

Canexus Income Fund Advantages Deliver Strong Second Quarter Results

Highlights

- Distributable Cash increased 8 percent from the same quarter last year to \$19.5 million; the Fund declared cash distributions of \$4.5 million for a payout ratio of 67 percent. Cash costs associated with the closure of our Bruderheim sodium chlorate plant and the impact of the scheduled 12-day plant turnaround at our North Vancouver chlor-alkali facility reduced Distributable Cash.
- North American sodium chlorate business unit delivered solid financial performance, with gross margins increasing to 36 percent from 28 percent in the second quarter of 2008. Higher gross margins resulted from a greater percentage of our total production coming from our expanded low-cost Brandon plant, higher prices and a weaker Canadian dollar, despite a 21 percent decline in sales volume.
- North American chlor-alkali business unit achieved strong results, with higher caustic soda prices and lower energy costs offsetting lower chlorine prices and higher fixed costs, driving improved gross margins. Significant chlorine price increases are being implemented for the third quarter. The North Vancouver plant completed a 12-day scheduled maintenance turnaround – the last maintenance turnaround before TCP start-up, which remains on schedule for start-up in the first quarter of 2010. Final cost for TCP is now estimated at \$235 million, which is just above the high end of the original budget estimate.
- South America business unit generated strong margins; Improved demand from our major customer commencing in July expected to continue for the balance of the year; 4,400 tonne sodium chlorate expansion of Brazil plant is on schedule to start-up in the first quarter of 2010; US \$6.2 million hydrochloric acid expansion project is underway and expected to be operational in the third quarter of 2010 supported by a long-term take-or-pay contract.
- North American Terminal Operations business unit completed Phase 2 of site development in the second quarter and began butane transloading services in July; The Board approved \$9.8 million for the construction of rail infrastructure to allow access by a second major rail line, the purchase of an adjacent parcel of land and the front-end engineering design for Phase 3 to capitalize on our existing cavern storage. The additional rail line access is expected to provide an immediate benefit to our chlor-alkali business.

Dear Unitholders,

On behalf of the Board and the management team of Canexus Income Fund, I am pleased to report the financial results for the second quarter of 2009. The Fund delivered excellent results during the quarter, contributing to a strong first half for 2009.

Significant gross margin improvements in all of our business units reflected the investments we have made to enhance our low-cost advantages, along with previous price increases for caustic soda and sodium chlorate and the positive impact from the lower Canadian dollar compared to 2008.

Our North American Terminal Operations business unit became operational in April with the transloading of condensate at the Bruderheim site. The \$3.0-million Phase 2 expansion project was completed during the quarter, further diversifying our hydrocarbon handling capabilities. We have now begun transloading butane and are evaluating further growth opportunities for this business. The Board approved \$9.8 million for the construction of rail infrastructure to allow access by a second major rail line, the purchase of an adjacent parcel of land and the front-end engineering design for Phase 3 to capitalize on our existing cavern storage.

A more stable economic outlook and improving global pulp and paper market conditions have us cautiously optimistic for the second half of this year. Based on our low-cost position and the relatively weaker Canadian dollar, which is confirmed through our call option protection for 2009, we continue to expect that our payout ratio for the year will be between 60 and 70 percent. We also expect that the completion of growth projects currently underway will begin to generate an expected \$50 million in incremental annual operating cash flow commencing in 2010 while establishing Canexus as a formidable competitor for the long term.



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 August 12, 2009. This MD&A should be read in conjunction with:

- the unaudited consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") and the notes thereto for the three and six months ended June 30, 2009 included in this report; and
- the audited consolidated financial statements of the Fund and Canexus LP and the notes thereto as at and for the year ended December 31, 2008 available on the SEDAR website at www.sedar.com.

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

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

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

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

Additional information relating to the Fund and Canexus LP is available on the Fund's profile on the SEDAR website at www.sedar.com.

Non-GAAP Measures

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

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

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

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

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

General Description of the Fund and Canexus LP

At June 30, 2009, the Fund held an indirect 34.7 percent (December 31, 2008 – 36.5 percent; June 30, 2008 – 37.9 percent) interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP and Nexen Inc. (“Nexen”) held a 65.3 percent (December 31, 2008 – 63.5 percent; June 30, 2008 – 62.1 percent) controlling interest in Canexus LP.

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

Canexus Income Fund

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

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

Highlights (See also “Highlights” of Canexus LP)

- Distributable Cash available to Canexus Income Fund for the three months ended June 30, 2009 of \$6.7 million (June 30, 2008 – \$6.8 million).
- Distributions to Unitholders of \$4.5 million (\$0.1368 per Unit) declared for the three months ended June 30, 2009. Distribution Reinvestment Program (“DRIP”) participation by Fund Unitholders continued at an average participation rate of approximately 20 percent resulting in \$3.6 million of the \$4.5 million of distributions declared being paid in cash.
- Payout ratio of 67 percent; 67 percent when adjusted for the timing of maintenance capital spending for the three months ended June 30, 2009 (June 30, 2008 – 65 percent; 70 percent when adjusted for the timing of maintenance capital spending).
- On August 11, 2009, the Fund announced that it had reached an agreement to issue, subject to regulatory approval, \$46,000,000 of 8.00% Convertible Unsecured Subordinated Debentures (the “Debentures”) at a price of \$1,000 per Debenture on a “bought deal” basis and the concurrent private placement of \$40,000,000 of 8.00% Convertible Unsecured Subordinated Debentures to Nexen (the “Nexen Debentures”) on the same terms as the Debentures with certain exceptions, including that the Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP. Net proceeds from these financings will be used to fund growth projects, repay existing indebtedness and for general corporate purposes.

As a result of Nexen’s participation in the private placement, Nexen has indicated it will no longer participate in the DRIP effective with the distribution payable on or about October 15, 2009. Other investors will continue to have the opportunity to participate in the DRIP.

The Debentures and Nexen Debentures will bear interest from the date of issue at 8.00% per annum, payable semi-annually in arrears on December 31 and June 30 each year commencing December 31, 2009. The Debentures will have a maturity date of December 31, 2014 (the “Maturity Date”).

The Debentures will be convertible at the holder’s option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Fund for redemption of the Debentures into fully paid and non-assessable Units of the Fund at a conversion price of \$5.10 per Fund Unit, being a conversion rate of approximately 196.0784 Fund Units for each \$1,000 principal amount of Debentures. The Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP at the same conversion price.

Summary of Quarterly Results

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

CAD thousands, except per unit amounts	Three Months Ended			
	June 30 2009	March 31 2009	December 31 2008	September 30 2008
Equity Income (Loss) from Investment in Canexus LP	5,994	2,062	(6,243)	1,791
Net Income (Loss)	5,716	2,168	(5,731)	2,122
Earnings (Loss) Per Unit (\$/Unit)	0.17	0.07	(0.18)	0.07
Diluted Earnings (Loss) Per Unit (\$/Unit)	0.17	0.07	(0.18)	0.07
Distributions Declared	4,541	4,500	5,927 ⁽¹⁾	4,406
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1824	0.1368
Distributable Cash available to Canexus Income Fund	6,742	9,737	7,174	9,248

Note:

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

CAD thousands, except per unit amounts	Three Months Ended			
	June 30 2008	March 31 2008	December 31 2007	September 30 2007
Equity Income (Loss) from Investment in Canexus LP	3,602	(1,291)	1,625	8,242
Net Income (Loss)	2,922	(1,900)	5	6,228
Earnings (Loss) Per Unit (\$/Unit)	0.09	(0.06)	-	0.20
Diluted Earnings (Loss) Per Unit (\$/Unit)	0.09	(0.06)	-	0.20
Distributions Declared	4,370	4,345	6,077	6,943
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1914	0.2187
Distributable Cash available to Canexus Income Fund	6,774	7,969	4,210	8,064

Results of Operations

Investment

At June 30, 2009, the Fund had an indirect investment in 33,274,091 Ordinary Limited Partnership ("LP") Units (34.7 percent) of Canexus LP at a cost of \$323 million. At December 31, 2008, the Fund had an indirect investment in 32,570,814 Ordinary LP Units (36.5 percent) of Canexus LP at a cost of \$320.8 million. The Fund accounts for this investment using the equity method. The Fund's indirect investment in Canexus LP decreased to 34.7 percent at June 30, 2009 from 36.5 percent at December 31, 2008 due to Nexen's higher participation in the DRIP than Fund Unitholders.

For the three and six months ended June 30, 2009, the Fund's equity income from Canexus LP was \$6 million and \$8.1 million respectively and the carrying value of this investment at June 30, 2009 was \$285.4 million (December 31, 2008 – \$284.2 million). For the three and six months ended June 30, 2008, the Fund's equity income from Canexus LP was \$3.6 million and \$2.3 million respectively and the carrying value of this investment at June 30, 2008 was \$297.5 million (December 31, 2007 - \$302.7 million).

Expenses

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

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

Statement of Distributable Cash

<i>CAD thousands, except as noted</i>	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Canexus LP				
Net Income	17,132	9,454	22,881	6,107
Realized Foreign Exchange (Gain) Loss on Cash	1,137	(336)	1,173	(496)
Charges and Credits to Income Not Involving Cash				
Future Income Taxes	2,921	1,160	4,914	1,112
Amortization	11,644	10,721	23,387	20,663
Unrealized (Gains) Losses on Currency Translation	(22,943)	829	(17,819)	8,820
Change in Fair Value of Foreign Exchange Options	(1,559)	357	4,390	1,305
Change in Fair Value of Foreign Exchange Forward	1,880	-	3,796	-
Change in Fair Value of Interest Rate Swaps	(1,493)	(1,879)	(984)	(2,045)
Accrual for Future TCP Severance Costs	-	-	(981)	7,310
Impairment of Sodium Chlorate Assets	17,227	-	17,227	-
Other	987	1,034	2,616	1,986
Contributions to / Payments for Defined Benefit Plans	(1,228)	(2,444)	(1,229)	(2,444)
Purchase of Foreign Exchange Options	-	(373)	-	(730)
Expenditures on Asset Retirement Obligations	(50)	(29)	(83)	(29)
Interest Income on Restricted Investments	(66)	(79)	(229)	(189)
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	5,116	(10,409)	368	(20,956)
Cash From Operating Activities	30,705	8,006	59,427	20,414
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net	(5,116)	10,409	(368)	20,956
Maintenance Capital Expenditures	(4,000)	(2,372)	(7,111)	(3,808)
Amortization of the Purchase Cost of Foreign Exchange Options	(1,254)	(181)	(2,507)	(360)
Realized Foreign Exchange Gain (Loss) on Cash	(1,137)	336	(1,173)	496
Operating Non-Cash Items	291	1,811	(1,304)	1,214
Distributable Cash within Canexus LP ⁽¹⁾	19,489	18,009	46,964	38,912
Canexus Income Fund				
Share of Canexus LP's Distributable Cash	6,817	6,862	16,665	14,919
Trust Administration Expenses	(75)	(88)	(186)	(176)
Distributable Cash available to Canexus Income Fund ⁽¹⁾	6,742	6,774	16,479	14,743
Distributions Declared	4,541	4,370	9,041	8,715
Payout Ratio ⁽¹⁾	67%	65%	55%	59%
Payout Ratio Normalized for Timing of Maintenance Capital Expenditures of \$15.5 million for 2009 ⁽¹⁾	67%	70%	56%	66%

Note:

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

Net income for the three months ended June 30, 2009 was higher than for the three months ended June 30, 2008 primarily due to an increase in gross margins, realized gains (losses) on held-for-trading financial instruments and lower interest expense,

partially offset by higher general and administrative expense and higher income taxes. Higher currency translation gains of \$19.6 million offset the impairment of sodium chlorate assets and severance and other closure costs related to the closure of our Bruderheim sodium chlorate plant. See Canexus LP “Changes in Net Income Three Months Ended June 30, 2009 versus Three Months Ended June 30, 2008”.

Cash from operating activities, before the impact of temporary changes in non-cash operating working capital and due from/to affiliates, net, increased for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008 due to an increase in gross margins, lower interest expense and lower contributions to our defined benefit pension plan as a result of the timing of contributions, partially offset by an increase in general and administrative expense and severance and other closure costs related to the closing of our Bruderheim, Alberta sodium chlorate plant. Higher realized gains on held-for-trading financial instruments in 2009 were offset by higher realized currency translation gains in 2008.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended June 30, 2009 was primarily due to lower accounts receivable, lower inventories and operating supplies and lower accounts payable and accrued liabilities after removing the impact of the reclassification of TCP severance costs expected to be paid in the first and second quarters of 2010 to current. Accounts receivable were lower due to lower sodium chlorate sales volumes and lower realized selling prices for both chlor-alkali products and North American sodium chlorate. Finished goods inventories were lower due to lower production volumes for sodium chlorate in response to lower sales volumes and lower chlor-alkali product inventories due to the maintenance turnaround at our North Vancouver chlor-alkali facility during the second quarter. The decrease in accounts payable and accrued liabilities was due to temporary timing differences. The change in due from/to affiliates, net, for the three months ended June 30, 2009 was due to the timing of receipt/payment of amounts owing between affiliates.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended June 30, 2008 was primarily due to higher finished goods inventories and to temporary changes in the amount of accounts receivable, prepaid expenses, accounts payable and accrued liabilities and due from/to affiliates, net. During the three months ended June 30, 2008 we built up sodium chlorate inventories due to a significant customer closing its mills during the quarter and the timing of when shipments to alternate customers began and to take advantage of lower power costs in Alberta in June. In addition, a delayed barge shipment of caustic soda resulted in higher caustic soda inventories as at June 30, 2008.

Cash from operating activities, before the impact of temporary changes in non-cash operating working capital and due from/to affiliates, net, increased for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 due to an increase in gross margins, lower interest expense, lower contributions to our defined benefit pension plan as a result of the timing of contributions, partially offset by higher general and administrative expense and severance and other closure costs related to the closing of our Bruderheim, Alberta sodium chlorate plant. Realized currency translation losses, as compared to gains in the same period the prior year, more than offset an increase in realized gains on held-for-trading financial instruments.

The change in non-cash operating working capital and due from/to affiliates, net, for the six months ended June 30, 2009 was primarily due to lower accounts receivable, lower inventories and operating supplies and lower accounts payable and accrued liabilities after removing the impact of the reclassification of TCP severance costs expected to be paid in the first and second quarters of 2010 to current. Accounts receivable were lower due to lower sodium chlorate sales volumes. Finished goods inventories were lower due to lower production volumes for sodium chlorate in response to lower sales volumes and lower chlor-alkali product inventories due to the maintenance turnaround at our North Vancouver chlor-alkali facility during the second quarter of 2009. The decrease in accounts payable and accrued liabilities was primarily due to lower accrued bonus amounts.

The change in non-cash operating working capital and due from/to affiliates, net, for the six months ended June 30, 2008 was primarily due to higher finished goods inventories and higher accounts receivable. During the six months ended June 30, 2008 we built up sodium chlorate inventories due to a significant customer closing its mills during the second quarter and the timing of when shipments to alternate customers began and to take advantage of lower power costs in Alberta in June. In addition, a delayed barge shipment of caustic soda resulted in higher caustic soda inventories as at June 30, 2008. The increase in accounts receivable from December 31, 2007 to June 30, 2008 was due to the early payment of amounts owing by Aracruz Celulose S.A., our primary customer in Brazil which resulted in a \$NIL balance receivable from Aracruz Celulose S.A. at December 31, 2007.

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

Operating non-cash items represent items such as pension expense in excess of pension funding, expenditures on asset retirement obligations financed by restricted investments established at the time of the initial public offering of the Fund and allowances for doubtful accounts.

Distributions

The Fund declared monthly distributions of \$0.0456 per Unit for the period April 1, 2009 to June 30, 2009 for total distributions declared of \$4.5 million (\$0.1368 per Unit) for the three months ended June 30, 2009.

At June 30, 2009, the Fund had a distribution receivable from Canexus LP. Upon receipt of this distribution in July 2009, the Fund paid a distribution payable of \$1.5 million outstanding at June 30, 2009.

Income Taxes

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts (the "SIFT" tax) received Royal Assent. As a result, the Fund has recognized an \$11 million future income tax liability as at June 30, 2009 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

Commencing in 2011, a federal tax will be applied to distributions from publicly traded income trusts which could result in reduced cash available for distributions. The rate of tax will be equal to the prevailing general federal corporate income tax rate (slated to be 16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial tax factor" which under enacted regulations will be based on the prevailing provincial corporate income tax rates in the provinces where the Specified Investment Flow Through ("SIFT") has permanent establishments. Based on current enacted rates it is anticipated that the provincial tax factor will be approximately 10.7 percent in 2011 and 2012. This will result in a combined federal and provincial tax rate of approximately 27.2 percent for 2011 and 25.7 percent for 2012 and subsequent years.

Under the legislation, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to avoid being subject to the SIFT tax before then. On December 15, 2006, the Government issued guidelines with respect to what it would consider normal growth for existing income trusts. Under these guidelines, the amount of equity units that an income trust can issue prior to 2011 may not exceed the greater of \$50 million and the value of its publicly traded equity units on October 31, 2006 (subject to annual limits). In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

On December 4, 2008, the Minister of Finance released explanatory notes for the Notice of Ways and Means Motion that was tabled on November 28, 2008. The explanatory notes contain revisions to the "normal growth" guidelines. Under the revised normal growth guidelines the "safe harbour" amount has been accelerated. The revised guidelines permit a SIFT to immediately issue new equity to bring its cumulative growth up to 100 percent of its October 31, 2006 capitalization. Under the normal growth guidelines, the Fund had available at June 30, 2009 a "safe harbour" amount of \$200.7 million. This amount does not include equity that the Fund could issue to replace debt that was outstanding at October 31, 2006 nor does it include equity that would be issued for the Exchangeable Limited Partnership Units issued to Nexen outstanding at October 31, 2006.

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

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

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

On July 14, 2008, the Department of Finance released draft legislation to enable the conversion of existing SIFT's into public corporations without immediate tax consequences to the SIFT's or their investors. This legislation, with some amendments, is now incorporated in Bill C-10, which received Royal Assent on March 12, 2009. The Fund will carefully review its alternatives to most effectively achieve its business strategy and optimize value for the Unitholders in light of the current legislation.

Selected Annual Financial Information

<i>CAD thousands, except per unit amounts</i>	For the Years Ended December 31		
	2008	2007	2006
Equity Income (Loss) from Investment in Canexus LP	(2,141)	21,047	18,190
Net Income (Loss)	(2,587)	5,533	16,122
Earnings (Loss) (\$/Unit)	(0.08)	0.17	0.51
Diluted Earnings (Loss) (\$/Unit)	(0.08)	0.17	0.51
Distributions Declared	19,048	26,908	27,775
Distributions Declared (\$/Unit)	0.5928	0.8475	0.8748
Distributable Cash available to Canexus Income Fund	31,165	22,141	30,849
	2008	2007	2006
Total Assets	287,519	304,183	311,450
Total Long-Term Liabilities	11,573	12,654	-

Liquidity and Capital Structure

Outstanding Securities of the Fund

At June 30, 2009, the Fund had 33,275,187 Units outstanding (August 12, 2009 – 33,352,729).

