canexus

Second Quarter

Six months ended June 30, 2010

Growth Project Startups and Improving Markets to Increase Cash Flows

Highlights

- Startup of four growth projects during the quarter, including startup at the end of June of the Technology Conversion Project (TCP) at North Vancouver chlor-alkali facility which is expected to contribute an estimated $35-$43 million in incremental annual operating cash flow as production increases to planned levels
- Completed projects include the build-in of the second major rail line into our North American Terminal Operations (NATO) site at Bruderheim, Alberta, and the 4,400 MT sodium chlorate expansion and hydrogen project in Brazil; the hydrochloric acid projects at North Vancouver and Brazil are scheduled for startup in August
- North America chlor-alkali results reflect TCP transition and are expected to improve as the year progresses; markets for chlorine and caustic soda are strengthening with price increases announced for the third quarter
- North America sodium chlorate is beginning to benefit from improved pulp markets; moderate delivered price increases during the second quarter were more than offset by the stronger Canadian dollar and slightly lower sales volumes due to maintenance outages at customers
- South America business unit results were lower than both the first quarter of 2010 and the same period last year as a result of a planned maintenance shutdown and process difficulties experienced by our major customer that have since been rectified; maximum operating rates for both chlorate and chlor-alkali are expected for the balance of 2010 and into 2011
- Canadian dollar foreign exchange call option contracts were acquired to protect US $5 million per month at US $0.9524 from July 1 to September 30, 2010
- Fund declared cash distributions of $5 million during the second quarter, at a payout ratio of 182 percent; our payout ratio for the first six months of 116 percent is consistent with prior guidance (inclusive of other gains realized in the first half of 2010); with the delay in startup of TCP, our full-year payout ratio is expected to exceed our prior guidance of 90 percent and could range between 95 and 125 percent depending on how quickly we achieve planned production rates at TCP

Dear Unitholders,

After considering the delay in startup of the TCP, our results for the second quarter are generally in line with our expectations for the first half of 2010. The startup of key strategic growth projects has Canexus set to begin delivering the expected financial benefits. As we ramp up our expanded operations, we see favorable market conditions for our business units continuing into the second half of the year and 2011.

North America chlor-alkali operating results and timetable were affected by the TCP transition being extended due to delays in completion of construction and other design improvements required prior to startup. With chlor-alkali markets strengthening and price increases expected in the third quarter, we look forward to the reduced costs and additional cash flow expected from the TCP following startup. Three bottlenecks have been identified that are currently preventing us from operating at design capacity (we are operating at about 70 percent rates). These bottlenecks are currently expected to involve minor (both in terms of downtime and cost) modifications and will be dealt with in the next few months.

Our North America sodium chlorate business continues to benefit from robust pulp markets. While modest price increases were implemented during the recent quarter and further increases are expected, realized prices were negatively affected by the stronger Canadian dollar. We expect to operate our chlorate plants at capacity for the remainder of this year.

In South America, we reached a number of growth milestones at our Brazil facility in the second quarter and continue to have a positive outlook. Strong demand for Brazilian pulp will support high chlorate consumption by our major customer and sales to other customers, resulting in maximum operating rates for the rest of 2010.

As production from our growth projects progresses, we continue to expect that our annual cash flow will increase by $50 million. For 2011, we currently believe our operating cash flow can support current distributions at an after-tax payout ratio of between 65 and 75 percent. Canexus will continue to pursue our strategy of balancing yield and growth and we are confident in our ability to sustain distributions at current levels as we plan to convert to a taxable corporation next year.

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 10, 2010. This MD&A should be read in conjunction with:

- the unaudited consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") and the notes thereto for the three and six months ended June 30, 2010 included in this report; and
- the audited consolidated financial statements of the Fund and Canexus LP and the notes thereto as at and for the year ended December 31, 2009 available on the SEDAR website at www.sedar.com.

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

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

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

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

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

Non-GAAP Measures

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

EBITDA is a non-GAAP measure that represents earnings generated to fund capital investment, meet financial obligations and fund distributions. It is considered a key measure as it demonstrates the ability of the business to meet its capital and financing commitments. EBITDA is calculated as net income (loss) (a GAAP measure) plus/minus the provision for income taxes, amortization and interest expense. A reconciliation of EBITDA to net income (loss) for Canexus LP for each financial period covered by this MD&A is provided on pages 13 and 14 under "Summary of Quarterly Results".

Gross Margin is a non-GAAP measure that represents the contribution of product sales and service revenue after taking into consideration the direct costs to produce products and deliver services. It is considered a key measure as it reflects the ability of the business to generate earnings necessary to fund overhead costs, capital investment and distributions. Gross Margin is calculated as sales revenue less cost of goods sold (both GAAP measures). Gross Margin Percentage is calculated as Gross Margin divided by sales revenue. The calculation of Gross Margin and Gross Margin Percentage for each financial period covered by this MD&A is provided on pages 13 and 14 under "Summary of Quarterly Results".

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

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

Distributable Cash within Canexus LP represents cash from operating activities (a GAAP measure) adjusted for temporary changes in non-cash operating working capital and due from/to affiliates, 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. A reconciliation of Distributable Cash to cash from operating activities for Canexus LP for each financial period covered by this MD&A is provided on page 6 under "Statement of Distributable Cash".

General Description of the Fund and Canexus LP

At June 30, 2010, the Fund held a 36.2 percent (December 31, 2009 – 34.2 percent; June 30, 2009 – 34.7 percent) interest in Canexus LP and Nexen Inc. ("Nexen") held a 63.8 percent (December 31, 2009 – 65.8 percent; June 30, 2009 – 65.3 percent) controlling interest in Canexus LP. On December 9, 2009, Nexen announced that they expect to dispose of non-core assets including their interest in Canexus in the following 12 to 24 months.

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

Canexus Income Fund

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

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

Highlights (See also "Highlights" of Canexus LP)

- Distributions to Unitholders of $5 million ($0.1368 per Unit) declared for the three months ended June 30, 2010. The average participation rate by Fund Unitholders in the Distribution Reinvestment Program ("DRIP") for the three months ended June 30, 2010 was approximately 14 percent resulting in $0.7 million of the $5 million of distributions declared being reinvested.
- Distributable Cash available to Canexus Income Fund of $2.8 million for the three months ended June 30, 2010 resulted in a payout ratio of 182 percent due primarily to the delayed startup of the technology conversion project ("TCP") at Canexus LP's North Vancouver chlor-alkali plant. The payout ratio for the six months ended June 30, 2010 was 116 percent, consistent with prior guidance provided after inclusion of other gains realized in the first half of 2010.

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 June 30, 2010 was due to lower Gross Margin from Canexus LP's North America sodium chlorate and South American business units, the impact of the delayed startup of the TCP at Canexus LP's North Vancouver chlor-alkali facility, unrealized currency translation losses on Canexus LP's US dollar denominated long-term debt and changes in fair value of Canexus LP's held-for-trading financial instruments, partially offset by a gain recorded on the settlement with Fibria Celulose S.A. ("Fibria"), Canexus LP's primary customer in South America, of a contract matter for hydrogen supply. 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.

	Three Months Ended			
CAD thousands, except per unit amounts	June 30 2010	March 31 2010	December 31 2009	September 30 2009
Equity Income (Loss) from Investment in Canexus LP	(6,532)	5,567	4,239	13,179
Net Income (Loss)	(5,756)	2,906	6,806	12,835
Net Income (Loss) Per Unit ($/Unit)	(0.16)	0.09	0.21	0.38
Diluted Net Income (Loss) Per Unit ($/Unit)	(0.16)	0.08	0.18	0.36
Distributions Declared	5,021	4,704	4,611	4,573
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash available to Canexus Income Fund (1)	2,762	5,648	4,734	7,417

	Three Months Ended			
CAD thousands, except per unit amounts	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
Net Income (Loss) Per Unit ($/Unit)	0.17	0.07	(0.18)	0.07
Diluted Net Income (Loss) Per Unit ($/Unit)	0.17	0.07	(0.18)	0.07
Distributions Declared	4,541	4,500	5,926 (2)	4,406
Distributions Declared ($/Unit)	0.1368	0.1368	0.1824	0.1368
Distributable Cash available to Canexus Income Fund (1)	6,742	9,737	7,174	9,248

Notes:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

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

Results of Operations

Investment

At June 30, 2010, the Fund had an investment in 36,743,631 Ordinary Limited Partnership ("LP") Units (36.2 percent) of Canexus LP at a cost of $343.8 million. At December 31, 2009, the Fund had an investment in 33,701,807 Ordinary LP Units (34.2 percent) of Canexus LP at a cost of $324.7 million. The Fund accounts for this investment using the equity method.

For the three and six months ended June 30, 2010, the Fund's equity loss from Canexus LP was $6.5 million and $1 million respectively and the carrying value of this investment at June 30, 2010 was $303.8 million (December 31, 2009 – $295.6 million).

Investment in Debentures of Canexus LP

At June 30, 2010, the Fund held $71.6 million of Debentures of Canexus LP (December 31, 2009 – $85.8 million) which bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature on December 31, 2014. The Fund recognized $1.5 million and $3.2 million of interest income on the Debentures for the three and six months ended June 30, 2010 respectively.

Expenses

Trust administration expenses include an allocation of costs including directors' fees, directors' travel, directors and officer's liability insurance, professional fees, office rent and public issuer reporting costs.

The Fund recognized $1.5 million and $3.2 million of interest expense and $0.3 million and $0.5 million of accretion expense on the Convertible Debentures for the three and six months ended June 30, 2010 respectively (see "Convertible Debentures" on page 9).

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

On March 3, 2010, the Board of Directors of Canexus Limited approved an amendment to the TUIP to allow recipients of grants awarded in 2005 the option to receive cash or Units upon exercise of their 2005 grants. As a result of this amendment, the fair value of these awards at the date of amendment ($0.4 million) was transferred from contributed surplus to a liability. The liability is remeasured at each subsequent reporting period end to its fair value. During the three and six months ended June 30, 2010, recipients of 2005 grants exercised 86,000 and 119,000 options respectively for cash. During the three months ended June 30, 2010, recipients of 2005 grants exercised 81,500 options for Units. As the expense related to 2005 options exercised is related to employees of either Canexus Chemicals Canada Limited Partnership ("CCCLP"), Canexus U.S. Inc. ("CUI") or Canexus Quimica Brasil Ltda. ("Canexus Brazil"), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovers this expense at the time of exercise from either CCCLP, CUI or Canexus Brazil as applicable.

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

Statement of Distributable Cash

CAD thousands, except as noted	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Canexus LP				
Net Income (Loss)	(18,251)	17,132	(2,110)	22,881
Realized Foreign Exchange (Gains) Losses on Cash	(131)	1,137	440	1,173
Charges and Credits to Income Not Involving Cash				
Provision for (Recovery of) Future Income Taxes	337	2,921	(517)	4,914
Amortization	12,881	11,644	24,424	23,387
Unrealized (Gains) Losses on Currency Translation	16,705	(22,943)	9,361	(17,819)
Change in Fair Value of Foreign Exchange Options	1,159	(1,559)	1,746	4,390
Change in Fair Value of Foreign Exchange Forward	-	1,880	-	3,796
Change in Fair Value of Interest Rate Swaps	561	(1,493)	1,071	(984)
Reversal of Long-Term Accrual for Future TCP Severance Costs	-	-	-	(981)
Impairment of Sodium Chlorate Assets	-	17,227	-	17,227
Other	738	987	1,804	2,616
Contributions to / Payments for Defined Benefit Plans	(664)	(1,228)	(1,234)	(1,229)
Interest Income on Restricted Investments	-	(66)	(1)	(229)
Expenditures on Asset Retirement Obligations	(127)	(50)	(152)	(83)
Purchase of Foreign Exchange Options	(451)	-	(451)	-
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net, and Interest Payable to Affiliates	6,284	5,116	8,700	368
Cash From Operating Activities	19,041	30,705	43,081	59,427
Changes in Non-Cash Operating Working Capital and Due from/to Affiliates, Net, and Interest Payable to Affiliates	(6,284)	(5,116)	(8,700)	(368)
Maintenance Capital Expenditures	(4,448)	(4,000)	(6,888)	(7,111)
Amortization of the Purchase Cost of Foreign Exchange Options	(741)	(1,254)	(1,798)	(2,507)
Realized Foreign Exchange Gains (Losses) on Cash	131	(1,137)	(440)	(1,173)
TCP Severance Costs Paid	(576)	-	(576)	-
Operating Non-Cash Items	847	291	203	(1,304)
Distributable Cash within Canexus LP (1)	7,970	19,489	24,882	46,964
Canexus Income Fund				
Share of Canexus LP's Distributable Cash	2,846	6,817	8,669	16,665
Trust Administration Expenses	(84)	(75)	(259)	(186)
Distributable Cash available to Canexus Income Fund (1)	2,762	6,742	8,410	16,479
Distributions Declared	5,021	4,541	9,725	9,041
Payout Ratio (1)	182%	67%	116%	55%

Note:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

The net loss for the three months ended June 30, 2010 was $18.3 million as compared to net income of $17.1 million for the three months ended June 30, 2009. Lower Gross Margin from Canexus LP's North America sodium chlorate and South American business units, the impact of the delayed startup of the TCP at Canexus LP's North Vancouver chlor-alkali facility, unrealized currency translation losses on Canexus LP's US dollar denominated long-term debt (as compared to gains during the same period in 2009) and changes in fair value of Canexus LP's held-for-trading financial instruments, partially offset by a gain recorded on the settlement with Fibria of a contract matter for hydrogen supply, and impairment and closure costs recorded in the second quarter of 2009 related to the closure of Canexus LP's Bruderheim, Alberta sodium chlorate plant contributed to the change in net income (loss) between periods. See Canexus LP "Changes in Net Income Three Months Ended June 30, 2010 versus Three Months Ended June 30, 2009" on page 15.

See Canexus LP "Cash Flow from Operating Activities" on page 28 for a discussion of changes in cash flow from operating activities.

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

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

Income Taxes

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

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts received Royal Assent (the "SIFT Rules"). As a result, the Fund has recognized an $8.4 million future income tax liability at June 30, 2010 on temporary differences in reported amounts for financial statement and tax purposes in the assets and liabilities underlying its investment in Canexus LP.

Commencing in 2011, a federal tax will be applied to distributions from publicly traded income trusts (the "SIFT tax") which could result in reduced cash available for distributions. The rate of SIFT tax will be equal to the prevailing general federal corporate income tax rate (slated to be 16.5 percent in 2011 and 15 percent in 2012 and subsequent years) plus a "provincial SIFT tax rate" which under enacted regulations will be based on the prevailing provincial corporate income tax rates in the provinces where the Specified Investment Flow-Through ("SIFT") has a permanent establishment. Based on current enacted rates it is anticipated that the provincial SIFT tax rate will be approximately 11.1 percent in 2011 and 2012. This will result in a combined federal and provincial tax rate of approximately 27.6 percent for 2011 and 26.1 percent for 2012 and subsequent years. Under the Tax Act, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to avoid being subject to the SIFT tax before then. Under the normal growth guidelines, the amount of equity units that an income trust can issue prior to 2011 may not exceed the value of its publicly traded equity units on October 31, 2006. 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. Under the normal growth guidelines, the Fund had available at June 30, 2010 a "safe harbour" amount of $100 million. This amount does not include equity that would be issued for the Exchangeable LP Units issued to Nexen outstanding at October 31, 2006.

On March 12, 2009, legislation was enacted to enable the conversion of existing publicly traded trusts into public corporations without immediate tax consequences to the trusts or their investors.

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

Distributions

The Fund made monthly distributions of $0.0456 per Unit for the period April 1, 2010 to June 30, 2010 for total distributions declared of $5 million ($0.1368 per Unit) for the three months ended June 30, 2010.

At June 30, 2010, the Fund had a distribution receivable from Canexus LP of $1.7 million. Upon receipt of this distribution in July 2010, the Fund paid a distribution payable of $1.7 million outstanding at June 30, 2010.

Selected Annual Financial Information

	For the Years Ended December 31		
CAD thousands, except per unit amounts	2009	2008	2007
Equity Income (Loss) from Investment in Canexus LP	25,474	(2,141)	21,047
Net Income (Loss)	27,525	(2,587)	5,533
Net Income (Loss) ($/Unit)	0.83	(0.08)	0.17
Diluted Net Income (Loss) ($/Unit)	0.78	(0.08)	0.17
Distributions Declared	18,225	19,048	26,908
Distributions Declared ($/Unit)	0.5472	0.5928	0.8475
Distributable Cash available to Canexus Income Fund (1)	28,630	31,165	22,141

	2009	2008	2007
Total Assets	383,367	287,519	304,183
Total Long-Term Financial Liabilities	78,516	-	-

Note:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

Liquidity and Capital Structure

Outstanding Securities of the Fund

At June 30, 2010, the Fund had 37,221,844 Units outstanding (August 10, 2010 – 37,764,816).

At June 30, 2010, Nexen held 64,835,420 Exchangeable LP Units of Canexus LP (August 10, 2010 – 64,835,420), each of which is exchangeable into one Unit of the Fund at no cost at any time at the option of Nexen, and each of which carries a special voting right that entitles the holder to receive notice of, and attend and vote at all meetings of Unitholders of the Fund.

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

Convertible Debentures

At June 30, 2010 and December 31, 2009, the Fund had two series of convertible unsecured subordinated debentures denoted as Series I Debentures and Series II Debentures (the “Convertible Debentures”) outstanding as follows:

	Series I	Series II
Maturity Date	December 31, 2014	December 31, 2014
Fixed Distribution Rate	8.00%	8.00%
Conversion Price	$5.10	$5.10

	Series I	Series II	Unamortized Discount	Total Carrying Value
Outstanding, December 31, 2009	45,780	40,000	(7,284)	78,496
Issued	-	-	-	-
Converted	(14,178)	-	1,159	(13,019)
Accretion of Discount	-	-	533	533
Outstanding, June 30, 2010	31,602	40,000	(5,592)	66,010

Fair Value (1)	Series I	Series II
June 30, 2010	37,847	47,904
December 31, 2009	50,129	43,800

Note:

(1) The fair value of the Series I Convertible Debentures was based on a quoted market price in an active market. The fair value of the Series II Convertible Debentures was calculated by comparison to quoted prices for similar instruments traded in an active market.

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

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

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

Business Risks

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

For a discussion of certain risks related to Canexus LP’s operations, see the “Market and Financial Risk Analysis” discussion relating to Canexus LP beginning on page 33. Additional risk factors relating to the Fund and Canexus LP’s operations are contained in the Fund’s Annual Information Form filed on the Fund’s profile on the SEDAR website at www.sedar.com.

Guarantees

The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, Canexus Limited and indirectly, Canexus Holdings Limited, have provided 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 facilities agreements and the note indenture governing the Senior Secured Notes filed on the Fund's SEDAR profile at www.sedar.com.

