on initial acquisition of the item or as a consequence of using the item. Depreciation of these costs occurs over the estimated useful life of the plant to which the item of PP&E relates.

Intangible assets are measured at historical cost less accumulated amortization and impairment charges. Amortization on intangible assets is calculated on a straight-line basis over their estimated useful lives. Intangible assets consist mostly of software with useful lives ranging from 5 to 10 years.

All repair and maintenance expenses are recognized as cost of sales or general and administrative expense (depending on the type of items of PP&E that are being repaired) during the period in which they are incurred. Gains and losses arising on the disposal or retirement of an item of PP&E are determined as the difference between the sale proceeds and the carrying value of the asset and are recognized in other expense.

#### (j) Inventories and Operating Supplies

Inventories and operating supplies are measured at the lower of cost and net realizable value. The cost of inventories includes all purchase, conversion and other costs incurred to bring the inventories to their present location and condition. The cost of inventories includes direct labor and fixed and variable production overheads, including depreciation. These costs are determined using a weighted average cost formula.

#### (k) Provisions

The Fund recognizes a provision when it has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the present value of expenditures expected to be required to settle the obligation using a risk-free discount rate that reflects current market assessments of the time value of money. Estimates of future cash outflows are adjusted for risks specific to the obligation. The increase of provisions as a result of the passage of time ("accretion") is recognized in finance income (expense).

#### (l) Unit-based Compensation

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

All unit-based payments are accounted for as cash-settled plans as a result of the ability of Unitholders to redeem their Fund Units for cash or other financial assets pursuant to the terms of the Fund's trust indenture. The fair value of unit-based compensation is determined at the grant date and is expensed on a graded vesting basis for grants to employees and immediately for grants to members of the Board of Directors based on the Fund's estimate of the number of instruments that will eventually vest. Unit-based compensation liabilities are remeasured to fair value at each reporting period end with changes in fair value included in unit-based compensation expense. The fair value of the TUIP options and UARs at grant date and at each subsequent reporting date is determined using the Black-Scholes option pricing model. The fair value of the DTUs at grant date and each subsequent reporting date is based on the closing Unit price on the TSX, which represents fair value at that date. Unit-based compensation, including changes in fair value, are recognized in cost of sales, selling, distribution and marketing expense or general and administrative expense (corresponding with where the associated salaries and wages of the employee, officer or director who received the TUIP option, UAR, or DTU are recorded) with a corresponding adjustment to unit-based compensation liabilities.

#### (m) Financial Assets, Financial Liabilities and Equity Instruments

The Fund has financial assets which it has classified into the following categories: held-for-trading ("HFT") measured at fair value through profit and loss ("FVTPL"), held-to-maturity ("HTM") and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. During the three months ended March 31, 2011, the Fund did not have any available-for-sale financial instruments.

The Fund has debt and equity instruments which it has classified into the following categories: equity instruments, financial liabilities at FVTPL, or other financial liabilities in accordance with the substance of the contractual arrangement as determined at the time of initial recognition.

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.

We have not designated any of our financial instruments as hedges. There have been no reclassifications between classes during the three months ended March 31, 2011.

#### (i) *HFT* **Financial Assets**

The Fund measures financial assets at FVTPL when the financial asset is considered to be HFT. Derivative financial instruments have been classified as HFT.

The Fund enters into derivative financial instruments from time to time to manage exposure to interest rate risk and foreign exchange rate risk, including interest rate swaps and foreign exchange option contracts. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date with any resulting gain or loss recognized as other expense. Associated transaction costs are recognized in the consolidated statement of comprehensive income (loss) as incurred.

In the consolidated statement of financial position a derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than one year. All other derivatives are presented as current assets or current liabilities.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives, when their risks and characteristics are not closely related to those of the host contract and the host contract is not measured at fair value with changes in fair value recognized in the consolidated statement of comprehensive income (loss). The conversion feature on the Convertible Debentures is considered an embedded derivative but is not accounted for separately as the Convertible Debentures are designated as financial liabilities measured at FVTPL.

### ***Financial Liabilities***

Financial liabilities are classified as FVTPL when the financial liability is either HFT or is designated at FVTPL. Financial liabilities classified as FVTPL are stated at fair value with any resulting gain or loss recognized in other expense or finance income (expense). The net gain or loss recognized in the consolidated statement of comprehensive income (loss) includes any interest paid on the financial liability.

Changes in fair value of HFT financial liabilities, which include derivative financial instruments, are included in other expense. Changes in fair value of financial liabilities designated at FVTPL, which include the Convertible Debentures, are recognized in finance income (expense).

The liability recognized on our interest rate swap agreements is classified as a long-term liability as the agreements expire on April 10, 2013.

#### ***(ii) HTM Investments***

Financial assets with fixed or determinable payments and fixed maturity dates for which we have the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are initially recognized at fair value less any directly attributable transaction costs and are recognized subsequently at amortized cost using the effective interest rate method adjusted for any impairment losses or reversals. The Fund has classified the long-term investments as HTM investments.

#### ***(iii) Loans and Receivables***

Loans and receivables are financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value including any directly attributable transaction costs and are recognized subsequently at amortized cost using the effective interest method, adjusted for any impairment losses or reversals. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest is not material. The Fund has classified cash and cash equivalents and trade receivables as loans and receivables.

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into cash. Interest income earned is recognized as finance income (expense).

#### ***(iv) Other Financial Liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value net of directly attributable transaction costs and are subsequently recognized at amortized cost using the effective interest method with interest expense recognized on an effective yield basis.

The Fund has classified the following liabilities as other financial liabilities: short-term borrowings; trade and other payables; distribution payable to Unitholders; interest payable and interest payable on Convertible Debentures; due to affiliates, net; and long-term debt.

**(v) Equity Instruments (Fund Units and Unitholders' Interest in the Net Assets of the Fund)**

For the year ended December 31, 2010, Fund Units were classified as liabilities (Unitholders' Interest in the Net Assets of the Fund) and recorded at fair value in finance income (expense) as a result of (i) the ability of Unitholders to redeem Fund Units for cash or other financial assets, and (ii) an obligation to payout all of the Fund's taxable income such that the Fund's taxable income is Nil pursuant to the Fund's trust indenture. During the year ended December 31, 2010, distributions declared to Unitholders were recorded in finance income (expense). At January 1, 2011, the Fund Units were reclassified to equity at their carrying value as a result of the introduction of the Specified Investment Flow Through ("SIFT") rules introduced on January 1, 2011. With the introduction of the SIFT rules, the Fund is no longer able to deduct distributions paid from taxable income to bring its taxable income and consequently its taxes payable to Nil. Distributions declared subsequent to January 1, 2011 are recorded in retained earnings (see Note 22 Fund Units and Unitholders' Interest in the Net Assets of the Fund).

An equity instrument is a contract that evidences a residual interest in the assets of the Fund after deducting all liabilities. Equity instruments issued by the Fund are recorded at the amount of proceeds received net of direct issue costs.

**(n) Investment in Associate**

At December 31, 2010 and March 31, 2010, the Fund held an equity interest in Canexus LP of 36.7 percent and 34.9 percent respectively. The Fund, through its direct and indirect interest, exercised significant influence over Canexus LP as it had the power to participate in the financial and operating policy decisions of Canexus LP.

The operating results and assets and liabilities of Canexus LP are included in the consolidated financial statements using the equity method of accounting for the period January 1, 2011 to February 6, 2011, the three months ended March 31, 2010 and the year ended December 31, 2010. Under this method, the Fund's investment in Canexus LP is carried on the consolidated statement of financial position at cost and adjusted for post acquisition changes in the Fund's share of the net assets of Canexus LP, which are recognized in the consolidated statement of comprehensive income (loss).

**5. Adoption of New and Revised Reporting Standards**

**(a) Early Adoption of Standards and Interpretations**

The Fund did not adopt any new or revised standards in advance of their effective dates.

**(b) Standards and Interpretations Issued but Not Yet Effective**

At the date of authorization of these consolidated financial statements the following Standards and Interpretations were issued but not yet effective:

Standard	Description of Change	Effective Date
IFRS 7	<i>Financial Instruments: Disclosures</i> – Amendments to disclosures for transfers of financial assets.	Effective for annual periods beginning on or after July 1, 2011.
IFRS 9	<i>Financial Instruments</i> – New Standard that is part of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 10	<i>Consolidated Financial Statements</i> – New Standard which supersedes IAS 27 and SIC 12 to provide consistency in the standards.	Effective for annual periods beginning on or after January 1, 2013.

Standard	Description of Change	Effective Date
IFRS 12	<i>Disclosure of Interests in Other Entities</i> – New Standard to provide consistent disclosure requirements of interests in subsidiaries, joint ventures, associates and other unconsolidated entities.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 13	<i>Fair Value Measurement</i> – New Standard to provide consistency among the IFRSs that deal with fair value measurements.	Effective for annual periods beginning on or after January 1, 2013.
IAS 12	<i>Income Taxes</i> – Amendments regarding deferred tax and the recovery of underlying assets.	Effective for annual periods beginning on or after January 1, 2012.

The impact of the initial application of the Standards listed above is not known or reasonably estimable at the time of authorization of these consolidated financial statements.