At June 30, 2009, Nexen held 62,718,649 Exchangeable LP Units of Canexus LP (August 12, 2009 – 63,493,415), each of which is exchangeable into one Unit of the Fund at no cost at any time at the option of Nexen, and each of which carries a special voting right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

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

Business Risks

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

For a discussion of certain risks related to Canexus LP's operations, see the "Market Risk Analysis" discussion relating to Canexus LP. Additional risk factors relating to the Fund and Canexus LP's operations are contained in the Fund's Annual Information Form for the year ended December 31 2008 filed on the Fund's profile on the SEDAR website at www.sedar.com.

Guarantees

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

Critical Accounting Estimates

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

Canexus Limited Partnership

Canexus Limited Partnership (hereinafter referred to as “Canexus LP”, “we” or “our”) is a limited partnership established under the laws of Alberta. Canexus LP, through its subsidiaries, produces sodium chlorate and chlor-alkali products in several plants located in Canada and one in South America, largely for the pulp and paper and water treatment industries. We have Canadian sodium chlorate production facilities located in Beauharnois, Quebec; Brandon, Manitoba; and Nanaimo, British Columbia; and a chlor-alkali production facility located in North Vancouver, British Columbia. Our South American sodium chlorate and chlor-alkali production facility is located in Espirito Santo, Brazil. Canexus LP’s head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

At June 30, 2009, the Fund held an indirect 34.7 percent (December 31, 2008 – 36.5 percent; June 30, 2008 – 37.9 percent) interest (through its wholly owned subsidiary Canexus Commercial Trust) and Nexen held a 65.3 percent (December 31, 2008 – 63.5 percent; June 30, 2008 – 62.1 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner (“General Partner”), which holds a 0.01 percent interest in Canexus LP.

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

Executive Summary

Canexus LP delivered excellent financial results generating distributable cash of \$19.5 million for the three months ended June 30, 2009, up 8 percent from the same quarter the prior year, despite general economic conditions. Higher North American realized selling prices as a result of previous price increases and the weaker Canadian dollar relative to the US dollar in the second quarter of 2009 more than offset the impact of a decline in North American sales volumes. The benefit of our low-cost Brandon, Manitoba sodium chlorate production facility, the permanent closure of our high-cost Bruderheim, Alberta sodium chlorate facility and lower electricity and natural gas costs contributed to a significant improvement in gross margins in the second quarter of 2009 as compared to the same quarter the prior year.

North American sodium chlorate gross margins improved to 36 percent from 28 percent as a result of a 22 percent increase in realized selling prices, an increase in the percentage of total production from our low-cost Brandon, Manitoba sodium chlorate plant and lower electricity and fixed costs, partially offset by lower production volumes.

During the second quarter, we recorded an impairment of sodium chlorate assets of \$17.2 million and incurred \$2.7 million of severance and other closure related costs arising due to the closure of our high cost Bruderheim, Alberta sodium chlorate plant announced on April 22, 2009.

Our new North American Terminal Operations business unit became operational in the second quarter with the commencement of condensate transloading services. Phase 2 of site development which further diversified hydrocarbon handling was completed in the second quarter and we began providing butane transloading services to a third party customer under a long term take-or-pay contract early in the third quarter.

North American chlor-alkali sales revenue increased 17 percent and gross margins improved to 27 percent from 21 percent in the second quarter of 2009 as compared to the second quarter of 2008. The increase in sales revenues was primarily attributable to higher caustic soda prices and to the favorable impact of the weaker Canadian dollar relative to the US dollar which more than offset a decline in chlorine revenues over the same period. The improvement in gross margins was attributable to higher realized selling prices and lower electricity and natural gas costs, partially offset by lower production volumes and higher fixed costs.

The technology conversion project (“TCP”) at our North Vancouver chlor-alkali facility has fully committed financing and remains on schedule with mechanical completion in late 2009 and start-up in the first quarter of 2010. Approximately \$195 million, excluding capitalized interest of \$3.1 million, was spent or committed at June 30, 2009. We expect the final cost of the project to be \$235 million, just above the high end of our \$208 million +/- 10 percent budget, due to minor scope changes to the project to improve operability and to the brown field nature of the project. Project economics continue to be robust and could benefit further from higher MECU values than reflected in the economics at the time of project approval. This project is expected to substantially enhance our competitive strength in the chlor-alkali business, generating an estimated \$35 to \$43 million of incremental annual operating cash flow. Sixty percent of the project value is generated by cost savings. We have accrued estimated future severance costs payable following start-up of the TCP in 2010 of \$6.3 million. These costs and other terms and conditions governing the treatment of employees impacted by the TCP were negotiated and agreed to with the collective bargaining units in 2007. Canexus LP settled a foreign exchange forward contract to buy Japanese Yen (“JPY”) 1.74 billion at a rate of JPY 108.11 per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP realizing a gain of \$2.5 million.

Gross margins for our South American business unit improved to 28 percent from 21 percent in the second quarter of 2009 as compared to the second quarter of 2008 and revenues declined by 20 percent. Absolute gross margins improved by \$0.6 million to \$6.5 million in the second quarter of 2009 as compared to the second quarter of 2008. A decrease in the resale of purchased caustic soda to our primary customer contributed to both the decline in revenues and the improvement in gross margins. Commencing in the first quarter of 2009 we are no longer purchasing caustic soda for resale to our primary customer as a service which attracted no gross margin. Lower sales volumes of sodium chlorate as a result of reduced demand from our primary customer were partially offset by higher realized selling prices for sodium chlorate. The 4,400 tonne sodium chlorate expansion previously announced is on schedule and is expected to start-up in the first quarter of 2010. The hydrochloric acid expansion project approved by the Board of Directors in April 2009 is underway. This expansion, which is supported by a long-term customer commitment, will provide flexibility for managing chlorine production.

Highlights

- Distributable cash of \$19.5 million for the three months ended June 30, 2009 was 8 percent higher than the three months ended June 30, 2008. Distributable cash of \$47 million for the six months ended June 30, 2009 was 21 percent higher than the six months ended June 30, 2008.
- Distributions declared to Ordinary LP Unitholders and the Exchangeable LP Unitholder were \$0.1368 per LP Unit for total distributions declared of \$13 million. DRIP participation by Ordinary and Exchangeable LP Unitholders continued at an overall participation rate of approximately 72 percent resulting in \$3.6 million of the \$13 million of distributions declared being paid in cash.
- Our North American sodium chlorate business unit delivered solid financial performance with gross margins increasing to 36 percent from 28 percent in the second quarter of 2008 as a result of higher prices, a greater percentage of total sodium chlorate production coming from our low-cost Brandon, Manitoba sodium chlorate facility and the weaker Canadian dollar despite a 21 percent decline in sales volumes.
- Impairment of sodium chlorate assets (\$17.2 million) and severance and other closure related costs incurred (\$2.7 million) in the second quarter related to the closure of our Bruderheim, Alberta sodium chlorate plant announced in April 2009.
- Phase 2 of site development for our new North American Terminal Operations business unit was completed in the second quarter and we began providing butane transloading services in the third quarter under a long term take-or-pay contract. The Board of Directors of Canexus Limited approved \$9.8 million for the construction of rail infrastructure to allow access by a second major rail line, the purchase of an adjacent parcel of land and the front-end engineering design for Phase 3 to capitalize on our existing cavern storage. The additional rail line access is expected to provide an immediate benefit to our chlor-alkali business unit.
- Our chlor-alkali business unit achieved strong results with higher caustic soda prices and lower energy costs offsetting lower chlorine prices and higher fixed costs driving improved gross margins. The North Vancouver plant completed a 12 day scheduled maintenance turnaround expensing \$1.9 million, the last maintenance turnaround before TCP start-up in the first quarter of 2010.
- Significant price increases announced for chlorine for the third quarter are expected to moderate lower caustic soda prices.

- The TCP at our North Vancouver chlor-alkali facility remains on schedule for start-up in the first quarter of 2010. Approximately \$195 million (excluding capitalized interest of \$3.1 million) was committed at June 30, 2009 (spent \$134.3 million excluding capitalized interest; committed \$60.2 million). We expect the final cost of the project to be \$235 million, just above the high end of our \$208 million +/- 10 percent budget, due to minor scope changes to the project to improve operability and to the brown field nature of the project.
- Our South American business unit generated strong margins. Improved demand commencing in July from our primary customer is expected to continue for the balance of the year. The 4,400 tonne expansion of our Brazil plant is on schedule and is expected to start-up in the first quarter of 2010. The US \$6.2 million hydrochloric acid expansion project is underway and expected to be operational in the third quarter of 2010 and is supported by a long-term take-or-pay contract.
- Total borrowings under our committed credit facilities at June 30, 2009 were \$325 million with remaining available capacity of approximately \$188 million. We have no debt maturing before August 2011.
- On August 11, 2009, the Fund announced that it had reached an agreement to issue, subject to regulatory approval, \$46,000,000 of 8.00% Convertible Unsecured Subordinated Debentures (the "Debentures") at a price of \$1,000 per Debenture on a "bought deal" basis and the concurrent private placement of \$40,000,000 of 8.00% Convertible Unsecured Subordinated Debentures to Nexen (the "Nexen Debentures") on the same terms as the Debentures with certain exceptions, including that the Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP. Net proceeds from these financings will be used to fund growth projects, repay existing indebtedness and for general corporate purposes.

Summary of Quarterly Results

CAD thousands, except as noted	Three Months Ended			
	June 30 2009	March 31 2009	December 31 2008	September 30 2008
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	92	99	104	118
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	44	41	41	53
Sales Revenues	109,237	123,819	124,493	130,373
Cost of Goods Sold	74,583	77,801	87,129	90,503
Gross Margin ⁽¹⁾	34,654	46,018	37,364	39,870
Gross Margin (%) ⁽¹⁾	32%	37%	30%	31%
Net Income (Loss)	17,132	5,749	(16,910)	4,768
Plus: Provision for (Recovery of) Income Taxes	3,619	2,194	(3,387)	(2,526)
Plus: Amortization	11,644	11,743	11,594	11,151
Plus: Interest Expense	1,552	2,208	3,478	2,992
EBITDA ⁽¹⁾	33,947	21,894	(5,225)	16,385
Distributions Declared	13,025	12,617	16,682	11,757
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1824 ⁽³⁾	0.1368
Distributable Cash within Canexus LP ⁽¹⁾	19,489	27,475	19,601	24,776
Capital Expenditures				
Maintenance	4,000	3,111	9,166	2,126
Remediation ⁽²⁾	1,159	497	1,638	-
Continuous Improvement	1,258	1,685	576	1,665
Expansion	64,975	30,949	20,319	20,703
Total Capital Expenditures	71,392	36,242	31,699	24,494
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.82	US \$0.81	US \$0.87	US \$0.97

Notes:

- (1) See comments concerning non-GAAP Measures on page 2.
- (2) These expenditures are being funded by restricted investments.
- (3) Includes a special distribution of \$0.0456 per LP Unit declared December 11, 2008.

	Three Months Ended			
	June 30 2008	March 31 2008	December 31 2007	September 30 2007
<i>CAD thousands, except as noted</i>				
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	114	113	114	108
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	46	47	44	53
Sales Revenues	110,763	108,728	103,331	104,990
Cost of Goods Sold	83,928	77,500	76,469	68,872
Gross Margin ⁽¹⁾	26,835	31,228	26,862	36,118
Gross Margin (%) ⁽¹⁾	24%	29%	26%	34%
Net Income (Loss)	9,454	(3,347)	4,210	21,361
Plus: Provision for Income Taxes	1,810	327	2,240	2,623
Plus: Amortization	10,721	9,942	11,566	11,034
Plus: Interest Expense	2,746	2,442	2,374	3,091
EBITDA ⁽¹⁾	24,731	9,364	20,390	38,109
Distributions Declared	11,496	11,283	16,325	17,998
Distributions Declared (\$/Unit)	0.1368	0.1368	0.1914	0.2187
Distributable Cash within Canexus LP ⁽¹⁾	18,009	20,903	11,083	21,119
Capital Expenditures				
Maintenance	2,372	1,436	3,744	2,518
Continuous Improvement	-	-	584	218
Infrastructure and IT	1,659	640	-	-
Expansion	14,487	11,704	17,970	10,874
Total Capital Expenditures	18,518	13,780	22,298	13,610
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$1.00	US \$1.00	US \$1.01	US \$0.95

Note:

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

Results of Operations

Changes in Net Income Three Months Ended June 30, 2009 versus Three Months Ended June 30, 2008

CAD thousands

Net Income for the Three Months Ended June 30, 2008	9,454
Items Increasing (Decreasing) Net Income	
Sales Revenues	(1,526)
Cost of Goods Sold	9,345
Amortization	(923)
General and Administrative Expense	(1,524)
Interest Expense	1,194
Change in Fair Value and Realized Gains on Foreign Exchange Options	3,306
Change in Fair Value and Realized Gains (Losses) on Interest Rate Swaps	(690)
Change in Fair Value and Realized Gain on Foreign Exchange Forward	613
Currency Translation Gains	19,576
Income Taxes	(1,809)
Impairment of Sodium Chlorate Assets	(17,227)
Sodium Chlorate Plant Closure Costs	(2,651)
Other	(6)
Net Income for the Three Months Ended June 30, 2009	17,132

Net income for the three months ended June 30, 2009 increased by \$7.7 million from the three months ended June 30, 2008 and EBITDA for the three months ended June 30, 2009 increased by \$9.2 million or 37 percent from the three months ended June 30, 2008 due to an increase in gross margins, currency translation gains and changes in fair value and realized gains (losses) on held-for-trading financial instruments and lower interest expense, partially offset by higher general and administrative expense, higher income taxes and the impairment of sodium chlorate assets as well as severance and other closure related costs arising due to the closure of our Bruderheim, Alberta sodium chlorate plant.

An increase in gross margin of \$7.8 million increased net income

Three Months Ended June 30, 2009	North America			Total
	Sodium Chlorate ⁽²⁾	Chlor-alkali	South America	
Sales Revenues	51,142	35,377	22,718	109,237
Cost of Goods Sold	32,605	25,729	16,249	74,583
Gross Margin ⁽¹⁾	18,537	9,648	6,469	34,654
Gross Margin (%) ⁽¹⁾	36%	27%	28%	32%

Three Months Ended June 30, 2008	North America			Total
	Sodium Chlorate	Chlor-alkali	South America	
Sales Revenues	52,154	30,348	28,261	110,763
Cost of Goods Sold	37,692	23,906	22,330	83,928
Gross Margin ⁽¹⁾	14,462	6,442	5,931	26,835
Gross Margin (%) ⁽¹⁾	28%	21%	21%	24%

Notes:

- (1) See comments concerning non-GAAP Measures on page 2.
- (2) Revenues and costs of the North American Terminal Operation for the three months ended June 30, 2009 are included in North America Sodium Chlorate.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment decreased 2 percent from \$52.2 million for the three months ended June 30, 2008 to \$51.1 million for the three months ended June 30, 2009 due to a 21 percent decline in sales volumes offset by a 22 percent increase in realized selling prices. Realized selling prices increased as a result of price increases implemented in the third quarter of 2008 and the first quarter of 2009 and to the weaker Canadian dollar relative to the US dollar in the second quarter of 2009 (US \$0.82) as compared to the second quarter of 2008 (US \$1.00). The increase in the gross margin percentage from 28 percent for the three months ended June 30, 2008 to 36 percent for the three months ended June 30, 2009 was due to the increase in realized selling prices, an increase in the percentage of total production from our low-cost Brandon, Manitoba facility, lower electricity costs and lower fixed costs, partially offset by lower production volumes. The decrease in sales volumes was due to the deterioration in global pulp demand resulting from the economic downturn which occurred in the fourth quarter of 2008 and which persisted through the first half of 2009 and the curtailment of pulp production to manage high inventory levels.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased 17 percent from \$30.3 million for the three months ended June 30, 2008 to \$35.4 million for the three months ended June 30, 2009 due to 15 percent higher realized selling prices, partially offset by a decline in sales volumes of 2 percent. Higher caustic soda prices combined with the weaker Canadian dollar relative to the US dollar in the second quarter of 2009 as compared to the second quarter of 2008 more than offset a decline in chlorine selling prices. The decline in sales volumes was due to a decline in hydrochloric acid sales volume as a result of reduced demand from the oil and gas sector. The gross margin percentage increased from 21 percent to 27 percent due to the increase in realized selling prices, lower electricity and natural gas costs, partially offset by lower production volumes and higher fixed costs. The lower production volumes and higher fixed costs were due to a longer, higher cost annual maintenance turnaround completed in April 2009 resulting in the plant being shutdown for 12 days (as compared to 3 days in the three months ended June 30, 2008).

South America

Sales revenue in South America of \$22.7 million for the three months ended June 30, 2009 was 20 percent lower than sales revenue of \$28.3 million for the three months ended June 30, 2008. The decline in sales revenue was due primarily to lower resale volumes of caustic soda and lower sodium chlorate sales volumes to our primary customer, partially offset by higher realized selling prices which benefited from the weaker Canadian dollar. Commencing in the first quarter of 2009 we are no longer purchasing caustic soda for resale to our primary customer as a service. In addition to the benefit of the weaker Canadian dollar and lower fixed costs the improvement in our gross margin percentage from 21 percent to 28 percent is due to no longer purchasing caustic soda for resale to our primary customer as a service at no margin.

Higher amortization expense decreased net income by \$0.9 million

Amortization expense increased for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008 due to the acceleration of the amortization of assets at our North Vancouver chlor-alkali plant which will no longer be utilized following the start up of the TCP, the amortization of costs incurred in 2008 to amend our credit facilities and to the impact of the weaker Canadian dollar on the amortization of our South American assets.

Higher general and administrative expense decreased net income by \$1.5 million

General and administrative expense was higher for the three months ended June 30, 2009 as a result of information technology costs associated with the review and implementation of SAP chemicals best practice processes, costs incurred relating to the conversion to International Financial Reporting Standards (IFRS), increased business development activities and an increase in employee benefit costs, partially offset by a reduction in the bonus estimate.

Lower interest expense increased net income by \$1.2 million

The decrease in interest expense for the three months ended June 30, 2009 was primarily due to lower interest rates and higher interest capitalized to major projects, partially offset by higher borrowings.

The amount outstanding on our extendible revolving credit facility at June 30, 2009 was US \$209.5 million as compared to US \$193 million at June 30, 2008. The weighted average interest rate on borrowings from this credit facility was 2.89 percent for the three months ended June 30, 2009 as compared to 4.24 percent for the three months ended June 30, 2008.

The amount outstanding on our Senior Secured Revolving Credit Facility at June 30, 2009 was US \$11 million. The weighted average interest rate on borrowings from this credit facility was 2.15 percent for the three months ended June 30, 2009. There were no borrowings on this facility at June 30, 2008.

At June 30, 2009 the amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility was US \$6 million. The weighted average interest rate on borrowings from this credit facility was 2.16 percent for the three months ended June 30, 2009. There were no borrowings on this facility at June 30, 2008.

Interest capitalized on major projects during the three months ended June 30, 2009 was \$1 million as compared to \$0.2 million during the three months ended June 30, 2008.

Changes in foreign exchange options increased net income by \$3.3 million

During the three months ended June 30, 2009 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

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

Mark-to-market fair value gains of \$1.6 million and realized gains of \$1.7 million were recorded on these foreign exchange call option contracts for a total gain of \$3.3 million for the three months ended June 30, 2009 as a result of the increase in the value of the Canadian dollar relative to the US dollar during this period and to market expectations of the future value of the Canadian dollar relative to the US dollar partially offset by the shorter remaining term of the contracts. At June 30, 2009 the fair value of these foreign exchange call option contracts was \$4.3 million.