Transactions With Related Parties

Due from/to affiliates, net, at June 30, 2010 and December 31, 2009 represent amounts owing to the Fund by Canexus Limited.

Canexus Limited, as administrator of the Fund and indirectly, the Trustee of Canexus Commercial Trust and the General Partner of Canexus LP, incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the three and six months ended June 30, 2010 were $23,000 and $46,000 respectively. For the three and six months ended June 30, 2009 the Fund's share of lease payments and operating costs were $23,000 and $47,000 respectively.

The Series II Convertible Debentures outstanding at June 30, 2010 are held by Nexen. Interest expense recognized on the Series II Debentures for the three and six months ended June 30, 2010 was $0.9 million and $1.7 million respectively. The accretion of the Series II Debentures for the three and six months ended June 30, 2010 was $0.1 million and $0.3 million respectively. At June 30, 2010, there was $NIL interest payable to Nexen on the Series II Debentures (December 31, 2009 – $9,000).

At June 30, 2010 and December 31, 2009, the Fund held Debentures of Canexus LP as follows:

	June 30, 2010	December 31, 2009
Outstanding, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(14,178)	(220)
Outstanding, End of Period	71,602	85,780

Interest income recognized on these Debentures for the three and six months ended June 30, 2010 was $1.5 million and $3.2 million respectively. At June 30, 2010, $NIL was receivable from Canexus LP for interest income on the Debentures (December 31, 2009 – $19,000). At June 30, 2010, $3.2 million of promissory notes (December 31, 2009 - $5,115) were payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP. Promissory notes payable are included in due from/to affiliates, net, at June 30, 2010 and December 31, 2009 in the Fund's consolidated balance sheets at June 30, 2010 and December 31, 2009.

Critical Accounting Estimates

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

Canexus Limited Partnership

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

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, 2010, the Fund held a 36.2 percent (December 31, 2009 – 34.2 percent; June 30, 2009 – 34.7 percent) interest and Nexen Inc. ("Nexen") held a 63.8 percent (December 31, 2009 – 65.8 percent; June 30, 2009 – 65.3 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP.

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

Executive Summary

Second quarter 2010 financial results were consistent with our expectations for the first half of 2010 after considering the delay in startup of the technology conversion project ("TCP") and the inclusion of other realized gains in the first half of 2010. Distributable Cash within Canexus LP was $8 million for the three months ended June 30, 2010 for a Payout Ratio of 182 percent and $24.9 million for the six months ended June 30, 2010 for a Payout Ratio of 116 percent. Distributable Cash within Canexus LP was negatively impacted by the delay in the startup of the TCP at our North Vancouver chlor-alkali facility.

Our North America sodium chlorate business benefited from robust pulp markets with an increase in sales volumes as compared to the second quarter of 2009. Delivered selling prices to US customers were down approximately seven percent in the second quarter of 2010 as compared to the second quarter of 2009. Modest delivered price increases implemented during the second quarter were more than offset by the impact of the stronger Canadian dollar during the second quarter of 2010 (US $0.98) as compared to the second quarter of 2009 (US $0.82). Gross Margin Percentage declined as a result of lower realized selling prices and higher electricity costs, partially mitigated by higher production volumes.

Our North American Terminal Operations ("NATO") project to construct rail infrastructure for access by a second major rail carrier at the Bruderheim, Alberta site was completed in July and is anticipated to add an incremental $2 million in annual Operating Cash Flow. We have been successful in broadening our prospective customer base and continue to advance development plans for the site that could result in the next phase being operational in 2012.

The financial results of our North America chlor-alkali business unit were negatively impacted during the second quarter by the delayed startup of the TCP. Negative Gross Margin of $4.4 million resulted from having no production for two months in the quarter and included $1.6 million of costs incurred to source chlor-alkali products for our customers and $2.6 million of planned annual maintenance expense. The TCP startup occurred on June 24, 2010. Initial production was achieved on June 25, 2010 and is expected to ramp up over the balance of the year. The TCP transition was extended due to delays in completion of construction and other design improvements required prior to startup. We are currently operating at approximately 70 percent of design capacity and stabilizing following a recent shutdown to replace a critical valve. Three bottlenecks have been identified that are currently preventing us from operating at full rates. These bottlenecks are currently expected to involve minor (both in terms of downtime and cost) modifications and will be dealt with in the next few months. The modifications will address brine flow stability, cell liquor flow affecting one of the seven electrolytic circuits and an electrical buss limitation. Chlor-alkali markets showed modest improvement during the second quarter, with increased industry operating rates and MECU prices compared to the previous quarter.

Sales revenue for our South America business unit declined slightly as compared to the second quarter of 2009 as a result of lower sodium chlorate sales volumes to our primary customer, who experienced some temporary process difficulties during the second quarter that have since been rectified. The sodium chlorate expansion and the project to sell excess hydrogen at our Brazil facility were completed in the second quarter. The hydrochloric acid expansion project, which is supported by a 10-year take-or-pay contract and enables us to optimize chlor-alkali capacity utilization, is expected to startup in August. These projects are estimated to add approximately $5 million to our annual Operating Cash Flow. Anticipated strong demand for Brazilian pulp is expected to support high sodium chlorate consumption by our major customer and sales to other customers resulting in our Brazil facility operating at maximum rates for the remainder of 2010.

Highlights

- Distributable Cash within Canexus LP of $8 million for the three months ended June 30, 2010.
- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder were $0.1368 per LP Unit for total distributions declared of $13.9 million.
- Startup of four growth projects during the quarter, including startup at the end of June of the TCP at our North Vancouver chlor-alkali facility which is expected to contribute an estimated $35 to $43 million in incremental annual Operating Cash Flow as production levels increase to planned levels.
- Other completed projects include the build-in of the second major rail line into our NATO site at Bruderheim, Alberta and the 4,400 metric tonne (“MT”) sodium chlorate expansion and the project to sell excess hydrogen at our Brazil plant.
- North America chlor-alkali results reflect the delay in the TCP transition and startup and are expected to improve as the year progresses. Negative Gross Margin of $4.4 million resulted from having no production for two months in the quarter and included $1.6 million of costs incurred to source chlor-alkali products for our customers and $2.6 million of planned annual maintenance expense. Markets for chlorine and caustic soda are strengthening with price increases announced for the third quarter. The hydrochloric acid expansion project at our North Vancouver chlor-alkali facility to improve operational flexibility and increase acid capacity by 70,000 wet MT is scheduled for startup in August and is expected to add $2 million of Operating Cash Flow annually.
- North America sodium chlorate benefited from improving pulp markets with strong volumes. Moderate delivered price increases were offset by the impact of the stronger Canadian dollar. Further price increases are expected for the third quarter. We expect Canexus LP’s sodium chlorate plants to operate at capacity for the remainder of 2010.
- Our South America business unit saw a slight decline in sales revenue for the second quarter of 2010 as compared to the comparable period in 2009 resulting from temporary process problems experienced by our primary customer in Brazil during the second quarter which have since been rectified. We anticipate the plant to operate at near maximum rates throughout the balance of 2010. We recorded a $7.3 million gain from the settlement of an outstanding contract matter for hydrogen supply. We commenced selling excess hydrogen to a third party under a long-term take-or-pay agreement during the three months ended June 30, 2010. Our Brazil hydrochloric acid expansion project is expected to startup in August supported by a 10-year take-or-pay contract.
- We have Canadian dollar foreign exchange call option contracts in place to protect US $5 million per month at US 0.9524 from July 1, 2010 to September 30, 2010.
- At June 30, 2010, total borrowings under committed credit facilities were $375.4 million with remaining available undrawn capacity of approximately $58 million. We have no debt maturing before August 2012.

Summary of Quarterly Results

	Three Months Ended			
CAD thousands, except as noted	June 30 2010	March 31 2010	December 31 2009	September 30 2009
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	103	108	103	106
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	41	40	42	48
Sales Revenues	104,324	113,715	110,508	114,883
Cost of Goods Sold	89,568	81,805	81,657	78,239
Gross Margin [(1)]	14,756	31,910	28,851	36,644
Gross Margin Percentage [(1)]	14%	28%	26%	32%
Net Income (Loss)	(18,251)	16,141	12,407	38,364
Plus: Provision for Income Taxes	2,635	450	1,481	2,546
Plus: Amortization	12,881	11,543	11,159	11,775
Plus: Interest Expense	2,434	1,571	2,037	1,864
EBITDA [(1)]	(301)	29,705	27,084	54,549
Distributions Declared	13,894	13,574	13,482	13,352
Distributions Declared ($/Unit)	0.1368	0.1368	0.1368	0.1368
Distributable Cash within Canexus LP [(1)]	7,970	16,912	14,066	21,854
Capital Expenditures				
Maintenance	4,448	2,440	6,747	6,244
Remediation [(2)]	1,430	877	1,033	2,469
Continuous Improvement	1,968	208	5,326	437
Expansion	46,198	45,046	40,073	44,321
Total Capital Expenditures	54,044	48,571	53,179	53,471
Average Foreign Exchange Rate (CAD $)	US $0.98	US $0.95	US $0.94	US $0.90

Notes:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

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

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 Percentage (1)	32%	37%	30%	31%
Net Income (Loss)	17,132 (4)	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 (4)	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 $)	US $0.82	US $0.81	US $0.87	US $0.97

Notes:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

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

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

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

Results of Operations

Changes in Net Income Three Months Ended June 30, 2010 versus Three Months Ended June 30, 2009

CAD thousands	
Net Income for the Three Months Ended June 30, 2009	17,132
Items Increasing (Decreasing) Net Income	
Sales Revenues	(4,913)
Cost of Goods Sold	(14,985)
Amortization	(1,237)
General and Administrative Expense	1,521
Interest Expense	(882)
Change in Fair Value and Realized Gains on Foreign Exchange Options	(3,733)
Change in Fair Value and Realized Losses on Interest Rate Swaps	(2,121)
Change in Fair Value and Realized Gain on Foreign Exchange Forward	(613)
Change in Currency Translation Gains (Losses)	(36,083)
Income Taxes	984
Hydrogen Settlement	7,267
Impairment of Sodium Chlorate Assets	17,227
Sodium Chlorate Plant Closure Costs	2,651
Other	(466)
Net Loss for the Three Months Ended June 30, 2010	(18,251)

The net loss for the three months ended June 30, 2010 was $18.3 million as compared to net income of $17.1 million for the three months ended June 30, 2009. Lower Gross Margin from the North America sodium chlorate and South American business units, the impact of the delayed startup of the TCP at our North Vancouver chlor-alkali facility, unrealized currency translation losses on our US dollar denominated long-term debt (as compared to gains during the same period in 2009) and changes in fair value of held-for-trading financial instruments, partially offset by a gain recorded on the settlement with Fibria of a contract matter for hydrogen supply, and impairment and closure costs recorded in the second quarter of 2009 related to the closure of Canexus LP's Bruderheim, Alberta sodium chlorate plant contributed to the change in net income (loss) between periods.

A decrease in Gross Margin of $19.9 million decreased net income

	North America			
Three Months Ended June 30, 2010	Sodium Chlorate [(2)]	Chlor-alkali	South America	Total
Sales Revenues	49,480	32,600	22,244	104,324
Cost of Goods Sold	35,972	36,956	16,640	89,568
Gross Margin [(1)]	13,508	(4,356)	5,604	14,756
Gross Margin Percentage [(1)]	27%	(13%)	25%	14%

	North America			
Three Months Ended June 30, 2009	Sodium Chlorate [(2)]	Chlor-alkali	South America	Total
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 Percentage [(1)]	36%	27%	28%	32%

Notes:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

(2) Revenues and costs of the North American Terminal Operation for the three months ended June 30, 2010 and June 30, 2009 are included in North America Sodium Chlorate.

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment decreased three percent from $51.1 million for the three months ended June 30, 2009 to $49.5 million for the three months ended June 30, 2010 due to an 18 percent decline in realized selling prices, partially offset by a 16 percent increase in sales volumes. Delivered selling prices to US customers decreased approximately seven percent in the second quarter of 2010 as compared to the second quarter of 2009. Price increases implemented in the second quarter were more than offset by the impact of the stronger Canadian dollar in the second quarter (US $0.98) as compared to the second quarter of 2009 (US $0.82). The decrease in the Gross Margin Percentage from 36 percent for the three months ended June 30, 2009 to 27 percent for the three months ended June 30, 2010 was due to the decrease in realized selling prices and higher electricity costs, partially offset by higher production volumes.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment decreased eight percent from $35.4 for the three months ended June 30, 2009 to $32.6 million for the three months ended June 30, 2010. With the two-month shutdown of the North Vancouver chlor-alkali facility for the TCP transition during the second quarter, the segment had negative Gross Margin of $4.4 million resulting from no production for two months in the quarter and included $1.6 million of costs incurred to source product for our customers and $2.6 million of planned annual maintenance expenses. We capitalized $3.7 million of TCP commissioning costs and $0.9 million of TCP startup losses during the second quarter.

South America

Sales revenue in South America of $22.2 million for the three months ended June 30, 2010 was two percent lower than sales revenue of $22.7 million for the three months ended June 30, 2009. The decline in sales revenue was due to lower sodium chlorate sales volumes to our primary customer as a result of temporary process problems they experienced during the second quarter that have since been corrected and lower chlorine-equivalent sales volumes to the merchant market, partially offset by higher selling prices for chlorine. The decrease in the Gross Margin Percentage from 28 percent to 25 percent was due to the impact of the significant strengthening of the Canadian dollar on our US dollar fixed margin contract and higher fixed costs as a result of a planned maintenance shutdown during the second quarter.

Higher amortization expense decreased net income by $1.2 million

Amortization expense increased for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 due to the acceleration of the amortization of the assets at our North Vancouver chlor-alkali facility which are no longer being utilized following the startup of the TCP and to the amortization of costs associated with the amendment and extension of the credit facilities effective April 15, 2010.

Lower general and administrative expense increased net income by $1.5 million

General and administrative expense was lower for the three months ended June 30, 2010 as a result of lower accrued bonuses in 2010, and costs incurred in 2009 associated with the review and implementation of SAP chemicals best practice processes and the conversion to International Financial Reporting Standards (“IFRS”).

Higher interest expense decreased net income by $0.9 million

The increase in interest expense for the three months ended June 30, 2010 was primarily due to higher borrowings, higher interest rates and interest on the Debentures, partially offset by higher interest capitalized to major projects.

The amount outstanding on our Extendible Revolving Credit Facility (see “Capital Resources” on page 31) at June 30, 2010 was US $279 million as compared to US $209.5 million at June 30, 2009. The weighted average interest rate on borrowings from this credit facility was 4.01 percent, excluding the impact of the interest rate swaps, for the three months ended June 30, 2010 as compared to 2.89 percent, excluding the impact of the interest rate swaps, for the three months ended June 30, 2009.

Effective April 15, 2010, the Senior Secured Revolving Credit Facility (see “Capital Resources” on page 31) was repaid and cancelled. The weighted average interest rate on borrowings from this credit facility was 1.99 percent for the period April 1, 2010 to April 15, 2010. The amount outstanding on the Senior Secured Revolving Credit Facility at June 30, 2009 was US $11 million and the weighted average interest rate on borrowings from this credit facility was 2.15 percent for the three months ended June 30, 2009.

At June 30, 2010, the amount outstanding on Canexus Brazil’s EDC Extendible Revolving Credit Facility (see “Capital Resources” on page 31) was US $10 million as compared to US $6 million at June 30, 2009. The weighted average interest rate on borrowings from this credit facility was 4.01 percent for the three months ended June 30, 2010 as compared to 2.16 percent for the three months ended June 30, 2009.

Interest capitalized on major projects during the three months ended June 30, 2010 was $3.5 million as compared to $1 million during the three months ended June 30, 2009.

Changes in foreign exchange options decreased net income by $3.7 million

During the three months ended June 30, 2010 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 $0.9302 for the period April 1, 2010 to June 30, 2010. On May 7, 2010, we purchased Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 for the period July 1, 2010 to September 30, 2010.

Mark-to-market fair value losses of $1.2 million and realized gains of $0.7 million were recorded on these foreign exchange call option contracts for a net loss of $0.5 million for the three months ended June 30, 2010 as a result of the decrease 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. At June 30, 2010, the fair value of these foreign exchange call option contracts was $0.2 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.

Changes in interest rate swaps decreased net income by $2.1 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. Mark-to-market fair value losses of $0.6 million and realized losses of $0.4 million were recorded on these interest rate swap agreements for a total loss of $1 million for the three months ended June 30, 2010 due to market expectations of future three month US LIBOR floating rates and to the shorter remaining term of these interest rate swap agreements. At June 30, 2010, the fair value of these interest rate swap agreements resulted in a financial liability of $3.2 million. During the three months ended June 30, 2009 we recorded mark-to-market fair value gains of $1.5 million and realized losses of $0.3 million for a net gain of $1.2 million.

Changes in a foreign exchange forward decreased 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) decreased net income by $36.1 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, 2010 fluctuations in exchange rates resulted in unrealized losses of $16.7 million and realized gains of $3.7 million for a net loss of $13 million as compared to unrealized gains of $22.9 million and realized gains of $0.1 million for a total gain of $23 million for the three months ended June 30, 2009.

During the three months ended June 30, 2010 we recorded an unrealized currency translation loss of $18.4 million on our US dollar denominated long-term debt as a result of the weakening of the Canadian dollar at the end of the second quarter of 2010 and a realized gain of $3.7 million on the repayment of the Senior Secured Revolving Credit Facility and US $20 million of the Extendible Revolving Credit Facility for a net loss of $14.7 million. During the three months ended June 30, 2009 we recorded an unrealized currency translation gain of $23 million.

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

Lower income taxes increased net income by $1 million

Income taxes decreased for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 due to foreign exchange rate fluctuations and lower net income in certain foreign subsidiaries.

Hydrogen contract settlement increased net income by $7.3 million

During the three months ended June 30, 2010 we recorded a gain of $7.3 million related to the settlement with Fibria of a contract matter for hydrogen supply. Following the settlement, Canexus LP and Fibria agreed to prospectively amend the joint supply agreement to remove the contractual commitment for Canexus Brazil to supply and Fibria to purchase hydrogen under such agreement. We commenced selling excess hydrogen to a third party under a long-term take-or-pay agreement during the three months ended June 30, 2010.

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

In April 2009 we announced the closure of our Bruderheim, Alberta 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, 2010 were $54 million as compared to the three months ended June 30, 2009 of $71.4 million. This decrease was due to a decrease in expansion capital expenditures of $18.8 million, partially offset by increases in maintenance capital expenditures of $0.4 million, remediation capital expenditures of $0.3 million and continuous improvement capital expenditures of $0.7 million. The decrease in expansion capital expenditures was due to the completion of construction of the TCP in the second quarter.

