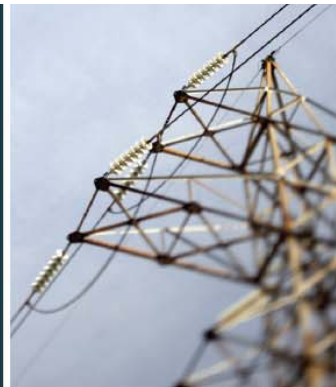


three months ended march 31, 2008



First Quarter



canexus income fund delivers solid first quarter results

Highlights

- *North American sodium chlorate sales volumes increased five percent from the same period last year and one percent from the prior quarter and realized prices increased nine percent from Q4/07;*
- *Brandon sodium chlorate plant expansion project completed in February and performing above target;*
- *Strong caustic soda markets helped offset seasonally weaker chlorine markets in the North America chlor-alkali business, with caustic price increases announced for the second quarter;*
- *Technology Conversion Project ("TCP") at North Vancouver facility received board approval in January and is expected to contribute an estimated \$35 to 43 million in incremental annual operating cash flow upon completion in first quarter of 2010;*
- *South American sales revenue increased seven percent from same period last year; 2,000 tonne sodium chlorate expansion at plant in Brazil scheduled for start-up in January 2009;*
- *Declared \$4.3 million in cash distributions at a payout ratio of 55 percent (62 percent normalized for the timing of maintenance capital spending); we expect distributable cash for 2008 to be 12 percent higher than previous estimates and as a result, we are revising guidance to a lower payout ratio of between 75 and 80 percent assuming a Canadian dollar exchange rate of parity;*
- *Canadian dollar foreign exchange call options on US \$5 million per month purchased in April entitle Canexus to sell US dollars at a price of US \$0.9709 per Canadian dollar, extending existing contract coverage from May 31 to August 31, 2008.*

Dear Unitholders,

On behalf of the Board and the management team of Canexus Income Fund, I am pleased to report the results for the first quarter of 2008 ended March 31. Canexus had a solid first quarter, with our financial results ahead of expectations and significant progress on strategic initiatives. All three of our business units are delivering strong results and moving ahead on growth projects.

The Brandon expansion started production on February 17 and was quickly exceeding the 33,000 tonne project target. The expansion is timely as demand in our core North American sodium chlorate business has remained very strong due to solid pulp market dynamics. The expansion extends our low-cost competitive advantage and adds an estimated \$10 million in annual operating cash flow. Canexus also acquired customer contracts from Olin Corporation during the quarter. The contracts, combined with a solid market outlook, means all of our North American plants are expected to run throughout 2008.

Chlor-alkali market conditions continue to be strong. The board approval of TCP at the end of January will continue our proven track record for successful projects that grow capacity and enhance our low-cost position. We are delighted with the support the Distribution Reinvestment Plan has received which will partially fund TCP.

South America had another solid quarter and we began a sodium chlorate debottlenecking project at our plant in Brazil.

2008 is off to a good start. All three of our business units are delivering solid results, building on their strengths and are supported by strong market fundamentals. We feel confident improving our guidance for 2008 and expect our payout ratio to be between 75 and 80 percent based on the Canadian dollar at parity.

A handwritten signature in black ink, appearing to read "Gary Kubera". The signature is fluid and cursive.

Gary Kubera
President and Chief Executive Officer

Management's Discussion and Analysis

The following management's discussion and analysis of financial condition and results of operations ("MD&A") is prepared as of May 13, 2008. This MD&A should be read in conjunction with:

- the unaudited interim consolidated financial statements of Canexus Income Fund ("the Fund") and Canexus Limited Partnership ("Canexus LP") for the three months ended March 31, 2008, and
- the MD&A and the audited consolidated financial statements of the Fund and Canexus LP for the year ended December 31, 2007 and the notes thereto, available on the System for Electronic Data Analysis and Retrieval's ("SEDAR") website at www.sedar.com.

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

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

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

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

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

Non-GAAP Measures

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

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

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 Cash Distributions Declared divided by Distributable Cash available to Canexus Income Fund.

Payout Ratio Normalized for Timing of Maintenance Capital Expenditures is calculated as Cash Distributions Declared divided by Distributable Cash available to Canexus Income Fund recalculated for Estimated Annual Maintenance Capital Expenditures.

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

GENERAL DESCRIPTION OF THE FUND AND CANEXUS LP

As at March 31, 2008, the Fund holds a 38.4 percent indirect interest, through its wholly owned subsidiary Canexus Commercial Trust, in Canexus LP and Nexen Inc. holds a 61.6 percent controlling interest in Canexus LP.