During the three months ended June 30, 2008 Canexus LP had Canadian dollar foreign exchange call option contracts that entitled Canexus LP to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar for the period March 1, 2008 to May 31, 2008. Realized gains of \$0.3 million and mark-to-market fair value losses of \$0.3 million were recorded on these foreign exchange call option contracts for the three months ended June 30, 2008.

Changes in interest rate swaps decreased net income by \$0.7 million

Canexus LP has interest rate swap agreements under which we swap 3 month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. We recorded mark-to-market fair value gains of \$1.5 million and realized losses of \$0.3 million on these interest rate swap agreements for a net gain of \$1.2 million for the three months ended June 30, 2009 due to market expectations of future 3 month US LIBOR floating rates, partially offset by 3 month US LIBOR floating rates being below the fixed rate of 3.2 percent during this period and to the shorter remaining term of these interest rate swap agreements. At June 30, 2009, the fair value of these interest rate swap agreements resulted in a financial liability of \$1.8 million. During the three months ended June 30, 2008 we recorded mark-to-market fair value gains of \$1.9 million.

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

Canexus LP had a foreign exchange forward contract to buy JPY 1.74 billion at a rate of JPY 108.11 per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant. A realized gain of \$2.5 million and mark-to-market fair value losses of \$1.9 million for a net gain of \$0.6 million were recorded on this foreign exchange forward contract during the three months ended June 30, 2009 due to the expiry and settlement of the forward on May 20, 2009.

Changes in currency translation gains (losses) increased net income by \$19.6 million

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

During the three months ended June 30, 2009, fluctuations in exchange rates resulted in unrealized gains of \$22.9 million and realized gains of \$0.1 million for a total gain of \$23 million as compared to unrealized losses of \$0.8 million and realized gains of \$4.3 million for a net gain of \$3.5 million for the three months ended June 30, 2008.

During the three months ended June 30, 2009, we recorded an unrealized currency translation gain of \$23 million on our US dollar denominated borrowings as a result of the strengthening of the Canadian dollar in the second quarter of 2009. During the three months ended June 30, 2008, we recorded an unrealized currency translation loss of \$1.3 million and a realized gain of \$3.1 million for a net gain of \$1.8 million on our US dollar denominated borrowings.

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

Higher income taxes decreased net income by \$1.8 million

Income taxes increased for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008 due to higher net income and to the recording of tax expense in certain operating subsidiaries arising from the impact of exchange rate movements.

Closure of sodium chlorate production at our Bruderheim, Alberta site decreased net income by \$19.9 million

In April 2009 we announced the closure of our Bruderheim sodium chlorate plant. During the three months ended June 30, 2009 we recorded impairment of \$17.2 million on sodium chlorate assets and incurred \$2.7 million of severance and other closure related costs.

Capital Expenditures

Capital expenditures for the three months ended June 30, 2009 were \$71.4 million as compared to the three months ended June 30, 2008 of \$18.5 million. This increase was due to increases in maintenance capital expenditures of \$1.6 million, continuous improvement capital expenditures of \$1.3 million and expansion capital expenditures of \$50.5 million, partially offset by a decrease in infrastructure and IT capital expenditures of \$1.7 million. In addition, capital expenditures of \$1.2 million were incurred to replace equipment used in the refrigeration stage of chlorine production at our North Vancouver chlor-alkali facility to comply with regulations enacted in British Columbia regarding the use of ozone depleting substances. The increase in maintenance capital expenditures was due to the timing of spending. The increase in continuous improvement capital expenditures was due to expenditures to construct hydrogen gas cooling, compression and piping infrastructure to transport byproduct hydrogen from a nearby plant to Canexus LP's North Vancouver chlor-alkali plant. The hydrogen will be burned in the North Vancouver chlor-alkali plant's boilers to produce steam used in the sodium hydroxide evaporation process and is a replacement for natural gas and therefore will reduce greenhouse gas emissions, energy consumption and cost. The increase in expansion capital expenditures was related to the TCP at our North Vancouver chlor-alkali plant and the project to expand truck loading, rail capacity and product handling capabilities at our Bruderheim, Alberta facility.

The TCP is expected to cost a total of \$235 million of which, \$137.4 million including capitalized interest of \$3.1 million, had been spent at June 30, 2009. The TCP will replace existing 50-year old diaphragm technology and assets with proven membrane technology that is newer, more cost-efficient and environmentally friendly. Project benefits are expected to include incremental annual operating cash flow of between \$35 and \$43 million as a result of decreased production costs and increased plant capacity. The TCP is not expected to have a significant impact on our ongoing chlor-alkali operations until the first quarter of 2010, at which point we anticipate a 4 week shutdown period to complete tie-in's and commission the new membrane technology.

Changes in Net Income Six Months Ended June 30, 2009 versus Six Months Ended June 30, 2008

CAD thousands

Net Income for the Six Months Ended June 30, 2008	6,107
Items Increasing (Decreasing) Net Income	
Sales Revenues	13,565
Cost of Goods Sold	9,044
Amortization	(2,724)
General and Administrative Expense	(3,354)
Interest Expense	1,428
Change in Fair Value and Realized Gains on Foreign Exchange Options	(2,329)
Change in Fair Value and Realized Gains (Losses) on Interest Rate Swaps	(1,583)
Change in Fair Value and Realized Gain on Foreign Exchange Forward	(1,303)
Currency Translation Gains	19,824
Income Taxes	(3,676)
Accrual for Future TCP Severance Costs	8,291
Allowance for Doubtful Accounts	(650)
Impairment of Sodium Chlorate Assets	(17,227)
Sodium Chlorate Plant Closure Costs	(2,651)
Other	119
Net Income for the Six Months Ended June 30, 2009	22,881

Net income for the six months ended June 30, 2009 increased from the six months ended June 30, 2008 by \$16.8 million due to higher realized selling prices in North America and lower cost of goods sold resulting from lower sales volumes and lower electricity and natural gas costs, partially offset by higher fixed costs resulting from a longer, higher cost annual maintenance turnaround at our North Vancouver chlor-alkali facility, as well as changes in currency translation gains, changes in the accrual for future TCP severance costs and lower interest expense, partially offset by higher amortization, higher general and administrative expense, changes in the fair value of and realized gains (losses) on held-for-trading financial instruments, higher income taxes and the impairment of sodium chlorate assets as well as severance and other closure related costs arising due to the closure of our Bruderheim, Alberta sodium chlorate plant.

Net income increased due to an increase in gross margin of \$22.6 million

Six Months Ended June 30, 2009	North America			Total
	Sodium Chlorate ⁽²⁾	Chlor-alkali	South America	
Sales Revenues	108,351	77,739	46,966	233,056
Cost of Goods Sold	66,136	50,326	35,922	152,384
Gross Margin ⁽¹⁾	42,215	27,413	11,044	80,672
Gross Margin (%) ⁽¹⁾	39%	35%	24%	35%

Six Months Ended June 30, 2008	North America			Total
	Sodium Chlorate	Chlor-alkali	South America	
Sales Revenues	104,401	62,606	52,484	219,491
Cost of Goods Sold	74,207	46,557	40,664	161,428
Gross Margin ⁽¹⁾	30,194	16,049	11,820	58,063
Gross Margin (%) ⁽¹⁾	29%	26%	23%	26%

Notes:

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

(2) Revenues and costs of the North American Terminal Operation for the six months ended June 30, 2009 are included in North America Sodium Chlorate.

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased from \$104.4 million for the six months ended June 30, 2008 to \$108.4 million for the six months ended June 30, 2009 due to a 25 percent increase in realized selling prices, partially offset by a decline in sales volumes of 18 percent. The increase in realized selling prices was due to price increases and to the weaker Canadian dollar relative to the US dollar in the first half of 2009 (US \$0.82) as compared to the first half of 2008 (US \$1.00). The decline in sales volumes was due to the deterioration in global pulp demand resulting from the economic downturn and the curtailment of pulp production to manage high inventory levels. The gross margin percentage increased from 29 percent to 39 percent as a result of the increase in realized selling prices, an increase in the percentage of total production from our low-cost Brandon, Manitoba facility, lower electricity costs and lower fixed costs, partially offset by lower production volumes. The decrease in fixed costs was due to the closure of our Bruderheim sodium chlorate plant in April 2009.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased from \$62.6 million for the six months ended June 30, 2008 to \$77.7 million for the six months ended June 30, 2009 as a result of a 55 percent increase in caustic soda realized selling prices, partially offset by a decline in caustic soda sales volumes and decreases in both chlorine sales volumes and realized selling prices. The decline in caustic soda and chlorine sales volumes was due to the economic downturn. The construction sector slowdown resulted in lower chlorine derivative demand and a slowdown in the pulp sector in Western Canada resulting in lower caustic soda demand. The gross margin percentage increased to 35 percent from 26 percent primarily due to the increase in caustic soda realized selling prices, lower electricity and natural gas costs, partially offset by lower production volumes and higher fixed costs. The lower production volumes and higher fixed costs were due to a longer, higher cost annual maintenance turnaround completed in April 2009 resulting in the plant being shutdown for 12 days (as compared to 3 days in the six months ended June 30, 2008).

South America

Sales revenue in South America decreased 11 percent from \$52.5 million for the six months ended June 30, 2008 to \$47 million for the six months ended June 30, 2009 primarily due to lower sales volumes of sodium chlorate (decrease of 5 percent), caustic soda (decrease of 36 percent) and chlorine (decrease of 33 percent), partially offset by higher sodium chlorate realized selling prices (increase of 19 percent) and higher hydrochloric acid sales volumes (increase of 27 percent) and realized selling prices (increase of 19 percent). The decline in sodium chlorate sales volumes was due to lower demand from our primary customer. Lower caustic soda sales volumes were due to a decrease in the volume of caustic soda purchased for resale at the same amount to our primary customer which has historically been provided as a service. Commencing in the first quarter of 2009 we are no longer providing this service. Higher sales volumes of hydrochloric acid and lower sales volumes of chlorine were due to the conversion of more chlorine into hydrochloric acid to supply a new long-term hydrochloric acid customer. The increase in sodium chlorate realized selling prices was due to the pass-through nature of the contract with our primary customer which contributes to higher sales revenues as costs increase and to the weaker Canadian dollar in the first half of 2009 (US \$0.82) versus the first half of 2008 (US \$1.00). The increase in gross margin percentage from 23 percent to 24 percent was primarily due to a decrease in the purchase of caustic soda for resale at the same amount as a service to our primary customer and the impact of the weaker Canadian dollar against the US dollar during the first half of 2009 as compared to the first half of 2008 on our fixed US dollar margins, partially offset by lower production and slightly higher fixed costs as a result of an annual plant maintenance turnaround performed in March.

Higher amortization expense decreased net income by \$2.7 million

The increase in amortization expense for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 was due to the acceleration of the amortization of assets at our North Vancouver chlor-alkali plant which will no longer be utilized following the start up of the TCP, the amortization of costs incurred in 2008 to amend our credit facilities and to the impact of the weaker Canadian dollar on the amortization of our South American assets.

Lower interest expense increased net income by \$1.4 million

The decrease in interest expense for the six months ended June 30, 2009 was primarily due to lower interest rates and higher interest capitalized to major projects, partially offset by higher borrowings.

The amount outstanding on our extendible revolving credit facility at June 30, 2009 was US \$209.5 million as compared to

US \$193 million at June 30, 2008. The weighted average interest rate on borrowings from this credit facility was 2.94 percent for the six months ended June 30, 2009 as compared to 4.49 percent for the six months ended June 30, 2008.

The amount outstanding on our Senior Secured Revolving Credit Facility at June 30, 2009 was US \$11 million. The weighted average interest rate on borrowings from this credit facility was 2.17 percent for the six months ended June 30, 2009. There were no borrowings on this facility at June 30, 2008.

At June 30, 2009 the amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility was US \$6 million. The weighted average interest rate on borrowings from this credit facility was 2.21 percent for the six months ended June 30, 2009. There were no borrowings on this facility at June 30, 2008.

Interest capitalized on major projects during the six months ended June 30, 2009 was \$1.6 million as compared to \$0.6 million during the six months ended June 30, 2008.

Changes in foreign exchange options decreased net income by \$2.3 million

During the six months ended June 30, 2009 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

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

Mark-to-market fair value losses of \$4.4 million and realized gains of \$1.7 million were recorded on these foreign exchange call option contracts for a net loss of \$2.7 million for the six months ended June 30, 2009 as a result of the decline in the value of the Canadian dollar relative to the US dollar during this period, to market expectations of the future value of the Canadian dollar relative to the US dollar and to the shorter remaining term of the contracts. At June 30, 2009 the fair value of these foreign exchange call option contracts was \$4.3 million.

During the six months ended June 30, 2008, Canexus LP had Canadian dollar foreign exchange call option contracts on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 for the period March 1, 2008 to May 31, 2008 and Canadian dollar foreign exchange call option contracts on US \$5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to February 27, 2008. Unrealized mark-to-market fair value losses of \$1.3 million and realized gains of \$0.9 million were recorded on these foreign exchange call option contracts for a net loss of \$0.4 million during the six months ended June 30, 2008.

Changes in interest rate swaps decreased net income by \$1.6 million

Canexus LP has interest rate swap agreements under which we swap 3 month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. We recorded mark-to-market fair value gains of \$1 million and realized losses of \$0.5 million for a net gain of \$0.5 million during the six months ended June 30, 2009 due to market expectations of future 3 month US LIBOR floating rates, partially offset by 3 month US LIBOR floating rates being below the fixed rate of 3.2 percent during this period and to the shorter remaining term of these interest rate swap agreements. At June 30, 2009, the fair value of these interest rate swap agreements resulted in a financial liability of \$1.8 million. During the six months ended June 30, 2008, we recorded mark-to-market fair value gains of \$2 million.

Changes in a foreign exchange forward decreased net income by \$1.3 million

Canexus LP had a foreign exchange forward contract to buy JPY 1.74 billion at a rate of JPY 108.11 per US dollar on May 20, 2009 in order to satisfy a purchase commitment related to the TCP at our North Vancouver chlor-alkali plant. A realized gain of \$2.5 million and mark-to-market fair value losses of \$3.8 million for a net loss of \$1.3 million were recorded on this foreign exchange forward contract during the six months ended June 30, 2009 due to the expiry and settlement of the forward on May 20, 2009.

Changes in currency translation gains (losses) increased net income by \$19.8 million

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

During the six months ended June 30, 2009, fluctuations in exchange rates resulted in unrealized gains of \$17.8 million and realized losses of \$1.5 million for a net gain of \$16.3 million as compared to unrealized losses of \$8.8 million and realized gains of \$5.3 million for a net loss of \$3.5 million for the six months ended June 30, 2008.

During the six months ended June 30, 2009, we recorded an unrealized currency translation gain of \$15.4 million on our US dollar denominated borrowings as a result of the devaluation of the Canadian dollar in the first half of 2009 and realized losses of \$0.7 million on repayments of US \$7 million on our extendible revolving credit facility and repayment of US \$2.6 million on our Senior Secured Revolving Credit Facility in the first quarter of 2009. During the six months ended June 30, 2008, we recorded an unrealized currency translation loss of \$9.5 million on our US dollar denominated borrowings and realized gains of \$3.1 million on the repayment of US \$20 million of our extendible revolving credit facility.

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

Higher income taxes decreased net income by \$3.7 million

Income taxes were higher for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 due to higher net income and to the recording of tax expense in certain operating subsidiaries arising from the impact of exchange rate movements.

Accrual for estimated future TCP severance costs payable increased net income by \$8.3 million

During the six months ended June 30, 2009, we revised the estimate of severance costs payable to employees following start-up of the TCP at our North Vancouver chlor-alkali facility in 2010 down by \$1 million as a result of a current assessment of expected total costs. We initially accrued estimated costs of \$7.3 million for severance costs payable to employees following start-up of the TCP during the six months ended June 30, 2008. These costs and other terms and conditions governing the treatment of employees impacted by the TCP were negotiated and agreed to with the collective bargaining units in 2007. Following start-up of the TCP we expect to be able to permanently reduce our work force at this facility by approximately one-third.

An increase in the allowance for doubtful accounts decreased net income by \$0.7 million

During the six months ended June 30, 2009, Canexus LP recorded an increase of \$0.7 million in its general allowance for doubtful accounts to cover potential credit risk loss exposure to existing customers.

Closure of sodium chlorate production at our Bruderheim, Alberta site decreased net income by \$19.9 million

In April 2009 we announced the closure of our Bruderheim sodium chlorate plant. During the three months ended June 30, 2009 we recorded impairment of \$17.2 million on sodium chlorate assets and incurred \$2.7 million of severance and other closure related costs.

Selected Annual Financial Information

<i>CAD thousands, except as noted</i>	For the Years Ended December 31		
	2008	2007	2006
Sales Volumes			
Sodium Chlorate (000s Metric Tonnes (MT))	449	433	443
Chlor-alkali (000s Metric Electro-Chemical Units (MECU))	187	188	195
Sales Revenues	474,357	413,607	405,331
Cost of Goods Sold	339,060	295,725	285,716
Gross Margin ⁽¹⁾	135,297	117,882	119,615
Gross Margin (%) ⁽¹⁾	29%	29%	30%
Net Income (Loss)	(6,035)	54,547	47,143
Plus: Provision for (Recovery of) Income Taxes	(3,776)	6,884	789
Plus: Amortization	43,408	44,370	40,223
Plus: Interest Expense	11,658	11,377	10,713
EBITDA ⁽¹⁾	45,255	117,178	98,868
Distributions Declared	51,218	70,319	71,992
Distributions Declared (\$/Unit)	0.5928	0.8475	0.8748
Distributable Cash within Canexus LP	83,289	58,116	80,290
Capital Expenditures			
Maintenance	15,100	12,731	12,098
Remediation	1,638	-	-
Infrastructure and IT	-	395	5,215
Continuous Improvement	4,540	1,479	1,242
Expansion	67,213	46,722	8,799
Total Capital Expenditures	88,491	61,327	27,354
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.96	US \$0.92	US \$0.88
	At December 31		
	2008	2007	2006
Total Assets	579,551	488,199	486,384
Total Long-Term Liabilities	346,884	256,084	221,584

Note:

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

The operations of Canexus LP included sodium chlorate production facilities at Beauharnois, Quebec; Brandon, Manitoba; Bruderheim, Alberta and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in South America during the years ended December 31, 2006 through December 31, 2008.

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

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

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

Outlook

North America Sodium Chlorate

The sodium chlorate market began to stabilize during the first quarter of 2009. Market pulp inventories have improved significantly, declining to 34 days of supply in May from a high of 50 days during the first quarter of 2009. Fourth quarter 2008 and first quarter 2009 curtailment measures have been effective in reducing excess pulp inventory. Pulp mills continued to curtail production during the second quarter of 2009 and embarked on regularly scheduled spring maintenance shutdowns. Even as curtailments occurred, pulp demand improved as Chinese buyers significantly increased purchasing activity. However, market reports differ regarding whether the increased Chinese demand is speculative purchasing, and therefore about its sustainability. The combination of lower inventory levels and improved demand enabled softwood and hardwood pulp producers to successfully implement price increases up to US \$40 per air dried metric tonne during the quarter. Late in the second quarter signs began to emerge that indicate pulp operating rates are improving supported by healthier market conditions. Consistent with better market conditions, one pulp producer announced the re-start of a previously idled facility. While a pulp mill restart is generally a positive sign, caution is appropriate as excessive production increases would negatively impact the improved supply/demand balance.