At June 30, 2010, $281.7 million including capitalized interest of $11.9 million, had been spent on the TCP at our North Vancouver chlor-alkali facility. On April 30, 2010, the facility was shut down for completion of the final construction and commissioning and implementation of the startup plan for the TCP. The TCP startup occurred on June 24, 2010. Initial production was achieved on June 25, 2010 and is expected to ramp up over the balance of the year. The TCP transition was extended due to delays in completion of construction and other design improvements required prior to startup. We are currently operating at approximately 70 percent of design capacity and stabilizing following a recent shutdown to replace a critical valve. Three bottlenecks have been identified that are currently preventing us from operating at full rates. These bottlenecks are currently expected to involve minor (both in terms of downtime and cost) modifications and will be dealt with in the next few months. The modifications will address brine flow stability, cell liquor flow affecting one of the seven electrolytic circuits and an electrical buss limitation.

The TCP replaced existing 50-year old diaphragm technology and assets with proven membrane technology that is newer, more cost-efficient and environmentally friendly. Project benefits are expected to include incremental annual Operating Cash Flow of between $35 and $43 million as a result of decreased production costs and increased plant capacity.

Changes in Net Income Six Months Ended June 30, 2010 versus Six Months Ended June 30, 2009

CAD thousands	
Net Income for the Six Months Ended June 30, 2009	22,881
Items Increasing (Decreasing) Net Income	
Sales Revenues	(15,017)
Cost of Goods Sold	(18,989)
Amortization	(1,037)
General and Administrative Expense	2,450
Interest Expense	(245)
Change in Fair Value and Realized Gains on Foreign Exchange Options	2,358
Change in Fair Value and Realized Gains (Losses) on Interest Rate Swaps	(2,291)
Change in Fair Value and Realized Gain on Foreign Exchange Forward	1,303
Change in Currency Translation Gains (Losses)	(22,696)
Income Taxes	2,728
Reversal of Accrual for Future TCP Severance Costs	(582)
Allowance for Doubtful Accounts	650
Hydrogen Settlement	7,267
Impairment of Sodium Chlorate Assets	17,227
Sodium Chlorate Plant Closure Costs	2,651
Other	(768)
Net Loss for the Six Months Ended June 30, 2010	(2,110)

The net loss for the six months ended June 30, 2010 was $2.1 million as compared to net income of $22.9 million from the six months ended June 30, 2009. Lower Gross Margin from our North America sodium chlorate business unit, the impact of the delayed startup of the TCP at our North Vancouver chlor-alkali facility and unrealized currency translation losses on our US dollar denominated long-term debt (as compared to gains for the comparable period of 2009), partially offset by changes in fair value of held-for-trading financial instruments, the recording of a gain on settlement with Fibria related to a contract matter for hydrogen supply, and impairment and closure costs recorded in the second quarter of 2009 related to the closure of the Bruderheim, Alberta sodium chlorate plant contributed to the change in net income (loss) between periods.

Net income decreased due to a decrease in Gross Margin of $34 million

	North America			
Six Months Ended June 30, 2010	Sodium Chlorate (2)	Chlor-alkali	South America	Total
Sales Revenues	102,418	69,662	45,959	218,039
Cost of Goods Sold	71,819	67,240	32,314	171,373
Gross Margin (1)	30,599	2,422	13,645	46,666
Gross Margin (%) (1)	30%	3%	30%	21%

	North America			
Six Months Ended June 30, 2009	Sodium Chlorate (2)	Chlor-alkali	South America	Total
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%

Notes:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

(2) Revenues and costs of the North American Terminal Operation for the six months ended June 30, 2010 and June 30, 2009 are included in North America Sodium Chlorate.

North America Sodium Chlorate

Sales revenue for the North America sodium chlorate segment decreased from $108.4 million for the six months ended June 30, 2009 to $102.4 million for the six months ended June 30, 2010 due to a 19 percent decrease in realized selling prices, partially offset by a 14 percent increase in sales volumes. Delivered selling prices to US customers were down approximately 10 percent in the first half of 2010 as compared to the first half of 2009. The decrease in realized selling prices was primarily due to the stronger Canadian dollar during the first half of 2010 (US $0.96) as compared to the first half of 2009 (US $0.82), which more than offset price increases implemented in the second quarter. The increase in sales volumes was due to increased operating rates at customer facilities as the global economy continues to recover from the recession. The Gross Margin Percentage decreased to 30 percent from 39 percent due to the decrease in realized selling prices and higher electricity costs, partially offset by higher production volumes and lower fixed costs.

North America Chlor-alkali

Sales revenue for the North America chlor-alkali segment decreased 10 percent from $77.7 million for the six months ended June 30, 2009 to $69.7 million for the six months ended June 30, 2010. Gross Margin of $2.4 million for the six months ended June 30, 2010 was comprised of Gross Margin earned in the first quarter of $6.8 million, partially offset by the negative Gross Margin of $4.4 million in the second quarter (see "Changes in Net Income Three Months Ended June 30, 2010 versus Three Months Ended June 30, 2009 – North America Chlor-alkali" on page 16).

South America

Sales revenue in South America decreased two percent from $47 million for the six months ended June 30, 2009 to $46 million for the six months ended June 30, 2010 primarily due to lower sales volumes of sodium chlorate (decrease of 8 percent), chlorine-equivalent (decrease of 5 percent) and caustic soda (decrease of 3 percent), partially offset by higher realized chlorine, hydrochloric acid and sodium chlorate selling prices. The decrease in sodium chlorate and caustic soda sales volumes was due to reduced demand from our primary customer in January and February. The decrease in realized selling prices for caustic soda was primarily due to the stronger Canadian dollar in the first half of 2010 (US $0.96) compared to the first half of 2009 (US $0.82). 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. The Gross Margin increased for the six months ended June 30, 2010 due to a longer annual plant maintenance shutdown in the first half of 2009 compared to the first half of 2010, and the purchase of caustic soda up to our chlor-alkali plant's operating capacity volume in the first quarter of 2009 at market prices which were higher than the price we could bill our primary customer.

Higher amortization expense decreased net income by $1 million

The increase in amortization expense for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 was due to the acceleration of the amortization of assets at our North Vancouver chlor-alkali plant which are no longer being utilized following the startup of the TCP, the amortization of maintenance capital projects completed in the second half of 2009 and the first half of 2010, and to the amortization of costs incurred to amend and extend our credit facilities effective April 15, 2010.

Lower general and administrative expense increased net income by $2.5 million

General and administrative expense was lower for the six months ended June 30, 2010 as a result of lower accrued bonuses in 2010, and costs incurred in 2009 associated with the review and implementation of SAP chemicals best practice processes and the conversion to International Financial Reporting Standards ("IFRS").

Higher interest expense decreased net income by $0.2 million

The increase in interest expense for the six months ended June 30, 2010 was primarily due to higher borrowings, higher interest rates and interest on the Debentures, partially offset by higher interest capitalized to major projects.

The amount outstanding on our Extendible Revolving Credit Facility (see "Capital Resources" on page 31) at June 30, 2010 was US $279 million as compared to US $209.5 million at June 30, 2009. The weighted average interest rate on borrowings from this credit facility was 3.48 percent, excluding the impact of the interest rate swaps, for the six months ended June 30, 2010 as compared to 2.69 percent, excluding the impact of the interest rate swaps, for the six months ended June 30, 2009.

Effective April 15, 2010, the Senior Secured Revolving Credit Facility (see "Capital Resources" on page 31) was repaid and cancelled. The weighted average interest rate on borrowings from this credit facility was 1.55 percent for the period January 1, 2010 to April 15, 2010. The amount outstanding on the Senior Secured Revolving Credit Facility at June 30, 2009 was US $11 million and the weighted average interest rate on borrowings from this credit facility was 2.17 percent for the six months ended June 30, 2009.

At June 30, 2010 the amount outstanding on Canexus Brazil's EDC Extendible Revolving Credit Facility (see "Capital Resources" on page 31) was US $10 million. The weighted average interest rate on borrowings from this credit facility was 2.83 percent for the six months ended June 30, 2010. The amount outstanding on this facility at June 30, 2009 was US $6 million and the weighted average interest rate on borrowings from this facility was 2.21 percent for the six months ended June 30, 2009.

Interest capitalized on major projects during the six months ended June 30, 2010 was $5.7 million as compared to $1.6 million during the six months ended June 30, 2009.

Changes in foreign exchange options increased net income by $2.4 million

During the six months ended June 30, 2010 Canexus LP had the following Canadian dollar foreign exchange call option contracts:

- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9302 for the period January 1, 2010 to June 30, 2010;
- US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9479 for the period January 1, 2010 to March 31, 2010; and
- US $5 million per month which entitles Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 for the period July 1, 2010 to September 30, 2010.

Mark-to-market fair value losses of $1.7 million and realized gains of $1.4 million were recorded on these foreign exchange call option contracts for a net loss of $0.3 million for the six months ended June 30, 2010 as a result of the expiry of some of the contracts, a decrease in the value of the Canadian dollar relative to the US dollar at June 30, 2010 and to market expectations of the future value of the Canadian dollar relative to the US dollar. At June 30, 2010 the fair value of these foreign exchange call option contracts was $0.2 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. At June 30, 2009 the fair value of these foreign exchange call option contracts was $4.3 million.

Changes in interest rate swaps decreased net income by $2.3 million

Canexus LP has interest rate swap agreements under which we swap three month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10, 2013. We recorded mark-to-market fair value losses of $1.1 million and realized losses of $0.8 million for a total loss of $1.9 million during the six months ended June 30, 2010 due to market expectations of future three month US LIBOR floating rates, three 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, 2010 the fair value of these interest rate swap agreements resulted in a financial liability of $3.2 million. During the six months ended June 30, 2009, 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.

Changes in a foreign exchange forward increased 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) decreased net income by $22.7 million

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

During the six months ended June 30, 2010, fluctuations in exchange rates resulted in unrealized losses of $9.4 million and realized gains of $3 million for a net loss of $6.4 million, compared to unrealized gains of $17.8 million and realized losses of $1.5 million for a net gain of $16.3 million during the six months ended June 30, 2009.

During the six months ended June 30, 2010, we recorded an unrealized currency translation loss of $9.8 million on our US dollar denominated long-term debt as a result of the strengthening of the Canadian dollar in the first half of 2010 and a realized gain of $3.7 million on the repayment of the Senior Secured Revolving Credit Facility and US $20 million of the Extendible Revolving Credit Facility. During the six months ended June 30, 2009, we recorded an unrealized currency translation gain of $15.4 million on our US dollar denominated long-term debt 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 US $2.6 million on our Senior Secured Revolving Credit Facility in the first quarter of 2009.

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

Lower income taxes increased net income by $2.7 million

Income taxes were lower for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 due to foreign exchange rate fluctuations and lower net income in certain foreign subsidiaries.

Reversal of accrual for estimated future TCP severance costs payable decreased net income by $0.6 million

During the six months ended June 30, 2010, we reversed $0.4 million of the accrual for severance costs payable to employees following startup of the TCP at our North Vancouver facility. During the six months ended June 30, 2009, we revised the estimate of severance costs payable down by $1 million as a result of an assessment of expected total costs at that time. We initially accrued estimated costs of $7.3 million for severance costs payable to employees following startup 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. We expect to be able to permanently reduce our work force at this facility by approximately one-third once we complete our startup process.

An increase in the allowance for doubtful accounts in 2009 increased 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.

Hydrogen settlement increased net income by $7.3 million

During the three months ended June 30, 2010, we recorded a gain of $7.3 million related to the settlement of a contract matter with Fibria for hydrogen supply. Following the settlement, Canexus LP and Fibria agreed to prospectively amend the joint supply agreement to remove the contractual commitment for Canexus Brazil to supply and Fibria to purchase hydrogen under such agreement. We commenced selling excess hydrogen to a third party under a long-term take-or-pay agreement during the second quarter.

Closure of sodium chlorate production at our Bruderheim, Alberta site in 2009 increased 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.

Other income (expense) items decreased net income by $0.8 million

During the six months ended June 30, 2010 we recorded the following other income (expense) items:

- Loss on disposal of assets replaced during the performance of plant maintenance of $0.4 million;
- A provision of $0.5 million for the impairment of materials and supplies which became obsolete following the startup of the TCP at our North Vancouver chlor-alkali facility;
- Reversal of $0.2 million of impairment of our investment in the restructured notes which replaced the ABCP; and
- Miscellaneous other income items of $0.2 million.

During the six months ended June 30, 2009 we recognized $0.2 million of miscellaneous other income items.

Income Taxes

Canexus LP, as a flow through entity, calculates taxable income and allocates such income to its partners. Included in the computation of taxable income are deductions for income tax purposes that differ from accounting income. To the extent that deductions are different for income tax a future income tax liability or asset will arise. At June 30, 2010, the book amount of Canexus LP's assets and liabilities exceed their tax basis by approximately $98 million (December 31, 2009 - $114 million) which is comprised of the following:

	June 30, 2010	December 31, 2009
Unrealized Foreign Exchange Gains	(15,116)	(23,758)
Property, Plant and Equipment, Net	(89,783)	(97,478)
Other	6,889	7,199
	(98,010)	114,037

At June 30, 2010 and December 31, 2009 Canexus LP's major tax pools were as follows:

	June 30, 2010	December 31, 2009
Undepreciated Capital Cost	94,000	107,000
Assets Under Construction	332,000	246,000
	426,000	353,000

Selected Annual Financial Information

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

	At December 31		
	2009	2008	2007
Total Assets	683,940	582,354	488,199
Total Long-Term Financial Liabilities	368,308	291,034	201,572

Note:

(1) See comments concerning non-GAAP Measures on pages 2 and 3.

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

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

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

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

Outlook

North America Sodium Chlorate

Global pulp markets continued to be strong during the second quarter of 2010. Pulp inventory remained low at 27 days through May, albeit an increase of 2 days from the April level. Market pulp prices rose in the second quarter for the sixth consecutive quarter, reaching record high levels. Pulp production disruptions that were experienced during the first quarter began to stabilize over the course of the second quarter, improving the supply side of the market balance. Pulp mills that were shut down in Chile during the first quarter due to the severe earthquake are operating again, in general. The first quarter weather problems that hampered wood supply in large parts of the US, thereby reducing pulp production rates, improved during the second quarter. In addition, some of the previously idled Canadian market pulp capacity was re-started further contributing to increased supply to the market during the second quarter. Additional Canadian pulp mill re-starts are anticipated in the third quarter. On the demand side of the pulp market, shipments to China have decreased as prices have risen and as the Chinese economy has begun to show some signs of slowing.

Based on the improved pulp supply picture and concurrent modest easing of demand, an expectation is emerging that pulp producers may lose price momentum during the second half of 2010. It is possible that pulp prices may begin to retract if the weaker supply/demand balance results in increased global inventory. However, the market has moved through a period of extreme tightness and a return to more balanced conditions is to be expected. Inventories are at healthy, low levels and the continued global economic recovery should sustain demand for pulp and paper products, mitigating other factors that would further erode the pulp supply/demand balance. With little new global pulp capacity expected to become operational over the next two years we continue to anticipate a healthy market in the medium-term.

Consistent with a robust pulp market, demand for sodium chlorate was also strong during the second quarter. Shipment volumes in the second quarter were approximately 16 percent higher than in the second quarter of 2009 driven by stronger pulp market conditions and higher operating rates at customer facilities. Shipment volumes were approximately four percent lower than the first quarter due principally to seasonal maintenance shutdowns at our customer’s pulp mills. The strong pulp market conditions continue to create an incentive for operating pulp mills to maximize operating rates and for owner’s of idle facilities to re-start mils in North America. Two facilities in North America have announced firm re-start plans which will increase annual sodium chlorate demand by 25,000 to 30,000 MT’s.

With existing pulp mills running at high rates and idle mills being re-started, North America sodium chlorate operating rates continued to improve in the second quarter. Modest price increases were successfully implemented during the quarter as a result. Further price improvement is expected in the third quarter. Sustained improvement in operating rates is expected to strengthen upward price momentum for the remainder of 2010.

North America Chlor-alkali

The chlor-alkali market continues to reflect modest improvement in economic conditions. The North America chlor-alkali industry operated at an estimated 88 percent of capacity in the second quarter of 2010, compared with 86 percent in the prior quarter and 75 percent in the second quarter of 2009. Chlorine demand did not change from the prior quarter. Chlorine derivative exports declined during the quarter, but the decline was offset by the seasonal increase in demand for chlorine in water treatment applications.

North America caustic soda production increased modestly with higher chlorine operating rates. Increased supply from North American producers did not impact the continental supply/demand balance however, as it was offset by a corresponding decrease in imports. Caustic soda demand was flat compared with the first quarter of 2010.

Overall, North America chlor-alkali market MECU prices increased slightly in the second quarter of 2010 compared with the first quarter of 2010 due to caustic soda price recovery. MECU prices are expected to increase in the third quarter due to price improvement from both chlorine and caustic soda.

The Canexus diaphragm chlor-alkali plant was shutdown as planned during the second quarter and tie-ins were completed for the new membrane technology plant startup. Startup operations began prior to the end of the second quarter.

South America

Demand for Brazilian-produced pulp continued to be strong driven by exports as pulp consumers looked to Brazilian producers for supply due to curtailments elsewhere. Although the global supply/demand balance weakened modestly due to supply improvements and reduced buying in China at the close of the second quarter, the impact on Brazilian exports is not expected to be significant in upcoming quarters.

Canexus Brazil's major customer, Fibria, experienced process difficulties during the second quarter which negatively impacted their target capacity utilization resulting in lower sodium chlorate consumption. Fibria continues to anticipate meeting their annual production target; accordingly, higher sodium chlorate consumption is expected for the remainder of 2010. The combination of a strong consumption projection for Fibria for the remainder of the year and anticipated robust sales to other customers is expected to result in Canexus Brazil operating the sodium chlorate facility at maximum operating rates throughout the balance of 2010.

Brazilian chlorine markets continued to improve during the second quarter. Captive and merchant sales were robust, consistent with healthy Brazilian GDP growth. Year-to-date, Brazil chlorine industry capacity utilization is approximately 90 percent. Canexus Brazil's new hydrochloric acid burner is scheduled to startup in August. The additional hydrochloric acid production capacity is supported with a 10-year take-or-pay contract. Hydrochloric acid sales growth will facilitate optimization of the chlorine derivative sales mix and high chlor-alkali capacity utilization.

Liquidity and Capital Structure

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

The following table presents the excess of cash flow from operating activities and the excess (shortfall) of net income (loss), over distributions declared for the three months ended June 30, 2010 and June 30, 2009, the six months ended June 30, 2010 and June 30, 2009 and the years ended December 31, 2007 through December 31, 2009.

Canexus LP considers the amount of cash flow from operating activities and Distributable Cash generated by the business, as well as any required funding of capital expansion projects, in determining the level of distributions to Ordinary and Exchangeable LP Unitholders on an annual basis. Distributable Cash within Canexus LP (see "Statement of Distributable Cash" on page 6 for a reconciliation of cash flow from operating activities to Distributable Cash within Canexus LP) is reduced by both maintenance expense (through a reduction in net income (loss)) and maintenance capital expenditures (through a reduction in Distributable Cash within Canexus LP). Maintenance expenditures (both expense and capital) are those cash outlays required to maintain Canexus LP's plants and other equipment at normal operating and efficiency levels. We do not take into account changes in non-cash operating working capital that are considered to be temporary in nature.