## 6. Critical Accounting Policy Judgments and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### (a) Critical Accounting Policy Judgments

The following are the critical judgments, apart from those involving estimates, that we have made in the process of applying the Fund's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

#### (i) *HTM Financial Assets*

We reviewed the HTM financial assets at March 31, 2011 in light of the Fund's capital maintenance and liquidity requirements and confirmed our positive intention and ability to hold such assets to maturity. If the Fund was to change its business model for managing the long-term investments this would result in the reclassification from HTM to either financial assets at FVTPL or available-for-sale. This change would be treated prospectively.

### (b) Key Sources of Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial period.

#### (i) *Impairment of Long-Lived Assets*

The Fund evaluates its long-lived assets for impairment at each reporting date by reviewing the carrying value of PP&E and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. Among other things, such indicators might include falling sales prices for chemical products, changes in operating costs and significant or adverse political or legal changes.

The Fund's long-lived assets were assessed for impairment at March 31, 2011 and no indicators of impairment were noted.

If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and value in use. The difference between the recoverable amount and the carrying amount is recorded as an impairment loss and recognized immediately in the consolidated statement of comprehensive income (loss).

**(ii) Impairment of Financial Assets**

Financial assets classified as HTM or other loans and receivables (other than those recorded at FVTPL) are assessed for indicators of impairment at each reporting date. Financial assets may be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, that estimated future cash flows of the financial asset have been negatively impacted.

The amount of the impairment is the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of financial assets is reduced by impairment losses directly associated with the financial asset with the exception of trade receivables where the carrying value is reduced through the use of an allowance account.

The Fund assessed HTM financial assets and loans and receivables for indicators of impairment at and during the three months ended March 31, 2011 and no indicators of impairment were noted.

**Long-Term Investments**

We have estimated the fair value of our \$4.1 million investment in restructured notes ("Restructured Notes"), which replaced our investment in non-bank sponsored asset backed commercial paper, to be \$2.9 million at March 31, 2011 which resulted in a \$0.2 million reversal of impairment of the long-term investments for the three months ended March 31, 2011. The fair 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 3 to 19 percent for the classes of Restructured Notes now held with a maturity date of December 20, 2016.

**Trade Receivables**

An allowance for doubtful accounts ("AFDA") is established for receivables for which collection is doubtful. The collection of a receivable becomes doubtful when there is objective evidence that we may not be able to collect all amounts due according to the original terms. Significant financial difficulties of a debtor, probability that a debtor will enter into bankruptcy or financial reorganization and default or delinquency in payments are considered indicators that the receivable may be impaired. The amount of the AFDA is management's best estimate of future expected credit risk loss exposure to existing customers at each reporting date. The carrying value of the asset is reduced by the AFDA and the amount of the loss is recognized in distribution, selling and marketing expense. Subsequent recoveries of amounts previously written off are recorded against the allowance account. Although the Fund has a program to assess customer credit worthiness, the current economic environment makes the estimate of future collectability a critical estimate.

The carrying value of trade receivables was \$56.1 million, inclusive of an AFDA of \$2.6 million, at March 31, 2011. There was no change in the amount of the AFDA from the period ended December 31, 2010.

**(iii) PP&E**

Depreciation methods, useful lives and residual values are reassessed at least annually with the effect of any changes in estimate being accounted for on a prospective basis. Residual values of assets are considered insignificant. There were no changes in the estimates used related to depreciation methods, useful lives or residual values during the three months ended March 31, 2011.

**(iv) Provisions**

By their nature, provisions for contingent liabilities are dependent upon estimates and assessments as to whether the criteria for recognition have been met, including estimates of the probability and timing of cash outflows. Provisions for litigation are based on an estimate of the obligations, taking into account legal advice and information currently available. Provisions for termination benefits and exit costs involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs. Estimates related to provisions for environmental matters are based on the nature and extent of the contamination, as well as on the technology required to be used for clean-up.

### ***Plant Decommissioning Liabilities***

The Fund is required to remove or remedy the effect of its activities on the environment at its operating sites by dismantling and removing production facilities and to remediate any damage caused at the end of each plant's operating life. Estimating future plant decommissioning liabilities 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 always be reasonably estimated as standards evolve in the countries in which we operate.

Provisions for plant decommissioning liabilities are estimated using the expected future cash flow approach and are recorded in the consolidated statement of financial position by discounting to the present value the estimated liabilities associated with our production facilities. A current risk-free discount rate is applied to estimated future risk-adjusted cash flows. Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to inflation. The present value of the expected provision results in an increase to the carrying value of PP&E which is depreciated over the estimated remaining plant life to which the provision applies. The provision accretes until the time the obligation is expected to settle and accretion expense is recognized as finance income (expense).

In arriving at amounts recorded, numerous assumptions and judgments are made with respect to the ultimate settlement amounts, discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. At each reporting date we review our assumptions of expected cash flows, discount rates and timing of settlement of the liabilities. Any changes in estimates are treated prospectively with appropriate adjustments made to the value of the provision and the associated PP&E.

#### ***(v) Defined Benefit Pension Plans***

These obligations will be settled in the future and assumptions regarding the discount rate, the best estimate of the plan's investment performance, salary escalations and retirement ages of employees are required to project obligations and fair values of plan assets. The Fund engages independent external actuaries in the valuation of our Defined Benefit Pension Plans annually for accounting purposes and at other reporting period ends when there are significant changes. Changes in key assumptions can have a significant impact on projected benefit obligations, funding requirements and periodic costs incurred. An actuarial valuation is performed every three years for funding purposes as required by pension laws and was last performed as of December 31, 2007.

#### ***(vi) PRB***

The PRB plans include the cost of post retirement benefits earned by employees under either the Canadian PRB plan or the US PRB plan. These obligations will be settled in the future and assumptions regarding the discount rate and retirement ages of employees are required to project obligations. The Fund engages independent external actuaries in the valuation of our PRB plans for accounting purposes annually and at other reporting period ends when there are significant changes. Both the Canadian and US PRB plans are non-funded plans.

#### ***(vii) Unit-based Compensation***

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date with respect to unit-based compensation have a significant risk of causing an adjustment to the carrying amount of the unit-based compensation liabilities within the next financial year.

The Fund measures the cost of unit-based compensation by reference to the fair value of the instruments on the date on which they are granted. Subsequent to the date of grant, unit-based compensation liabilities are remeasured to their fair value at each reporting period end. Estimating fair value for unit-based options granted to employees requires determining the most appropriate valuation model and making assumptions with respect to inputs to the valuation model including the expected life of the option, volatility and distribution yield. The assumptions and model used for estimating fair value of unit-based compensation is disclosed in Note 8 Unit-based Compensation.

## 7. Employee Benefits Expense

	Three Months Ended	
	March 31, 2011	March 31, 2010
Salaries and Wages	6,345	-
Employee Benefits	3,203	-
	9,548	-
Charged to:		
Cost of Sales	6,022	-
Distribution, Selling and Marketing Expense	571	-
General and Administrative Expense	2,955	-
	9,548	-

Employee benefits expense includes short and long-term benefits (including profit sharing plans, disability benefits and paid leaves) and pension and other post retirement benefit plan expense (see Note 20 Pensions and Other Post Retirement Benefits).

## 8. Unit-based Compensation

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.

### (a) Terms and Conditions of Unit-based Compensation Plans

	TUIP	2005 TUIP	UARP	DTUCP
Granted to Officers and Employees	Yes	Yes	Yes	No
Granted to Directors	No	No	No	Yes
Expiry Period from Grant Date (Years)	5	5	December 15 of third calendar year following grant date	When cease being a director
Vesting Schedule	34% year 1 33% year 2 33% year 3	34% year 1 33% year 2 33% year 3	Evenly over 3 years	Immediate
Exercise Price at Grant Date is equal to Unit Price at Date of Grant	Yes	Yes	Yes	N/A
Bonus Rights / Notional Reinvestment of Distributions available to be attached to Options / Units	Yes	Yes	Yes	Yes
Payable in Cash or Units	Units	Cash or Units at discretion of officer or employee	Cash	Units

	TUIP	2005 TUIP	UARP	DTUCP
Maximum Number of Units Available for Issue	Aggregate of all unit-based compensation payable in Units = 5% of total outstanding Fund Units (on a non-diluted basis).	Aggregate of all unit-based compensation payable in Units = 5% of total outstanding Fund Units (on a non-diluted basis).	N/A	Aggregate of all unit-based compensation payable in Units = 5% of total outstanding Units (on a non-diluted basis); 400,000 of maximum reserved for DTUCP.

The number of Units reserved under the TUIP and the DTUCP at March 31, 2011 was 5,738,035 (December 31, 2010 – 5,278,981).