Sodium chlorate demand was approximately 7 percent lower in the second quarter of 2009 than in the prior quarter due to the pulp and paper production curtailments and the pulp mill maintenance shutdowns noted above. In contrast, June shipments increased substantially in conjunction with improved pulp market conditions. Early indications suggest that improved demand is continuing in July. If sodium chlorate demand is sustained at the June level through the current quarter, total third quarter demand will exceed first quarter demand by 5 to 10 percent.

Sodium chlorate operating rates improved in the second quarter, driven primarily by capacity closures. Canexus announced the closure of 70,000 MT nameplate capacity at Bruderheim, Alberta during the quarter. Additionally, another producer is reported to have temporarily idled a facility in the United States, removing approximately 100,000 MT of capacity from the market. Improved pulp and paper market conditions, and therefore increased sodium chlorate demand, is expected to result in further increases in sodium chlorate operating rates in the third quarter. Overall, increasing stability in the pulp market, the possibility of closure of additional uneconomic sodium chlorate capacity, and improving economic conditions later in the year are expected to restore balance to the sodium chlorate market in the second half of 2009.

Modest sodium chlorate price erosion occurred from the first quarter to the second quarter due to lower demand. If market conditions continue to improve in the second half as anticipated, price erosion is expected to slow, and prices are projected to stabilize later in the second half of 2009.

North America Chlor-alkali

North America chlor-alkali industry operating rates remained low in the first quarter of 2009 consistent with depressed economic conditions. Early data indicates that the second quarter operating rate was approximately 70 percent, compared to 90 percent in the same period in 2008, in spite of a chlorine production capacity reduction due to the permanent closure of The Dow Chemical Company's Oyster Creek (Freeport, Texas) diaphragm technology production facility which reduced market capacity by 330,000 MECU's per year (2.5 percent of North America capacity). Chlorine demand continued to be weak in most chemical consumption sectors during the second quarter. The PVC chain, the largest single chlorine consumer, operated at 70 percent of

capacity during the second quarter. Although the PVC production chain capacity utilization continues to be weak, operating rates have increased by 12 percent since the low occurring in December 2008. Isocyanate producers operated at 50 percent of capacity. Chlorine demand improved modestly in the second quarter due to increased seasonal demand for water treatment. Demand for chlorine for water treating will remain strong through the third quarter. Hydrochloric acid demand also decreased during the first quarter, particularly from the steel and oil & gas sectors.

Caustic soda demand declined significantly in the first quarter of 2009 due to production curtailments in the pulp and paper and alumina sectors. Global caustic inventories were high at the close of the first quarter of 2009 and demand did not improve substantially in the second quarter of 2009. Asian supply for export has increased as Asian chlor-alkali producers attempt to find alternative placement following a dramatic demand loss from the alumina sector.

North American caustic soda prices declined substantially beginning in mid-second quarter due to pressure from Asian imports and high producer inventories. Caustic soda prices are expected to continue their decline through the third quarter of 2009 as demand continues to deteriorate consistent with economic weakness. North American producer operating rates, which had been restricted by chlorine demand over the past two quarters, were restricted in the second half of the second quarter due to low caustic soda demand. Chlorine prices stabilized in the second quarter of 2009 as demand increased in the water treatment sector. Subsequently, chlorine price momentum has increased rapidly. Price increases have been implemented that are expected to yield approximately CAD \$100 per MT in July. Additional price increase announcements for August are expected to result in CAD \$30 per MT netback increases. Market conditions support modest further price improvement through the remainder of 2009 as chlorine demand improves but operating rates continue to be constrained by stagnant caustic soda demand.

South America

South America sodium chlorate sales continued to be impacted in the second quarter by variable demand from our largest customer, Aracruz Celulose S.A. ("Aracruz"). Pulp mill operating rate curtailments at the Aracruz mill persisted during the second quarter due to weak global demand. However, market indications indicate that demand for South American pulp began to increase in early third quarter, driven by inventory replenishment in the Asian market. Accordingly, the Aracruz pulp mill operating rates were increased to 100 percent capacity in July, and the mill is expected to operate at capacity for the remainder of 2009. However, because some uncertainty remains in the ability of the pulp market to sustain balance, some variability in pulp production and therefore chlorate demand might be expected for the balance of the year.

Consistent with the prior quarter, chlorine demand in Brazil was weak during the second quarter of 2009. In spite of poor market conditions, Canexus' total chlorine equivalent sales were not significantly impacted due to an increase in hydrochloric acid sales. A 10-year hydrochloric acid supply contract was signed with a key customer, which immediately increased hydrochloric acid sales to that customer by 40 percent. Based on the new, long-term hydrochloric acid demand, capital was approved for the construction of a new hydrochloric acid burner, scheduled to start up in the third quarter of 2010. Hydrochloric acid sales associated with the new contract are projected to increase by another significant increment when the new burner operation commences. In addition to strengthening overall chlorine equivalent sales, increased hydrochloric acid sales have increased chlor-alkali operating rates and therefore reduced the requirement for additional caustic soda purchases to maintain Canexus' supply commitment to Aracruz.

Liquidity and Capital Structure

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

The following table presents the excess (shortfall) of cash flows from operating activities and the excess (shortfall) of net income (loss), over distributions declared for the three months ended June 30, 2009 and June 30, 2008, the six months ended June 30, 2009 and June 30, 2008 and the years ended December 31, 2006 through December 31, 2008.

Canexus LP considers the amount of cash generated by the business in determining the level of distributions to Ordinary and Exchangeable LP Unitholders. We do not take into account changes in non-cash operating working capital as they are considered to be temporary in nature. Distributable Cash within Canexus LP (see "Statement of Distributable Cash" on page 6) is reduced by both maintenance expense (through a reduction in net income) and maintenance capital expenditures (through a

reduction in Distributable Cash within Canexus LP). Maintenance expenditures (both expense and capital) are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels.

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

The ability of Canexus LP to pay distributions and to fund expansion projects is primarily dependent upon future levels of cash from operating activities. 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 34. In addition, Canexus LP has committed credit facilities which can be utilized to fund expansion projects and for other general corporate purposes (see "Capital Resources" on page 31).

	Three Months Ended		Six Months Ended		Years Ended December 31		
	June 30, 2009		June 30, 2009				
	2009	2008	2009	2008	2008	2007	2006
Cash Flows from Operating							
Activities	30,705	8,006	59,427	20,414	72,489	81,869	81,302
Net Income (Loss)	17,132	9,454	22,881	6,107	(6,035)	54,547	47,143
Distributions Declared ⁽¹⁾	13,025	11,496	25,642	22,779	51,218	70,319	71,992
Excess (Shortfall) of Cash Flows from Operating Activities over Distributions Declared	17,680	(3,490)	33,785	(2,365)	21,271	11,550	9,310
Excess (Shortfall) of Net Income (Loss) over Distributions	4,107	(2,042)	(2,761)	(16,672)	(57,253)	(15,772)	(24,849)

Note:

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

Three and Six Months Ended June 30, 2009

Cash from operating activities exceeded distributions declared for the three and six months ended June 30, 2009 as cash was retained to partially finance the TCP at our North Vancouver facility and other expansion projects (See "Executive Summary" and "Highlights" of Canexus LP beginning on page 11). The TCP is being financed through excess distributable cash (the excess of distributable cash generated by the business less distributions paid), the DRIP and our committed credit facilities.

Net income exceeded distributions declared for the three months ended June 30, 2009 as cash was retained to partially finance the TCP at our North Vancouver facility. Net income was reduced in the period by non-cash expenses including amortization, future income taxes and the impairment of sodium chlorate assets at our Bruderheim, Alberta site and was increased by unrealized currency translation gains and changes in fair value of held-for-trading financial instruments.

Distributions declared exceeded net income for the six months ended June 30, 2009 due to non-cash expenses including amortization, changes in fair value of held-for-trading financial instruments, future income taxes and the impairment of sodium chlorate assets at our Bruderheim, Alberta site, partially offset by unrealized currency translation gains.

Three and Six Months Ended June 30, 2008

Distributions declared exceeded cash from operating activities for the three and six months ended June 30, 2008 as a result of temporary net increases in working capital. Cash was retained to partially finance the TCP at our North Vancouver facility and other expansion projects.

Distributions declared exceeded net income for the three months ended June 30, 2008 due to non-cash expenses including amortization, unrealized foreign exchange losses and future income taxes. Cash was retained to partially finance the TCP at our North Vancouver facility and other expansion projects.

Distributions declared exceeded net income for the six months ended June 30, 2008 due to non-cash expenses including amortization, unrealized foreign exchange losses, changes in fair value of held-for-trading financial instruments, future income taxes and an accrual for future TCP severance costs payable in 2010 upon start-up of the TCP.

Years Ended December 31, 2006 through December 31, 2008

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

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

Distributions declared exceeded net income for the year ended December 31, 2006 due to non-cash expenses including amortization and changes in fair value of held-for-trading financial instruments. Cash from operating activities exceeded distributions declared as cash was retained to partially finance the expansion of our Brandon, Manitoba sodium chlorate plant completed in February 2008.

Net Debt and Total Equity

	June 30, 2009	December 31, 2008
Long-Term Debt (excluding Deferred Issue Costs)	321,432	284,107
Less: Cash and Cash Equivalents	(2,399)	(3,948)
Less: Non-Cash Working Capital	(30,038)	(48,391)
Total Net Debt ⁽¹⁾	288,995	231,768
Total Equity ⁽²⁾	170,349	156,968

Notes:

- (1) Includes all debt and is calculated as long-term debt less working capital.
- (2) At June 30, 2009 there were 33,274,091 Ordinary LP Units (held indirectly by the Fund) and 62,718,649 Exchangeable LP Units outstanding. At December 31, 2008 there were 32,570,814 Ordinary LP Units (held indirectly by the Fund) and 56,637,539 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Units of the Funds at the option of Nexen at any time.

Liquidity

During the periods presented, Canexus LP consistently generated positive cash flows from operating activities. Cash generated from operating activities was used to pay distributions and remaining cash, if any, was used to fund expansion capital expenditures including the TCP at our North Vancouver facility.

The following table provides an overview of Canexus LP's cash flows for the three and six months ended June 30, 2009 and June 30, 2008:

	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Change	2009	2008	Change
Cash Flow from Operating Activities	30,705	8,006	22,699	59,427	20,414	39,013
Cash Flow from Financing Activities	36,445	10,146	26,299	39,966	7,972	31,994
Cash Flow used in Investing Activities	(66,903)	(14,178)	(52,725)	(99,429)	(29,013)	(70,416)

Cash Flow from Operating Activities

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

The increase in cash flow from operating activities for the three months ended June 30, 2009 as compared to the three months ended June 30, 2008 was due to an increase in gross margins, lower interest expense, lower contributions to our defined benefit pension plan as a result of the timing of contributions and a decrease in non-cash operating working capital, partially offset by an increase in general and administrative expense and severance and other closure costs related to the closing of our Bruderheim, Alberta sodium chlorate plant. Higher realized gains on held-for-trading financial instruments in 2009 were offset by higher realized currency translation gains in 2008.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended June 30, 2009 was primarily due to lower accounts receivable, lower inventories and operating supplies and lower accounts payable and accrued liabilities after removing the impact of the reclassification of TCP severance costs expected to be paid in the first and second quarters of 2010 to current. Accounts receivable were lower due to lower sodium chlorate sales volumes and lower realized selling prices for both chlor-alkali products and North American sodium chlorate. Finished goods inventories were lower due to lower production volumes for sodium chlorate in response to lower sales volumes and lower chlor-alkali product inventories due to the maintenance turnaround at our North Vancouver chlor-alkali facility during the second quarter. The decrease in accounts payable and accrued liabilities was due to temporary timing differences. The change in due from/to affiliates, net, for the three months ended June 30, 2009 was due to the timing of receipt/payment of amounts owing between affiliates.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended June 30, 2008 was primarily due to higher finished goods inventories and to temporary changes in the amount of accounts receivable, prepaid expenses, accounts payable and accrued liabilities and due from/to affiliates, net. During the three months ended June 30, 2008 we built up sodium chlorate inventories due to a significant customer closing its mills during the quarter and the timing of when shipments to alternate customers began and to take advantage of lower power costs in Alberta in June. In addition, a delayed barge shipment of caustic soda resulted in higher caustic soda inventories as at June 30, 2008.

Cash flow from operating activities increased for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 due to an increase in gross margins, lower interest expense, lower contributions to our defined benefit pension plan as a result of the timing of contributions and a decrease in non-cash operating working capital, partially offset by higher general and administrative expense and severance and other closure costs related to the closing of our Bruderheim sodium chlorate plant. Realized currency translation losses, as compared to gains in the same period the prior year, more than offset an increase in realized gains on held-for-trading financial instruments.

The change in non-cash operating working capital and due from/to affiliates, net, for the six months ended June 30, 2009 was primarily due to lower accounts receivable, lower inventories and operating supplies and lower accounts payable and accrued

liabilities after removing the impact of the reclassification of TCP severance costs expected to be paid in the first and second quarters of 2010 to current. Accounts receivable were lower due to lower sodium chlorate sales volumes. Finished goods inventories were lower due to lower production volumes for sodium chlorate in response to lower sales volumes and lower chlor-alkali product inventories due to the maintenance turnaround at our North Vancouver chlor-alkali facility during the second quarter of 2009. The decrease in accounts payable and accrued liabilities was primarily due to lower accrued bonus amounts.

The change in non-cash operating working capital and due from/to affiliates, net, for the six months ended June 30, 2008 was primarily due to higher finished goods inventories and higher accounts receivable. During the six months ended June 30, 2008 we built up sodium chlorate inventories due to a significant customer closing its mills during the second quarter and the timing of when shipments to alternate customers began and to take advantage of lower power costs in Alberta in June. In addition, a delayed barge shipment of caustic soda resulted in higher caustic soda inventories as at June 30, 2008. The increase in accounts receivable from December 31, 2007 to June 30, 2008 was due to the early payment of amounts owing by Aracruz Celulose S.A., our primary customer in Brazil which resulted in a \$NIL balance receivable from Aracruz Celulose S.A. at December 31, 2007.

Cash Flow from Financing Activities

Changes in cash from (used in) financing activities for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008 are comprised of:

	Three Months Ended	Six Months Ended
Repayments of Short-Term Borrowings, Net	9,544	7,238
Issuance of Senior Secured Notes	(50,708)	(50,708)
Proceeds from Extendible Revolving Credit Facility	37,903	38,995
Proceeds from Senior Secured Revolving Credit Facility	4,185	16,292
Repayments of Extendible Revolving Credit Facility	23,386	15,205
Repayments of Senior Secured Revolving Credit Facility	-	(3,148)
Deferred Financing and Issue Costs	1,266	2,354
Funding of Asset Retirement Expenditures from Restricted Investments	1,090	2,060
Distributions Paid to Ordinary and Exchangeable LP Unitholders	(367)	3,706
	26,299	31,994

Cash Flow used in Investing Activities

Changes in cash used in investing activities for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008 are comprised of:

	Three Months Ended	Six Months Ended
Expenditures on Property, Plant and Equipment	(52,874)	(75,336)
Changes in Non-Cash Investing Working Capital	149	4,920
	(52,725)	(70,416)

Future Liquidity

The future liquidity of Canexus LP will be primarily dependent on cash flows from operating activities which will be used to finance its ongoing maintenance capital expenditures, distributions to Unitholders and normal course financial commitments.

Cash flows are sensitive to changes in sales volumes and 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 34. Management believes cash flows from operating activities will be sufficient for Canexus LP to meet future obligations and commitments that arise in the normal course of its business activities. In addition, Canexus LP has committed credit facilities which can be used for general corporate purposes and to fund capital expenditures. See "Capital Resources" on page 31.

Debt Covenants

At June 30, 2009, Canexus LP was in compliance with all ongoing covenants (financial and non-financial) and conditions contained in its extendible revolving credit facilities agreements and the note indenture governing the Senior Secured Notes.

	Twelve Months Ended	
	June 30, 2009	December 31, 2008
Net Income (Loss)	10,739	(6,035)
Interest	10,230	11,658
Income Taxes	(100)	(3,776)
Amortization	46,132	43,408
Non-Cash (Income) Expense Items	54,860	66,806
Canexus Income Fund Trust Administration Expense	(307)	(297)
Consolidated EBITDA	121,554	111,764
Short-Term Borrowings	4,520	10,870
Long-Term Debt (before Deferred Issue Costs)	321,432	284,107
Consolidated Senior Debt	325,952	294,977
Consolidated Total Debt	325,952	294,977
Interest	10,230	11,658
Capitalized Interest and Letter of Credit Fees	3,231	1,919
Consolidated Interest Expense	13,461	13,577
Consolidated Senior Debt to EBITDA Ratio	2.68:1	2.64:1
Consolidated Total Debt to EBITDA Ratio	2.68:1	2.64:1
Consolidated EBITDA to Interest Expense Ratio	9.03:1	8.23:1

Capital Resources

Canexus LP had commitments of \$60.2 million at June 30, 2009 and \$76.5 million at August 12, 2009, in addition to project inception-to-date expenditures at June 30, 2009 of \$137.4 million, including capitalized interest of \$3.1 million, for the TCP at our North Vancouver chlor-alkali facility. The TCP is being financed through excess distributable cash, the DRIP and our committed credit facilities. Management anticipates ongoing annual maintenance capital expenditures of approximately \$14.5 million (\$15.5 million for 2009), which will be financed primarily out of cash flows from operating activities. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Units of the Fund or other securities of the Fund.

Canexus LP has a \$420 million, four year revolving credit facility which matures August 18, 2011 and which can be extended each year, at the option of the lenders, for an additional year. The credit facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. The credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down the credit facility in either Canadian or US dollars. At June 30, 2009, Canexus LP had \$243.5 million (US \$209.5 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet at June 30, 2009. Short-term swing line loans of up to \$35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$420 million. At June 30, 2009, Canexus LP had \$4.5 million of swing line loans outstanding which are included in Short-Term Borrowings on Canexus LP's unaudited consolidated balance sheet at June 30, 2009.

Canexus LP has a US \$20 million Senior Secured Revolving Credit Facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011. Proceeds from this facility are available for general corporate and partnership purposes including capital expenditures and acquisitions and the construction and completion of the TCP. At June 30, 2009, Canexus LP had \$12.8 million (US \$11 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet at June 30, 2009.

Canexus Brazil has a US \$10 million EDC Extendible Revolving Credit Facility which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At June 30, 2009, Canexus Brazil had \$7 million (US \$6 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet at June 30, 2009.

Canexus LP has US \$50 million of Senior Secured Notes payable outstanding which bear interest at a fixed interest rate of 6.57 percent and which mature May 1, 2013. The Canadian dollar equivalent of the US \$50 million Senior Secured Notes of \$58.1 million is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet at June 30, 2009.