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

The ability of Canexus LP to pay distributions and to fund expansion projects is primarily dependent upon future levels of cash flow from operating activities and Distributable Cash within Canexus LP. Cash flow from operating activities is sensitive to sales volumes, selling prices, electricity prices and foreign currency exchange rates. For a discussion of these risks and their potential impact on Canexus LP's cash flow from operating activities see "Market and Financial Risk Analysis" beginning on page 33.

Distributions declared for the three and six months ended June 30, 2010 exceeded Distributable Cash within Canexus LP due to the commissioning and startup of the TCP during the three months ended June 30, 2010. Distributable Cash within Canexus LP for the three and six months ended June 30, 2009 and the years ended December 31, 2009 and December 31, 2008 exceeded distributions declared as Distributable Cash within Canexus LP was retained to partially fund the TCP and other expansion projects. Distributions exceeded Distributable Cash within Canexus LP for the year ended December 31, 2007 due to the impact of temporary downtime at our North Vancouver chlor-alkali facility during the second quarter and the significant strengthening of the Canadian dollar during 2007.

	Three Months Ended June 30		Six Months Ended June 30		Years Ended December 31		
	2010	2009	2010	2009	2009	2008	2007
Cash Flow from Operating Activities	19,041	30,705	43,081	59,427	117,263	72,140	81,344
Net Income (Loss)	(18,251)	17,132	(2,110)	22,881	73,652	(6,035)	54,547
Distributions Declared [1]	13,894	13,025	27,468	25,642	52,476	51,218	70,319
Excess of Cash Flow from Operating Activities over Distributions Declared	5,147	17,680	15,613	33,785	64,787	20,922	11,025
Excess (Shortfall) of Net Income (Loss) over Distributions Declared	(32,145)	4,107	(29,578)	(2,761)	21,176	(57,253)	(15,772)

Note:

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

Three and Six Months Ended June 30, 2010

Cash flow from operating activities exceeded distributions declared for the three and six months ended June 30, 2010 as cash was retained to partially finance the TCP at our North Vancouver chlor-alkali facility and other expansion projects. Distributions declared exceeded net income (loss) for the three and six months ended June 30, 2010 as net income (loss) was reduced by non-cash expenses including amortization, unrealized currency translation losses and changes in fair value of held-for-trading financial instruments.

Three and Six Months Ended June 30, 2009

Cash flow 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 chlor-alkali facility and other expansion projects.

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 chlor-alkali 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 as net income was reduced by 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.

Years Ended December 31, 2007 through December 31, 2009

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

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

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

Net Debt and Total Equity

	June 30, 2010	December 31, 2009
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	359,543	285,199
Debentures (excluding Unamortized Fund Convertible Debenture Transaction Costs)	71,602	85,780
Less: Cash and Cash Equivalents	(2,344)	(13,200)
Less: Non-Cash Working Capital	(6,290)	(22,321)
Total Net Debt [(1)]	422,511	335,458
Total Equity [(2)]	187,460	197,045

Notes:

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

(2) At June 30, 2010 there were 36,743,631 Ordinary LP Units (held by the Fund) and 64,835,420 Exchangeable LP Units (held by Nexen) outstanding. At December 31, 2009 there were 33,701,807 Ordinary LP Units (held by the Fund) and 64,835,420 Exchangeable LP Units (held by Nexen) 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 Fund at the option of Nexen at any time.

Liquidity

Canexus LP generated positive cash flow from operating activities for the three and six months ended June 30, 2010 and June 30, 2009. Cash flow from operating activities was used to fund distributions and remaining excess cash was used to fund expansion capital projects, including the TCP at our North Vancouver chlor-alkali facility.

The following table provides an overview of Canexus LP's cash flows for the three and six months ended June 30, 2010 and June 30, 2009:

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
Cash Flow from Operating Activities	19,041	30,705	(11,664)	43,081	59,427	(16,346)
Cash Flow from Financing Activities	38,572	36,445	2,127	50,977	39,966	11,011
Cash Flow used in Investing Activities	(57,857)	(66,903)	9,046	(104,578)	(99,429)	(5,149)

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 decrease in cash flow from operating activities for the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 was due to decreases in Gross Margin from our North America sodium chlorate and South America business units, the impact of the delayed startup of the TCP during the three months ended June 30, 2010 and higher interest expense, partially offset by a decrease in general and administrative expenses, 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 and due from/to affiliates, net. Higher realized currency translation gains in 2010 were offset by lower realized gains on held-for-trading financial instruments.

The change in non-cash operating working capital and due from/to affiliates, net, for the three months ended June 30, 2010 was primarily due to higher accounts payable and accrued liabilities related to operating activities, partially offset by higher accounts receivable and higher prepaid expenses. The increase in accounts payable and accrued liabilities related to operating activities was primarily due to the higher purchase of chlor-alkali products to supply customers during the startup of the TCP at our North

Vancouver chlor-alkali facility. The increase in accounts receivable was due to the recording of a gain on settlement with Fibria of a contract matter for hydrogen supply, partially offset by lower accounts receivable as a result of lower North America sodium chlorate sales volumes and realized selling prices and lower North America caustic soda and hydrochloric acid sales volumes and lower chlorine realized selling prices. The change in due from/to affiliates, net, for the three months ended June 30, 2010 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, 2009 was primarily due to lower accounts receivable, lower inventories and operating supplies and lower accounts payable and accrued liabilities related to operating activities (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 of 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 related to operating activities 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.

Cash flow from operating activities decreased for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 due to a decrease in Gross Margin from our North America sodium chlorate business unit, the impact of the delayed startup of the TCP during the three months ended June 30, 2010 and higher interest expense, partially offset by a decrease in general and administrative expenses and a decrease in non-cash operating working capital.

The change in non-cash operating working capital and due from/to affiliates, net, for the six months ended June 30, 2010 was primarily due to higher accounts payable and accrued liabilities related to operating activities, partially offset by higher accounts receivable and higher inventories and operating supplies. Accounts payable and accrued liabilities related to operating activities were higher primarily due to the higher purchase of chlor-alkali products to supply customers during the startup of the TCP at our North Vancouver chlor-alkali facility. Accounts receivable were higher due to the recording of a gain on settlement with Fibria for a contract matterfor hydrogen supply, partially offset by lower accounts receivable as a result of lower realized selling prices for sodium chlorate, lower hydrochloric acid sales volumes and realized selling prices, and lower caustic soda realized selling prices. Inventories and operating supplies were higher primarily due to higher salt inventories at our North Vancouver chlor-alkali facility and our South America facility.

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 related to operating activities (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 of 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 related to operating activities was primarily due to lower accrued bonus amounts.

Cash Flow from Financing Activities

Changes in cash flow from financing activities for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 were comprised of:

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
Proceeds from (Repayments of) Short-Term Borrowings, Net	13,150	(2,680)	15,830	15,827	(6,350)	22,177
Proceeds from Extendible Revolving Credit Facility	75,357	37,903	37,454	98,061	48,074	49,987
Proceeds from Senior Secured Revolving Credit Facility	-	4,185	(4,185)	1,068	16,292	(15,224)
Proceeds from EDC Extendible Revolving Credit Facility	4,056	-	4,056	4,056	-	4,056
Repayments of Extendible Revolving Credit Facility	(22,561)	-	(22,561)	(22,561)	(8,181)	(14,380)
Repayments of Senior Secured Revolving Credit Facility	(14,211)	-	(14,211)	(14,211)	(3,148)	(11,063)
Repayments of EDC Extendible Revolving Credit Facility	-	-	-	(2,114)	-	(2,114)
Credit Facility Transaction Costs	(4,167)	(318)	(3,849)	(4,167)	(335)	(3,832)
Distributions Paid to Ordinary and Exchangeable LP Unitholders	(13,052)	(3,605)	(9,447)	(25,812)	(8,322)	(17,490)
Funding of Asset Retirement Expenditures from Restricted Investments	-	960	(960)	830	1,936	(1,106)
	38,572	36,445	2,127	50,977	39,966	11,011

Cash Flow used in Investing Activities

Changes in cash flow used in investing activities for the three and six months ended June 30, 2010 compared to the three and six months ended June 30, 2009 were comprised of:

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
Expenditures on Property, Plant and Equipment	(54,044)	(71,392)	17,348	(102,615)	(107,634)	5,019
Changes in Non-Cash Investing Working Capital	(3,813)	4,489	(8,302)	(1,963)	8,205	(10,168)
	(57,857)	(66,903)	9,046	(104,578)	(99,429)	(5,149)

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 33. 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, 2010, 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. Our debt covenants specifically exclude the Convertible Debentures (see "Convertible Debentures" on page 9) issued by the Fund, as well as the Debentures issued by Canexus LP to the Fund.

	Twelve Months Ended	
	June 30, 2010	December 31, 2009
Net Income	48,661	73,652
Interest	9,412	7,661
Income Taxes	7,112	9,840
Amortization	47,356	46,321
Non-Cash (Income) Expense Items	(16,715)	(23,926)
Canexus Income Fund Trust Administration Expense	(421)	(348)
Consolidated EBITDA	95, 405	113,200
Short-Term Borrowings	15,827	-
Long-Term Debt (excluding Unamortized Senior Secured Notes Transaction Costs)	359,543	285,199
Consolidated Senior Debt	375,370	285,199
Consolidated Total Debt	375,370	285,199
Interest	9,412	7,661
Capitalized Interest and Letter of Credit Fees	9,156	5,070
Consolidated Interest Expense	18,568	12,731
Consolidated Senior Debt to EBITDA Ratio	3.93:1	2.52:1
Consolidated Total Debt to EBITDA Ratio	3.93:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio	5.14:1	8.89:1

Capital Resources

Canexus LP had commitments of $14.2 million at June 30, 2010 and $17.9 million at August 10, 2010 related to expansion capital projects including the TCP and hydrochloric acid expansion projects at our North Vancouver chlor-alkali facility and the hydrochloric acid expansion project at our South America facility. Management anticipates ongoing annual maintenance capital expenditures of approximately $15 to $20 million, which will be financed primarily out of cash flows from operating activities. Maintenance capital expenditures are expected to be $17 million in 2010 as a result of accelerating our electrolyzer recoating programs at our Brandon, Manitoba and Brazil plants. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, bank debt or issuances of Units of the Fund or other securities of the Fund.

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

Canexus LP has a $440 million, four year extendible revolving credit facility (the "Extendible Revolving Credit Facility") which matures August 18, 2012. This credit facility is available for draw down during the revolving period subject to meeting ongoing covenants (financial and non-financial) and conditions. This credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. Canexus LP may draw down this credit facility in either Canadian or US dollars. At June 30, 2010, Canexus LP had $295.9 million (US $279 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet. Short-term swing line loans of up to $35 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed $440 million. At June 30, 2010, Canexus LP had $15.8 million of swing line loans outstanding.

Canexus Brazil has a US $10 million extendible revolving credit facility with Export Development Canada (the "EDC Extendible Revolving Credit Facility") which bears interest at a rate based on the US LIBOR rate and matures August 18, 2012. Proceeds from this facility can be used for general Canexus Brazil corporate purposes including capital expenditures. At June 30, 2010, Canexus Brazil had $10.6 million (US $10 million) outstanding on this credit facility which is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet.

Canexus LP has US $50 million of senior secured notes (the "Senior Secured Notes") outstanding which, effective May 1, 2010, bear interest at a fixed interest rate of 7.32 percent (6.57 percent to April 30, 2010) and mature May 1, 2013. The Canadian dollar equivalent of the US $50 million of Senior Secured Notes of $53 million is included in Long-Term Debt on Canexus LP's unaudited consolidated balance sheet.

At June 30, 2010, Canexus LP had $71.6 million of Debentures outstanding, excluding unamortized Fund Convertible Debenture transaction costs, held by the Fund. The Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014.

At June 30, 2010, the Fund had $31.6 million of convertible Series I Debentures and $40 million of convertible Series II Debentures held by Nexen, an affiliate, outstanding (the "Convertible Debentures"), before unamortized discount. The Convertible Debentures bear interest at 8 percent payable semi-annually on December 31 and June 30 of each year and mature December 31, 2014. See "Convertible Debentures" on page 9.

Canexus LP is the applicant on one Letter of Credit at June 30, 2010; a standby letter of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations ($1.1 million) which expires January 1, 2011 and fully covers the actuarially determined obligation. This letter of credit is automatically renewed for one year periods unless otherwise advised.

Summary of Contractual Obligations

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. These obligations and commitments have been considered in the above discussion of future liquidity. At June 30, 2010 these obligations and commitments were as follows:

	Total	2010	2011	2012	2013	2014	Thereafter
Operating Leases (1)	118,849	10,565	17,057	15,217	13,363	12,494	50,153
Purchase Obligations (2)	154,605	30,802	37,249	38,276	39,654	8,624	-
Expansion Capital Expenditures (3)	14,171	12,681	-	1,490	-	-	-
Asset Retirement Obligations (4)	140,737	445	1,480	920	245	295	137,352
Long-Term Debt (5)	359,543	-	-	306,513	53,030	-	-
Interest Payments on Senior Secured Notes (5)	11,646	1,941	3,882	3,882	1,941	-	-
Debentures (6)	71,602	-	-	-	-	71,602	-
Interest Payments on Debentures (5)	25,776	2,864	5,728	5,728	5,728	5,728	-
Total	896,929	59,298	65,396	372,026	113,961	98,743	187,505

Notes:

(1) 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.

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

(3) Capital expenditures committed at June 30, 2010 are related to the TCP and hydrochloric acid expansion projects at our North Vancouver chlor-alkali facility and Canexus Brazil's hydrochloric acid expansion project.

(4) At June 30, 2010, undiscounted asset retirement obligations were $140.7 million. The estimated fair value ($40.5 million) of these obligations has been provided for in Canexus LP's unaudited consolidated financial statements for the three and six months ended June 30, 2010 (See Note 12). 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 $2.6 million of restricted investments to be used for future site remediation and asset retirement obligations. See Note 8 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2010.

(5) Long-Term Debt amounts are included in Canexus LP's June 30, 2010 unaudited consolidated balance sheet (See Note 10 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2010). The Extendible Revolving Credit Facility balance will fluctuate and matures August 18, 2012. Interest is payable on the outstanding balance at rates which vary depending on the consolidated debt to EBITDA ratio of Canexus LP and may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. The EDC Extendible Revolving Credit Facility balance will fluctuate and matures August 18, 2012. Interest is payable at a rate based on the US LIBOR rate. Interest payments on the Extendible Revolving Credit Facility and the EDC Extendible Revolving Credit Facility have been excluded from the table above as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates. Interest is payable quarterly (May 1, August 1, November 1 and February 1) on the US dollar Senior Secured Notes at a fixed rate of interest of 7.32 percent effective May 1, 2010. Interest payments have been included in the table above at the Canadian dollar equivalent of the US dollar interest payments using the June 30, 2010 Bank of Canada noon day US dollar to Canadian dollar foreign exchange rate. Interest is payable semi-annually on June 30 and December 31 on the Debentures at a fixed rate of interest of 8 percent.

(6) See "Capital Resources" on page 31 and "Transactions with Related Parties" on page 36.

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

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

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the June 30, 2010 unaudited consolidated balance sheet of Canexus LP however, these obligations have not been included in the table above due to the uncertainty related to the amount and timing of any payments.

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

Contingent Liabilities

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

Guarantees

All of the credit facilities and the Senior Secured Notes (see "Capital Resources" on page 31) are secured by a floating charge debenture over all of Canexus LP's assets. The Fund and each of its wholly owned subsidiaries, Canexus Commercial Trust, 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, South American chlor-alkali plant operating rate risk, electricity price risk, foreign currency rate risk, interest rate risk and credit risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form filed on the Fund's SEDAR profile at www.sedar.com.

Product Price and Volume Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every $75 change in the price per MT of North American produced sodium chlorate, income (loss) before income taxes for the three and six months ended June 30, 2010 would have changed by $6.7 million and $13.7 million respectively. For every $100 change in the price per MECU of chlor-alkali products produced in North America, income (loss) before income taxes for the three and six months ended June 30, 2010 would have changed by $3.2 million and $6.3 million respectively. These sensitivities to changes in prices are based on 89,000 MT of North American sodium chlorate sales and 32,000 MECU's of North American chlor-alkali sales for the three months ended June 30, 2010 and 182,000 MT of North American sodium chlorate sales and 63,000 MECU's of North American chlor-alkali sales for the six months ended June 30, 2010. Sensitivities of $75 per MT for sodium chlorate and $100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the recent economic uncertainty. A change in sales volumes for North American sodium chlorate of 10,000 MT for the three months ended June 30, 2010 and 20,000 MT for the six months ended June 30, 2010 would have changed income (loss) before income taxes for the three and six months ended June 30, 2010 by $1.6 million and $3.4 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, 2010 and 10,000 MECU's for the six months ended June 30, 2010 would have changed income (loss) before income taxes for the three and six months ended June 30, 2010 by $1.6 million and $3.8 million respectively. These sales volume changes are considered to be reasonably possible due to recent economic conditions and market expectations for future movement.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America, Fibria, typically consumes more caustic soda than our South American chlor-alkali plant's operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant's operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the "Canexus Price"). During the three and six months ended June 30, 2010, the price of purchased caustic soda did not exceed the Canexus Price. During the three and six months ended June 30, 2010, we acquired 1,398 MT and 1,906 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 three percent change in the price of electricity in North America, income (loss) before income taxes would have changed by $0.5 million for the three months ended June 30, 2010 and $1.1 million for the six months ended June 30, 2010. This sensitivity to changes in electricity prices is based on North American electricity consumption of 498,000 MWh and 1,073,000 MWh for the three and six months ended June 30, 2010 respectively. A three percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

Foreign Currency Rate Risk

A substantial portion of the sales revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. The average Canadian to US dollar foreign exchange rates for the three and six month periods ended June 30, 2010 were US $0.98 and US $0.96 respectively. An increase in the Canadian to US dollar exchange rate to US $1.00 would have increased loss before income taxes by $1 million for the three months ended June 30, 2010 and decreased income before income taxes by $2.7 million for the six months ended June 30, 2010, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US $0.90 would have decreased loss before income taxes by $2.6 million for the three months ended June 30, 2010 and increased income before income taxes by $4.5 million for the six months ended June 30, 2010. A range of US $0.90 to $1.00 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

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

During the three months ended June 30, 2010, Canexus LP purchased foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 per Canadian dollar from July 1, 2010 to September 30, 2010.