(b) Unit-based Compensation Expense

	Three Months Ended	
	March 31, 2011	March 31, 2010
TUIP	1,304	1,124
2005 TUIP	-	2
DTUCP	62	145
UARP	98	-
	1,464	1,271

	Three Months Ended	
	March 31, 2011	March 31, 2010
Charged to:		
Cost of Sales	174	160
Distribution, Selling and Marketing Expense	81	106
General and Administrative Expense	1,209	1,005
	1,464	1,271

(c) Unit-based Compensation Liabilities

	TUIP	2005 TUIP	UARP	DTUCP	Total
<b>March 31, 2011</b>					
Short-term	5,217	-	500	1,745	7,462
Long-term	381	-	177	-	558
Total	5,598	-	677	1,745	8,020
<b>December 31, 2010</b>					
Short-term	4,832	-	438	1,683	6,953
Long-term	230	-	142	-	372
Total	5,062	-	580	1,683	7,325
<b>January 1, 2010</b>					
Short-term	2,155	7	35	1,024	3,221
Long-term	323	-	33	-	356
Total	2,478	7	68	1,024	3,577

The UARP is a cash-settled plan. At March 31, 2011, the total cash payment that would have been required on vested UARs in the event they were exercised was \$231,000.

(d) Weighted Average Fair Value Assumptions

The weighted average fair value of TUIP and UARP awards is estimated at each reporting period end using the Black-Scholes option pricing model.

	March 31, 2011		December 31, 2010		January 1, 2010	
	TUIP	UARP	TUIP	UARP	TUIP	UARP
Risk-Free Interest Rate (%)	2.14	2.31	2.04	2.00	1.86	2.61
Expected Life (Years)	2.07	1.59	2.16	1.83	1.82	2.83
Expected Volatility in the Price of Units (%)	36.67	36.67	37.24	37.24	40.03	40.03
Expected Annual Distributions per Unit	-	-	-	-	-	-
Unit Price on Revaluation Date	7.33	7.33	7.07	7.07	5.51	5.51
Fair Value per Unit at Period End	2.15	2.58	2.04	2.43	1.28	1.66

(e) TUIP

(i) TUIP (excluding 2005 TUIP) for the Three Months Ended March 31, 2011 and March 31, 2010

	Number of Options		Weighted Average Exercise Prices	
	Three Months Ended		Three Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Outstanding, Beginning of Period	3,092,661	3,057,820	5.78	5.78
Granted	8,000	-	7.01	-
Exercised	(204,875)	(49,844)	6.95	4.90
Forfeited	(7,240)	(7,920)	5.03	4.01
2005 Unit Options as per Amendment	-	(450,500)	-	9.73
Outstanding, End of Period	2,888,546	2,549,556	5.37	5.10
Vested, End of Period	1,358,427	1,291,908	4.94	5.98
Notional Bonus Units Outstanding, End of Period	793,939	857,367		
Vested Notional Bonus Units, End of Period	636,408	608,000		
Range of Exercise Prices	\$2.99 - \$7.82	\$2.99 - \$8.84		
Weighted Average Remaining Contractual Life (Years)	3.01	2.96		

(ii) 2005 TUIP for the Three Months Ended March 31, 2011 and March 31, 2010

	Number of Options		Weighted Average Exercise Prices	
	Three Months Ended		Three Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Outstanding, Beginning of Period	-	-	-	-
2005 Unit Options as per Amendment	-	450,500	-	9.73
Exercised <sup>(1)</sup>	-	(33,000)	-	9.59
Outstanding, End of Period	-	417,500	-	9.74
Vested, End of Period	-	417,500	-	9.74
Notional Bonus Units Outstanding, End of Period	-	270,288		
Vested Notional Bonus Units, End of Period	-	270,288		
Range of Exercise Prices	-	\$8.13 - \$10.00		
Weighted Average Remaining Contractual Life (Years)	-	0.43		

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 Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus US Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), as applicable.

(f) UARP

	Number of UARs		Weighted Average Exercise Prices	
	Three Months Ended		Three Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Outstanding, Beginning of Period	395,270	430,100	5.20	5.19
Granted	-	6,000	-	5.63
Cancelled	(3,334)	-	5.19	-
Exercised	(4,666)	-	5.19	-
Outstanding, End of Period	387,270	436,100	5.20	5.20
Vested, End of Period	108,685	-	5.20	-
Notional Bonus Units Outstanding, End of Period	51,107	14,467		
Vested Notional Bonus Units, End of Period	16,865	-		
Range of Exercise Prices	\$5.19 - \$5.63	\$5.19 - \$5.63		
Weighted Average Remaining Contractual Life (Years)	1.73	2.72		

(g) DTUCP

Number of DTUs	Three Months Ended	
	March 31, 2011	March 31, 2010
Outstanding Vested, Beginning of Period	238,000	186,000
Granted	-	-
Outstanding Vested, End of Period	238,000	186,000
Vested Notional Bonus Units Outstanding, End of Period	84,027	61,554

In accordance with the terms of the DTUCP, a total of 75,724 Fund Units will be distributed to the three former Nexen appointed Directors on August 7, 2011 (see Note 3 Fund's Indirect Acquisition of Interest in Canexus LP).

**9. Investment in Canexus LP and Related Party Transactions**

**(a) Investment in Canexus LP**

At March 31, 2011, the Fund held a 100 percent interest in Canexus LP (see Note 3 Fund's Indirect Acquisition of Interest in Canexus LP). Prior to February 7, 2011, the Fund accounted for its investment in Canexus LP using the equity method and recorded \$12.5 million of equity income for the period January 1, 2011 to February 6, 2011 and an \$11 million equity loss for the three months ended March 31, 2010.

The Fund has an obligation to provide Fund Units for the exchange of the Exchangeable LP Units of Canexus LP. The Fund Units are redeemable by Unitholders pursuant to the terms of the Fund's trust indenture and accordingly, are considered financial liabilities (see Note 22 Fund Units and Unitholders' Interest in the Net Assets of the Fund). Canexus LP did not have an obligation to deliver cash or other financial assets on the exchange of the Exchangeable LP Units and therefore, there was no corresponding liability or change in fair value recorded in the accounts of Canexus LP. As a result, and until February 6, 2011, for each reporting period end the Fund reflected its share of the change in fair value of the financial liability created by the obligation to issue Fund Units for the exchange of the Exchangeable LP Units of Canexus LP as an increase or decrease in equity income (loss) and an increase or decrease of its investment in Canexus LP.

For the period January 1, 2011 to February 6, 2011, equity income included a \$12 million gain for the Fund's share of the change in fair value of the liability. A decrease in the fair value of the Funds Units from December 31, 2010 to February 6, 2011 resulted in a decrease in the liability. At March 31, 2010, the equity loss included a \$17.4 million loss for the Fund's share of the change in fair value of the liability. An increase in the fair value of Fund Units from December 31, 2009 to March 31, 2010 resulted in an increase in the liability.

The Fund also recorded its share of Canexus LP's foreign currency translation adjustment gains, net of tax on certain foreign subsidiaries and its share of actuarial gains (losses) on the defined benefit pension plans of Canexus LP in other comprehensive income (loss). Deferred income taxes on the Fund's share of the actuarial gains (losses) are recorded directly in the Fund and did not impact the investment in Canexus LP.

	Three Months Ended	
	March 31, 2011	March 31, 2010
Share of Other Comprehensive Income (Loss) of Canexus LP for the Period January 1, 2011 to February 6, 2011		
Share of Foreign Currency Translation Adjustment Gains (Losses)	127	(422)
Deferred Income Taxes on Share of Foreign Currency Translation Adjustment Gains (Losses)	-	-
	127	(422)
Share of Actuarial Gains (Losses) on Defined Benefit Pension Plans of Canexus LP	1,422	(829)
Deferred Income Taxes on Share of Actuarial Gains (Losses)	(524)	327
	898	(502)
Total Share of Other Comprehensive Income (Loss) of Canexus LP, Net of Deferred Income Taxes, for the Period January 1, 2011 to February 6, 2011	1,025	(924)
Other Comprehensive Income (Loss) for the Period February 7, 2011 to March 31, 2011		
Foreign Currency Translation Adjustment Losses	(1,509)	-
Deferred Income Taxes on Foreign Currency Translation Adjustment Losses	-	-
	(1,509)	-
Actuarial Losses on Defined Benefit Pension Plans	(64)	-
Deferred Income Taxes on Actuarial Losses	25	-
	(39)	-
Total Other Comprehensive Income (Loss) for the Period February 7, 2011 to March 31, 2011	(1,548)	-
Total Other Comprehensive Income (Loss)	(523)	(924)

**(b) Transactions with Related Parties for the Period January 1, 2011 to February 6, 2011**

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 for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the period January 1, 2011 to February 6, 2011 and for the three months ended March 31, 2010 were \$15,000 and \$23,000 respectively.

The Fund issued three series of convertible unsecured subordinated debentures denoted as Series I Convertible Debentures, Series II Convertible Debentures and Series III Convertible Debentures (the "Convertible Debentures"; see Note 18 Convertible Debentures). The proceeds from these Convertible Debentures were used to purchase unsecured subordinated debentures of Canexus LP (the "Debentures"). Interest Income recognized on the Debentures for the period January 1, 2011 to February 6, 2011 and for the three months ended March 31, 2010 was \$0.7 million and \$1.7 million respectively.