Canexus LP is the applicant on three Letters of Credit as at June 30, 2009 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.3 million), the Chlorine Engineers Corporation Ltd. related to the guarantee for final payment of an electrolyzer system for the TCP (US \$2.1 million) and the Independent System Operator for power curtailment obligations (\$0.2 million). The CIBC Mellon Letter of Credit expires January 1, 2010 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires December 30, 2009 and has no automatic renewal clause. The Independent System Operators Letter of Credit expires on December 1, 2009 and is automatically renewed for one year periods unless otherwise advised. On May 31, 2009, the Chlorine Engineers Corporation Ltd. letter of credit for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million) expired upon payment of the obligations.

Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. At June 30, 2009 these obligations and commitments were as follows:

	Total	2009	2010	2011	2012	2013	Thereafter
Operating Leases ⁽¹⁾	104,854	10,789	16,929	16,147	14,233	11,305	35,451
Purchase Obligations ⁽²⁾	70,246	4,345	13,926	14,045	14,169	14,308	9,453
Expansion Capital Expenditures ⁽³⁾	63,967	52,585	11,382	-	-	-	-
Asset Retirement Obligations ⁽⁴⁾	74,105	1,254	2,655	1,125	-	-	69,071
Long-Term Debt ⁽⁵⁾	321,432	-	-	256,332	-	65,100	-
Interest Payments on Senior Secured Notes	15,275	1,909	3,819	3,819	3,819	1,909	-
Total	649,879	70,882	48,711	291,468	32,221	92,622	113,975

Notes:

- Payments for operating leases reduce cash flow from operating activities. Operating leases include minimum lease payment obligations associated with leases for office space, rail cars, vehicles, software maintenance contracts and other property and equipment leases.*
- Purchase obligations include the contractual commitment for the purchase of electricity in South America, 90% to 100% of the cost of which is passed through to our primary customer and minimum purchase commitments under some multi-year salt supply contracts.*
- Capital expenditures committed at June 30, 2009 are primarily related to the TCP at our North Vancouver chlor-alkali facility. The total estimated cost of this project is \$235 million, of which \$60.6 million has been included in the table above as committed and \$137.4 million, including capitalized interest of \$3.1 million, had been spent at June 30, 2009.*
- At June 30, 2009, undiscounted asset retirement obligations are \$74.1 million. The estimated fair value (\$47.3 million) of these obligations has been provided for in Canexus LP's unaudited consolidated financial statements (See Note 12 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009). The timing of any payments is difficult to determine with certainty and have been included in the table above using best estimates. Canexus LP has \$7.2 million of restricted investments to be used for future site remediation and asset retirement obligations. Approximately \$4.1 million of restricted investments were invested in non-bank sponsored ("third party") asset backed commercial paper ("ABCP") that was due to be received on September 28, 2007 and was not repaid when due. On January 22, 2009, the ABCP was replaced with long-term asset backed securities ("Restructured Notes") which are divided into several classes. Canexus LP has recorded a \$2.2 million allowance for estimated impairment in value at June 30, 2009 (See Note 10 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009).*
- Long-Term Debt amounts are included in Canexus LP's June 30, 2009 unaudited consolidated balance sheet (See Note 11 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009). The Extendible Revolving Credit Facility balance will fluctuate and does not have fixed repayment terms. Interest is payable on the outstanding balance at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. The Senior Secured Revolving Credit Facility balance will fluctuate and does not have fixed repayment terms. Interest is payable on the outstanding balance based on either the US base rate or the US LIBOR rate at our option. The EDC Extendible Revolving Credit Facility balance will fluctuate and does not have fixed repayment terms. Interest is payable at a rate based on the US*

LIBOR rate. Interest payments on the Extendible Revolving Credit Facility, the Senior Secured 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 6.57 percent. Interest payments have been included in the table above at the Canadian dollar equivalent of the US dollar interest payments using the June 30, 2009 Bank of Canada noon day US dollar to Canadian dollar foreign exchange rate.

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

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

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the June 30, 2009 unaudited consolidated balance sheet however, these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

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

Contingent Liabilities

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

Guarantees

Canexus LP has a \$420 million Extendible Revolving Credit Facility with a syndicate of financial institutions that matures on August 18, 2011, a portion of which was used to acquire the chemicals business and can otherwise be used for general corporate and partnership purposes, including future acquisitions and capital expenditures. The credit facility is available for draw down during the revolving period. The credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may draw down the credit facility in either Canadian or US dollars. Short-term swing line loans of up to \$35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$420 million.

Canexus LP also has a US \$20 million Senior Secured Revolving Credit Facility which bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011. Proceeds from this facility are available for general corporate and partnership purposes including capital expenditures and acquisitions and the construction and completion of the TCP.

Canexus LP has US \$50 million of Senior Secured Notes payable outstanding which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013.

Canexus Brazil has a US \$10 million EDC Extendible Revolving Credit Facility which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures.

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

Market and Financial Risk Analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business as well as, financial risks. Included in the risks faced by Canexus LP are product price and volume risk, electricity price risk, foreign currency rate risk, interest rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form for the year ended December 31, 2008 filed on the Fund's SEDAR profile at www.sedar.com.

Product Price and Volume Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate, net income before income taxes for the three and six months ended June 30, 2009 would have changed by \$3.8 million and \$8 million respectively. For every \$100 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the three and six months ended June 30, 2009 would have changed by \$3.4 million and \$6.5 million respectively. These sensitivities to changes in prices are based on 77,000 MT of North American sodium chlorate sales and 34,000 MECU's of North American chlor-alkali sales for the three months ended June 30, 2009 and 159,000 MT of North American sodium chlorate sales and 65,000 MECU's of North American chlor-alkali sales for the six months ended June 30, 2009. Sensitivities of \$50 per MT for sodium chlorate and \$100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the current economic uncertainty. A change in sales volumes for North American sodium chlorate of 10,000 MT for the three months ended June 30, 2009 and 20,000 MT for the six months ended June 30, 2009 would have changed net income before income taxes for the three and six months ended June 30, 2009 by \$2.7 million and \$5.8 million respectively. A change in sales volumes for North American chlor-alkali products of 5,000 MECU's for the three months ended June 30, 2009 and 10,000 MECUs for the six months ended June 30, 2009 would have changed net income before income taxes for the three and six months ended June 30, 2009 by \$3.1 million and \$7.1 million respectively. These sales volume changes are considered to be reasonably possible due to current economic conditions.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in Brazil, Aracruz Celulose S.A., typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). Market prices in Brazil exceeded the Canexus Price for the three and six months ended June 30, 2009. For every 1,000 MT of caustic soda we do not produce net income before income taxes would have decreased by \$0.4 million for the three months ended June 30, 2009 and \$1.3 million for the six months ended June 30, 2009. For the three and six months ended June 30, 2009 we acquired 561 MT and 2,368 MT of caustic soda respectively to make up for our production shortfall below operating capacity.

Electricity Price Risk

The cost of electricity is a key production cost. For every 3 percent change in the price of electricity, net income before income taxes would have changed by \$0.4 million for the three months ended June 30, 2009 and by \$0.9 million for the six months ended June 30, 2009. This sensitivity to changes in electricity prices is based on electricity consumption of 453,000 MWh for the three months ended June 30, 2009 and 1,002,000 MWh for the six months ended June 30, 2009.

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

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. An increase in the Canadian to US dollar exchange rate to US \$1.00 for the three month period would have decreased net income before income taxes by \$6.1 million for the three months ended June 30, 2009 and \$13.2 million for the six months ended June 30, 2009 before the impact of hedging instruments. A decrease in the Canadian to US dollar exchange rate to US \$0.75 for the three month period would have increased net income before income taxes by \$3.6 million for the three months ended June 30, 2009 and \$6.6 million for the six months ended June 30, 2009.

A range of US \$0.75 to US \$1.00 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenditures in US dollars. In addition, Canexus LP has foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.8200 (US \$5 million per month) and US \$0.8170 (US \$5 million per month) for an average of US \$0.8185 per Canadian dollar from January 1, 2009 to December 31, 2009.

On May 19, 2009, Canexus LP entered into a foreign exchange swap agreement pursuant to which we will receive JPY 16.2 million for US \$0.2 million on November 17, 2009 in order to satisfy the final payment for an electrolyzer system for the TCP at our North Vancouver chlor-alkali plant.

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

Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. A change in the 30 day US LIBOR base rate to 0.2 percent would have increased net income before income taxes by \$0.1 million for the three months ended June 30, 2009 and \$0.2 million for the six months ended June 30, 2009. A change in the 30 day US LIBOR base rate to 3 percent would have decreased net income before income taxes by \$1.3 million for the three months ended June 30, 2009 and \$2.4 million for the six months ended June 30, 2009. A range of 0.2 to 3 percent for the US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap 3 month US LIBOR floating interest rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. These interest rate swaps are settled quarterly. The fair value of these interest rate swap agreements are included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at June 30, 2009 with changes in their fair value included in Other Income (Expense) (See Note 16 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009). Fair value has been determined by management based on the estimated cash payment or receipt necessary to settle the contracts with counterparty financial institutions.

Credit Risk

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

- the financial strength of counterparties is assessed through a rigorous credit process;
- the total exposure extended to individual counterparties is limited, and collateral may be required from some counterparties;
- credit risk exposures are routinely monitored, including sector, geographic and corporate concentrations of credit;

- credit limits are set based on rating agency credit ratings and internal assessments based on company and industry analysis;
- counterparty credit limits are reviewed regularly; and
- credit limits are periodically reviewed with the Audit Committee of the Board of Directors.

Our North American customers are diverse with no one customer accounting for more than 10 percent of total trade accounts receivable at June 30, 2009 (December 31, 2008 – 8 percent).

The majority of our South America production is sold to Aracruz Celulose S.A. under a long-term sales agreement. At June 30, 2009, trade amounts owing from Aracruz Celulose S.A. represented 14 percent of total trade accounts receivable (December 31, 2008 – 21 percent).

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

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

Derivative Financial Instruments and Off-Balance Sheet Arrangements

At June 30, 2009, Canexus LP did not have any material off-balance sheet arrangements.

At June 30, 2009, Canexus LP had Canadian dollar foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.8200 per Canadian dollar and to sell US \$5 million per month and acquire Canadian dollars at a price of US \$0.8170 per Canadian dollar from January 1, 2009 through December 31, 2009. These option contracts cover virtually all of our net exposure to the US dollar for 2009. The fair value of these contracts is included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at June 30, 2009 and changes in their fair value are included in Other Income (Expense) (See Note 16 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009).

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

At June 30, 2009, Canexus LP had interest rate swap agreements under which we swap 3 month US LIBOR floating interest for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. These interest rate swap agreements are settled quarterly. The fair value of these interest rate swap agreements is included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at June 30, 2009 and changes in their fair value are included in Other Income (Expense) (See Note 16 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009).

At June 30, 2009, Canexus LP had a foreign exchange swap agreement pursuant to which we will receive JPY 16.2 million for US \$0.2 million on November 17, 2009. The fair value of this foreign exchange swap agreement is included in Derivative Financial Instruments on Canexus LP's unaudited consolidated balance sheet at June 30, 2009 and changes in its fair value are included in Other Income (Expense) (See Note 16 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2009).

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

Transactions with Related Parties

Due to affiliates, net, at June 30, 2009 and December 31, 2008 relate to amounts owing in the normal course of operations as discussed below.

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

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. Amounts owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at June 30, 2009 were \$NIL (December 31, 2008 – \$NIL).

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Electricity Purchases and Retail Service Fees	543	4,552	2,037	9,447
Natural Gas Purchases and Retail Service Fees	627	2,919	2,062	5,542
Lease of Office Space	210	233	420	426
	1,380	7,704	4,519	15,415

Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for Nexen owned condensate for a term of 5 years for a total contract value of approximately \$2.1 million. Revenue recognized from the Nexen affiliate for the provision of these services was \$76,000 for the three month and six months ended June 30, 2009 and amounts owing by Nexen at June 30, 2009 for these services were \$76,000.

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

Critical Accounting Estimates

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

Impairment of Long Lived Assets

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

At June 30, 2009, an evaluation of events and changes in circumstances did not lead to any indications of impairment.

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

Asset Retirement Obligations

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

Asset retirement obligations for Canexus LP's North America sodium chlorate, North America chlor-alkali and South America operating segments are recorded in the unaudited consolidated financial statements of Canexus LP by discounting, to the present value, the estimated retirement obligations associated with its chemical plants using a weighted average credit-adjusted risk free rate of 5.1 percent. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment (PP&E) which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

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

Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Fund and Canexus LP adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this section did not have a significant impact on either the Fund's or Canexus LP's results of operations or financial position.

Future Accounting Pronouncements

Financial Instruments

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. These disclosures are effective for the Fund's and Canexus LP's December 31, 2009 annual consolidated financial statements. We do not expect these amendments to have a significant impact on the Fund's or Canexus LP's results of operations or financial position.

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

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

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

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

Section 1602 establishes standards for the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The new requirements will apply to interim and annual consolidated financial

statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted at the beginning of a fiscal year.

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

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

Conversion to International Financial Reporting Standards

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

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

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

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

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

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

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

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

The Implementation phase is anticipated to begin in August 2009 and will overlap the Analysis and Development phase. This phase will involve the execution of changes to operational and financial processes and controls; changes to information technology systems; formal management and Audit Committee approval for the IFRS 1 exemptions utilized and accounting

policy and disclosure changes required to become IFRS compliant and further training of staff, as required. Completion of this phase will result in operational and financial processes and information technology systems which enable the collection and reporting of IFRS compliant financial statements and the approval by the Board of Directors of IFRS compliant financial statements.

Forward Looking Statements and Information

This MD&A contains forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries including with respect to the timing of the Brazil sodium chlorate and hydrochloric acid expansions, expected future hydrochloric acid demand following the completion of the expansion in Brazil, operating rates of our primary customer in Brazil, the stability of the North American sodium chlorate market, North and South American sodium chlorate demand, North American sodium chlorate prices, global caustic soda demand, North American caustic soda and chlorine prices, expected timing of completion of the TCP, TCP contributions to operating cash flow, expected workforce reductions as a result of the TCP, expected TCP final costs, expected future levels of maintenance capital expenditures and anticipated future operating rates. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. Forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form for the year ended December 31, 2008 filed on the Fund's SEDAR profile at www.sedar.com. Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified and that such information is accumulated and communicated to our management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance.

Internal Controls over Financial Reporting

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

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 June 30, 2009.

Canexus Income Fund

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Six Months Ended June 30, 2009

Unaudited Consolidated Statements of Income and Comprehensive Income

Canexus Income Fund

For the Three and Six Months Ended June 30, 2009 and 2008

CAD thousands, except per unit amounts	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenues				
Equity Income from Investment in Canexus Limited Partnership	5,994	3,602	8,056	2,311
Expenses				
Trust Administration Expenses	75	88	186	176
Unit Based Compensation (Note 11)	359	483	581	593
	434	571	767	769
Income Before Future Income Taxes	5,560	3,031	7,289	1,542
Provision for (Recovery of) Future Income Taxes (Note 12)	(156)	109	(595)	520
Net Income and Comprehensive Income	5,716	2,922	7,884	1,022
Earnings Per Unit (Note 6)	0.17	0.09	0.24	0.03
Diluted Earnings Per Unit (Note 6)	0.17	0.09	0.24	0.03

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Statements of Deficit

Canexus Income Fund

For the Three and Six Months Ended June 30, 2009 and 2008

<i>CAD thousands</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Beginning of Period	(56,294)	(38,573)	(53,962)	(32,328)
Net Income	5,716	2,922	7,884	1,022
Distributions Declared	(4,541)	(4,370)	(9,041)	(8,715)
End of Period	(55,119)	(40,021)	(55,119)	(40,021)

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Balance Sheets

Canexus Income Fund

As at June 30, 2009 and December 31, 2008

<i>CAD thousands</i>	June 30 2009	December 31 2008
ASSETS		
Current Assets		
Cash	2	1
Due from Affiliates, Net	111	277
Distribution Receivable from Canexus Limited Partnership	1,517	2,970
Prepaid Expenses	17	31
Total Current Assets	1,647	3,279
Investment in Canexus Limited Partnership (Note 7)	285,430	284,240
Total Assets	287,077	287,519
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	2	-
Distribution Payable to Unitholders (Note 10)	1,517	2,970
Total Current Liabilities	1,519	2,970
Future Income Taxes (Note 12)	10,978	11,573
Equity		
Unitholders' Equity (33,275,187 Fund Units outstanding) (Note 5)	322,983	320,801
Contributed Surplus (Note 11)	6,716	6,137
Deficit	(55,119)	(53,962)
Total Equity	274,580	272,976
Total Liabilities and Equity	287,077	287,519

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Statements of Cash Flows

Canexus Income Fund

For the Three and Six Months Ended June 30, 2009 and 2008

<i>CAD thousands</i>	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating Activities				
Net Income	5,716	2,922	7,884	1,022
Charges and Credits to Income Not Involving Cash				
Equity Income from Investment in Canexus Limited Partnership	(5,994)	(3,602)	(8,056)	(2,311)
Unit Based Compensation	359	483	581	593
Future Income Taxes	(156)	109	(595)	520
Cash Distributions Received from Canexus Limited Partnership	3,603	3,235	8,318	7,417
Change in Due from Affiliates, Net	71	105	166	163
Change in Non-Cash Operating Working Capital	1	(17)	17	13
	3,600	3,235	8,315	7,417
Financing Activities				
Cash Distributions Paid	(3,603)	(3,235)	(8,318)	(7,417)
Fund Units Issued on Exercise of Options	4	-	4	-
	(3,599)	(3,235)	(8,314)	(7,417)
Increase in Cash	1	-	1	-
Cash – Beginning of Period	1	-	1	-
Cash – End of Period	2	-	2	-

See accompanying notes to the Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements

Canexus Income Fund

For the Three and Six Months Ended June 30, 2009 and 2008

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

1. Organization and Business of the Fund

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

As at June 30, 2009, the Fund held an indirect 34.7 percent (December 31, 2008 – 36.5 percent; June 30, 2008 – 37.9 percent) interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP. Nexen Inc. ("Nexen") held a 65.3 percent (December 31, 2008 – 63.5 percent; June 30, 2008 – 62.1 percent) controlling interest in Canexus LP.

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

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2008. The Fund is required to report comprehensive income and its components in the financial statements. The Fund has no other comprehensive income components and accordingly the Fund's comprehensive income equals net income.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at June 30, 2009 and the results of its operations and cash flows for the three and six months ended June 30, 2009 and June 30, 2008. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2008, except as described in Note 3.

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

3. Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Fund adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this section did not have any impact on the Fund's results of operations or financial position.

4. Future Accounting Pronouncements

Financial Instruments

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. These disclosures are effective for the Fund's December 31, 2009 annual consolidated financial statements. We do not expect these amendments to have a significant impact on the Fund's results of operations or financial position.

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

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

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

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

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

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

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

5. Unitholders' Equity

	June 30, 2009		December 31, 2008	
	Number of Units	Amount	Number of Units	Amount
Beginning of Period	32,570,814	320,801	31,750,000	317,500
Fund Units Issued Pursuant to the DRIP	703,277	2,176	820,814	3,301
Fund Units Issued on Exercise of Options	1,096	6	-	-
End of Period	33,275,187	322,983	32,570,814	320,801

Under the Distribution Reinvestment Plan ("DRIP") participants may elect, in the case of holders of Units of the Fund ("Units" or "Fund Units"), to automatically reinvest monthly distributions in additional Units of the Fund and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP.