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

Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. The average 30 day US LIBOR base rate was 0.31 percent and 0.27 percent for the three and six months ended June 30, 2010 respectively. A change in the 30 day US LIBOR base rate to 0.2 percent would have decreased loss before income taxes by $69,000 and increased income before income taxes by $87,000 for the three and six months ended June 30, 2010 respectively. A change in the 30 day US LIBOR base rate to 1 percent would have increased loss before income taxes by $437,000 and decreased income before income taxes by $829,000 for the three and six months ended June 30, 2010 respectively. A range of 0.2 to 1 percent for the 30 day US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

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

Credit Risk

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

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

Our North American customers are diverse with no one customer accounting for more than 10 percent of total trade accounts receivable at June 30, 2010 (December 31, 2009 – 8 percent).

The majority of our South American production is sold to Fibria under a long-term sales agreement. At June 30, 2010, trade amounts owing from Fibria represented 20 percent of total trade accounts receivable (December 31, 2009 – 17 percent).

Management evaluates the collectability of accounts receivable on an ongoing basis and establishes an allowance for doubtful accounts to approximate future expected credit risk loss exposure to existing customers. We have been focusing additional effort on counterparty credit risk as a result of the current global economic situation. We are 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, 2010, Canexus LP did not have any material off-balance sheet arrangements.

At June 30, 2010, Canexus LP had Canadian dollar foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 per Canadian dollar from July 1, 2010 to September 30, 2010. The fair value of these contracts is included in derivative financial instruments on Canexus LP's unaudited consolidated balance sheet and changes in their fair value are included in other income (expense) (See Note 17 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2010). During the three months ended June 30, 2010, Canexus LP had 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 $0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010. During the six months ended June 30, 2010, Canexus LP had foreign exchange call option contracts on a total of US $10 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9479 (US $5 million per month) and US $0.9302 (US $5 million per month) for an average of US $0.9391 per Canadian dollar from January 1, 2010 to March 31, 2010 and US $5 million per month which entitled Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9302 per Canadian dollar from April 1, 2010 to June 30, 2010. 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, 2010, Canexus LP had interest rate swap agreements under which we swap three month US LIBOR floating interest for a fixed rate of interest of 3.2 percent on a notional amount of US $50 million for the period April 11, 2008 through April 10,

2013. These interest rate swap agreements are settled quarterly. The fair value of these interest rate swap agreements is included in derivative financial instruments on Canexus LP's unaudited consolidated balance sheet and changes in their fair value are included in other income (expense) (See Note 17 to the unaudited consolidated financial statements of Canexus LP for the three and six months ended June 30, 2010).

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

Transactions with Related Parties

Due to affiliates, net, at June 30, 2010 and December 31, 2009 relate to amounts owing in the normal course of operations as discussed below.

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

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. The amount owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at June 30, 2010 was $NIL (December 31, 2009 – $NIL). Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for Nexen for a term of 5 years for a total contract value of approximately $2.1 million. The amount owing by the Nexen affiliate at June 30, 2010 for these services was $96,000 (December 31, 2009 – $11,000).

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.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Electricity Purchases and Retail Service Fees	151	543	262	2,037
Natural Gas Purchases and Retail Service Fees	351	627	1,309	2,062
Lease of Office Space	208	210	414	420
Transloading and Delivery Services Revenue	92	-	348	-
	802	1,380	2,333	4,519

At June 30, 2010, Canexus LP had $71.6 million of Debentures outstanding, excluding unamortized transaction costs, which are held by the Fund. The Debentures bear interest at 8 percent payable semi-annually in arrears on December 31 and June 30 of each year and mature December 31, 2014. Interest expense recognized on the Debentures for the three and six months ended June 30, 2010 was $1.5 million and $3.2 million respectively. At June 30, 2010, interest payable to the Fund on the Debentures was $NIL.

Pursuant to the Series I Debenture agreement between Canexus LP and the Fund, in the event a holder of Series I Convertible Debentures exercises their right to convert Series I Debentures into Fund Units, Canexus LP shall issue to the Fund Ordinary LP Units that are equal in number to the Fund Units issued by the Fund on conversion of the Series I Debentures at a subscription price equal to fair market value. At that same time, Canexus LP shall redeem that portion of the principle amount of the Debentures that are equal to the principle amount of Series I Debentures of the Fund that were converted. At June 30, 2010, $3.2 million of promissory notes (December 31, 2009 - $5,115) were receivable from the Fund for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP. Promissory notes receivable are included in due from/to affiliates, net, at June 30, 2010 and December 31, 2009 in Canexus LP's consolidated balance sheets.

	June 30, 2010	December 31, 2009
Debentures, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(14,178)	(220)
	71,602	85,780
Fund Convertible Debenture Transaction Costs	(2,436)	(2,436)
Accumulated Amortization, Fund Convertible Debenture Transaction Costs	653	113
Unamortized Fund Convertible Debenture Transaction Costs	(1,783)	(2,323)
Debentures, Net, End of Period	69,819	83,457

Critical Accounting Estimates

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

Impairment of Long Lived Assets

Canexus LP evaluates each of its operating segment's assets for impairment if an adverse event or change occurs impacting any or all of the operating segments. Among other things, this might include falling selling 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 arising from the use and eventual disposition of assets are estimated to determine if the assets are impaired. If the undiscounted future cash flows arising from the use and eventual disposition of 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, 2010, an evaluation of events and changes in circumstances did not lead to any indications of impairment.

Cash flow estimates used for purposes of impairment assessments require assumptions about three primary elements—future selling prices, sales volumes and operating costs. Estimates of future selling prices require significant judgments about highly uncertain future events. Selling 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 decrease net income or increase net loss.

Asset Retirement Obligations

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

Asset retirement obligations for Canexus LP's North America sodium chlorate, North America chlor-alkali and South America operating segments, as well as for the North American Terminal Operations, are recorded in the unaudited consolidated financial statements of Canexus LP by discounting the estimated retirement obligations associated with its chemical plants and terminals to the present value using a weighted average credit-adjusted risk free rate of 6.08 percent. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The present value of expected asset retirement obligations recorded result in an increase to the carrying cost of property, plant and equipment ("PP&E") which is amortized over the useful life of the underlying PP&E. The asset retirement obligation accretes until the time the retirement obligation is expected to settle.

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

Future Accounting Pronouncements

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

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

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

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

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

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

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

Conversion to International Financial Reporting Standards

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

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Fund and Canexus LP for their year ended December 31, 2010 and of their opening balance sheets at January 1, 2010.

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

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

The Scoping and Project Plan Development and Analysis and Development Phases have been completed. See Management's Discussion and Analysis for the three months ended March 31, 2010 filed on www.sedar.com for a discussion of the scope and deliverables of these two phases.

The Implementation phase is underway and involves the development of opening IFRS balance sheets for the Fund and Canexus LP at January 1, 2010; changes to information technology systems to facilitate the dual capture of IFRS and Canadian GAAP financial information in 2010 and IFRS financial information ongoing in 2011 and beyond; design and execution of changes to operational and financial processes; design, implementation and testing of internal controls over financial reporting; management and Board of Director approval for the IFRS 1 *First-time Adoption of International Financial Reporting Standards* exemptions utilized and accounting policy and disclosure changes required to become IFRS compliant; further training of staff, as required; and the development and delivery of communication plans regarding the anticipated impacts of the transition to IFRS on the Fund and Canexus LP's financial position and results of operations. Completion of this phase will result in operational and financial processes and information technology systems which enable the collection of IFRS financial information and reporting of IFRS compliant financial statements. The majority of this phase was completed by the end of the second quarter with (i) the design and execution of changes to operational and financial processes, (ii) the design, implementation and testing of internal controls over financial reporting and (iii) the development and delivery of communications to stakeholders, anticipated to continue throughout 2010.

The following implementation progress was made during the three months ended June 30, 2010:

- Completed our analysis and validation of information technology system changes which enable the capture of dual Canadian GAAP and IFRS financial information for 2010;
- Developed processes to capture IFRS financial information in the Fund's and Canexus LP's financial systems;
- Completed our analysis of and selection of the optional IFRS 1 exemptions to be utilized by each of the Fund and Canexus LP;
- Prepared draft IFRS accounting policy and disclosure changes for the Fund and Canexus LP. Accounting policy and disclosure changes will continue to be modified and enhanced on an ongoing basis throughout 2010;
- Captured the majority of preliminary opening balance sheet adjustments at January 1, 2010 and financial information for the six months ended June 30, 2010 in accordance with the current IFRS accounting policy choices in the Fund's and Canexus LP's financial systems. We are continuing to analyze and validate some preliminary balance sheet adjustments which will be captured in the Fund's and/or Canexus LP's financial systems once such analysis and validation has been completed; and
- Prepared draft opening balance sheets at January 1, 2010 for each of the Fund and Canexus LP based on the opening estimated balance sheet adjustments at the time of their preparation.

First-Time Adoption of IFRS Exemptions

The Fund and Canexus LP's adoption of IFRS will require the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRSs effective at the end of its first IFRS reporting period. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions. The Fund and Canexus LP have elected to utilize the following IFRS 1 exemptions on initial adoption of IFRS which were approved by the Board of Directors of Canexus Limited on July 29, 2010.

Business Combinations

A first-time adopter can elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition. However, there are some requirements related to past business combinations which IFRS 1 requires that may result in changes to how those business combinations were accounted for under previous GAAP. The Fund and Canexus LP have elected to utilize this exemption and accordingly, prospectively apply IFRS 3 to business combinations occurring on or after their date of transition to IFRS. We do not anticipate any material change in the amount or type of assets and liabilities recorded by the Fund or Canexus LP on business combinations arising prior to the date of transition.

Leases

A first-time adopter can apply the transitional provisions in International Financial Reporting Interpretations Committee ("IFRIC") 4 *Determining whether an Arrangement contains a Lease* to determine whether any existing arrangement contains a lease and if so, to apply IAS 17 *Leases* from the inception of that arrangement. A first-time adopter can also elect, under the provisions of IFRS 1, to determine whether an arrangement existing at the date of transition contains a lease based on the facts and circumstances existing at that date rather than at the date of inception of the arrangement. The Fund and Canexus LP have elected to utilize this exemption as well as, to apply the transitional provisions of IFRIC 4. We do not anticipate any material changes in the classification of or accounting for leases which existed at the date of transition for either the Fund or Canexus LP.

Employee Benefits

A first-time adopter can elect to recognize all cumulative actuarial gains and losses related to defined benefit plans at the date of transition even if it chooses another alternative for recognizing actuarial gains and losses permitted by IAS 19 *Employee Benefits* for post transition actuarial gains and losses. If a first-time adopter elects to use this exemption it must do so for all defined benefit plans. Canexus LP has elected to use this exemption and recognize all actuarial gains and losses for its defined benefit pension plan, supplementary pension plan and post retirement benefit plans. At December 31, 2009, Canexus LP had a net cumulative actuarial loss of approximately $9.7 million on its defined benefit plans which will be recognized in deficit on transition.

Cumulative Translation Differences

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

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

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

Assets and Liabilities of Subsidiaries, Associates and Joint Ventures

IFRS 1 provides an exemption related to the measurement of assets and liabilities in subsidiary or consolidated financial statements where a subsidiary has adopted IFRS later than its parent or a parent has adopted IFRS later than a subsidiary. Canexus LP has elected to use this exemption for its subsidiaries which adopted IFRS prior to Canexus LP's transition to IFRS. Use of this exemption allows Canexus LP to measure the assets and liabilities of the affected subsidiaries for inclusion in its consolidated financial statements at the same carrying amounts as in the subsidiary's financial statements.

Borrowing Costs

A first-time adopter can elect to apply the transitional provisions set out in paragraphs 27 and 28 of IAS 23 *Borrowing Costs* which allow a first-time adopter to select any date prior to its transition date and to capitalize borrowing costs relating to all qualifying assets for which the commencement date for capitalization was on or after that date. Canexus LP has elected to use this exemption and has selected January 1, 2006 as the date after which it will capitalize borrowing costs related to all qualifying assets for which the commencement date for capitalization was on or after January 1, 2006. As a result of electing to use this exemption it is not anticipated that there will be any material change in the amount of borrowing costs capitalized for IFRS as compared to Canadian GAAP.

Other exemptions not used

Available IFRS 1 exemptions which the Fund and/or Canexus LP did not elect to use and/or which were not applicable to either the Fund or Canexus LP were exemptions related to: insurance contracts; share-based payment; use of fair value as deemed cost on the date of transition to IFRS; preparation of separate financial statements and the accounting for investments in subsidiaries, jointly controlled entities and associates therein; compound financial instruments; financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements*; transfers of assets from customers; designation of previously recognized financial instruments; fair value measurement of financial assets or financial liabilities at initial recognition; extinguishing financial liabilities with equity instruments and exemption from the requirement to restate comparative information for IFRS 9 *Financial Instruments.*

Although the Fund had compound instruments, the Convertible Debentures outstanding at the date of transition, this exemption is not applicable as it applies when the liability component of the compound instrument is no longer outstanding at the date of transition. The liability component of the Convertible Debentures was still outstanding at the date of transition.

At the current time, the transition to IFRS is not expected to have any impact on the calculation of any of the financial covenants contained in our existing credit facility agreements or the note indenture governing the Senior Secured Notes.

It is currently anticipated that Board of Director approval of IFRS accounting policy choices and opening balance sheet adjustments arising from the initial adoption of IFRS for each of the Fund and Canexus LP will occur early in the fourth quarter of 2010. Board of Director approval of disclosure changes arising as a result of the adoption of IFRS will occur in conjunction with the approval of the consolidated financial statements of the Fund and Canexus LP for the three months ended March 31, 2011 prepared in accordance with IFRS, in the second quarter of 2011.

Forward Looking Statements and Information

This MD&A contains forward-looking statements and information relating to expected future events and conditions and financial and operating results of the Fund, Canexus LP and its subsidiaries including with respect to the estimated cost, timing of completion and expected benefits from growth projects including the TCP, the Brazil sodium chlorate expansion, hydrochloric acid expansion and hydrogen projects, the North Vancouver hydrochloric acid expansion project and the construction of rail infrastructure at the North American Terminal Operations site in Bruderheim, Alberta, the expected levels of production from the TCP and the cost and time to complete TCP modifications, expected levels of sodium chlorate and chlor-alkali product selling prices, expected demand / sales volumes of sodium chlorate and chlor-alkali products, anticipated future sodium chlorate and chlor-alkali industry and Canexus operating rates, expected demand for / supply of pulp, expected pulp selling prices, expected operating rates of Canexus Brazil's primary customer, expected future levels of maintenance capital expenditures, the expectation that Canexus plants will operate at capacity for the remainder of 2010, the expectation that favorable market conditions will continue into the second half of 2010 and into 2011; the expectation that Operating Cash Flow will support current distributions at an after-tax payout ratio of between 65 and 75 percent, the expected improvement of MECU prices in the third quarter, the expected price improvement for both chlorine and caustic soda, and the anticipated conversion process. Information about the anticipated conversion process and plan of Arrangement is subject to change, including benefits of the Arrangement, the occurrence of the effective date of the Arrangement, the treatment of Unitholders under tax laws, the business strategy of Canexus post-conversion, the business to be carried on by Canexus following the Arrangement and the potential for a payment of a dividend by Canexus post-conversion. Investors should be cautioned that any decision to pay dividends following the conversion will be made by the board of directors of Canexus on the basis of Canexus' earnings, financial requirements and other conditions existing at such future time. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. By their nature, forward looking statements involve a variety of assumptions, known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form filed on the Fund's SEDAR profile at www.sedar.com. Material assumptions include assumptions about: the expected supply and demand for, and prices of, chlor-alkali products, sodium chlorate and pulp; expected operating rates, expected exchange rates, inflation, interest rates, and the availability and price of labour, electricity and salt. These factors are relevant to all of the forward-looking statements that are contained in this MD&A. Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

There were no changes to internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the three months ended June 30, 2010.

Unaudited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Canexus Income Fund

For the Three and Six Months Ended June 30, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands, except per unit amounts	2010	2009	2010	2009
Revenues				
Equity Income (Loss) from Investment in Canexus Limited Partnership (“Canexus LP”) (Note 5)	(6,532)	5,994	(965)	8,056
Interest Income on Debentures of Canexus LP (Note 4)	1,517	-	3,189	-
	(5,015)	5,994	2,224	8,056
Expenses				
Trust Administration Expenses	84	75	259	186
Accretion of Convertible Debentures (Notes 3 and 4)	270	-	533	-
Interest on Convertible Debentures (Note 3)	1,517	-	3,189	-
Unit Based Compensation (Note 11)	(164)	359	162	581
	1,707	434	4,143	767
Income (Loss) Before Future Income Taxes	(6,722)	5,560	(1,919)	7,289
Provision for (Recovery of) Future Income Taxes (Note 7)	(966)	(156)	931	(595)
Net Income (Loss) and Comprehensive Income (Loss)	(5,756)	5,716	(2,850)	7,884
Net Income (Loss) Per Unit (Note 12)	(0.16)	0.17	(0.08)	0.24
Diluted Net Income (Loss) Per Unit (Note 12)	(0.16)	0.17	(0.08)	0.24

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, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands	2010	2009	2010	2009
Beginning of Period	(46,460)	(56,294)	(44,662)	(53,962)
Net Income (Loss)	(5,756)	5,716	(2,850)	7,884
Distributions Declared	(5,021)	(4,541)	(9,725)	(9,041)
End of Period	(57,237)	(55,119)	(57,237)	(55,119)

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Balance Sheets

Canexus Income Fund

At June 30, 2010 and December 31, 2009

CAD thousands, except unit amounts	2010	2009
ASSETS		
Current Assets		
Cash	3	394
Interest Receivable on Debentures of Canexus LP	-	19
Due from Affiliates, Net (Note 4)	-	17
Distribution Receivable from Canexus LP	1,697	1,544
Prepaid Expenses	57	23
Total Current Assets	1,757	1,997
Investment in Debentures of Canexus LP (Note 4)	71,602	85,780
Investment in Canexus LP (Note 5)	303,804	295,590
Total Assets	377,163	383,367
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	14	1
Due to Affiliates, Net (Note 4)	1,380	-
Distribution Payable to Unitholders (Note 6)	1,697	1,544
Unit Based Compensation (Note 11)	474	-
Interest Payable on Convertible Debentures (Notes 3 and 4)	-	19
Total Current Liabilities	3,565	1,564
Convertible Debentures, Net (Note 3)	66,010	78,496
Future Income Tax (Note 7)	8,410	7,479
Unit Based Compensation (Note 11)	166	20
Total Liabilities	78,151	87,559
Equity		
Equity Component of Convertible Debentures	6,372	7,634
Unitholders' Equity (37,221,844 Units outstanding) (Note 8)	343,662	325,620
Contributed Surplus (Note 11)	6,215	7,216
Deficit	(57,237)	(44,662)
Total Equity	299,012	295,808
Total Liabilities and Equity	377,163	383,367

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, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands	2010	2009	2010	2009
Operating Activities				
Net Income (Loss)	(5,756)	5,716	(2,850)	7,884
Charges and Credits to Income Not Involving Cash				
Equity (Income) Loss from Investment in Canexus LP	6,532	(5,994)	965	(8,056)
Unit Based Compensation	(164)	359	162	581
Future Income Taxes	(966)	(156)	931	(595)
Accretion of Convertible Debentures (Notes 3 and 4)	270	-	533	-
Cash Distributions Received from Canexus LP	4,181	3,603	8,070	8,318
Change in Due from/to Affiliates, Net, and Interest Due from/to Affiliates	(386)	71	(1,589)	166
Change in Non-Cash Operating Working Capital	(860)	1	(30)	17
Total Operating Activities	2,851	3,600	6,192	8,315
Financing Activities				
Cash Distributions Paid	(4,181)	(3,603)	(8,070)	(8,318)
Proceeds from Exercise of Unit Options	1,243	4	1,487	4
Total Financing Activities	(2,938)	(3,599)	(6,583)	(8,314)
(Decrease) Increase in Cash	(87)	1	(391)	1
Cash – Beginning of Period	90	1	394	1
Cash – End of Period	3	2	3	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, 2010 and 2009

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

1. Organization and Business of the Fund

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

At June 30, 2010, the Fund held a 36.2 percent (December 31, 2009 – 34.2 percent) interest in Canexus LP. Nexen Inc ("Nexen") held a 63.8 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP.