## 10. Finance Income (Expense)

	Three Months Ended	
	March 31, 2011	March 31, 2010
<b>Interest Expense</b>		
Interest on Short-Term Borrowings	(200)	-
Interest on Long-Term Debt	(2,797)	-
Interest on Convertible Debentures	(1,552)	(1,672)
Amortization of Transaction Costs of Extendible Revolving Credit Facilities and Senior Secured Notes	(416)	-
Accretion of Provisions (Note 19)	(393)	-
	(5,358)	(1,672)
<b>Interest Income</b>		
HFT Non-Derivative Financial Assets		
Interest on Cash and Cash Equivalents	50	-
Interest Income on Debentures of Canexus LP	687	1,672
Interest on Long-Term Investments	7	-
	744	1,672
<b>Gains (Losses) on HFT Financial Liabilities, measured at FVTPL</b>		
Distributions on Fund Units (Note 22)	-	(4,704)
Change in Fair Value of Convertible Debentures	169	(8,962)
Change in Fair Value of Fund Units (Note 22)	-	(12,679)
Loss on Conversion of the Series II Convertible Debentures	(567)	-
	(398)	(26,345)
<b>Gains on Financial Liabilities, measured at amortized cost</b>		
Long-Term Debt		
Unrealized Foreign Currency Translation Gains	9,719	-
<b>Total Finance Income (Expense)</b>	<b>4,707</b>	<b>(26,345)</b>

## 11. Other Expense

	Three Months Ended	
	March 31, 2011	March 31, 2010
<b>Gains (Losses) on HFT Financial Assets, measured at FVTPL</b>		
HFT Derivatives		
Change in Fair Value of Foreign Exchange Options	(238)	-
Realized Gains on Foreign Exchange Options	362	-
Change in Fair Value of Interest Rate Swaps	83	-
Realized Losses on Interest Rate Swaps	(233)	-
Total Losses on HFT Derivatives	(26)	-
<b>Losses on Financial Liabilities, measured at amortized cost</b>		
Working Capital		
Unrealized Foreign Currency Translation Losses	(354)	-
Realized Foreign Currency Translation Losses	(150)	-
Total Foreign Currency Translation Losses on Working Capital	(504)	-
<b>Impairment on HTM Investments, measured at amortized cost</b>		
Reversal of Impairment on Long-Term Investments	151	-
<b>Other</b>	199	-
Total Other Expense	(180)	-

## 12. Provision for Income Taxes

The provision for income taxes results in an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

	Three Months Ended	
	March 31, 2011	March 31, 2010
Income (Loss) before Income Taxes	19,864	(38,775)
Canadian Statutory Rate	39%	39%
Computed Income Tax Expense	7,747	(15,122)
Add (Deduct) the Tax Effect of:		
Non-taxable Portion of Capital Gains	(1,646)	-
Deferred Compensation	571	-
Non-taxable and Non-deductible Items	(4,315)	-
Rate Difference on Foreign Earnings	(174)	-
Distributed Earnings Not Subject to Tax	-	17,389
Foreign Exchange	(742)	-
Other	1,766	-
Provision for Income Taxes	3,207	2,267
Effective Tax Rate	16%	(6%)

### 13. Net Income (Loss) Per Unit

Net income (loss) per unit is calculated using net income (loss) divided by the weighted average number of Units outstanding. Diluted net income (loss) per unit is calculated in the same manner as net income (loss) 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. At January 1, 2010 and during the year ended December 31, 2010, Fund Units were classified as financial liabilities under Unitholders' Interest in the Net Assets of the Fund and commencing January 1, 2011 are classified as equity (see Note 22 Fund Units and Unitholders' Interest in the Net Assets of the Fund).

	Three Months Ended	
	March 31, 2011	March 31, 2010
Weighted Average Number of Units Outstanding	82,812,105	34,136,315
Units Issuable Pursuant to DTUs and Notional Reinvestments	319,004	-
Units Issuable Pursuant to Options and Corresponding Bonus Rights	3,695,934	-
Notional Units to be Purchased with Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	(2,241,297)	-
Units Issuable on Conversion of the Series I Convertible Debentures	4,707,617	-
Units Issuable on Conversion of the Series III Convertible Debentures	7,228,914	-
Weighted Average Number of Diluted Units Outstanding	96,522,277	34,136,315

On February 7, 2011, Nexen disposed of its interest in Canexus LP, by exchanging 74,539,604 Exchangeable LP Units of Canexus LP for an equivalent number of Fund Units. Also on February 7, 2011, Nexen disposed of its entire interest in the Fund. These transactions resulted in an increase in the weighted average number of Units outstanding. During the three months ended March 31, 2011, outstanding Unit options and corresponding bonus rights, DTUs and notional reinvestments and the Series I and Series III Convertible Debentures were the only potential dilutive instruments.

In calculating the weighted average number of diluted Units outstanding for the three months ended March 31, 2011, 238,000 weighted average DTUs and 81,004 corresponding weighted average additional DTUs (from notional reinvestments) were included and 2,883,040 weighted average Unit options and 812,894 corresponding weighted average notional bonus Units were included. We did not include 5,000 Unit options and 98 corresponding notional bonus Units as their option exercise price was higher than the average Unit trading price and associated distributions declared.

As the Fund reported a net loss for the three months ended March 31, 2010 of \$41 million, the potential dilutive effects of outstanding options and corresponding bonus rights, DTUs and notional reinvestments and Series I and Series III Convertible Debentures were anti-dilutive and accordingly, they were not included in the calculation of the weighted average number of diluted Units outstanding.

### 14. Operating Segments

The Fund's operations are comprised of North American sodium chlorate production facilities at Brandon, Manitoba; Beauharnois, Quebec; and Nanaimo, British Columbia; a North American chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in Brazil. Information reported to the Fund's management team, the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance, considers both a geographic and product perspective. The Fund's reportable operating segments are as follows:

- North America Sodium Chlorate;
- North America Chlor-alkali; and
- South American Sodium Chlorate and Chlor-alkali.

The reportable operating segments derive their revenue from the sale of sodium chlorate and/or chlor-alkali products (caustic soda, chlorine and hydrochloric acid). The Fund also provides hydrocarbon transloading services to the oil and gas industry

through its North American Terminal Operations (“NATO”) business unit. NATO is not considered a reportable operating segment and the results of operations for the three months ended March 31, 2011 are included in the North American Chlor-alkali segment below.

Demand for chlorine used in water treatment is impacted by seasonal temperature variations with increased demand in the warmer months. We maintain sales of chlorine into chlorine derivative product segments, and use chlorine internally for the production of hydrochloric acid, to balance this seasonality.

Our South American reportable segment sells both sodium chlorate and chlor-alkali products. During the three months ended March 31, 2011, revenue from the sale of sodium chlorate and chlor-alkali products was \$8 million and \$11.1 million respectively. The majority of our South America production is sold to Fibria Celulose S.A. (“Fibria”) under a long-term US dollar based fixed margin sales agreement. During the three months ended March 31, 2011, sales to Fibria accounted for 79 percent of the total revenue for the South American operating segment.

The accounting policies of our segments are the same as those described in Note 4 Summary of Significant Accounting Policies. Transactions between reportable segments are recorded at contracted amounts and are eliminated upon consolidation. Transactions and balances within our corporate division do not meet the criteria for a reportable operating segment under IFRS 8 Operating Segments and are disclosed in the Other segment below. Cost of sales and distribution costs are allocated to operating segments based on where the costs originated. Selling and marketing expense and general and administrative expense for functional areas that support the various operating segments including human resources, finance, information technology and legal are allocated to the operating segments based on production volumes. Total assets that are not directly attributable to an operating segment are allocated based on sales revenue.

#### (a) Operating Segments

Three Months Ended March 31, 2011	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Other	
Revenues					
Total Segment Revenues	36,030	29,839	19,144	-	85,013
Inter-Segment Revenues	488	440	-	-	928
Total Revenues from External Customers	35,542	29,399	19,144	-	84,085
Cost of Sales (Notes 7, 8, 15 and 20)	21,655	24,249	14,515	174	60,593
Gross Margin	13,887	5,150	4,629	(174)	23,492
Distribution, Selling and Marketing (Notes 7, 8 and 20)	4,619	8,688	209	393	13,909
General and Administrative (Notes 7, 8, 15 and 20)	1,441	1,826	727	2,748	6,742
Operating Profit	7,827	(5,364)	3,693	(3,315)	2,841
Equity Income from Investment in Canexus LP (Note 9)	-	-	-	12,496	12,496
Finance Income (Expense) (Note 10)	(186)	(204)	(94)	5,191	4,707
Other Income (Expense) (Note 11)	-	61	231	(472)	(180)
Provision for Income Taxes	-	-	986	2,221	3,207
Net Income (Loss)	7,641	(5,507)	2,844	11,679	16,657

Three Months Ended March 31, 2011	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Other	
Non-Cash Items Affecting Operating Profit					
Depreciation of PP&E and Amortization of Intangible Assets					
Cost of Sales	2,343	3,858	972	-	7,173
General and Administrative	-	-	7	159	166
Total Depreciation of PP&E and Amortization of Intangible Assets	2,343	3,858	979	159	7,339
Unit-based Compensation Expense (Note 8)	-	-	-	1,464	1,464
Total Non-Cash Items Affecting Operating Profit	2,343	3,858	979	1,623	8,803