Pursuant to the DRIP, cash distributions will be reinvested in additional Units at 95 percent of the volume weighted average market price of Units of the Fund for the 10 trading days preceding the distribution payment date. Units acquired under the DRIP will be issued directly from the Fund's or Canexus LP's treasury, as applicable. The Fund has reserved 17,000,000 Units for the issuance of Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between Canexus Income Fund, Canexus Commercial Trust, Canexus Limited Partnership and Nexen, the Exchangeable LP Units held by Nexen are exchangeable for Units of the Fund on a one-for-one basis. The Fund has reserved 62,718,649 Units as at June 30, 2009 (December 31, 2008 – 56,637,539 Units) for the exchange of the Exchangeable LP Units.

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

6. Earnings Per Unit

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Weighted Average Number of Units Outstanding	33,152,774	31,910,470	32,985,585	31,833,298
Units Issuable Pursuant to Deferred Trust Units ("DTUs") and Notional Reinvestments (Note 11(b))	175,329	103,902	171,418	102,341
Units Issuable Pursuant to Options and Corresponding Bonus Rights (Note 11(a))	948,186	1,046,158	926,153	1,017,661
Notional Units to be Purchased from Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	(744,256)	(937,376)	(800,907)	(970,195)
Weighted Average Number of Diluted Units Outstanding	33,532,033	32,123,154	33,282,249	31,983,105

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

In calculating the weighted average number of diluted Units outstanding for the three months ended June 30, 2009, 134,000 weighted average DTUs and 41,329 corresponding weighted average additional DTUs (from notional reinvestments) were included and 852,600 weighted average Unit options and 95,586 corresponding weighted average notional bonus Units were included. We excluded 1,992,300 Unit options and 854,694 corresponding notional bonus Units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Units outstanding for the three months ended June 30, 2008, 87,000 weighted average DTUs and 16,902 corresponding weighted average additional DTUs (from notional reinvestments) were included and 986,066 weighted average Unit options and 60,092 corresponding weighted average notional bonus Units were included. We excluded 1,236,300 Unit options and 391,744 corresponding notional bonus Units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

In calculating the weighted average number of diluted Units outstanding for the six months ended June 30, 2009, 134,000 weighted average DTUs and 37,418 corresponding weighted average additional DTUs (from notional reinvestments) were included and 852,600 weighted average Unit options and 73,553 corresponding weighted average notional bonus Units were included. We excluded 1,992,300 Unit options and 854,694 corresponding notional bonus Units as their option exercise price was greater than the average Unit trading price and associated distributions declared. In calculating the weighted average number of diluted Units outstanding for the six months ended June 30, 2008, 87,000 weighted average DTUs and 15,341 corresponding weighted average additional DTUs (from notional reinvestments) were included and 981,500 weighted average Unit options and 36,161 corresponding weighted average notional bonus Units were included. We excluded 1,245,800 Unit

options and 391,804 corresponding notional bonus Units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

7. Investment in Canexus LP

	June 30, 2009		December 31, 2008	
	Number of Ordinary LP Units	Amount	Number of Ordinary LP Units	Amount
Beginning of Period	32,570,814	284,240	31,750,000	302,667
Equity Income (Loss) from Investment in Canexus LP	-	8,056	-	(2,141)
Distributions Reinvested Pursuant to the DRIP	703,277	2,176	820,814	3,301
Distributions Received from Canexus LP	-	(7,525)	-	(16,617)
Distribution Receivable from Canexus LP	-	(1,517)	-	(2,970)
End of Period	33,274,091	285,430	32,570,814	284,240

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

8. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	June 30 2009	December 31 2008
Financial Assets		
Loans and Receivables, measured at amortized cost		
Due from Affiliates	111	277
Distribution Receivable from Canexus LP	1,517	2,970
Total Financial Assets	1,628	3,247
Financial Liabilities		
Other Financial Liabilities, measured at amortized cost		
Accounts Payable and Accrued Liabilities	2	-
Distribution Payable to Unitholders	1,517	2,970
Total Other Financial Liabilities	1,519	2,970

The Fund did not have held-for-trading or available-for-sale financial instruments as at or during the three and six months ended June 30, 2009 and the year ended December 31, 2008. There has been no change in the nature of financial instruments of the Fund, the methods used by the Fund to measure the risks arising from financial instruments or in the Fund's objectives, policies and processes for managing such risks since the year ended December 31, 2008.

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

(b) Financial Risk Management

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

9. Capital Risk Management

The Fund manages its capital to ensure that it has the financial capacity and liquidity to meet obligations as they come due and to provide returns to Unitholders. The capital structure of the Fund consists of issued capital. The Fund manages its capital structure and makes adjustments in order to preserve its ability to meet financial obligations, to provide an appropriate investment return to the Fund's Unitholders and to allow financing options to the Fund as financing needs arise. Management, upon approval of the Board of Directors, may balance the Fund's overall capital structure through new Unit issues, the issuance of debt or by undertaking other activities as deemed appropriate. There has been no change in the Fund's objectives, policies and processes for managing capital since the year ended December 31, 2008.

10. Distributions

The Fund pays monthly distributions to its Unitholders of record on the last business day of each month approximately 15 days after the end of each month. At June 30, 2009, the Fund had a distribution payable of \$1.5 million.

The Fund declared distributions of \$4.5 million (\$0.1368 per Unit) for the three months ended June 30, 2009 and \$9.0 million (\$0.2736 per Unit) for the six months ended June 30, 2009. Of the total distributions paid for the three and six months ended June 30, 2009, \$0.9 million and \$2.2 million respectively, were reinvested by Unitholders in additional Fund Units pursuant to the DRIP (See Note 5). The Fund declared distributions of \$4.4 million (\$0.1368 per Unit) for the three months ended June 30, 2008 and \$8.7 million (\$0.2736 per Unit) for the six months ended June 30, 2008. Total distributions of \$78.2 million (\$2.4589 per Unit) have been declared from inception of the Fund to June 30, 2009.

11. Unit Based Compensation

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

(a) Trust Unit Incentive Plan

Number of Unit Options	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Outstanding, Beginning of Period	2,840,400	2,229,800	2,874,900	2,314,800
Granted	25,500	9,500	60,500	22,000
Exercised	(1,096)	-	(1,096)	-
Forfeited	(19,904)	(12,000)	(89,404)	(109,500)
Outstanding, End of Period	2,844,900	2,227,300	2,844,900	2,227,300
Exercisable, End of Period	1,188,151	601,677	1,188,151	601,677

Weighted Average Exercise Prices	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Outstanding, Beginning of Period	5.79	6.97	5.85	7.06
Granted	4.11	4.68	3.45	4.87
Exercised	(4.89)	-	(4.89)	-
Forfeited	(6.25)	(8.97)	(4.85)	(8.61)
Outstanding, End of Period	5.78	6.96	5.78	6.96
Exercisable, End of Period	7.84	8.63	7.84	8.63

The range of exercise prices for Unit options outstanding at June 30, 2009 was \$2.99 to \$10.00 per Unit and the weighted average remaining contractual life was 3.07 years.

The Fund recognized unit based compensation for the three and six months ended June 30, 2009 of \$359,000 and \$581,000 respectively with a corresponding increase to contributed surplus since these instruments are settled by issuing Units of the Fund and are not settled in cash.

The Fund has granted options and corresponding bonus rights to officers and employees under the TUIP.

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

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

The number of Units reserved under the TUIP and the DTUCP (the "Plans") is equal to 5 percent of the aggregate issued and outstanding Units and Exchangeable LP Units (June 30, 2009 – 4,799,692), which is the maximum allowable under the Plans (on a non-diluted basis). Of the maximum allowable under the Plans the aggregate number of Units reserved under the DTUCP is 400,000 (see 11(b) below). As at June 30, 2009, 3,811,441 Units (June 30, 2008 – 2,693,899 Units) are reserved and available for issuance upon the exercise of options and redemption of bonus rights under the TUIP and 178,230 Units (June 30, 2008 – 105,292 Units) are reserved and available for issuance under the DTUCP.

As at June 30, 2009, a total of 2,844,900 Unit options and 2,844,900 corresponding bonus rights have been granted. Accumulated notional bonus Units on these bonus rights were 966,541 as at June 30, 2009. At June 30, 2009, there were 1,188,151 vested Unit options exercisable into 1,188,151 Units, as well as 1,188,151 corresponding bonus rights redeemable into 599,673 notional bonus Units accumulated thereon.

As at June 30, 2008, a total of 2,227,300 Unit options and 2,227,300 corresponding bonus rights had been granted. Accumulated notional bonus Units on these bonus rights were 466,599 as at June 30, 2008. At June 30, 2008, there were 601,677 vested Unit options exercisable into 601,677 Units, as well as 601,677 corresponding bonus rights redeemable into 205,541 notional bonus Units accumulated thereon.

The weighted average fair value of Unit options issued is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for Unit options granted:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Risk-Free Interest Rate (%)	3.88	4.33	2.85	4.28
Estimated Hold Period Prior to Exercise (years)	3	3	3	3
Expected Volatility in the Price of Units (%)	40.6	31.4	40.10	31.5
Expected Annual Distributions per Unit	-	0.5472	-	0.5472
Fair Value of Options Granted During the Period	1.24	0.62	0.76	0.59

The method of estimating the weighted average fair value of Unit options issued was revised in the three-month and six-month periods ended June 30, 2009 to better reflect that the issuance of bonus rights, associated with the Unit options, account for expected annual distributions of \$0.5472 per Unit while the Unit options are outstanding. This change in estimate does not have a material impact on the weighted average fair value of the Unit options.

(b) Deferred Trust Unit Compensation Plan

As at June 30, 2009, there were 178,230 DTUs outstanding under the DTUCP comprised of 134,000 DTUs granted and 44,230 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. As at June 30, 2008, there were 105,292 DTUs outstanding under the DTUCP comprised of 87,000 DTUs granted and 18,292 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

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

12. Income Taxes

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

The Fund, a specified investment flow-through entity, will be subject to income tax beginning in 2011. As a result, the Fund has recognized an \$11.0 million future income tax liability as at June 30, 2009 (December 31, 2008 – \$11.6 million) on temporary differences in reported amounts for financial statement and tax purposes in the property, plant and equipment underlying its investment in Canexus LP. These differences are expected to reverse subsequent to 2010.

13. Related Party Transactions

Canexus Limited, as administrator of Canexus Income Fund and indirectly, the Trustee of Canexus Commercial Trust and the General Partner of Canexus Limited Partnership incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the three and six months ended June 30, 2009 were \$23,000 and \$47,000 respectively. For the three and six months ended June 30, 2008 the Fund's share of lease payments and operating costs were \$26,000 and \$47,000 respectively.

Due from affiliates at June 30, 2009 and December 31, 2008 represent amounts owing to the Fund by Canexus Limited. On December 11, 2008 the Board of Directors of Canexus Limited declared an additional distribution of \$540,000 payable by Canexus LP to Canexus Commercial Trust and by Canexus Commercial Trust to the Fund. A portion of the proceeds from the additional distribution were used by the Fund to repay amounts owing to affiliates for trust administration expenses incurred in 2008. The remaining portion of the proceeds was advanced to Canexus Limited for future expenditures to be incurred by Canexus Limited on behalf of the Fund.

14. Economic Dependence

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

15. Subsequent Event

On August 11, 2009, the Fund announced that it has reached an agreement to issue, subject to regulatory approval, \$46,000,000 of 8.00% Convertible Unsecured Subordinated Debentures (the "Debentures") at a price of \$1,000 per Debenture on a "bought deal" basis and the concurrent private placement of \$40,000,000 of 8.00% Convertible Unsecured Subordinated Debentures to Nexen (the "Nexen Debentures") on the same terms as the Debentures with certain exceptions, including that the Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP. Net proceeds from these financings will be used to fund growth projects, repay existing indebtedness and for general corporate purposes.

As a result of Nexen's participation in the private placement, Nexen has indicated it will no longer participate in the DRIP effective with the distribution payable on or about October 15, 2009.

The Debentures and Nexen Debentures will bear interest from the date of issue at 8.00% per annum, payable semi-annually in arrears on December 31 and June 30 each year commencing December 31, 2009. The Debentures will have a maturity date of December 31, 2014 (the "Maturity Date"). The Debentures will be convertible at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Fund for redemption of the Debentures into fully paid and non-assessable Units of the Fund at a conversion price of \$5.10 per Fund Unit, being a conversion rate of approximately 196.0784 Fund Units for each \$1,000 principal amount of Debentures. The Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP at the same conversion price.

Canexus Limited Partnership

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS For the Three and Six Months Ended June 30, 2009

Unaudited Consolidated Statements of Income and Comprehensive Income

Canexus Limited Partnership

For the Three and Six Months Ended June 30, 2009 and 2008

CAD thousands	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenues				
Sales	109,237	110,763	233,056	219,491
Expenses				
Cost of Goods Sold	74,583	83,928	152,384	161,428
Amortization	11,644	10,721	23,387	20,663
General and Administrative	9,033	7,509	18,293	14,939
Interest	1,552	2,746	3,760	5,188
	96,812	104,904	197,824	202,218
Income before Other Income (Expense), Impairment and Income Taxes				
Income before Other Income (Expense), Impairment and Income Taxes	12,425	5,859	35,232	17,273
Other Income (Expense) (Note 16)	25,553	5,405	10,689	(9,029)
Income before Impairment and Income Taxes	37,978	11,264	45,921	8,244
Impairment (Note 9 (a))	17,227	-	17,227	-
Income before Income Taxes	20,751	11,264	28,694	8,244
Provision for Income Taxes				
Current	698	650	899	1,025
Future	2,921	1,160	4,914	1,112
	3,619	1,810	5,813	2,137
Net Income				
Net Income	17,132	9,454	22,881	6,107
Other Comprehensive Income (Loss)	(7,490)	(843)	(4,938)	2,217
Comprehensive Income	9,642	8,611	17,943	8,324

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Statements of Deficit and Accumulated Other Comprehensive Loss

Canexus Limited Partnership

For the Three and Six Months Ended June 30, 2009 and 2008

CAD thousands	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Deficit				
Beginning of Period	(101,298)	(51,807)	(94,430)	(37,177)
Net Income	17,132	9,454	22,881	6,107
Distributions Declared	(13,025)	(11,496)	(25,642)	(22,779)
End of Period	(97,191)	(53,849)	(97,191)	(53,849)
Accumulated Other Comprehensive Loss				
Beginning of Period	(12,172)	(28,730)	(14,724)	(31,790)
Other Comprehensive Income (Loss) (Note 16)	(7,490)	(843)	(4,938)	2,217
End of Period	(19,662)	(29,573)	(19,662)	(29,573)

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Balance Sheets

Canexus Limited Partnership

As at June 30, 2009 and December 31, 2008

<i>CAD thousands, except unit amounts</i>	June 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 20)	2,399	3,948
Accounts Receivable (Note 5)	56,892	70,761
Inventories and Operating Supplies (Note 6)	32,235	39,523
Derivative Financial Instruments (Note 7)	2,434	9,634
Prepaid Expenses (Note 8)	3,773	4,172
Total Current Assets	97,733	128,038
Property, Plant and Equipment, Net (Note 9(a))	497,345	431,528
Intangible Assets, Net (Note 9(b))	981	1,134
Restricted Investments (Note 10)	7,236	8,943
Future Income Taxes	7,005	7,761
Other Long-Term Assets (Note 13)	9,071	2,147
Total Assets	619,371	579,551
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 11)	4,520	10,870
Accounts Payable and Accrued Liabilities	55,067	54,640
Distribution Payable to Ordinary LP Unitholders	1,519	2,970
Distribution Payable to Exchangeable LP Unitholder, Nexen Inc.	2,859	5,167
Accrued Interest Payable	1,069	1,687
Due to Affiliates, Net (Note 19)	262	365
Total Current Liabilities	65,296	75,699
Long-Term Debt (Note 11)	321,065	283,724
Future Income Taxes	12,120	8,280
Asset Retirement Obligations (Note 12)	46,019	44,771
Other Long-Term Liabilities (Note 13)	4,522	10,109
Total Liabilities	449,022	422,583
Equity		
Ordinary LP Units (33,274,091 outstanding) (Note 14)	307,227	305,051
Exchangeable LP Units (62,718,649 outstanding) (Note 14)	(20,025)	(38,929)
Total LP Units	287,202	266,122
Deficit	(97,191)	(94,430)
Accumulated Other Comprehensive Loss	(19,662)	(14,724)
Total Deficit and Accumulated Other Comprehensive Loss	(116,853)	(109,154)
Total Equity	170,349	156,968
Commitments, Contingencies and Guarantees (Note 17)		
Total Liabilities and Equity	619,371	579,551

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Statements of Cash Flows

Canexus Limited Partnership

For the Three and Six Months Ended June 30, 2009 and 2008

CAD thousands	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating Activities				
Net Income	17,132	9,454	22,881	6,107
Realized Foreign Exchange (Gain) Loss on Cash	1,137	(336)	1,173	(496)
Charges and Credits to Income Not Involving Cash (Note 20(a))	8,664	12,222	36,546	39,151
Contributions to / Payments for Defined Benefit Plans	(1,228)	(2,444)	(1,229)	(2,444)
Purchase of Foreign Exchange Options	-	(373)	-	(730)
Expenditures on Asset Retirement Obligations	(50)	(29)	(83)	(29)
Interest Income on Restricted Investments	(66)	(79)	(229)	(189)
Change in Due to Affiliates, Net	1,196	(1,556)	(277)	(491)
Changes in Non-Cash Operating Working Capital (Note 20(b))	3,920	(8,853)	645	(20,465)
	30,705	8,006	59,427	20,414
Financing Activities				
Repayments of Short-Term Borrowings, Net	(2,680)	(12,224)	(6,350)	(13,588)
Issuance of Senior Secured Notes	-	50,708	-	50,708
Proceeds from Extendible Revolving Credit Facility	37,903	-	48,074	9,079
Proceeds from Senior Secured Revolving Credit Facility	4,185	-	16,292	-
Repayments of Senior Secured Revolving Credit Facility	-	-	(3,148)	-
Repayments of Extendible Revolving Credit Facility	-	(23,386)	(8,181)	(23,386)
Deferred Financing and Issue Costs	(318)	(1,584)	(335)	(2,689)
Cash Distributions Paid to Ordinary LP Unitholders	(3,605)	(3,238)	(8,322)	(7,419)
Cash Distributions Paid to Exchangeable LP Unitholder, Nexen Inc.	-	-	-	(4,609)
Funding of Asset Retirement Expenditures from Restricted Investments (Note 10)	960	(130)	1,936	(124)
	36,445	10,146	39,966	7,972
Investing Activities				
Expenditures on Property, Plant and Equipment	(71,392)	(18,518)	(107,634)	(32,298)
Changes in Non-Cash Investing Working Capital (Note 20(b))	4,489	4,340	8,205	3,285
	(66,903)	(14,178)	(99,429)	(29,013)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,567)	616	(1,513)	915
Increase (Decrease) in Cash and Cash Equivalents	(1,320)	4,590	(1,549)	288
Cash and Cash Equivalents – Beginning of Period	3,719	5,754	3,948	10,056
Cash and Cash Equivalents – End of Period	2,399	10,344	2,399	10,344
Supplemental Cash Flow Information (Note 20(c))				

See accompanying notes to the Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2009 and 2008

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

1. Organization and Business of Canexus Limited Partnership

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

As at June 30, 2009, Canexus Income Fund (the “Fund”) indirectly held (through its wholly owned subsidiary Canexus Commercial Trust) a 34.7 percent (December 31, 2008 – 36.5 percent; June 30, 2008 – 37.9 percent) interest and Nexen Inc. (“Nexen”) held a 65.3 percent (December 31, 2008 – 63.5 percent; June 30, 2008 – 62.1 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner (“General Partner”), which holds a 0.01 percent interest in Canexus LP.