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

2. Summary of Significant Accounting Policies

These unaudited interim 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 interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2009. The Fund does not have any items to be accounted for as other comprehensive income.

In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at June 30, 2010 and the results of its operations and cash flows for the three and six months ended June 30, 2010 and 2009. The unaudited interim consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2009.

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

3. Convertible Debentures

At June 30, 2010 and December 31, 2009, the Fund had two series of convertible unsecured subordinated debentures denoted as Series I Debentures and Series II Debentures (the "Convertible Debentures") as follows:

	Series I	Series II
Maturity Date	December 31, 2014	December 31, 2014
Fixed Distribution Rate	8.00%	8.00%
Conversion Price	$5.10	$5.10

	Series I	Series II	Unamortized Discount	Total Carrying Value
Outstanding, December 31, 2009	45,780	40,000	(7,284)	78,496
Issued	-	-	-	-
Converted	(14,178)	-	1,159	(13,019)
Accretion of Discount	-	-	533	533
Outstanding, June 30, 2010	31,602	40,000	(5,592)	66,010
Fair Value (see Note 9)				
June 30, 2010	37,847	47,904		
December 31, 2009	50,129	43,800		

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

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

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

4. Related Party Transactions

Due from affiliates, net, at June 30, 2010 and December 31, 2009 represent amounts owing to the Fund by Canexus Limited.

Canexus Limited, as administrator of the Fund and indirectly, the Trustee of Canexus Commercial Trust and the General Partner of Canexus LP, incurs expenditures on behalf of these entities for which it is reimbursed at cost. Canexus Limited sub leases office space from Nexen on behalf of the Fund and Canexus LP for which it is reimbursed at cost. The Fund's share of lease payments and operating costs for the three and six months ended June 30, 2010 were $23,000 and $46,000 respectively. For the three and six months ended June 30, 2009 the Fund's share of lease payments and operating costs were $23,000 and $47,000 respectively.

The Series II Convertible Debentures (see Note 3) outstanding at June 30, 2010 are held by Nexen. Interest expense recognized on the Series II Debentures for the three and six months ended June 30, 2010 was $0.9 million and $1.7 million respectively. The accretion of the Series II Debentures for the three and six months ended June 30, 2010 was $0.1 million and $0.3 million respectively.

At June 30, 2010 and December 31, 2009, the Fund had an investment in unsecured subordinated debentures of Canexus LP (the "Debentures") as follows:

	June 30, 2010	December 31, 2009
Outstanding, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(14,178)	(220)
Outstanding, End of Period	71,602	85,780

Interest income recognized on these Debentures for the three and six months ended June 30, 2010 was $1.5 million and $3.2 million respectively. At June 30, 2010, $3.2 million of promissory notes were payable to Canexus LP for the excess of the subscription price of Ordinary LP Units over the principle amount of Debentures redeemed by Canexus LP (see Note 5). Promissory notes payable are included in due to affiliates, net, at June 30, 2010 and December 31, 2009.

5. Investment in Canexus LP

	June 30, 2010		December 31, 2009	
	Number of Ordinary LP Units	Amount	Number of Ordinary LP Units	Amount
Beginning of Period	33,701,807	295,590	32,570,814	284,240
Equity (Loss) Income from Investment in Canexus LP	-	(965)	-	25,474
Distributions Reinvested Pursuant to the DRIP [(1)]	261,834	1,501	1,087,857	3,876
Issue of Units Pursuant to Conversion of Series I Debentures	2,779,990	17,403	43,136	225
Distributions Received from Canexus LP	-	(8,028)	-	(16,681)
Distribution Receivable from Canexus LP	-	(1,697)	-	(1,544)
End of Period	36,743,631	303,804	33,701,807	295,590

Note:

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

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

6. Distributions

The Fund declared distributions of $5 million ($0.1368 per Unit) and $9.7 million ($0.2736 per Unit) for the three and six months ended June 30, 2010 respectively, and $4.5 million ($0.1368 per Unit) and $9 million ($0.2736 per Unit) for the three and six months ended June 30, 2009. Of the total distributions declared for the three and six months ended June 30, 2010, $0.7 million and $1.5 million respectively were reinvested by Unitholders in additional Fund Units pursuant to the DRIP.

7. 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 $8.4 million future income tax liability at June 30, 2010 (December 31, 2009 – $7.5 million) on temporary differences in reported amounts for financial statement and tax purposes in the property, plant and equipment underlying its investment in Canexus LP. These differences are expected to reverse subsequent to 2010.

8. Unitholders' Equity

	June 30, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
Beginning of Period	33,848,871	325,620	32,570,814	320,801
Fund Units Issued Pursuant to the DRIP	261,834	1,501	1,087,857	3,876
Fund Units Issued on Exercise of Unit Options	331,149	2,260	147,064	723
Fund Units Issued on Conversion of Convertible Debentures	2,779,990	14,281	43,136	220
End of Period	37,221,844	343,662	33,848,871	325,620

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

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005 between the Fund, Canexus Commercial Trust, Canexus LP and Nexen, the Exchangeable LP Units held by Nexen are exchangeable for Fund Units on a one-for-one basis. The Fund has reserved 64,835,420 Units at June 30, 2010 (December 31, 2009 – 64,835,420 Units) for the exchange of the Exchangeable LP Units. An exchange of all or part of the Exchangeable LP Units outstanding by Nexen would result in the purchase of an equivalent number of Fund Units by Canexus LP (to be provided to Nexen for the exchange of the Exchangeable LP Units) through the issue of an equivalent number of Ordinary LP Units of Canexus LP to Canexus Commercial Trust and the issue of an equivalent number of trust units of Canexus Commercial Trust to the Fund. As a result of the above transactions, the Fund's indirect interest in Canexus LP would increase by the percentage that the number of Exchangeable LP Units exchanged was to the total of all Exchangeable and Ordinary LP Units prior to the exchange.

9. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash	3	3	394	394
Loans and Receivables, measured at amortized cost				
Interest Receivable on Debentures of Canexus LP	-	-	19	19
Due from Affiliates, Net	-	-	17	17
Distribution Receivable from Canexus LP	1,697	1,697	1,544	1,544
Investment in Debentures of Canexus LP	71,602	78,380	85,780	87,944
Total Financial Assets	73,302	80,080	87,754	89,918
Financial Liabilities				
Other Financial Liabilities, measured at amortized cost				
Accounts Payable and Accrued Liabilities	14	14	1	1
Due to Affiliates, Net	1,380	1,380	-	-
Distribution Payable to Unitholders	1,697	1,697	1,544	1,544
Short-Term Unit Based Compensation	474	474	-	-
Interest Payable on Convertible Debentures	-	-	19	19
Long-Term Unit Based Compensation	166	166	20	20
Convertible Debentures, Net	66,010	85,751	78,496	93,929
Total Financial Liabilities	69,741	89,482	80,080	95,513

The Fund did not have available-for-sale financial instruments as at or during the three and six months ended June 30, 2010 or for the year ended December 31, 2009.

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

The Fund categorizes its financial instruments carried at fair value into one of three different levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement of their fair value. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. Credit risk associated with counterparty default, as well as our own credit risk, is included in our estimates of fair value. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. Cash is the only financial instrument carried at fair value and, consistent with December 31, 2009, has been valued using Level 1 inputs. At June 30, 2010, the Fund does not have any assets valued using Level 2 or 3 inputs. This is consistent with December 31, 2009.

The carrying value of distribution receivable from Canexus LP, accounts payable and accrued liabilities, due to affliates,net, and distribution payable to Unitholders approximates their fair value as these financial instruments are near maturity. The carrying value of short-term and long-term unit based compensation approximates their fair value as the liability is remeasured at each reporting period end to its fair value. At June 30, 2010, the fair value of the Investment in Debentures of Canexus LP was $78.4 million. At June 30, 2010, the fair value of the Convertible Debentures was $85.8 million (see Note 3). The fair value of the Investment in Debentures of Canexus LP was determined by comparison to what the present value of a similar instrument, with a similar time to maturity would have been at June 30, 2010. The fair value of the Series I Convertible Debentures was based on a quoted market price in an active market. The fair value of the Series II Debentures was calculated by comparison to quoted prices for similar instruments traded in an active market.

(b) Financial Risk Management

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

10. Capital Risk Management

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

	June 30, 2010	December 31, 2009
Cash	3	394
Convertible Debentures, Net	(66,010)	(78,496)
Unitholders' Equity	(343,662)	(325,620)
	(409,669)	(403,722)

11. Unit Based Compensation

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

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

Inc. (“CUI”) or Canexus Quimica Brasil Ltda. (“Canexus Brazil”), directly and indirectly wholly owned subsidiaries of Canexus LP, the Fund recovers this expense at the time of exercise from either CCCLP, CUI or Canexus Brazil as applicable.

(a) TUIP

(i) *TUIP (Excluding 2005 TUIP for the Three and Six Months Ended June 30, 2010)*

	Three Months Ended June 30		Six Months Ended June 30	
Number of Unit Options	2010	2009	2010	2009
Outstanding, Beginning of Period	2,549,556	2,840,400	3,057,820	2,874,900
Granted	-	25,500	-	60,500
Exercised	(75,805)	(1,096)	(125,649)	(1,096)
Forfeited	(27,210)	(19,904)	(35,130)	(89,404)
2005 Unit Options as per Amendment	-	-	(450,500)	-
Outstanding, End of Period	2,446,541	2,844,900	2,446,541	2,844,900
Exercisable, End of Period	1,205,557	1,188,151	1,205,557	1,188,151

	Three Months Ended June 30		Six Months Ended June 30	
Weighted Average Exercise Prices	2010	2009	2010	2009
Outstanding, Beginning of Period	5.10	5.79	5.78	5.85
Granted	-	4.11	-	3.45
Exercised	5.72	4.89	5.39	4.89
Forfeited	5.82	6.25	5.41	4.85
2005 Unit Options as per Amendment	-	-	9.73	-
Outstanding, End of Period	5.07	5.78	5.07	5.78
Exercisable, End of Period	5.97	7.84	5.97	7.84

(ii) *2005 TUIP*

	Three Months Ended June 30		Six Months Ended June 30	
Number of Unit Options	2010	2009	2010	2009
Outstanding, Beginning of Period	417,500	-	-	-
2005 Unit Options as per Amendment	-	-	450,500	-
Exercised [(1)]	(167,500)	-	(200,500)	-
Forfeited	(6,000)	-	(6,000)	-
Outstanding, End of Period	244,000	-	244,000	-
Exercisable, End of Period	244,000	-	244,000	-

Note:

(1) 86,000 and 119,000 2005 TUIP options were exercised and settled for $44,000 and $184,500 in cash which was recovered from CCCLP, CUI or Canexus Brazil, as applicable during the three and six months ended June 30, 2010 respectively.

	Three Months Ended June 30		Six Months Ended June 30	
Weighted Average Exercise Prices	2010	2009	2010	2009
Outstanding, Beginning of Period	9.74	-	-	-
2005 Unit Options as per Amendment	-	-	9.73	-
Exercised	9.70	-	9.68	-
Forfeited	8.32	-	8.32	-
Outstanding, End of Period	9.81	-	9.81	-
Exercisable, End of Period	9.81	-	9.81	-

The range of exercise prices for Unit options outstanding at June 30, 2010 under the TUIP, including the 2005 TUIP, was $2.99 to $10.00 per Unit and the weighted average remaining contractual life was 2.5 years.

The Fund has granted options and corresponding bonus rights to officers and employees under the TUIP. Each option permits the holder to purchase one Unit at a stated exercise price. The options granted vest over three years and expire in five years. Each option's exercise price equals the market price at the time of grant.

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

The number of Units reserved under the TUIP and the DTUCP (the "Plans") is equal to 5 percent of the aggregate issued and outstanding Units and Exchangeable LP Units (on a non-diluted basis) (June 30, 2010 – 5,102,863), which is the maximum allowable under the Plans. Of the maximum allowable under the Plans, the aggregate number of Units reserved under the DTUCP is 400,000 (see 12(c) below). At June 30, 2010, 3,763,930 Units (June 30, 2009 – 4,799,692 Units) are reserved and available for issue upon the exercise of options and redemption of bonus rights under the TUIP (including the 2005 TUIP) and 252,982 Units (June 30, 2009 – 178,230 Units) are reserved and available for issuance under the DTUCP.

At June 30, 2010, a total of 2,690,541 Unit options and 2,690,541 corresponding bonus rights were outstanding under the TUIP (including the 2005 TUIP). Accumulated notional bonus Units on these bonus rights were 1,073,389 at June 30, 2010. At June 30, 2010, there were 1,449,557 vested Unit options exercisable into 1,449,557 Units, as well as 1,449,557 corresponding bonus rights redeemable into 804,418 notional bonus Units accumulated thereon.

At June 30, 2009, a total of 2,844,900 Unit options and 2,844,900 corresponding bonus rights were outstanding. Accumulated notional bonus Units on these bonus rights were 966,541 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.

The Fund recognized TUIP unit based compensation expense for the three and six months ended June 30, 2010 of $0.2 million and $0.4 million, excluding the 2005 TUIP, respectively, with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash. The expense associated with the 2005 TUIP was recognized in prior years over the vesting period of the 2005 TUIP. The unit based compensation liability for the 2005 TUIP options is considered short term as the options expire in 2010.

The weighted average fair value of Unit options issued is estimated on the date of grant using a Black-Scholes option pricing model. There were no Unit options granted during the three and six months ended June 30, 2010. The following weighted average assumptions were used for Unit options granted during the three and six months ended June 30, 2009:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Risk-Free Interest Rate (%)	-	3.88	-	2.85
Estimated Hold Period Prior to Exercise (years)	-	3	-	3
Expected Volatility in the Price of Units (%)	-	40.6	-	40.10
Expected Annual Distributions per Unit	-	-	-	-
Fair Value of Options Granted	-	1.24	-	0.76

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

(b) UARP

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

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

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

Under the UARP, expense is recognized over the vesting period or other expected term of service with a corresponding increase to liabilities as these instruments are settled in cash. The Fund recognized UAR unit based compensation expense for the three and six months ended June 30, 2010 of $0.1 million and $0.2 million respectively. The portion of the UARP unit based compensation liability that vests within one year is considered short term and the remaining portion is considered long term. As the expense related to the UARP is related to employees of either, CCCLP, CUI or Canexus Brazil, the Fund has recorded a recovery of this expense of $0.2 million during the three and six months ended June 30, 2010, from CCCLP, CUI or Canexus Brazil as applicable.

The weighted average remaining contractual life for UARs outstanding at June 30, 2010 was 2.49 years.

At June 30, 2010, a total of 437,100 UARs and 437,100 corresponding bonus rights were outstanding. Accumulated notional bonus Units on these bonus rights were 27,704 at June 30, 2010.

	Three Months Ended June 30		Six Months Ended June 30	
Number of UARs	2010	2009	2010	2009
Outstanding, Beginning of Period	436,100	-	430,100	-
Granted	5,000	-	11,000	-
Forfeited	(4,000)	-	(4,000)	-
Outstanding, End of Period	437,100	-	437,100	-
Exercisable, End of Period	-	-	-	-

	Three Months Ended June 30		Six Months Ended June 30	
Weighted Average Exercise Prices	2010	2009	2010	2009
Outstanding, Beginning of Period	5.20	-	5.19	-
Granted	6.24	-	5.91	-
Forfeited	5.19	-	5.19	-
Outstanding, End of Period	5.21	-	5.21	-
Exercisable, End of Period	-	-	-	-

(c) DTUCP

At June 30, 2010, there were 252,982 DTUs outstanding under the DTUCP comprised of 186,000 DTUs granted and 66,982 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. 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.

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

The Fund recognized DTUCP unit based compensation expense for the three and six months ended June 30, 2010 of $NIL (June 30, 2009 – $0.1 million) with a corresponding increase to contributed surplus since these instruments are settled by issuing Units and are not settled in cash.

12. Net Income (Loss) Per Unit

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

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Weighted Average Number of Units Outstanding	36,135,075	33,152,774	35,141,217	32,985,585
Units Issuable Pursuant to DTUs and Notional Reinvestments	-	175,329	-	171,418
Units Issuable Pursuant to Options and Corresponding Bonus Rights	-	948,186	-	926,153
Notional Units to be Purchased from Proceeds from Exercise/Redemption of Options and Corresponding Bonus Rights	-	(744,256)	-	(800,907)
Weighted Average Number of Diluted Units Outstanding	36,135,075	33,532,033	35,141,217	33,282,249

As the Fund reported a net loss during the three and six months ended June 30, 2010 of $5.8 million and $2.9 million respectively, the potential dilutive effects of outstanding options and corresponding bonus rights, DTUs and notional reinvestments, and Series I and II Debentures was anti-dilutive and accordingly they were not included in the calculation of the weighted average number of diluted Units outstanding.