Three Months Ended March 31, 2010	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Other	
Revenues					
Total Segment Revenues	-	-	-	-	-
Inter-Segment Revenues	-	-	-	-	-
Total Revenues from External Customers	-	-	-	-	-
Cost of Sales (Note 8)	-	-	-	160	160
Gross Margin	-	-	-	(160)	(160)
Distribution, Selling and Marketing (Note 8)	-	-	-	106	106
General and Administrative (Note 8)	-	-	-	1,178	1,178
Operating Loss	-	-	-	(1,444)	(1,444)
Equity Loss from Investment in Canexus LP (Note 9)	-	-	-	(10,986)	(10,986)
Finance Expense (Note 10)	-	-	-	(26,345)	(26,345)
Provision for Income Taxes	-	-	-	2,267	2,267
Net Loss	-	-	-	(41,042)	(41,042)
Non-Cash Items Affecting Operating Loss					
Unit-based Compensation Expense (Note 8)	-	-	-	1,271	1,271
Total Non-Cash Items Affecting Operating Loss	-	-	-	1,271	1,271

	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Other	
<b>Total Assets</b>					
March 31, 2011	203,959	443,569	82,450	23,239	753,217
December 31, 2010	-	-	-	501,413	501,413
January 1, 2010	-	-	-	484,790	484,790

(b) Geographic Segments

<b>Sales</b>	Three Months Ended	
	March 31, 2011	March 31, 2010
Canada	31,979	-
United States	32,962	-
South America	19,144	-
	84,085	-

  

<b>PP&amp;E, Net</b>	March 31, 2011	December 31, 2010	January 1, 2010
Canada	582,710	-	-
United States	154	-	-
South America	45,933	-	-
	628,797	-	-

15. Property, Plant and Equipment

	Land and Land Improvements	Buildings	Manufacturing Machinery and Equipment	Other Equipment	Assets Under Construction	Total
<b>Gross Carrying Amount</b>						
Balance at January 1, 2011	-	-	-	-	-	-
Additions on Consolidation of Canexus LP – February 7, 2011	22,941	232,872	902,760	34,585	19,506	1,212,664
Additions	343	696	7	28	9,965	11,039
Changes in Assets Related to Plant Decommissioning Liabilities (Note 19)	-	(6,316)	-	-	-	(6,316)
Disposals	-	(44)	(602)	-	-	(646)
Transfers	-	-	-	-	(375)	(375)
Net Foreign Currency Translation Differences	-	(567)	(3,530)	(55)	49	(4,103)
Balance at March 31, 2011	23,284	226,641	898,635	34,558	29,145	1,212,263

	Land and Land Improvements	Buildings	Manufacturing Machinery and Equipment	Other Equipment	Assets Under Construction	Total
<b>Accumulated Depreciation</b>						
Balance at January 1, 2011	-	-	-	-	-	-
Accumulated Depreciation on Consolidation of Canexus LP – February 7, 2011	7,744	111,265	436,413	24,220	-	579,642
Depreciation	63	1,047	5,886	238	-	7,234
Disposals	-	(44)	(602)	-	-	(646)
Net Foreign Currency Translation Differences	-	(237)	(2,497)	(30)	-	(2,764)
Balance at March 31, 2011	7,807	112,031	439,200	24,428	-	583,466
<b>Carrying Amount at March 31, 2011</b>	15,477	114,610	459,435	10,130	29,145	628,797

Depreciation was charged to:

	Three Months Ended	
	March 31, 2011	March 31, 2010
Cost of Sales	7,151	-
General and Administrative Expense	117	-
	7,268	-

The weighted average interest rate on funds borrowed to construct PP&E for the three months ended March 31, 2011 was 5.6 percent.

During the three months ended March 31, 2011, \$0.1 million of borrowing costs were capitalized on the NATO bio-diesel transloading project.

## 16. Other Long-Term Assets and Liabilities

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Other Long-Term Assets</b>			
Credit Facility Transaction Costs, Net	6,514	-	-
Deposits with Energy Resources Conservation Board	130	-	-
Accounts Receivable	1,131	-	-
Total Other Long-Term Assets	7,775	-	-

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Other Long-Term Liabilities</b>			
Defined Benefit Pension Liability	17,948	-	-
Post Retirement Benefit Liability	3,324	-	-
Other	169	-	-
Total Other Long-Term Liabilities	21,441	-	-

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

	Maturity	March 31 2011	December 31 2010	January 1 2010
<b>Short-Term Borrowings</b>				
Swing Line Loans under Extendible Revolving Credit Facility	June 30, 2014	7,566	-	-
<b>Long-Term Debt</b>				
Credit Facilities				
Extendible Revolving Credit Facility	June 30, 2014	272,104	-	-
Export Development Canada Extendible Revolving Credit Facility	June 30, 2014	9,718	-	-
Total Credit Facilities		281,822	-	-
Senior Secured Notes	May 1, 2013	48,590	-	-
Unamortized Senior Secured Notes Transaction Costs, Net		(582)	-	-
		48,008	-	-
Total Long-Term Debt		329,830	-	-

## 18. Convertible Debentures

The Fund had the following Convertible Debentures at March 31, 2011:

	Series I	Series III
Maturity Date	December 31, 2014	December 31, 2015
Fixed Distribution Rate	8.00%	5.75%
Conversion Price	\$5.10	\$8.30

	Series I	Series II	Series III	Total Carrying Value
Outstanding, January 1, 2010	50,130	43,800	-	93,930
Issued	-	-	60,000	60,000
Converted	(26,503)	-	-	(26,503)
Changes in Fair Value	10,247	11,260	1,194	22,701
Outstanding, December 31, 2010	33,874	55,060	61,194	150,128
Converted	(2,221)	(52,688)	-	(54,909)
Changes in Fair Value	1,117	(2,372)	1,086	(169)
Outstanding, March 31, 2011	32,770	-	62,280	95,050

## 19. Provisions

### (a) Plant Decommissioning Liabilities

Our total estimated undiscounted liability at March 31, 2011 was \$153.1 million. The liability was estimated based on management's best estimate of plant dismantlement, decommissioning and restoration plans and the related costs with the help of independent professional engineers and estimates from external contractors for each plant. The provision was calculated as the present value of the estimated future cash outflows using an average discount rate of 3.51 percent at March 31, 2011. Approximately \$5.1 million included in the provision above is expected to be settled over the next three years.

	Plant Decommissioning Liabilities
Balance at January 1, 2011	-
Provisions on Consolidation of Canexus LP – February 7, 2011	70,908
Change in Obligation Due to Change in Discount Rates	(6,316)
Expenditures	(213)
Change in Obligation Reclassified to Current Liabilities	(363)
Accretion	393
Net Foreign Currency Translation Differences	(12)
Balance at March 31, 2011	64,397

### (b) Provisions Expense

	Three Months Ended	
	March 31, 2011	March 31, 2010
Accretion Expense on Plant Decommissioning Liabilities Recognized in Finance Income (Expense)	(393)	-

## 20. Pensions and Other Post Retirement Benefits

### (a) Defined Benefit Pension Plans

Under the provisions of the Defined Benefit Pension Plans employees are provided with a pension at retirement based on years of service and final average earnings. The cost of pension benefits earned by employees under the Defined Benefit Pension Plans are determined using the projected unit credit actuarial cost method prorated on employment services and are expensed as services are rendered. We fund the DBP according to federal and provincial government regulations by contributing to trust funds administered by an independent trustee. These funds are invested 50 percent in equities and 50 percent in bonds. Effective January 1, 2008, the DBP was closed to new entrants. New employees subsequent to January 1, 2008 participate in the defined contribution pension plans. Actuarial gains (losses) are recognized immediately in other comprehensive income (loss). During the period January 1, 2011 to February 6, 2011, the Fund's share of actuarial gains on the DBP of Canexus LP was \$0.9 million and \$39,000 of actuarial losses were recorded for the period February 7, 2011 to March 31, 2011 (see Note 9 Investment in Canexus LP and Related Party Transactions).

	February 7, 2011 to March 31, 2011			Three Months Ended March 31, 2010		
	DBP	EBP	Total	DBP	EBP	Total
Current Service Cost	550	23	573	-	-	-
Interest Cost on Benefit Obligation	746	11	757	-	-	-
Expected Return on Plan Assets	(698)	-	(698)	-	-	-
Net Pension Expense	598	34	632	-	-	-

Pension expense was included in the following expense functions in the consolidated statement of comprehensive income (loss) corresponding with where the associated employee salaries and wages were classified as follows:

	February 7, 2011 to March 31, 2011	Three Months Ended March 31, 2010
Cost of Sales	420	-
Distribution, Selling and Marketing Expense	40	-
General and Administrative Expense	172	-
	632	-

At March 31, 2011, other long-term liabilities included a \$17.9 million defined benefit pension liability (see Note 16 Other Long-Term Assets and Liabilities).

Our total funding contribution for 2011 and 2012 for our Defined Benefit Pension Plans is estimated to be \$6 million annually.

#### (b) Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were \$145,000 for the Canadian plan; \$50,000 for the US plan and \$36,000 for the South American plan for the three months ended March 31, 2011.