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

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2008.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP’s financial position at June 30, 2009 and the results of its operations and cash flows for the three and six months ended June 30, 2009 and June 30, 2008. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2008, except as described in Note 3.

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

3. Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, Canexus LP adopted the new recommendations of the CICA Handbook Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this section did not have a significant impact on Canexus LP’s results of operations or financial position.

4. Future Accounting Pronouncements

Financial Instruments

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures to improve disclosures related to fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk, in light of concerns that the nature and extent of liquidity risk requirements were unclear and difficult to apply. These disclosures are effective for Canexus LP's December 31, 2009 annual consolidated financial statements. We do not expect these amendments to have a significant impact on Canexus LP's results of operations or financial position.

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

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

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

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

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

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

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

5. Accounts Receivable

	June 30 2009	December 31 2008
Accounts Receivable – Trade	46,272	56,160
Allowance For Doubtful Accounts	(2,614)	(2,697)
	43,658	53,463
Accounts Receivable – Value Added Taxes and Other	13,234	17,298
	56,892	70,761

The aging of trade receivables as at June 30, 2009 is set out below:

	North America	South America	Asia	Total
Current	28,396	9,189	612	38,197
Past Due 0 – 30 days	5,622	404	-	6,026
Past Due 31 – 60 days	130	16	-	146
Past Due 61 – 90 days	4	119	-	123
Past Due Greater than 90 Days	1,662	118	-	1,780
	35,814	9,846	612	46,272

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

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Beginning of Period	(3,347)	(2,697)
Allowance for Doubtful Accounts	-	(650)
Impairment of Specific Accounts Receivable	733	733
End of Period	(2,614)	(2,614)

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

6. Inventories and Operating Supplies

	June 30 2009	December 31 2008
Raw Materials	4,153	6,214
Work-in-Progress	1,052	1,728
Finished Goods	13,227	16,787
Operating Supplies	13,803	14,794
	32,235	39,523

7. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	June 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	2,399	2,399	3,948	3,948
Derivative Financial Instruments				
Foreign Exchange Options	4,250	4,250	8,640	8,640
Foreign Exchange Forward	-	-	3,797	3,797
Foreign Exchange Swap	2	2	-	-
Interest Rate Swaps	(1,818)	(1,818)	(2,803)	(2,803)
Total Derivative Financial Instruments	2,434	2,434	9,634	9,634
Total Held-For-Trading	4,833	4,833	13,582	13,582
Loans and Receivables, measured at amortized cost				
Accounts Receivable	56,892	56,892	70,761	70,761
Held-to-Maturity, measured at amortized cost				
Restricted Investments (Note 10)	7,236	7,236	8,943	8,943
Total Financial Assets	68,961	68,961	93,286	93,286
Financial Liabilities				
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	4,520	4,520	10,870	10,870
Accounts Payable and Accrued Liabilities	55,067	55,067	54,640	54,640
Distribution Payable	4,378	4,378	8,137	8,137
Accrued Interest Payable	1,069	1,069	1,687	1,687
Due to Affiliates, Net	262	262	365	365
Long-Term Debt	321,065	308,732	283,724	281,221
Long-Term Accrual for Future TCP Severance Cost	1,269	1,269	7,310	7,310
Total Other Financial Liabilities	387,630	375,297	366,733	364,230

Canexus LP did not have available-for-sale financial instruments as at or during the three or six months ended June 30, 2009 or the year ended December 31, 2008. There has been no change in the nature of financial instruments of Canexus LP, the methods used by Canexus LP to measure the risks arising from financial instruments or in Canexus LP's objectives, policies and processes for managing such risks since the year ended December 31, 2008.

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

Derivative financial instruments are carried at fair value as determined by management which is based on the estimated cash payment or receipt necessary to settle the contracts with counterparty financial institutions. The carrying value of accounts receivable approximate their fair value as these financial instruments are near maturity. The carrying value of restricted investments, net of an allowance for impairment, approximates their fair value. The carrying value of short-term borrowings, accounts payable and accrued liabilities, distribution payable, accrued interest payable, due to affiliates, net, and future TCP severance costs approximate their fair value as these financial instruments are near maturity. The carrying value of the revolving credit facilities loans approximates their fair value as these loans bear interest at floating rates. At June 30, 2009, the fair value of the US \$50 million Senior Secured Notes was \$45.8 million (US \$39.4 million) excluding deferred issue costs (December 31, 2008 – \$47.9 million (US \$39.1 million)).

(b) Financial Risk Management

(i) Overview

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

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

(ii) Credit Risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from Canexus LP's trade accounts receivable. The following precautions are taken to reduce this risk:

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

Credit risk concentrations as at June 30, 2009 for trade accounts receivable were as follows:

Industry Category	North America		South America		Asia		Total	
	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	27,417	77	7,747	79	612	100	35,776	77
Water Treatment	4,339	12	646	6	-	-	4,985	11
Chemicals	1,551	4	384	4	-	-	1,935	4
Oil and Gas	980	3	-	-	-	-	980	2
Other	1,527	4	1,069	11	-	-	2,596	6
	35,814	100	9,846	100	612	100	46,272	100

Geographical Area	Carrying Value	Percent
Canada	15,256	33
United States	20,558	45
South America	9,846	21
Asia	612	1
	46,272	100

Our North American customers are diverse with no one customer accounting for more than 10 percent of total trade accounts receivable at June 30, 2009 (December 31, 2008 – 8 percent).

The majority of our South America production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at June 30, 2009, trade amounts owing from Aracruz Celulose S.A. represented 14 percent of total trade accounts receivable (December 31, 2008 – 21 percent).

(iii) Liquidity Risk

Liquidity risk is the risk that Canexus LP will not be able to meet its financial obligations as they come due. Our approach to managing this risk includes the continual monitoring of forecast and actual cash flows to ensure we have sufficient liquidity to meet financial obligations when due and maintaining adequate committed borrowing facilities to support ongoing business operations and growth opportunities (see Note 15). As at June 30, 2009, Canexus LP had the following committed borrowing facilities:

- \$420 million extendible revolving credit facility with a syndicate of financial institutions which matures August 18, 2011. We may draw down this credit facility in either Canadian or US dollars. Short-term swing line loans of up to \$35 million Canadian are available under this facility provided that the aggregate principle outstanding under the credit facility does not exceed \$420 million. As at June 30, 2009, we had \$243.5 million (US \$209.5 million) outstanding on this credit facility as well as, \$4.5 million of outstanding short-term swing line loans.
- Canexus Quimica Brasil Ltda., (“Canexus Brazil”), an indirect wholly owned subsidiary of Canexus LP, has a US \$10 million extendible revolving credit facility with Export Development Canada (“EDC Extendible Revolving Credit Facility”) which matures August 18, 2011. As at June 30, 2009, Canexus Brazil had \$7 million (US \$6 million) outstanding on this facility.
- US \$20 million senior secured revolving credit facility (“Senior Secured Revolving Credit Facility”) which matures on August 18, 2011. As at June 30, 2009, we had \$12.8 million (US \$11 million) outstanding on this credit facility.

(iv) Market Risks

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP’s North American expenses are denominated in Canadian dollars. An increase in the Canadian to US dollar exchange rate to US \$1.00 for the three month period would have decreased net income before income taxes by \$6.1 million for the three months ended June 30, 2009 and \$13.2 million for the six months ended June 30, 2009 before the impact of hedging instruments. A decrease in the Canadian to US dollar exchange rate to US

\$0.75 for the three month period would have increased net income before income taxes by \$3.6 million for the three months ended June 30, 2009 and \$6.6 million for the six months ended June 30, 2009.

A range of US \$0.75 to US \$1.00 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenditures in US dollars. In addition, Canexus LP has foreign exchange call option contracts on a total of US \$10 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.8200 (US \$5 million per month) and US \$0.8170 (US \$5 million per month) for an average of US \$0.8185 per Canadian dollar from January 1, 2009 to December 31, 2009.

On May 19, 2009, Canexus LP entered into a foreign exchange swap agreement pursuant to which we will receive JPY 16.2 million for US \$0.2 million on November 17, 2009.

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

Product Price and Volume Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate, net income before income taxes for the three and six months ended June 30, 2009 would have changed by \$3.8 million and \$8.0 million respectively. For every \$100 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the three and six months ended June 30, 2009 would have changed by \$3.4 million and \$6.5 million respectively. These sensitivities to changes in prices are based on 77,000 MT of North American sodium chlorate sales and 34,000 MECU's of North American chlor-alkali sales for the three months ended June 30, 2009 and 159,000 MT of North American sodium chlorate sales and 65,000 MECU's of North American chlor-alkali sales for the six months ended June 30, 2009. Sensitivities of \$50 per MT for sodium chlorate and \$100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the current economic uncertainty. A change in sales volumes for North American sodium chlorate of 10,000 MT for the three months ended June 30, 2009 and 20,000 MT for the six months ended June 30, 2009 would have changed net income before income taxes for the three and six months ended June 30, 2009 by \$2.7 million and \$5.8 million respectively. A change in sales volumes for North American chlor-alkali products of 5,000 MECU's for the three months ended June 30, 2009 and 10,000 MECUs for the six months ended June 30, 2009 would have changed net income before income taxes for the three and six months ended June 30, 2009 by \$3.1 million and \$7.1 million respectively. These sales volume changes are considered to be reasonably possible due to current economic conditions.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in Brazil, Aracruz Celulose S.A., typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). Market prices in Brazil exceeded the Canexus Price for the three and six months ended June 30, 2009. For every 1,000 MT of caustic soda we do not produce net income before income taxes would have decreased by \$0.4 million for the three months ended June 30, 2009 and \$1.3 million for the six months ended June 30, 2009. For the three and six months ended June 30, 2009 we acquired 561 MT and 2,368 MT of caustic soda respectively to make up for our production shortfall below operating capacity.

Electricity Rate Risk Management

The cost of electricity is a key production cost. For every 3 percent change in the price of electricity, net income before income taxes would have changed by \$0.4 million for the three months ended June 30, 2009 and by \$0.9 million for the six months ended June 30, 2009. This sensitivity to changes in electricity prices is based on North American electricity consumption of 453,000 MWh for the three months ended June 30, 2009 and 1,002,000 MWh for the six months ended June 30, 2009.

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

Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. A change in the 30 day US LIBOR base rate to 0.2 percent would have increased net income before income taxes by \$0.1 million for the three months ended June 30, 2009 and \$0.2 million for the six months ended June 30, 2009. A change in the 30 day US LIBOR base rate to 3 percent would have decreased net income before income taxes by \$1.3 million for the three months ended June 30, 2009 and \$2.4 million for the six months ended June 30, 2009. A range of 0.2 to 3 percent for the US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

Canexus LP has entered into interest rate swap agreements under which we swap 3 month US LIBOR floating interest rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million for the period April 11, 2008 through April 10, 2013. These interest rate swaps are settled quarterly. The fair value of these interest rate swap agreements are included in derivative financial instruments with changes in their fair value included in other income (expense). Fair value has been determined by management based on the estimated cash payment or receipt necessary to settle the contracts with counterparty financial institutions.

8. Prepaid Expenses

	June 30 2009	December 31 2008
Prepaid Insurance	140	2,096
Prepaid Freight	663	676
Prepaid Property Tax	1,666	14
Other	1,304	1,386
	3,773	4,172

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

9. Property, Plant and Equipment and Intangible Assets

(a) Property, Plant and Equipment

June 30, 2009	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	585,002	352,819	232,183
North America Chlor-alkali	311,924	132,550	179,374
South America	132,734	50,418	82,316
Corporate	11,706	8,234	3,472
	1,041,366	544,021	497,345

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	572,136	323,551	248,585
North America Chlor-alkali	221,594	127,625	93,969
South America	135,080	49,361	85,719
Corporate	11,035	7,780	3,255
	939,845	508,317	431,528

The balances at June 30, 2009 include capitalized costs of \$187.5 million relating primarily to the TCP at our North Vancouver facility (\$137.4 million including capitalized interest of \$3.1 million) as well as other projects under construction or development. The balances at December 31, 2008 included capitalized costs of \$85 million relating primarily to the TCP at our North Vancouver facility (\$65.7 million including capitalized interest of \$1.7 million) as well as other projects under construction or development. These costs are not being amortized.

On April 22, 2009, we announced the closure of our Bruderheim sodium chlorate operations. An impairment of sodium chlorate assets of \$17.2 million and severance and other closure related costs of \$2.7 million included within Other Income (Expense) were incurred in the three month period ended June 30, 2009.

(b) Intangible Assets

June 30, 2009	Cost	Accumulated Amortization	Net Book Value
South America	389	146	243
Corporate	1,912	1,174	738
	2,301	1,320	981

December 31, 2008	Cost	Accumulated Amortization	Net Book Value
South America	410	123	287
Corporate	1,912	1,065	847
	2,322	1,188	1,134

Intangible assets consist of software.

10. Restricted Investments

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

	June 30, 2009	December 31, 2008
Beginning of Period	8,943	13,007
Interest Earned	229	349
Funding of Asset Retirement Obligation Expenditures	(1,936)	(2,813)
Allowance for Impairment	-	(1,600)
End of Period	7,236	8,943

On June 29, 2007, Canexus LP invested a portion (\$4.1 million) of the restricted investments in non-bank sponsored asset backed commercial paper ("ABCP") with a maturity of September 28, 2007 which was not repaid when due. On January 22, 2009, the ABCP was replaced with long-term asset backed securities ("Restructured Notes") which are divided into several classes. The amount of our investment, net of an allowance for impairment, in the Restructured Notes was \$1.9 million as at June 30, 2009 (December 31, 2008 – \$1.9 million). We recorded impairment charges of \$1.6 million in the year ended December 31, 2008 and \$0.6 million in the fourth quarter of 2007. The amount of impairment was determined by estimating the yield that a prospective purchaser would require. Our estimates of required yield ranged from 10 to 42 percent for the classes of

Restructured Notes now held with a maturity date of December 20, 2016. As at June 30, 2009, the estimated fair market value of our investment in the Restructured Notes was \$2.3 million.

11. Long-Term Debt and Short-Term Borrowings

	Maturity	June 30 2009	December 31 2008
Short-Term Borrowings			
Swing Line Loans under Extendible Revolving Credit Facility	August 18, 2011	4,520	10,870
Long-Term Debt			
Credit Facilities			
Extendible Revolving Credit Facility	August 18, 2011	243,544	215,530
EDC Extendible Revolving Credit Facility	August 18, 2011	6,975	7,347
Senior Secured Revolving Credit Facility	August 18, 2011	12,788	-
Total Credit Facilities		263,307	222,877
Senior Secured Notes	May 1, 2013	58,125	61,230
Deferred Issue Costs		(367)	(383)
		57,758	60,847
Total Long-Term Debt		321,065	283,724

Canexus LP has a \$420 million, four year revolving facility which matures August 18, 2011 and which can be extended each year, at the option of the lenders, for an additional year (the "Extendible Revolving Credit Facility"). This credit facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. Canexus LP may draw down this credit facility in either Canadian or US dollars. This credit facility bears interest at rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Short-term swing line loans of up to \$35 million Canadian are available under this credit facility provided that the aggregate principal outstanding under this credit facility does not exceed \$420 million.

At June 30, 2009, we had \$243.5 million (US \$209.5 million) outstanding on this credit facility (excluding swing line loans). The weighted average interest rate for the three and six months ended June 30, 2009 was 2.89 percent and 2.94 percent respectively, and total interest and standby fees incurred were \$1.3 million and \$2.9 million respectively. At June 30, 2008, we had \$196.6 million (US \$193 million) outstanding on this credit facility. The weighted average interest rate for the three and six months ended June 30, 2008 was 4.24 percent and 4.49 percent respectively, and total interest and standby fees incurred were \$2.3 million and \$5 million respectively.

The weighted average interest rate on the swing line loans for the three and six months ended June 30, 2009 was 3.06 percent and 3.17 percent respectively, and total interest and standby fees incurred were \$127,000 and \$176,000 respectively. The weighted average interest rate on the swing line loans for the three and six months ended June 30, 2008 was 5.09 percent and 5.53 percent respectively, and total interest and standby fees incurred were \$71,000 and \$240,000 respectively.

Canexus LP has a US \$20 million Senior Secured Revolving Credit Facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011. At June 30, 2009, we had \$12.8 million (US \$11 million) outstanding on this credit facility. The weighted average interest rate for the three and six months ended June 30, 2009 was 2.15 percent and 2.17 percent respectively, and total interest and standby fees incurred were \$74,000 and \$118,000 respectively. At June 30, 2008 there was no balance outstanding on this credit facility.

Canexus Brazil has a US \$10 million EDC Extendible Revolving Credit Facility which bears interest at a rate based on the US LIBOR rate and matures August 18, 2011. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At June 30, 2009, we had \$7 million (US \$6 million) outstanding on this credit facility.

The weighted average interest rate for the three and six months ended June 30, 2009 was 2.16 percent and 2.21 percent respectively, and total interest and standby fees incurred were \$89,000 and 189,000. At June 30, 2008 there was no balance outstanding on this credit facility.

Canexus LP has US \$50 million of Senior Secured Notes payable outstanding which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. At June 30, 2009, the Canadian dollar equivalent of the US \$50 million of Senior Secured Notes was \$58.1 million. At June 30, 2008, the Canadian dollar equivalent of the US \$50 million of Senior Secured Notes was \$50.9 million.

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

The credit facility agreements and the note indenture governing the Senior Secured Notes also contain covenants with respect to certain financial ratios. At June 30, 2009 we were in compliance with all covenants and conditions.

Canexus LP is the applicant on three Letters of Credit as at June 30, 2009 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.3 million), the Chlorine Engineers Corporation Ltd. related to the guarantee for final payment of an electrolyzer system for the TCP (US \$2.1 million) and the Independent System Operator for power curtailment obligations (\$0.2 million). The CIBC Mellon Letter of Credit expires January 1, 2010 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires December 30, 2009 and has no automatic renewal clause. The Independent System Operator Letter of Credit expires on December 1, 2009 and is automatically renewed for one year periods unless otherwise advised. On May 31, 2009, the Chlorine Engineers Corporation Ltd. letter of credit for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million) expired upon payment of the obligations.

12. Asset Retirement Obligations

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

	June 30 2009	December 31 2008
Beginning of Period	44,771	42,123
Additions	-	649
Expenditures on Asset Retirement Obligations	(83)	(1,121)
Accretion Expense	1,429	2,732
Effect of Foreign Exchange	(229)	823
Change in Obligations Reclassified to Current Liabilities ⁽¹⁾	131	(435)
End of Period	46,019	44,771

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At June 30, 2009, \$1,254,004 was included in accounts payable and accrued liabilities (December 31, 2008 – \$1,385,000).