13. Economic Dependence

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

Unaudited Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Canexus Limited Partnership

For the Three and Six Months Ended June 30, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands	2010	2009	2010	2009
Revenues				
Sales	104,324	109,237	218,039	233,056
Expenses				
Cost of Goods Sold	89,568	74,583	171,373	152,384
Amortization	12,881	11,644	24,424	23,387
General and Administrative	7,512	9,033	15,843	18,293
Interest	2,434	1,552	4,005	3,760
	112,395	96,812	215,645	197,824
Income (Loss) before Other Income (Expense), Impairment and Income Taxes	(8,071)	12,425	2,394	35,232
Other Income (Expense) (Note 17)	(7,545)	25,553	(1,419)	10,689
Income (Loss) before Impairment and Income Taxes	(15,616)	37,978	975	45,921
Impairment (Note 7 (a))	-	17,227	-	17,227
Income (Loss) before Income Taxes	(15,616)	20,751	975	28,694
Provision for (Recovery of) Income Taxes				
Current	2,298	698	3,602	899
Future	337	2,921	(517)	4,914
	2,635	3,619	3,085	5,813
Net Income (Loss)	(18,251)	17,132	(2,110)	22,881
Other Comprehensive Income (Loss), Net of Tax (Note 17)	3,064	(7,490)	1,089	(4,938)
Comprehensive Income (Loss)	(15,187)	9,642	(1,021)	17,943

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, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands	2010	2009	2010	2009
Deficit				
Beginning of Period	(70,687)	(101,298)	(73,254)	(94,430)
Net Income (Loss)	(18,251)	17,132	(2,110)	22,881
Distributions Declared	(13,894)	(13,025)	(27,468)	(25,642)
End of Period	(102,832)	(97,191)	(102,832)	(97,191)
Accumulated Other Comprehensive Loss				
Beginning of Period	(29,485)	(12,172)	(27,510)	(14,724)
Other Comprehensive Income (Loss) (Note 17)	3,064	(7,490)	1,089	(4,938)
End of Period	(26,421)	(19,662)	(26,421)	(19,662)

See accompanying notes to the Unaudited Consolidated Financial Statements

Unaudited Consolidated Balance Sheets

Canexus Limited Partnership

At June 30, 2010 and December 31, 2009

CAD thousands	2010	2009
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 18 (c))	2,344	13,200
Accounts Receivable (Note 3)	58,080	53,786
Inventories and Operating Supplies (Note 4)	34,038	31,404
Derivative Financial Instruments (Note 5)	245	1,532
Prepaid Expenses (Note 6)	3,348	3,537
Due from Affiliates, Net (Note 11)	1,284	-
Total Current Assets	99,339	103,459
Property, Plant and Equipment, Net (Note 7 (a))	645,780	559,233
Intangible Assets, Net (Note 7 (b))	1,489	1,522
Restricted Investments (Note 8)	2,554	3,137
Future Income Tax	9,021	7,941
Other Long-Term Assets (Note 9)	10,101	8,648
Total Assets	768,284	683,940

Unaudited Consolidated Balance Sheets

Canexus Limited Partnership

At June 30, 2010 and December 31, 2009

CAD thousands, except unit amounts	2010	2009
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 10)	15,827	-
Accounts Payable and Accrued Liabilities	68,805	60,119
Distribution Payable to Ordinary LP Unitholders	1,683	1,544
Distribution Payable to Exchangeable LP Unitholder, Nexen Inc. ("Nexen")	2,971	2,957
Interest Payable	1,419	1,021
Interest Payable on Debentures (Note 11)	-	19
Due to Affiliates, Net (Note 11)	-	172
Total Current Liabilities	90,705	65,832
Derivative Financial Instruments (Note 5)	3,176	2,106
Long-Term Debt (Note 10)	358,880	284,851
Debentures, Net (Note 11)	69,819	83,457
Future Income Tax	14,637	13,900
Asset Retirement Obligations (Note 12)	39,108	33,072
Other Long-Term Liabilities (Note 9)	4,499	3,677
Total Liabilities	580,824	486,895
Equity		
Ordinary Limited Partnership ("LP") Units (36,743,631 outstanding) (Note 14)	328,056	309,152
Exchangeable Limited Partnership ("LP") Units (64,835,420 outstanding) (Note 14)	(11,343)	(11,343)
Total LP Units	316,713	297,809
Deficit	(102,832)	(73,254)
Accumulated Other Comprehensive Loss	(26,421)	(27,510)
Total Deficit and Accumulated Other Comprehensive Loss	(129,253)	(100,764)
Total Equity	187,460	197,045
Commitments, Contingencies and Guarantees (Note 16)		
Total Liabilities and Equity	768,284	683,940

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, 2010 and 2009

	Three Months Ended June 30		Six Months Ended June 30	
CAD thousands	2010	2009	2010	2009
Operating Activities				
Net Income (Loss)	(18,251)	17,132	(2,110)	22,881
Realized Foreign Exchange (Gains) Losses on Cash	(131)	1,137	440	1,173
Charges and Credits to Income Not Involving Cash (Note 18 (a))	32,381	8,664	37,889	36,546
Purchase of Foreign Exchange Options	(451)	-	(451)	-
Contributions to / Payments for Defined Benefit Plans	(664)	(1,228)	(1,234)	(1,229)
Expenditures on Asset Retirement Obligations (Note 12)	(127)	(50)	(152)	(83)
Interest Income on Restricted Investments (Notes 8 and 17)	-	(66)	(1)	(229)
Change in Due to Affiliates, Net and Interest Payable to Affiliates	(331)	1,196	1,692	(277)
Changes in Non-Cash Operating Working Capital (Note 18 (b))	6,615	3,920	7,008	645
Total Operating Activities	19,041	30,705	43,081	59,427
Financing Activities				
Proceeds from (Repayments of) Short-Term Borrowings	13,150	(2,680)	15,827	(6,350)
Proceeds from Extendible Revolving Credit Facility	75,357	37,903	98,061	48,074
Proceeds from Senior Secured Revolving Credit Facility	-	4,185	1,068	16,292
Proceeds from Export Development Canada ("EDC") Extendible Revolving Credit Facility	4,056	-	4,056	-
Repayments of Extendible Revolving Credit Facility	(22,561)	-	(22,561)	(8,181)
Repayments of Senior Secured Revolving Credit Facility	(14,211)	-	(14,211)	(3,148)
Repayments of EDC Extendible Revolving Credit Facility	-	-	(2,114)	-
Credit Facility Transaction Costs	(4,167)	(318)	(4,167)	(335)
Cash Distributions Paid to Ordinary LP Unitholders	(4,182)	(3,605)	(8,073)	(8,322)
Cash Distributions Paid to Nexen, Exchangeable LP Unitholder	(8,870)	-	(17,739)	-
Funding of Asset Retirement Expenditures from Restricted Investments (Note 9)	-	960	830	1,936
Total Financing Activities	38,572	36,445	50,977	39,966
Investing Activities				
Expenditures on Property, Plant and Equipment	(54,044)	(71,392)	(102,615)	(107,634)
Changes in Non-Cash Investing Working Capital (Note 18 (b))	(3,813)	4,489	(1,963)	8,205
Total Investing Activities	(57,857)	(66,903)	(104,578)	(99,429)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	216	(1,567)	(336)	(1,513)
Decrease in Cash and Cash Equivalents	(28)	(1,320)	(10,856)	(1,549)
Cash and Cash Equivalents – Beginning of Period	2,372	3,719	13,200	3,948
Cash and Cash Equivalents – End of Period	2,344	2,399	2,344	2,399
Supplemental Cash Flow Information (Note 18 (c))				

See accompanying notes to the Unaudited Consolidated Financial Statements

Notes to Unaudited Consolidated Financial Statements

Canexus Limited Partnership

For the Three and Six Months Ended June 30, 2010 and 2009

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

1. Organization and Business of Canexus Limited Partnership

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

Canexus Income Fund ("the Fund") holds a 36.2 percent (December 31, 2009 – 34.2 percent) interest and Nexen holds a 63.8 percent (December 31, 2009 – 65.8 percent) controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP.

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

2. Summary of Significant Accounting Policies

These unaudited interim 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 interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2009.

In the opinion of management, the unaudited interim consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at June 30, 2010 and the results of its operations and cash flows for the three and six months ended June 30, 2010 and 2009. The unaudited interim consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2009.

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

3. Accounts Receivable

	June 30, 2010	December 31, 2009
Accounts Receivable – Trade	39,472	43,849
Allowance For Doubtful Accounts	(2,614)	(2,614)
	36,858	41,235
Accounts Receivable – Value Added Taxes and Other	21,222	12,551
	58,080	53,786

Accounts receivable – value added taxes and other at June 30, 2010 includes a $6.4 million gain recorded on the settlement of a contract matter related to hydrogen supply in South America. The total undiscounted gain was $7.7 million with $1 million recorded in other long-term assets.

The aging of trade receivables at June 30, 2010 is set out below:

	North America	South America	Asia	Total
Current	23,698	9,637	701	34,036
Past Due 0 – 30 days	2,661	58	-	2,719
Past Due 31 – 60 days	633	49	-	682
Past Due 61 – 90 days	2	-	-	2
Past Due Greater than 90 Days	1,744	289	-	2,033
	28,738	10,033	701	39,472

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

	June 30, 2010	December 31, 2009
Beginning of Period	(2,614)	(2,697)
Allowance for Doubtful Accounts	-	(650)
Write Off of Specific Accounts Receivable	-	733
End of Period	(2,614)	(2,614)

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

4. Inventories and Operating Supplies

	June 30, 2010	December 31, 2009
Raw Materials and Work-in-Progress	8,932	5,985
Finished Goods	10,203	10,769
Operating Supplies	14,903	14,650
	34,038	31,404

During the three months ended June 30, 2010 an allowance for impairment of $0.5 million was recorded for purchased finished goods inventory.

5. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	2,344	2,344	13,200	13,200
Derivative Financial Instruments				
Foreign Exchange Options	245	245	1,532	1,532
Total Held-For-Trading	2,589	2,589	14,732	14,732
Loans and Receivables, measured at amortized cost				
Accounts Receivable	58,080	58,080	53,786	53,786
Long-Term Deposits with Energy Utilities Board	130	130	130	130
Long-Term Accounts Receivable – Value Added Taxes and Other	5,111	5,111	6,755	6,755
Due from Affiliates, Net	1,284	1,284	-	-
Total Loans and Receivables	64,605	64,605	60,671	60,671
Held-to-Maturity, measured at amortized cost				
Restricted Investments	2,554	2,554	3,137	3,137
Total Financial Assets	69,748	69,748	78,540	78,540

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Held-For-Trading, measured at fair value				
Derivative Financial Instruments				
Interest Rate Swaps	3,176	3,176	2,106	2,106
Total Held-For-Trading	3,176	3,176	2,106	2,106
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	15,827	15,827	-	-
Accounts Payable and Accrued Liabilities	68,805	68,805	60,119	60,119
Distributions Payable	4,654	4,654	4,501	4,501
Interest Payable	1,419	1,419	1,021	1,021
Interest Payable on Debentures	-	-	19	19
Due to Affiliates, Net	-	-	172	172
Debentures, Net	69,819	78,380	83,457	87,944
Long-Term Debt	358,880	359,860	284,851	284,104
Total Other Financial Liabilities	519,404	528,945	434,140	437,880
Total Financial Liabilities	522,580	532,121	436,246	439,986

Canexus LP did not have available-for-sale financial instruments as at or during the three and six months ended June 30, 2010 or for the year ended December 31, 2009.

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

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

Canexus LP categorizes its financial instruments carried at fair value into one of three different levels of the fair value hierarchy depending on the observability of the inputs employed in the measurement of their fair value. Financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. Credit risk associated with counterparty default, as well as our own credit risk, is included in our estimates of fair value. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. There has been no change in the level in which we classified each financial instrument carried at fair value since the year ended December 31, 2009.
The following table includes all of our fair value measurements recognized in the balance sheet at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	2,344	-	-	2,344
Foreign Exchange Options	-	245	-	245
Interest Rate Swaps	-	(3,176)	-	(3,176)
	2,344	(2,931)	-	(587)

The carrying value of accounts receivable and due from affiliates, net, approximates their fair value as these financial instruments are near maturity. The carrying value of the long-term deposits with the energy utilities board and the long-term accounts receivable – value added taxes and other approximates their fair value as the carrying value does not significantly differ from their expected settlement amounts. The carrying value of restricted investments, net of an allowance for impairment, approximates their fair value. The carrying value of short-term borrowings, accounts payable and accrued liabilities, distributions payable, interest payable and interest payable on the Debentures, 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, 2010, the fair value of the Debentures issued to the Fund was $78.4 million (December 31, 2009 – $87.9 million). At June 30, 2010 , the fair value of the US $50 million Senior Secured Notes ("Senior Secured Notes") was $54 million (US $50.9 million) (December 31, 2009 – $51.6 million (US $49.3 million)). The fair value of the Debentures and the Senior Secured Notes were determined by comparison to what the present value of a similar instrument with a similar time to maturity would have been at June 30, 2010.

(b) Financial Risk Management

(i) *Overview*

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

(ii) *Liquidity Risk*

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

(iii) *Credit Risk*

Credit risk concentrations at June 30, 2010 for trade accounts receivable were as follows:

	North America		South America		Asia		Total	
Industry	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	22,057	77	8,034	80	701	100	30,792	78
Water Treatment	2,864	10	526	5	-	-	3,390	9
Chemicals	1,694	6	189	2	-	-	1,883	5
Oil and Gas	847	3	-	-	-	-	847	2
Other	1,276	4	1,284	13	-	-	2,560	6
	28,738	100	10,033	100	701	100	39,472	100

Geographical Area	Carrying Value	Percent
Canada	12,706	32
United States	16,032	41
South America	10,033	25
Asia	701	2
	39,472	100

Our North American customers are diverse with no one customer accounting for more than 11 percent of total trade accounts receivable at June 30, 2010 (December 31, 2009 – 8 percent).

The majority of our South American production is sold to Fibria Celulose S.A. ("Fibria"), formerly Aracruz Celulose S.A., under a long-term sales agreement. At June 30, 2010, trade amounts owing from Fibria represented 20 percent of total trade accounts receivable (December 31, 2009 – 17 percent).

(iv) *Market Risks*

Foreign Currency Rate Risk

A substantial portion of the sales revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market, as well as the majority of sales margins in South America. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. The average Canadian to US dollar foreign exchange rates for the three and six month periods ended June 30, 2010 were US \$0.98 and US \$0.96 respectively. An increase in the Canadian to US dollar exchange rate to US \$1.00 would have increased loss before income taxes by \$1 million for the three months ended June 30, 2010 and decreased income before income taxes by \$2.7 million for the six months ended June 30, 2010, before the impact of foreign exchange options. A decrease in the Canadian to US dollar exchange rate to US \$0.90 would have decreased loss before income taxes by \$2.6 million for the three months ended June 30, 2010 and increased income before income taxes by \$4.5 million for the six months ended June 30, 2010. A range of US \$0.90 to \$1.00 for the Canadian to US dollar exchange rate is considered reasonable given the current value and recent movement of the Canadian dollar relative to the US dollar and market expectations for future movements.

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

During the three months ended June 30, 2010, Canexus LP acquired foreign exchange call option contracts on US $5 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US $0.9524 per Canadian dollar from July 1, 2010 to September 30, 2010.

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

Product Price and Volume Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every $75 change in the price per metric tonne (“MT”) of North American produced sodium chlorate, income (loss) before income taxes for the three and six months ended June 30, 2010 would have changed by $6.7 million and $13.7 million respectively. For every $100 change in the price per metric electro-chemical unit (“MECU”) of chlor-alkali products produced in North America, income (loss) before income taxes for the three and six months ended June 30, 2010 would have changed by $3.2 million and $6.3 million respectively. These sensitivities to changes in prices are based on 89,000 MT of North American sodium chlorate sales and 32,000 MECU’s of North American chlor-alkali sales for the three months ended June 30, 2010 and 182,000 MT of North American sodium chlorate sales and 63,000 MECU’s of North American chlor-alkali sales for the six months ended June 30, 2010. Sensitivities of $75 per MT for sodium chlorate and $100 per MECU for chlor-alkali products are considered reasonable given historical product price changes and market expectations for future movement.

Product volume risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure given the recent economic uncertainty. A change in sales volumes for North American sodium chlorate of 10,000 MT for the three months ended June 30, 2010 and 20,000 MT for the six months ended June 30, 2010 would have changed income (loss) before income taxes for the three and six months ended June 30, 2010 by $1.6 million and $3.4 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, 2010 and 10,000 MECU’s for the six months ended June 30, 2010 would have changed income (loss) before income taxes for the three and six months ended June 30, 2010 by $1.6 million and $3.8 million respectively. These sales volume changes are considered to be reasonably possible due to recent economic conditions and market expectations for future movement.

South American Chlor-alkali Plant Operating Rate Risk

Our primary customer in South America, Fibria, typically consumes more caustic soda than our South American chlor-alkali plant’s operating capacity. To the extent we are unable to operate our chlor-alkali plant at capacity due to market factors, such as an inability to sell chlorine or chlorine derivatives or other circumstances, we are required to purchase caustic soda up to our chlor-alkali plant’s operating capacity volume at market prices but are only able to bill our primary customer for our production cost plus a fixed margin (the “Canexus Price”). During the three and six months ended June 30, 2010, the price of purchased caustic soda did not exceed the Canexus Price. During the three and six months ended June 30, 2010, we acquired 1,398 MT and 1,906 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 three percent change in the price of electricity in North America, income (loss) before income taxes would have changed by $0.5 million for the three months ended June 30, 2010 and $1.1 million for the six months ended June 30, 2010. This sensitivity to changes in electricity prices is based on North American electricity consumption of 498,000 MWh and 1,073,000 MWh for the three and six months ended

June 30, 2010 respectively. A three percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

Interest Rate Risk

Interest rate risk refers to the risk that cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk arises principally on our revolving credit facilities. The average 30 day US LIBOR base rate was 0.31 percent and 0.27 percent for the three and six month period ended June 30, 2010 respectively. A change in the 30 day US LIBOR base rate to 0.2 percent would have decreased loss before income taxes by $69,000 and increased income before income taxes by $87,000 for the three and six months ended June 30, 2010 respectively. A change in the 30 day US LIBOR base rate to 1 percent would have increased loss before income taxes by $437,000 and decreased income before income taxes by $829,000 for the three and six months ended June 30, 2010 respectively. A range of 0.2 to 1 percent for the 30 day US LIBOR base rate is considered reasonable given current 30 day US LIBOR base rates and market expectations for future movement.

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

6. Prepaid Expenses

	June 30, 2010	December 31, 2009
Prepaid Insurance	108	2,200
Prepaid Freight	491	584
Prepaid Property Tax	1,640	-
Other	1,109	753
	3,348	3,537

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

7. Property, Plant and Equipment and Intangible Assets

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

June 30, 2010	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	599,836	374,384	225,452
North America Chlor-alkali	480,601	143,734	336,867
South America	135,221	53,364	81,857
Corporate	10,898	9,294	1,604
	1,226,556	580,776	645,780

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

The balances at June 30, 2010 include capitalized costs of $352.3 million relating primarily to the TCP at our North Vancouver facility ($281.7 million including capitalized interest of $11.9 million), as well as other projects under construction or development. The balances at December 31, 2009 included capitalized costs of $258.6 million relating primarily to the TCP at our North Vancouver facility ($209.6 million including capitalized interest of $6.4 million), as well as other projects under construction or development. These costs are not being amortized.