#### (c) PRB

Post retirement benefits in Canada consist of a company paid \$5,000 group life insurance policy, the payment of provincial health care premiums where applicable, and coverage under the Employee Family Assistance Program. The cost of post retirement benefits is fully accrued as compensation in the period employees work however, future post retirement benefit obligations are not funded. At March 31, 2011, other long-term liabilities included a \$3.1 million post retirement benefit liability (see Note 16 Other Long-Term Assets and Liabilities).

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. At March 31, 2011, other long-term liabilities included a \$0.2 million post retirement benefit liability (see Note 16 Other Long-Term Assets and Liabilities).

	February 7, 2011 to March 31, 2011			Three Months Ended March 31, 2010		
	Canadian PRB	US PRB	Total	Canadian PRB	US PRB	Total
Current Service Cost	20	3	23	-	-	-
Interest Cost	27	2	29	-	-	-
Net PRB Expense	47	5	52	-	-	-

	February 7, 2011 to March 31, 2011	Three Months Ended March 31, 2010
Cost of Sales	34	-
Distribution, Selling and Marketing Expense	3	-
General and Administrative Expense	15	-
	52	-

## 21. Distributions

The Fund declared distributions of \$12.3 million (\$0.1368 per Unit) for the three months ended March 31, 2011 and \$4.7 million (\$0.1368 per Unit) for the three months ended March 31, 2010. Of the total distributions declared for the three months ended March 31, 2011, \$1.5 million were reinvested by Unitholders in additional Fund Units pursuant to the DRIP (March 31, 2010 –

\$0.8 million). Distributions are included in finance income (expense) for the three months ended March 31, 2010 and in retained earnings for the three months ended March 31, 2011 due to the change in accounting treatment for the Fund Units on January 1, 2011 (see Note 22 Fund Units and Unitholders' Interest in the Net Assets of the Fund).

Distributions of \$5.2 million were declared after March 31, 2011 and before May 5, 2011, the date of authorization of the consolidated financial statements.

## 22. Fund Units and Unitholders' Interest in the Net Assets of the Fund

### (a) Fund Units

At January 1, 2010, March 31, 2010 and December 31, 2010, Fund Units were classified as liabilities in Unitholders Interest in the Net Assets of the Fund as a result of the ability of Unitholders to redeem Fund Units for cash or other financial assets pursuant to the terms of the Fund's trust indenture. Unitholders' Interest in the Net Assets of the Fund was classified at FVTPL. Distributions and the change in fair value of the Fund Units were recorded in finance income (expense) for the three months ended March 31, 2010 (see Note 10 Finance Income (Expense)). On January 1, 2011, with the introduction of the SIFT rules, Fund Units were reclassified to equity with distributions recorded in retained earnings for the three months ended March 31, 2011.

The number of Fund Units authorized for issue is unlimited.

	Three Months Ended March 31, 2011	
	Number of Units	Amount
Beginning of Period	39,341,055	247,772
Fund Units Issued Pursuant to the DRIP	222,434	1,495
Fund Units Issued on Exercise of Unit Options	341,144	2,191
Fund Units Issued on Conversion of Series I Convertible Debentures	316,464	2,221
Fund Units Issued on the Fund's Indirect Acquisition of Interest in Canexus LP (Note 3)	74,539,604	(209,175)
End of Period	114,760,701	44,504

Under the terms of the Fund's trust indenture Unitholders are entitled to require the Fund to redeem their Fund Units at any time. The cash redemption price is equal to 90 percent of the weighted average market price for the ten trading days preceding the date the Fund Units were tendered for redemption. The maximum exposure for redemption of Fund Units during any calendar year is \$150,000.

### (b) Unitholders' Interest in the Net Assets of the Fund

	Year Ended December 31, 2010	
	Number of Units	Amount
Beginning of Year	33,848,871	172,099
Fund Units Issued Pursuant to the DRIP	515,085	3,044
Fund Units Issued on Exercise of Unit Options	825,943	4,639
Fund Units Issued on Conversion of Series I Convertible Debentures	4,151,156	26,503
Changes in Fair Value	-	41,487
End of Year	39,341,055	247,772

### (c) Distribution Reinvestment Plan ("DRIP")

Under the DRIP participants may elect to automatically reinvest monthly distributions in additional Fund Units. Pursuant to the DRIP, cash distributions are reinvested in additional Units at 95 percent of the volume weighted average market price of Fund Units for the 10 trading days preceding the distribution payment date. Units acquired under the DRIP are issued

directly from the Fund's treasury. The Fund has 22,000,000 Units reserved for the issuance of Units pursuant to the DRIP of which 18,806,937 have been issued to date.

### 23. Commitments, Contingencies and Guarantees

The Fund assumes various commitments in the normal course of business activities. At March 31, 2011, commitments were as follows:

	2011	2012	2013	2014	2015	Thereafter
Non-Cancellable Operating Leases	14,145	15,350	13,653	12,889	11,982	40,184
Purchase Obligations	27,557	37,986	39,183	7,902	7,902	-
Expansion Capital Expenditures	7,205	1,490	-	-	-	-
	48,907	54,826	52,836	20,791	19,884	40,184

Non-cancellable operating lease payments, which are primarily related to rail cars, a harbor land lease at our North Vancouver plant and office space, were \$3.2 million for the three months ended March 31, 2011. Purchase obligations include contractual commitments for the purchase of electricity in Brazil of which, approximately 90 to 100 percent of the cost is passed onto our primary customer, and minimum purchase commitments under some multi-year salt supply contracts.

In the normal course of business, the Fund 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 the Fund's liquidity, consolidated financial position or results of operations. The Fund records costs as they are incurred or become determinable.

All of the credit facilities and the Senior Secured Notes are secured by a floating charge debenture over all of the Fund's assets.

### 24. Charges and Credits to Income Not Involving Cash

	Three Months Ended	
	March 31, 2011	March 31, 2010
Depreciation of PP&E and Amortization of Intangible Assets	7,339	-
Accretion of Provisions	393	-
Amortization of Transaction Costs of Extendible Revolving Credit Facilities and Senior Secured Notes	416	-
Deferred Income Taxes	2,555	2,267
Equity (Income) Loss from Investment in Canexus LP and Canexus Limited	(12,496)	10,986
Unit-based Compensation	1,464	1,271
Distributions Declared	-	4,704
Change in Fair Value of Convertible Debentures	(169)	8,962
Change in Fair Value of Unitholders' Interest in the Net Assets of the Fund	-	12,679
Change in Fair Value of Interest Rate Swaps	(83)	-
Change in Fair Value of Foreign Exchange Options	238	-
Unrealized Foreign Currency Translation Gains	(9,365)	-
Pension and PRB Expense	684	-
Gain on Sale of PP&E	(48)	-
Loss on Conversion of Series II Convertible Debentures	567	-
Reversal of Impairment of Long-Term Investments	(151)	-
	(8,656)	40,869

## 25. Canexus LP Comparative Results

Below are the consolidated results of Canexus LP for the three months ended March 31, 2011 and March 31, 2010. The results of operations of Canexus LP have been consolidated into the results of the Fund for the period February 7, 2011 to March 31, 2011. Refer to Note 3 Fund's Indirect Acquisition of Interest in Canexus LP.

	Three Months Ended	
	March 31, 2011	March 31, 2010
Revenues	125,976	113,715
Cost of Sales	87,218	71,522
Gross Profit	38,758	42,193
Distribution, Selling and Marketing	20,501	18,391
General and Administrative	7,305	7,619
Operating Profit	10,952	16,183
Finance Income	4	6,416
Income before Other Expense and Income Taxes	10,956	22,599
Other Expense	(73)	(2,551)
Income before Income Taxes	10,883	20,048
Provision for (Recovery of) Income Taxes		
Current	1,134	1,304
Deferred	820	(550)
	1,954	754
Net Income	8,929	19,294
Other Comprehensive Income (Loss)		
Foreign Currency Translation Adjustment Losses, Net of Tax	(1,140)	(1,225)
Actuarial Gains (Losses) on Defined Benefit Pension Plans	3,808	(2,401)
Other Comprehensive Income (Loss)	2,668	(3,626)
Total Comprehensive Income	11,597	15,668

## 26. Transition to IFRS

### (a) Application of IFRS 1 First-time Adoption of IFRS

IFRS 1 requires an entity to make an explicit and unreserved statement of compliance with IFRS in its first annual financial statements prepared in accordance with IFRS. The consolidated financial statements for the year ended December 31, 2011 will be the first annual consolidated financial statements that comply with IFRS and accordingly, this statement will be included in the Fund's annual consolidated financial statements at December 31, 2011.

IFRS 1 also requires that comparative financial information be provided. Accordingly, the date at which the Fund applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all IFRSs in effect at the date of its first annual financial statements however, it provides for certain optional exemptions and mandatory exceptions for first-time adopters. The Fund did not elect to apply any of the optional exemptions from full retrospective application of IFRS in preparing its opening statement of financial position at January 1, 2010. The unaudited consolidated statements of financial position, equity and results of operations for the Fund at Transition Date, at and for the year ended December 31, 2010, and at and for the three months ended March 31, 2010 are included below.