Asset retirement obligations are comprised of expected dismantlement and site restoration costs to be incurred upon closure of active manufacturing plant facilities and termination of operations. Dismantlement and site restoration work may occur prior to closure of manufacturing plant facilities when appropriate or required. Total undiscounted asset retirement obligations at June 30, 2009 estimated to be incurred over the next 2 to 10 years were \$74.1 million (December 31, 2008 – \$74.1 million). We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 5.91 percent. Approximately \$4.2 million included in our asset retirement obligations are expected to be settled over the next three years.

13. Other Long-Term Assets and Liabilities

	June 30 2009	December 31 2008
Other Long-Term Assets		
Deferred Financing Costs, Net of Accumulated Amortization	1,979	2,017
Deposits with Energy Utilities Board	130	130
Accounts Receivable – Value Added Taxes and Other	6,962	-
Total Other Long-Term Assets	9,071	2,147
Other Long-Term Liabilities		
Accrual for Future TCP Severance Costs	1,269	7,310
Defined Benefit Pension Plan Liability (Note 18)	1,423	893
Post Retirement Benefit Liability (Note 18)	1,721	1,841
Other	109	65
Total Other Long-Term Liabilities	4,522	10,109

14. Equity

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

	June 30, 2009		December 31, 2008	
	Number of Units	Amount	Number of Units	Amount
General Partner Units				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
Ordinary Limited Partnership (“LP”) Units				
Beginning of Period	32,570,814	305,051	31,750,000	301,750
Issued Pursuant to the DRIP	703,277	2,176	820,814	3,301
End of Period	33,274,091	307,227	32,570,814	305,051
Exchangeable LP Units				
Beginning of Period	56,637,539	(38,929)	50,535,714	(63,085)
Issued Pursuant to the DRIP	6,081,110	18,904	6,101,825	24,156
End of Period	62,718,649	(20,025)	56,637,539	(38,929)

Under the Distribution Reinvestment Plan (“DRIP”) participants may elect, in the case of holders of Units of the Fund (“Units” or “Fund Units”), to automatically reinvest monthly distributions in additional Units of the Fund and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP.

Pursuant to the DRIP, cash distributions will be reinvested in additional units at 95 percent of the volume weighted average market price of Units of the Fund for the 10 trading days preceding the distribution payment date. Units acquired under the DRIP will be issued directly from the Fund’s or Canexus LP’s treasury, as applicable. The Fund has reserved 17,000,000 Units for the issuance of Units pursuant to the DRIP and for the exchange of any additional Exchangeable LP Units issued pursuant to the DRIP.

The General Partner Unitholder is entitled to one vote for each Unit held at all meetings of holders of partnership Units and to an allocation of 0.01% of the income or loss of Canexus LP for each fiscal year.

The Ordinary LP Unitholders and the Exchangeable LP Unitholder are entitled to one vote for each LP Unit held at all meetings of holders of the LP Units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Fund

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

Canexus LP declared distributions of \$0.1368 per Unit and \$0.2736 per Unit for the three and six months ended June 30, 2009 to Ordinary and Exchangeable LP Unitholders. On June 8, 2009, a distribution of \$0.0456 per Unit was declared payable to Ordinary and Exchangeable LP Unitholders of record June 30, 2009 for payment on or about July 15, 2009.

15. Capital Risk Management

Canexus LP manages its capital structure and makes adjustments in order to preserve its ability to meet financial obligations, deploy capital to provide an appropriate investment return to its LP Unitholders and to maintain a capital structure that allows financing options to Canexus LP as financing needs arise. There has been no change in Canexus LP's objectives, policies and processes for managing capital since the year ended December 31, 2008.

The capital structure of Canexus LP consists of cash and cash equivalents, short-term borrowings, long-term debt and equity comprised of Ordinary and Exchangeable LP Units issued.

	June 30 2009	December 31 2008
Cash and Cash Equivalents	2,399	3,948
Short-Term Borrowings	(4,520)	(10,870)
Long-Term Debt	(321,065)	(283,724)
Ordinary LP Units	(307,227)	(305,051)
Exchangeable LP Units	20,025	38,929
	(610,388)	(556,768)

Management, upon approval of the Board of Directors, may balance its overall capital structure through new LP Unit issues, the issuance of new debt or by undertaking other activities as deemed appropriate. Canexus LP monitors capital using financial metrics equivalent to those defined in the financial covenants of its credit agreements. Under the \$420 million Extendible Revolving Credit Facility, the US \$50 million Senior Secured Notes, the US \$20 million Senior Secured Revolving Credit Facility and the US \$10 million EDC Extendible Revolving Credit Facility, the following financial covenants are required to be met through to, and including, December 31, 2010:

- Consolidated Senior Debt to EBITDA Ratio not to exceed 4.5 to 1.0
- Consolidated Total Debt to EBITDA Ratio not to exceed 4.5 to 1.0
- Consolidated EBITDA to Interest Expense Ratio not to be less than 2.5 to 1.0

Effective March 31, 2011, the Consolidated Senior Debt to EBITDA Ratio is not to exceed 3.5 to 1.0, the Consolidated Total Debt to EBITDA Ratio is not to exceed 4.0 to 1.0 and the Consolidated EBITDA to Interest Expense Ratio is not to be less than 3.0 to 1.0.

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

As at June 30, 2009 and December 31, 2008, Canexus LP was in compliance with all financial covenants and conditions.

16. Other Income (Expense)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Currency Translation Gains (Losses)				
Unrealized Currency Translation Gains (Losses)				
Debt	23,022	(1,256)	15,350	(9,548)
Working Capital	(79)	427	2,469	728
Total Unrealized Currency Translation Gains (Losses)	22,943	(829)	17,819	(8,820)
Realized Currency Translation Gains (Losses)				
Debt	-	3,103	(736)	3,103
Working Capital	101	1,194	(798)	2,178
Total Realized Currency Translation Gains (Losses)	101	4,297	(1,534)	5,281
Total Currency Translation Gains (Losses)	23,044	3,468	16,285	(3,539)
Gains (Losses) on Held-for-Trading Financial Instruments				
Change in Fair Value of Foreign Exchange Options	1,559	(357)	(4,390)	(1,305)
Realized Gains on Foreign Exchange Options	1,716	326	1,716	960
Change in Fair Value of Interest Rate Swaps	1,493	1,879	984	2,045
Realized Losses on Interest Rate Swaps	(304)	-	(522)	-
Change in Fair Value of Foreign Exchange Forward	(1,880)	-	(3,796)	-
Realized Gain on Foreign Exchange Forward	2,493	-	2,493	-
Interest Income Earned on Cash and Cash Equivalents	2	101	10	128
Total Gains (Losses) on Held-for-Trading Financial Instruments	5,079	1,949	(3,505)	1,828
Gains on Held-to-Maturity Financial Instruments				
Interest Income on Restricted Investments	66	79	229	189
Other				
Accrual for Future TCP Severance Costs	-	-	981	(7,310)
Allowance for Doubtful Accounts	-	-	(650)	-
Sodium Chlorate Plant Closure Costs	(2,651)	-	(2,651)	-
Other	15	(91)	-	(197)
Total Other	(2,636)	(91)	(2,320)	(7,507)
Total Other Income (Expense)	25,553	5,405	10,689	(9,029)

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

17. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. As at June 30, 2009 these obligations and commitments were as follows:

	2009	2010	2011	2012	2013	Thereafter
Operating Leases	10,789	16,929	16,147	14,233	11,305	35,451
Purchase Obligations	4,345	13,926	14,045	14,169	14,308	9,453
Expansion Capital Expenditures	52,585	11,382	-	-	-	-
	67,719	42,237	30,192	28,402	25,613	44,904

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

Expansion capital expenditures include contractual obligations related primarily to the TCP at our North Vancouver chlor-alkali facility. Total expected capital expenditures for TCP are \$235 million. As at June 30, 2009, actual capital expenditures were \$137.4 million for the TCP including capitalized interest of \$3.1 million.

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

All of Canexus LP's credit facilities and the Senior Secured Notes payable (See Note 11) are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided unlimited liability guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's credit facilities and Senior Secured Notes in "events of default" as defined in each of the credit facility agreements and the note indenture governing the Senior Secured Notes.

18. Pension and Other Post Retirement Benefits

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Cost of Benefits Earned by Employees	690	883	1,380	1,766
Interest Cost on Benefits Earned	986	839	1,972	1,678
Expected Return on Plan Assets	(844)	(909)	(1,688)	(1,818)
Net Amortization and Deferral ⁽¹⁾	46	5	92	10
Net Pension Expense	878	818	1,756	1,636

Note:

(1) Includes the amortization of any transitional (asset)/obligation, past service costs and experience (gains)/losses.

(b) Employer Funding Contributions

Total funding contributions for 2009 for our defined benefit pension plans are estimated to be \$2.5 million. As at June 30, 2009, contributions of \$1.2 million had been made to the defined benefit pension plans.

(c) Contributions under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were \$225,000 and \$409,000 for the Canadian plan; \$61,000 and \$152,000 for the US plan and \$43,000 and \$84,000 for the Brazil plan for the three and six months ended June 30, 2009 respectively. Contributions to the defined contribution pension plans were \$172,000 and \$304,000 for the Canadian plan; \$71,000 and \$129,000 for the US plan and \$39,000 and \$79,000 for the Brazil plan for the three and six month periods ended June 30, 2008 respectively.

(d) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work; however, these future obligations are not funded. The expense recognized for the three and six month periods ended June 30, 2009 was \$71,000 and \$143,000 respectively. The expense recognized for the three and six month periods ended June 30, 2008 was \$82,000 and \$164,000 respectively. As at June 30, 2009 other long-term liabilities includes a \$1.6 million (December 31, 2008 - \$1.5 million) post retirement benefit liability.

Post retirement benefits in the US consist of a medical benefits bonus plan approved on October 30, 2007. Prior to October 30, 2007, the post retirement benefits consisted of a medical benefit which was adopted on December 9, 2006. Under the

bonus plan, US employees as of December 9, 2006 who attain a minimum of 10 years of completed service are entitled to a benefit of US \$4,000 for every year of completed service. The total amount payable will be paid to employees on the 1st day of the seventh month following the date of retirement and will be grossed up by 40 percent to reimburse retirees for estimated personal taxes. The amounts paid may be used to offset costs of medical expenses or health insurance but are not required to be used for such purposes. The transitional obligation arising on the initial adoption of the plan is being amortized over the remaining average service life of the existing US employee group. During the year ended December 31, 2008, a review of the plan for compliance with US Internal Revenue Code rules related to non management employees resulted in the removal of certain employees from the plan and the recognition of a curtailment loss of \$206,000. The expense recognized for the three and six months ended June 30, 2009 was \$11,000 and \$22,000 respectively. The expense recognized for the three and six months ended June 30, 2008 was \$17,000 and \$34,000, respectively. As at June 30, 2009 other long-term liabilities includes a \$63,000 (December 31, 2008 – \$341,000) post retirement benefit liability.

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

Due to affiliates, net, at June 30, 2009 and December 31, 2008 relate to amounts owing in the normal course of operations as discussed below.

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

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. Amounts owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at June 30, 2009 were \$NIL (December 31, 2008 – \$NIL).

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Electricity Purchases and Retail Service Fees	543	4,552	2,037	9,447
Natural Gas Purchases and Retail Service Fees	627	2,919	2,062	5,542
Lease of Office Space	210	233	420	426
	1,380	7,704	4,519	15,415

Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for Nexen owned condensate for a term of 5 years for a total contract value of approximately \$2.1 million. Revenue recognized from the Nexen affiliate for the provision of these services was \$76,000 for the three month and six months ended June 30, 2009 and amounts owing by Nexen at June 30, 2009 for these services were \$76,000.

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

20. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Amortization	11,644	10,721	23,387	20,663
Change in Fair Value of Foreign Exchange Options	(1,559)	357	4,390	1,305
Change in Fair Value of Foreign Exchange Forward	1,880	-	3,796	-
Change in Fair Value of Interest Rate Swaps	(1,493)	(1,879)	(984)	(2,045)
Unrealized (Gains) Losses on Currency Translation	(22,943)	829	(17,819)	8,820
Future Income Taxes	2,921	1,160	4,914	1,112
Pension and Post Retirement Benefit Expense	960	920	1,920	1,834
Accrual for Future TCP Severance Costs	-	-	(981)	7,310
Impairment of Sodium Chlorate Assets	17,227	-	17,227	-
Allowance for Doubtful Accounts	-	-	650	-
Other	27	114	46	152
	8,664	12,222	36,546	39,151

(b) Changes in Non-Cash Operating Working Capital

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Accounts Receivable	6,080	1,642	6,256	(9,692)
Inventories and Operating Supplies	6,081	(4,027)	7,288	(8,673)
Prepaid Expenses	(33)	(434)	397	(887)
Accounts Payable and Accrued Liabilities	(1,097)	(1,886)	(2,442)	883
Accrued Interest Payable	(456)	711	(618)	521
Effect of Foreign Exchange on Non-Cash Working Capital	(2,166)	(519)	(2,031)	668
Total Change in Non-Cash Working Capital	8,409	(4,513)	8,850	(17,180)
Relating to:				
Operating Activities	3,920	(8,853)	645	(20,465)
Investing Activities	4,489	4,340	8,205	3,285
Total Change in Non-Cash Working Capital	8,409	(4,513)	8,850	(17,180)

(c) Other Cash Flow Information

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest Paid	3,260	2,451	6,262	5,402
Income Taxes Paid	440	173	687	794
Cash and Cash Equivalents				
Cash	2,340	5,098	2,340	5,098
Cash Equivalents	59	5,246	59	5,246
Total	2,399	10,344	2,399	10,344

21. Operating Segments

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

(a) Operating Segments

Three Months Ended June 30, 2009	North America				Total
	Sodium Chlorate ⁽¹⁾	Chlor-alkali	South America	Corporate	
Revenues					
Sales	51,142	35,377	22,718	-	109,237
Expenses					
Cost of Goods Sold	32,605	25,729	16,249	-	74,583
Amortization	6,574	2,860	2,025	185	11,644
General and Administrative	3,433	2,670	1,055	1,875	9,033
Interest	-	-	-	1,552	1,552
	42,612	31,259	19,329	3,612	96,812
Income (Loss) before Other Income (Expense), Impairment and Income Taxes	8,530	4,118	3,389	(3,612)	12,425
Other Income (Expense)	(2,651)	-	-	28,204	25,553
Income Before Impairment and Income Taxes	5,879	4,118	3,389	24,592	37,978
Impairment	17,227	-	-	-	17,227
Income (Loss) before Income Taxes	(11,348)	4,118	3,389	24,592	20,751
Capital Expenditures	7,410	60,437	3,429	116	71,392

Note:

(1) Revenues and costs of the North American Terminal Operation for the three months ended June 30, 2009 are included in North America Sodium Chlorate.

Three Months Ended June 30, 2008	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
Revenues					
Sales	52,154	30,348	28,261	-	110,763
Expenses					
Cost of Goods Sold	37,692	23,906	22,330	-	83,928
Amortization	6,553	2,525	1,568	75	10,721
General and Administrative	2,875	2,470	807	1,357	7,509
Interest	-	-	-	2,746	2,746
	47,120	28,901	24,705	4,178	104,904
Income (Loss) before Other Expense and Income Taxes	5,034	1,447	3,556	(4,178)	5,859
Other Income	-	-	-	5,405	5,405
Income before Income Taxes	5,034	1,447	3,556	1,227	11,264
Capital Expenditures	1,547	15,346	1,301	324	18,518

Six Months Ended June 30, 2009	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
Revenues					
Sales	108,351	77,739	46,966	-	233,056
Expenses					
Cost of Goods Sold	66,136	50,326	35,922	-	152,384
Amortization	13,220	5,712	4,078	377	23,387
General and Administrative	6,926	5,286	2,234	3,847	18,293
Interest	-	-	-	3,760	3,760
	86,282	61,324	42,234	7,984	197,824
Income (Loss) before Other Income (Expense), Impairment and Income Taxes					
Taxes	22,069	16,415	4,732	(7,984)	35,232
Other Income (Expense)	(2,651)	-	-	13,340	10,689
Income Before Impairment and Income Taxes					
Taxes	19,418	16,415	4,732	5,356	45,921
Impairment	17,227	-	-	-	17,227
Income before Income Taxes	2,191	16,415	4,732	5,356	28,694
Capital Expenditures	9,377	90,135	4,652	3,470	107,634

Note:

(1) Revenues and costs of the North American Terminal Operation for the six months ended June 30, 2009 are included in North America Sodium Chlorate.

Six Months Ended June 30, 2008	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
Revenues					
Sales	104,401	62,606	52,484	-	219,491
Expenses					
Cost of Goods Sold	74,207	46,557	40,664	-	161,428
Amortization	12,393	5,062	3,132	76	20,663
General and Administrative	5,680	4,945	1,435	2,879	14,939
Interest	-	-	-	5,188	5,188
	92,280	56,564	45,231	8,143	202,218
Income (Loss) before Other Expense and Income Taxes					
Taxes	12,121	6,042	7,253	(8,143)	17,273
Other Expense	-	-	-	(9,029)	(9,029)
Income (Loss) before Income Taxes	12,121	6,042	7,253	(17,172)	8,244
Capital Expenditures	5,925	24,100	1,608	665	32,298

Identifiable Assets	North America				Total
	Sodium Chlorate	Chlor-alkali	South America	Corporate	
June 30, 2009	272,865	206,826	118,413	21,267	619,371
December 31, 2008	292,972	128,178	126,809	31,592	579,551

(b) Geographic Segments

Property, Plant and Equipment, Net	June 30, 2009	December 31, 2008
Canada	414,712	345,450
United States	317	359
South America	82,316	85,719
	497,345	431,528

Sales	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Canada	36,545	33,872	79,684	70,339
United States	48,355	44,967	102,680	88,968
South America	22,718	28,261	46,966	52,485
Asia	1,619	3,663	3,726	7,699
	109,237	110,763	233,056	219,491

22. Subsequent Event

On August 11, 2009, the Fund announced that it has reached an agreement to issue, subject to regulatory approval, \$46,000,000 of 8.00% Convertible Unsecured Subordinated Debentures (the "Debentures") at a price of \$1,000 per Debenture on a "bought deal" basis and the concurrent private placement of \$40,000,000 of 8.00% Convertible Unsecured Subordinated Debentures to Nexen (the "Nexen Debentures") on the same terms as the Debentures with certain exceptions, including that the Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP. Net proceeds from these financings will be used to fund growth projects, repay existing indebtedness and for general corporate purposes.

As a result of Nexen's participation in the private placement, Nexen has indicated it will no longer participate in the DRIP effective with the distribution payable on or about October 15, 2009.

The Debentures and Nexen Debentures will bear interest from the date of issue at 8.00% per annum, payable semi-annually in arrears on December 31 and June 30 each year commencing December 31, 2009. The Debentures will have a maturity date of December 31, 2014 (the "Maturity Date"). The Debentures will be convertible at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Fund for redemption of the Debentures into fully paid and non-assessable Units of the Fund at a conversion price of \$5.10 per Fund Unit, being a conversion rate of approximately 196.0784 Fund Units for each \$1,000 principal amount of Debentures. The Nexen Debentures will be convertible into Exchangeable LP Units of Canexus LP at the same conversion price.