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, 2010	Cost	Accumulated Amortization	Net Book Value
North America Chlor-alkali	666	-	666
Corporate	2,406	1,583	823
	3,072	1,583	1,489

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

Intangible assets consist of software.

8. 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, 2010	December 31, 2009
Beginning of Period	3,137	8,943
Interest Earned	1	262
Funding of Asset Retirement Obligation Expenditures	(830)	(6,521)
Reversal of Impairment	246	453
End of Period	2,554	3,137

We have estimated the fair market value of our $4.1 million investment in restructured notes, which replaced our investment in non-bank sponsored asset backed commercial paper (“ABCP”), to be $2.6 million at June 30, 2010 (December 31, 2009 – $2.4 million). During the three months ended December 31, 2008, we recorded $1.6 million of impairment charges in addition to $0.6 million recorded in the three months ended December 31, 2007, for total impairment charges of $2.2 million. During the six months ended June 30, 2010, we reversed impairment charges of $0.3 million, in addition to $0.4 million reversed during the three months ended December 31, 2009, for total impairment charges reversed of $0.7 million. The fair market value of our investment in the restructured notes was determined by estimating the yield that a prospective purchaser would require for each class of notes. Our estimates of required yield ranged from 6 to 27 percent for the classes of restructured notes now held with a maturity date of December 20, 2016.

9. Other Long-Term Assets and Liabilities

	June 30, 2010	December 31, 2009
Other Long-Term Assets		
Credit Facility Transaction Costs, Net	4,860	1,763
Deposits with Energy Utilities Board	130	130
Accounts Receivable – Value Added Taxes and Other	5,111	6,755
Total Other Long-Term Assets	10,101	8,648
Other Long-Term Liabilities		
Defined Benefit Pension Liability	2,301	1,662
Post Retirement Benefit Liability	2,055	1,869
Other	143	146
Total Other Long-Term Liabilities	4,499	3,677

10. Long-Term Debt and Short-Term Borrowings

	Maturity	June 30, 2010	December 31, 2009
Short-Term Borrowings			
Swing Line Loans under Extendible Revolving Credit Facility	August 18, 2012	15,827	-
Long-Term Debt			
Credit Facilities			
Extendible Revolving Credit Facility	August 18, 2012	295,907	212,983
EDC Extendible Revolving Credit Facility	August 18, 2012	10,606	8,373
Senior Secured Revolving Credit Facility	Cancelled	-	11,513
Total Credit Facilities		306,513	232,869
Senior Secured Notes	May 1, 2013	53,030	52,330
Unamortized Senior Secured Notes Transaction Costs, Net		(663)	(348)
		52,367	51,982
Total Long-Term Debt		358,880	284,851

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

At June 30, 2010, we had $295.9 million (US $279 million) outstanding on the Extendible Revolving Credit Facility. The weighted average interest rate for the three and six months ended June 30, 2010, including the rate applicable on the interest rate swaps, was 4.51 percent and 3.48 percent respectively, and total interest and standby fees incurred were $3 million and $3.8 million respectively. Total interest paid on the interest rate swaps for the three and six months ended June 30, 2010 was $0.4 million and $0.8 million respectively which is included in other income (expense). At June 30, 2009, we had $243.5 million (US $209.5 million) outstanding on this credit facility. The weighted average interest rate for the three and six months ended June 30, 2009, including the rate applicable on the interest rate swaps, 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. Total interest paid for the three and six months ended June 30, 2009 on the interest rate swaps was $0.3 million and $0.5 million respectively which was included in other income (expense).

The weighted average interest rate on the swing line loans for the three and six months ended June 30, 2010 was 5.08 percent and 3.96 percent respectively, and total interest and standby fees incurred were $0.1 million and $0.3 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.

At June 30, 2010, we had no balance outstanding on the Senior Secured Revolving Credit Facility as it was repaid and cancelled on April 15, 2010. The weighted average interest rate for the period April 1, 2010 to April 15, 2010 and January 1, 2010 to April 15, 2010 was 1.99 percent and 1.55 percent respectively, and total interest and standby fees incurred were $9,000 and $60,000 respectively. 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, 2010, we had $10.6 million (US $10 million) outstanding on the EDC Extendible Revolving Credit Facility. The weighted average interest rate for the three and six months ended June 30, 2010 was 4.01 percent and 2.83 percent respectively, and total interest and standby fees incurred were $85,000 and $136,000 respectively. 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 respectively.

The credit facility agreements and the note indenture governing the Senior Secured Notes also contain covenants (financial and non-financial) and conditions. At June 30, 2010, we were in compliance with all covenants and conditions.

Canexus LP is the applicant on one Letter of Credit at June 30, 2010; a standby letter of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations ($1.1 million). This Letter of Credit, effective January 1, 2010, was automatically renewed until January 1, 2011. It fully covers the actuarially determined obligation and will continue to be automatically renewed for one year periods unless otherwise advised.

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

Due to affiliates, net, at June 30, 2010 and December 31, 2009 relate to amounts owing in the normal course of operations as discussed below.

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

Canexus LP has an agreement with a Nexen affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. Canexus Limited sub leases office space from Nexen on behalf of Canexus LP and the Fund for which it is reimbursed at cost. The amount owing to the Nexen affiliate for the purchase of electricity and natural gas and to Nexen for the lease of office space at June 30, 2010 was $NIL (December 31, 2009 – $NIL). Canexus entered into an agreement effective February 17, 2009 with a Nexen affiliate to provide condensate transloading and delivery services for a term of 5 years for a total contract value of approximately $2.1 million. The amount owing by the Nexen affiliate at June 30, 2010 for these services was $96,000.

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.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Electricity Purchases and Retail Service Fees	151	543	262	2,037
Natural Gas Purchases and Retail Service Fees	351	627	1,309	2,062
Lease of Office Space	208	210	414	420
Condensate Transloading and Delivery Services Revenue	92	-	348	-
	802	1,380	2,333	4,519

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

	June 30, 2010	December 31, 2009
Debentures, Beginning of Period	85,780	-
Issued	-	86,000
Redeemed	(14,178)	(220)
	71,602	85,780
Fund Convertible Debenture Transaction Costs	(2,436)	(2,436)
Accumulated Amortization, Fund Convertible Debenture Transaction Costs	653	113
Unamortized Fund Convertible Debenture Transaction Costs	(1,783)	(2,323)
Debentures, Net, End of Period	69,819	83,457

Interest expense recognized on the Debentures for the three and six months ended June 30, 2010 was $1.5 million and $3.2 million respectively.

12. Asset Retirement Obligations

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

	June 30, 2010	December 31, 2009
Beginning of Period	33,072	44,771
Disposals	(197)	-
Expenditures on Asset Retirement Obligations	(152)	(869)
Accretion Expense	1,025	2,870
Effect of Foreign Exchange	4	(672)
Change in Obligations Reclassified to Current Liabilities (1)	(1,020)	965
Changes in Cash Flow Estimates and Timing	6,376	(13,993)
End of Period	39,108	33,072

Note:

(1) Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At June 30, 2010, $1.4 million was included in accounts payable and accrued liabilities (December 31, 2009 – $0.4 million).

Our total estimated undiscounted asset retirement obligations at June 30, 2010 were $140.7 million (December 31, 2009 – $121.8 million). The expected timing of settling our obligations is determined on a plant by plant basis and is currently expected to occur between the years of 2015 to 2050. We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 6.08 percent. Approximately $3 million included in our asset retirement obligations are expected to be settled over the next three years.

13. 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	
	2010	2009	2010	2009
Cost of Benefits Earned by Employees	750	690	1,500	1,380
Interest Cost on Benefits Earned	1,037	986	2,074	1,972
Expected Return on Plan Assets	(935)	(844)	(1,870)	(1,688)
Net Amortization and Deferral	83	46	166	92
Net Pension Expense	935	878	1,870	1,756

(b) Employer Funding Contributions

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

(c) Contributions Under the Defined Contribution Pension Plans

Under these plans, pension benefits and expense are based on plan contributions. Contributions to the defined contribution pension plans were $209,000 and $439,000 for the Canadian plan; $13,700 and $52,100 for the US plan and $48,200 and $98,300 for the South American plan for the three and six months ended June 30, 2010 respectively. 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 South American plan for the three and six months ended June 30, 2009.

(d) Post Retirement Benefits

Post retirement benefits in Canada include group life and supplemental health insurance. These costs are fully accrued as compensation in the period employees work; however these future obligations are not funded. The expense recognized for the three and six months ended June 30, 2010 was $84,250 and $168,500 respectively. The expense recognized for the three and six months ended June 30, 2009 was $71,000 and $143,000 respectively. At June 30, 2010 other long-term liabilities includes a $1.9 million (December 31, 2009 – $1.8 million) post retirement benefit liability.

Post retirement benefits in the US consist of a medical benefits bonus plan. Under the bonus plan, US employees as of December 9, 2006 who attain a minimum of 10 years of completed service are entitled to a benefit of US $4,000 for every year of completed service. The expense recognized for the three and six months ended June 30, 2010 was $9,700 and $19,700 respectively. The expense recognized for the three and six months ended June 30, 2009 was $11,000 and $22,000 respectively. At June 30, 2010 other long-term liabilities includes an $112,000 (December 31, 2009 – $90,800) post retirement benefit liability.

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, 2010		December 31, 2009	
	Number of Units	Amount	Number of Units	Amount
General Partner Units				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
Ordinary LP Units				
Beginning of Period	33,701,807	309,152	32,570,814	305,051
Issued Pursuant to the DRIP	261,834	1,501	1,087,857	3,876
Issued Pursuant to Redemption of Debentures	2,779,990	17,403	43,136	225
End of Period	36,743,631	328,056	33,701,807	309,152
Exchangeable LP Units				
Beginning of Period	64,835,420	(11,343)	56,637,539	(38,929)
Issued Pursuant to the DRIP	-	-	8,197,881	27,586
End of Period	64,835,420	(11,343)	64,835,420	(11,343)

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

Canexus LP declared distributions of $0.1368 per LP Unit for the three and six months ended June 30, 2010 (December 31, 2009 – $0.5472) to Ordinary and Exchangeable LP Unitholders. On June 2, 2010, a distribution of $0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record June 30, 2010 for payment on July 15, 2010.

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 LP Unitholders and to maintain a capital structure that allows financing options to Canexus LP as financing needs arise. There has been no change in Canexus LP’s objectives, policies, and processes for managing capital since the year ended December 31, 2009. The capital structure of Canexus LP consists of the following:

	June 30, 2010	December 31, 2009
Cash and Cash Equivalents	2,344	13,200
Short-Term Borrowings	(15,827)	-
Long-Term Debt	(358,880)	(284,851)
Debentures, Net (1)	(69,819)	(83,457)
Ordinary LP Units	(328,056)	(309,152)
Exchangeable LP Units	11,343	11,343
	(758,895)	(652,917)

Note:

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

Management, upon approval of the Board of Directors, may balance the overall capital structure of Canexus LP through new LP Unit issues, the issuance of new debt or by undertaking other activities as deemed appropriate. Canexus LP monitors capital using financial metrics equivalent to those defined in the financial covenants of its credit agreements. Under the $440 million

Extendible Revolving Credit Facility, the US $50 million Senior Secured Notes and the US $10 million EDC Extendible Revolving Credit Facility the following covenants are required to be met through to, and including, March 31, 2011:

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

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

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

At June 30, 2010 and December 31, 2009, Canexus LP was in compliance with all financial covenants and conditions.

16. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. At June 30, 2010 these obligations and commitments were as follows:

	2010	2011	2012	2013	2014	Thereafter
Operating Leases	10,565	17,057	15,217	13,363	12,494	50,153
Purchase Obligations	30,802	37,249	38,276	39,654	8,624	-
Expansion Capital Expenditures	12,681	-	1,490	-	-	-
	54,048	54,306	54,983	53,017	21,118	50,153

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

Expansion capital expenditures include contractual obligations related to expansion projects, including the TCP at our North Vancouver chlor-alkali facility. At June 30, 2010, actual capital expenditures for the TCP were $281.7 million including capitalized interest of $11.9 million.

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

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

17. Other Income (Expense)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Currency Translation Gains (Losses)				
Unrealized Currency Translation Gains (Losses)				
Debt	(18,368)	23,022	(9,756)	15,350
Working Capital	1,663	(79)	395	2,469
Total Unrealized Currency Translation Gains (Losses)	(16,705)	22,943	(9,361)	17,819
Realized Currency Translation Gains (Losses)				
Debt	3,698	-	3,698	(736)
Working Capital	(32)	101	(748)	(798)
Total Realized Currency Translation Gains (Losses)	3,666	101	2,950	(1,534)
Total Currency Translation Gains (Losses)	(13,039)	23,044	(6,411)	16,285
Gains (Losses) on Held-for-Trading Financial Instruments				
Change in Fair Value of Foreign Exchange Options	(1,159)	1,559	(1,746)	(4,390)
Realized Gains on Foreign Exchange Options	701	1,716	1,430	1,716
Change in Fair Value of Interest Rate Swaps	(561)	1,493	(1,071)	984
Realized Losses on Interest Rate Swaps	(371)	(304)	(758)	(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	15	2	62	10
Total Gains (Losses) on Held-for-Trading Financial Instruments	(1,375)	5,079	(2,083)	(3,505)
Gains on Held-to-Maturity Financial Instruments				
Interest Income on Restricted Investments	-	66	1	229
Other				
Reversal of Short and Long-Term Accrual for Future TCP Severance Costs	399	-	399	981
Allowance for Doubtful Accounts	-	-	-	(650)
Sodium Chlorate Plant Closure Costs	-	(2,651)	-	(2,651)
Loss on Disposal of Assets	(416)	-	(416)	-
Reversal of Impairment of Value of ABCP	73	-	246	-
Provision for Obsolete Inventory	(528)	-	(528)	-
Hydrogen Settlement	7,267	-	7,267	-
Other	74	15	106	-
Total Other	6,869	(2,636)	7,074	(2,320)
Total Other Income (Expense)	(7,545)	25,553	(1,419)	10,689

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

18. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Amortization	12,881	11,644	24,424	23,387
Change in Fair Value of Foreign Exchange Options	1,159	(1,559)	1,746	4,390
Change in Fair Value of Foreign Exchange Forward	-	1,880	-	3,796
Change in Fair Value of Interest Rate Swaps	561	(1,493)	1,071	(984)
Unrealized (Gains) Losses on Currency Translation	16,705	(22,943)	9,361	(17,819)
Future Income Taxes	337	2,921	(517)	4,914
Pension and Post Retirement Benefit Expense	1,021	960	2,056	1,920
Reversal of Long-Term Accrual for Future TCP Severance Costs	-	-	-	(981)
Impairment of Sodium Chlorate Assets	-	17,227	-	17,227
Reversal of Impairment of ABCP	(73)	-	(245)	-
Allowance for Doubtful Accounts	-	-	-	650
Other	(210)	27	(7)	46
	32,381	8,664	37,889	36,546

(b) Changes in Non-Cash Working Capital

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accounts Receivable	(927)	6,080	(4,294)	6,256
Inventories and Operating Supplies	485	6,081	(2,327)	7,288
Prepaid Expenses	(745)	(33)	187	397
Accounts Payable and Accrued Liabilities	2,234	(1,097)	10,367	(2,442)
Accrued Interest Payable	411	(456)	398	(618)
Effect of Foreign Exchange on Non-Cash Working Capital	1,344	(2,166)	714	(2,031)
Total Change in Non-Cash Working Capital	2,802	8,409	5,045	8,850
Relating to:				
Operating Activities	6,615	3,920	7,008	645
Investing Activities	(3,813)	4,489	(1,963)	8,205
Total Change in Non-Cash Working Capital	2,802	8,409	5,045	8,850

(c) Other Cash Flow Information

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest Paid	3,546	3,260	5,523	6,262
Income Taxes Paid	1,102	440	2,033	687

	June 30, 2010	December 31, 2009
Cash and Cash Equivalents		
Cash	1,959	2,340
Cash Equivalents	385	59
Total	2,344	2,399

19. Operating Segments

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

(a) Operating Segments

	North America				
Three Months Ended June 30, 2010	Sodium Chlorate [1]	Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	49,480	32,600	22,244	-	104,324
Expenses					
Cost of Goods Sold	35,972	36,956	16,640	-	89,568
Amortization	6,832	3,686	1,914	449	12,881
General and Administrative	2,277	2,561	1,002	1,672	7,512
Interest	-	-	-	2,434	2,434
	45,081	43,203	19,556	4,555	112,395
Income (Loss) before Other Income (Expense) and Income Taxes	4,399	(10,603)	2,688	(4,555)	(8,071)
Other Income (Expense)	(350)	(529)	7,272	(13,938)	(7,545)
Income (Loss) before Income Taxes	4,049	(11,132)	9,960	(18,493)	(15,616)
Capital Expenditures	5,136	43,888	4,959	61	54,044

	North America				
Three Months Ended June 30, 2009	Sodium Chlorate [1]	Chlor-alkali	South America	Corporate	Total
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, costs and capital expenditures for the North American Terminal Operations for the three months ended June 30, 2010 and June 30, 2009 are included in North America Sodium Chlorate.

Six Months Ended June 30, 2010	North America Sodium Chlorate (1)	North America Chlor-alkali	South America	Corporate	Total
Revenues					
Sales	102,418	69,662	45,959	-	218,039
Expenses					
Cost of Goods Sold	71,819	67,240	32,314	-	171,373
Amortization	13,309	6,595	3,814	706	24,424
General and Administrative	4,889	5,483	2,133	3,338	15,843
Interest	-	-	-	4,005	4,005
	90,017	79,318	38,261	8,049	215,645
Income (Loss) before Other Income (Expense) and Income Taxes	12,401	(9,656)	7,698	(8,049)	2,394
Other Income (Expense)	(350)	(529)	7,272	(7,812)	(1,419)
Income before Income Taxes	12,051	(10,185)	14,970	(15,861)	975
Capital Expenditures	6,406	84,189	11,951	69	102,615

Six Months Ended June 30, 2009	North America Sodium Chlorate (1)	North America Chlor-alkali	South America	Corporate	Total
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	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	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, costs and capital expenditures for the North American Terminal Operations for the six months ended June 30, 2010 and June 30, 2009 are included in North America Sodium Chlorate.

Identifiable Assets	North America Sodium Chlorate	North America Chlor-alkali	South America	Corporate	Total
June 30, 2010	260,521	363,843	125,327	18,593	768,284
December 31, 2009	268,795	280,851	108,532	25,762	683,940

(b) Geographic Segments

PP&E, Net	June 30, 2010	December 31, 2009
Canada	563,782	486,264
United States	141	262
South America	81,857	72,707
	645,780	559,233

	Three Months Ended June 30		Six Months Ended June 30	
Sales	2010	2009	2010	2009
Canada	36,214	36,545	77,872	79,684
United States	44,146	48,355	90,729	102,680
South America	22,244	22,718	45,959	46,966
Asia	1,720	1,619	3,479	3,726
	104,324	109,237	218,039	233,056