(b) Reconciliations between IFRS and Canadian GAAP

(i) *Reconciliation of the Consolidated Statement of Financial Position at Transition Date*

	Canadian GAAP January 1 2010	Effect of Transition to IFRS	IFRS January 1 2010
<b>ASSETS</b>			
Current Assets			
Cash	394	-	394
Interest Receivable on Debentures of Canexus LP	19	-	19
Distribution Receivable from Canexus LP	1,544	-	1,544
Prepaid Expenses	23	-	23
Due from Affiliates, Net	17	67	84
<b>Total Current Assets</b>	<b>1,997</b>	<b>67</b>	<b>2,064</b>
Investment in Debentures of Canexus LP	85,780	-	85,780
Investment in Canexus LP	295,590	101,356	396,946
<b>Total Assets</b>	<b>383,367</b>	<b>101,423</b>	<b>484,790</b>
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities			
Trade and Other Payables	1	-	1
Distribution Payable to Unitholders	1,544	-	1,544
Interest Payable on Convertible Debentures	19	-	19
Unit-based Compensation	-	3,221	3,221
<b>Total Current Liabilities</b>	<b>1,564</b>	<b>3,221</b>	<b>4,785</b>
Unit-based Compensation	20	336	356
Convertible Debentures	78,496	15,434	93,930
Deferred Tax Liabilities	7,479	408	7,887
Unitholders' Interest in the Net Assets of the Fund	-	172,099	172,099
<b>Total Liabilities</b>	<b>87,559</b>	<b>191,498</b>	<b>279,057</b>
Equity Component of Convertible Debentures	7,634	(7,634)	-
Fund Units	325,620	(325,620)	-
Contributed Surplus	7,216	(7,216)	-
Retained Earnings (Deficit)	(44,662)	250,395	205,733
<b>Total Equity</b>	<b>295,808</b>	<b>(90,075)</b>	<b>205,733</b>
<b>Total Liabilities and Equity</b>	<b>383,367</b>	<b>101,423</b>	<b>484,790</b>

(ii) *Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010*

**Due from Affiliates, Net**

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

**Investment in Canexus LP**

The increase in the Investment in Canexus LP was due to the change in fair value of the financial liability created by the obligation to issue Fund Units for the exchange of the Exchangeable LP Units of Canexus LP (see Note 9(a) Investment in Canexus LP and Related Party Transactions).

### Unit-based Compensation

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

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

Under IFRS, cash-settled share-based payments are required to be measured at fair value and recognized as unit-based compensation cost over their vesting period with a corresponding increase in liabilities. At each reporting period end, their fair value is remeasured and changes in fair value are recognized in cost of sales, selling, distribution and marketing expense and general and administrative expense corresponding with the function of the employee who received the TUIP option or UAR grant. All unit-based compensation expense related to DTUs is classified as general and administrative expense as DTUs are granted to the directors of Canexus Limited.

IFRS 1 First-time Adoption of IFRS allows a first-time adopter to not apply IFRS 2 Share-based Payments to unit-based compensation liabilities that were settled prior to the adoption of IFRS. The Fund did not elect to utilize this exemption.

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

	January 1, 2010
Contributed Surplus Reclassified to Unit-based Compensation Liabilities	(7,216)
Short-term Unit-based Compensation	3,221
Long-term Unit-based Compensation	336

### Convertible Debentures

As a result of the ability of Unitholders to redeem their Fund Units for cash or other financial assets pursuant to the terms of the Fund's trust indenture, the Convertible Debentures are financial liabilities containing an embedded derivative under IFRS. Under Canadian GAAP, the Convertible Debentures were considered to be compound instruments containing an equity component. Accordingly, the equity component and unamortized deferred transaction costs recorded under Canadian GAAP were derecognized at Transition Date and charged to deficit. The Fund designated the Convertible Debentures at FVTPL and recognizes changes in their fair value in finance income (expense).

	January 1, 2010
Unamortized Deferred Transaction Costs, Net	7,284
Adjustment to Fair Value	8,150
	15,434

### Deferred Tax Liabilities

The increase in deferred tax liabilities arises primarily as a result of adjustments at Transition Date related to the PP&E and pension obligations of Canexus LP, partially offset by the requirement for the Fund to record deferred tax on temporary differences at a higher tax rate than was required under Canadian GAAP.

**Unitholders' Interest in the Net Assets of the Fund**

The carrying value of the Fund's Units under Canadian GAAP was reclassified from equity to liabilities at Transition Date. The fair value of Fund Units was measured at Transition Date with the change from their carrying value under Canadian GAAP recognized in deficit. Fund Units were reclassified to equity on January 1, 2011 with the introduction of the SIFT rules (see Note 22 Fund Units and Unitholders' Interest in the Net Assets of the Fund).

	January 1, 2010
Reclassification of Fund Units from Equity to Liabilities	325,620
Adjustment to Fair Value	(153,521)
	172,099

**(Deficit) Retained Earnings**

All changes that arose on transition to IFRS were recorded directly to (deficit) retained earnings at January 1, 2010.

	January 1, 2010
Due from Affiliates, Net	67
Investment in Canexus LP	101,356
Unit-based Compensation	(3,557)
Convertible Debentures	(15,434)
Deferred Tax Liabilities	(408)
Unitholders' Interest in the Net Assets of the Fund	153,521
Equity Component of Convertible Debentures	7,634
Contributed Surplus	7,216
	250,395

(iii) *Reconciliation of the Consolidated Statements of Financial Position at December 31, 2010 and March 31, 2010*

	December 31, 2010			March 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>ASSETS</b>						
Current Assets						
Cash	83	-	83	90	-	90
Interest Receivable on Debentures of Canexus LP	912	-	912	1,691	-	1,691
Distribution Receivable from Canexus LP	1,794	-	1,794	1,591	-	1,591
Prepaid Expenses	105	-	105	55	-	55
<b>Total Current Assets</b>	<b>2,894</b>	<b>-</b>	<b>2,894</b>	<b>3,427</b>	<b>-</b>	<b>3,427</b>
Investment in Debentures of Canexus LP	124,609	-	124,609	81,481	-	81,481
Investment in Canexus LP	307,724	66,186	373,910	302,202	83,551	385,753
<b>Total Assets</b>	<b>435,227</b>	<b>66,186</b>	<b>501,413</b>	<b>387,110</b>	<b>83,551</b>	<b>470,661</b>
<b>LIABILITIES AND EQUITY</b>						
Current Liabilities						
Trade and Other Payables	1	-	1	44	-	44
Distribution Payable to Unitholders	1,794	-	1,794	1,591	-	1,591
Interest Payable on Convertible Debentures	912	-	912	1,626	-	1,626
Unit-based Compensation	448	6,505	6,953	671	3,645	4,316
Due to Affiliates, Net	960	92	1,052	345	(223)	122
<b>Total Current Liabilities</b>	<b>4,115</b>	<b>6,597</b>	<b>10,712</b>	<b>4,277</b>	<b>3,422</b>	<b>7,699</b>
Unit-based Compensation	224	148	372	107	530	637
Convertible Debentures	112,126	38,002	150,128	74,818	23,774	98,592
Deferred Tax Liabilities	7,208	(30)	7,178	9,376	452	9,828
Unitholders' Interest in the Net Assets of the Fund	-	247,772	247,772	-	190,138	190,138
<b>Total Liabilities</b>	<b>123,673</b>	<b>292,489</b>	<b>416,162</b>	<b>88,578</b>	<b>218,316</b>	<b>306,894</b>
Equity						
Equity Component of Convertible Debentures	13,972	(13,972)	-	7,252	(7,252)	-
Fund Units	355,035	(355,035)	-	331,049	(331,049)	-
Contributed Surplus	6,277	(6,277)	-	6,691	(6,691)	-
Retained Earnings (Deficit)	(63,730)	149,844	86,114	(46,460)	210,649	164,189
Accumulated Other Comprehensive Loss	-	(863)	(863)	-	(422)	(422)
<b>Total Equity</b>	<b>311,554</b>	<b>(226,303)</b>	<b>85,251</b>	<b>298,532</b>	<b>(134,765)</b>	<b>163,767</b>
<b>Total Liabilities and Equity</b>	<b>435,227</b>	<b>66,186</b>	<b>501,413</b>	<b>387,110</b>	<b>83,551</b>	<b>470,661</b>

(iv) *Explanation of the Effects of Transition on the Consolidated Statements of Financial Position at December 31, 2010 and March 31, 2010*

**Investment in Canexus LP**

The increase in the investment in Canexus LP at December 31, 2010 and March 31, 2010 was the result of the adjustment at Transition Date (see “Investment in Canexus LP” under “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010”), an increase in the net income of Canexus LP under IFRS due mostly to a decrease in depreciation resulting from the componentization of PP&E at transition and the assignment of overall shorter useful lives to items of PP&E under IFRS as compared to Canadian GAAP, a change in fair value of the liability to issue Fund Units for the exchange of the Exchangeable LP Units (see Note 9(a) Investment in Canexus LP and Related Party Transactions) and to the equity pickup of the Fund’s share of the components of Canexus LP’s comprehensive loss under IFRS. Deferred income taxes on the Fund’s share of the actuarial gains (losses) of Canexus LP are recorded directly in the Fund and do not impact the investment in Canexus LP (see Note 9(a) Investment in Canexus LP and Related Party Transactions).

	December 31, 2010	March 31, 2010
Transition Adjustment - Fund’s Share of Liability to Issue Fund Units on Exchange of Exchangeable LP Units	101,356	101,356
Fund’s Share of Change in Fair Value of Liability to Issue Fund Units on Exchange of Exchangeable LP Units	(36,683)	(17,443)
Fund’s Share of Increase in Net Income of Canexus LP under IFRS	5,749	889
Fund’s Share of the Comprehensive Loss of Canexus LP	(4,236)	(1,251)
	66,186	83,551

**Unit-based Compensation**

The increase in unit-based compensation liabilities at December 31, 2010 and March 31, 2010 was due to the adjustment at Transition Date (see “Unit-based Compensation” under “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010” above) and to changes in the fair value of outstanding TUIP options and DTUs less the fair value of TUIP options exercised determined in accordance with IFRS for the year ended December 31, 2010 and three months ended March 31, 2010.

**Due to Affiliates, Net**

The change in due to affiliates, net, at December 31, 2010 and March 31, 2010, was due to the change in the compensation cost of the UARs under IFRS which is recovered from CCCLP, CUI or Canexus Brazil at Transition Date (see “Due from Affiliates, Net” and “Unit-based Compensation” under “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010” above) and the change in fair value of the UARs during the year ended December 31, 2010 and the three months ended March 31, 2010.

**Convertible Debentures**

The increase in Convertible Debentures at December 31, 2010 and March 31, 2010, was due to the derecognition of unamortized deferred transaction costs previously recognized under Canadian GAAP at Transition Date (see “Convertible Debentures” under “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010” above) and the change in the fair value of the Convertible Debentures during the year ended December 31, 2010 and the three months ended March 31, 2010.

**Deferred Tax Liabilities**

The change in deferred tax liabilities at December 31, 2010 and March 31, 2010, was due to the adjustment at Transition Date (see “Deferred Tax Liabilities” under “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010” above) and to changes during the year ended December 31, 2010 and the three months ended March 31, 2010 in the temporary differences underlying the Fund’s investment in Canexus LP, primarily related to changes in the PP&E and pension obligations of Canexus LP under IFRS, and the

requirement for the Fund to record deferred tax on temporary differences at a higher tax rate than was required under Canadian GAAP.

#### **Unitholders' Interest in the Net Assets of the Fund**

The increase in the unitholders' interest in the net assets of the Fund was due to the reclassification of Fund Units from equity to liabilities at Transition Date (see "Unitholders' Interest in the Net Assets of the Fund" under "Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010" above) and to changes in the fair value of Fund Units during the year ended December 31, 2010 and the three months ended March 31, 2010.

#### **Accumulated Other Comprehensive Loss**

During the year ended December 31, 2010 and the three months ended March 31, 2010, the Fund was required under IFRS to equity account for its share of the components of Canexus LP's comprehensive loss. This was not required under Canadian GAAP.

#### **Retained Earnings (Deficit)**

	December 31, 2010	March 31, 2010
Investment in Canexus LP	66,186	83,551
Unit-based Compensation	(6,653)	(4,175)
Due to Affiliates, Net	(92)	223
Convertible Debentures	(38,002)	(23,774)
Deferred Tax Liabilities	30	(452)
Unitholders' Interest in the Net Assets of the Fund	107,263	140,911
Equity Component of Convertible Debentures	13,972	7,252
Contributed Surplus	6,277	6,691
Accumulated Other Comprehensive Loss	863	422
	<b>149,844</b>	<b>210,649</b>

(v) *Reconciliation of the Consolidated Statement of Comprehensive Income (Loss) for the Year Ended December 31, 2010 and Three Months Ended March 31, 2010*

CAD thousands, except per unit amounts	Year Ended December 31, 2010			Three Months Ended March 31, 2010		
	Canadian GAAP	Effect of Transition to IFRS	IFRS	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>						
Cost of Sales	-	501	501	-	160	160
Distribution, Selling and Marketing	-	367	367	-	106	106
General and Administrative	1,014	2,962	3,976	501	677	1,178
Loss Before Equity Income (Loss), Finance Expense and Deferred Income Taxes	(1,014)	(3,830)	(4,844)	(501)	(943)	(1,444)
Equity Income (Loss) from Investment in Canexus LP	3,280	(30,934)	(27,654)	5,567	(16,553)	(10,986)
Finance Expense	(1,335)	(83,122)	(84,457)	(263)	(26,082)	(26,345)
Income (Loss) Before Deferred Tax	931	(117,886)	(116,955)	4,803	(43,578)	(38,775)
Provision for (Recovery of) Deferred Income Taxes	(271)	847	576	1,897	370	2,267
Net Income (Loss)	1,202	(118,733)	(117,531)	2,906	(43,948)	(41,042)
<b>Other Comprehensive Loss</b>						
Share of Foreign Currency Translation Adjustment Losses of Canexus LP, Net of Tax	-	(863)	(863)	-	(422)	(422)
Share of Actuarial Losses on Defined Benefit Pension Plans of Canexus LP, Net of Tax	-	(2,088)	(2,088)	-	(502)	(502)
Other Comprehensive Loss	-	(2,951)	(2,951)	-	(924)	(924)
Total Comprehensive Income (Loss)	1,202	(121,684)	(120,482)	2,906	(44,872)	(41,966)
Net Income (Loss) Per Unit	0.03	(3.23)	(3.20)	0.09	(1.29)	(1.20)
Diluted Net Income (Loss) Per Unit	0.03	(3.23)	(3.20)	0.08	(1.28)	(1.20)

(vi) *Explanation of the Effects of Transition on the Consolidated Statements of Comprehensive Income (Loss) for the Year Ended December 31, 2010 and the Three Months Ended March 31, 2010*

See “Explanation of the Effects of Transition on the Consolidated Statement of Financial Position at January 1, 2010” and “Explanation of the Effects of Transition on the Consolidated Statements of Financial Position at December 31, 2010 and March 31, 2010” for further explanation.

The increase in cost of sales, selling, distribution and marketing expense and general and administrative expense for the year ended December 31, 2010 and the three months ended March 31, 2010 was due to changes in fair value of unit-based compensation liabilities for those periods. Under IFRS, the Fund is required to remeasure the fair value of unit-based compensation liabilities at each reporting period end. Changes in fair value are classified as cost of sales, distribution, marketing and selling expense or general and administrative expense in accordance with the Fund’s choice to report expenses in the statement of comprehensive income by function.

The decrease in equity income from Canexus LP for the year ended December 31, 2010 and the three months ended March 31, 2010 was due to an increase in the fair value of the liability related to the Fund's obligation to issue Fund Units for the exchange of the Exchangeable LP Units, partially offset by an increase in the net income of Canexus LP under IFRS primarily due to a decrease in depreciation expense resulting from the componentization of PP&E at Transition Date and to the assignment of overall shorter useful lives to items of PP&E under IFRS as compared to Canadian GAAP.

The increase in finance expense for the year ended December 31, 2010 and the three months ended March 31, 2010 was due to the classification of distributions as finance costs resulting from the classification of Fund Units as liabilities and to changes in fair value of the Fund Units and Convertible Debentures during these periods.

The increase in deferred income taxes for the year ended December 31, 2010 and the three months ended March 31, 2010 was due to changes in the temporary differences between book and tax of the assets and liabilities underlying the Fund's investment in Canexus LP which were primarily related to changes in the property, plant and equipment and pension obligations of Canexus LP and the requirement for the Fund to record deferred income taxes on temporary differences at a higher tax rate than was required under Canadian GAAP.

The decrease in other comprehensive loss for the year ended December 31, 2010 and the three months ended March 31, 2010 was due to the requirement under IFRS to equity account for the Fund's share of items recorded in other comprehensive income (loss) in Canexus LP which included foreign currency translation gains and actuarial losses on the defined pension plans of Canexus LP during these periods.

*(vii) Explanation of the Effects of Transition on the Consolidated Statements of Cash Flows for the Year Ended December 31, 2010 and the Three Months Ended March 31, 2010*

**Net Income Changes**

See "Explanation of the Effects of Transition on the Consolidated Statements of Comprehensive Income (Loss) for the Year Ended December 31, 2010 and the Three Months Ended March 31, 2010" above. Differences between IFRS and Canadian GAAP in the components of net income resulted in changes in those items reported in the statement of cash flows including:

- Equity Income (Loss) from Investment in Canexus LP;
- Unit-based Compensation;
- Convertible Debentures designated at FVTPL;
- Fair Value of Fund Units; and
- Deferred Income Taxes.

**Presentation Changes**

The following items have been reclassified and/or presented differently in the statement of cash flows as required by IFRS:

*Interest income (expense) and interest received (paid)* – IFRS requires that interest income (expense) and interest received (paid) be disclosed separately in the statement of cash flows. Under Canadian GAAP changes in interest payable or receivable were included in changes in working capital related to operating activities and interest paid was disclosed in a supplemental cash flow note to the consolidated financial statements.

*Income tax received and paid* – IFRS requires separate disclosure in the statement of cash flows of income tax received and paid. Under Canadian GAAP changes in income tax receivable and payable were included in changes in working capital related to operating activities. Income tax received or paid was disclosed in a supplemental cash flow note to the consolidated financial statements.