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

CANEXUS INCOME FUND

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

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

Highlights (See also "Highlights" of Canexus LP)

- Distributions to Unitholders of \$4.3 million (\$0.1368 per Unit) declared for the three months ended March 31, 2008.
- Payout ratio of 55 percent (62 percent when normalized for the timing of maintenance capital expenditures).
- On February 15, 2008 the Fund announced the Distribution Reinvestment Plan ("DRIP"). Under the DRIP, participants may elect, in the case of holders of Units of the Fund, to automatically reinvest monthly distributions in additional Units of the Fund and, in the case of Exchangeable Limited Partnership ("LP") Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP, in each case at a 5 percent discount to the volume weighted average market price of the Units on the TSX for the 10 trading days preceding the distribution payment date. Participation of Fund Unitholders in the DRIP for February 2008 was 11 percent and for March 2008 was 24 percent. Nexen Inc., Exchangeable LP Unitholder, participated 100 percent in the DRIP for each of February and March 2008. DRIP proceeds are being used to partially fund the North Vancouver chlor-alkali facility technology conversion project ("TCP").

Summary of Quarterly Results

The changes in equity income for each of the three month periods were due to changes in the net income of Canexus LP for the same periods. The equity loss from the investment in Canexus LP for the three months ended March 31, 2008 was primarily due to charges to Canexus LP's net income for unrealized foreign exchange losses on its US dollar long-term debt and for future severance costs arising from the TCP (See "Summary of Quarterly Results" discussion relating to Canexus LP).

CAD thousands, except per unit amounts	Three Months Ended			
	March 31 2008	Dec. 31 2007 ⁽¹⁾	Sept. 30 2007 ⁽¹⁾	June 30 2007 ⁽¹⁾
Equity Income (Loss) from Investment in Canexus LP	(1,291)	1,625	8,242	6,739
Net Income (Loss)	(1,900)	5	6,228	(4,423)
Earnings (Loss) Per Unit (\$/Unit)	(0.06)	-	0.20	(0.14)
Diluted Earnings (Loss) Per Unit (\$/Unit)	(0.06)	-	0.20	(0.14)
Cash Distributions Declared	4,345	6,077	6,943	6,944
Cash Distributions Declared (\$/Unit)	0.1368	0.1914	0.2187	0.2187

CAD thousands, except per unit amounts	Three Months Ended			
	March 31 2007	Dec. 31 2006 ⁽²⁾	Sept.30 2006	June 30 2006
Equity Income from Investment in Canexus LP	4,441	1,464	4,261	8,405
Net Income	3,723	323	3,932	8,097
Earnings Per Unit (\$/Unit)	0.12	0.01	0.13	0.25
Diluted Earnings Per Unit (\$/Unit)	0.12	0.01	0.13	0.25
Cash Distributions Declared	6,944	6,944	6,944	6,944
Cash Distributions Declared (\$/Unit)	0.2187	0.2187	0.2187	0.2187

Notes:

(1) On June 22, 2007, previously announced legislation providing for the income taxation of specified investment flow through entities received Royal Assent. As a result of the new legislation, the Fund recognized a \$10.5 million future income tax liability in the three month period ended June 30, 2007 and further future income tax liabilities of \$1.3 million for the three month period ended September 30, 2007, \$0.9 million for the three month period ended December 31, 2007 and \$0.4 million for the three month period ended March 31, 2008 on temporary differences in reported amounts for financial statement and tax purposes in the capital assets underlying its investment in Canexus LP, which differences are expected to reverse subsequent to 2010.

(2) In the fourth quarter of 2006, we adopted Emerging Issues Committee ("EIC") 162, Stock-Based Compensation for Employees Eligible to Retire before the Vesting Date. EIC-162 provides that if an employee is eligible to retire on the grant date of a stock-based award, related compensation expense is recognized in full at that date as there is no ongoing service requirement to earn that award. In addition, if an employee becomes eligible to retire during the vesting period, related compensation expense is recognized over the period from the grant date to the retirement eligibility date on a graded vesting basis. Prior to the adoption of EIC-162, we did not consider the retirement dates of our employees in the determination of our stock-based compensation expense. EIC-162 was effective for interim

and annual periods ending on or after December 31, 2006 and was to be adopted on a retroactive basis. The impact of adopting EIC-162 for the year ended December 31, 2006 was an increase in unit based compensation expense and a decrease in net income of \$75,360. As this amount was not material, we did not restate the three month periods ended March 2006, June 2006 or September 2006. The impact for the period from August 18, 2005 to December 31, 2005 was not material and was not adjusted.

Results of Operations

Investment

At March 31, 2008 the Fund had an indirect investment in 31,787,161 Ordinary Limited Partnership Units (38.4 percent) of Canexus LP at a cost of \$317.7 million. The Fund accounts for this investment using the equity method.

For the three months ended March 31, 2008 the Fund's equity income from Canexus LP was a loss of \$1.3 million (March 31, 2007 - income of \$4.4 million) and the carrying value of this investment at March 31, 2008 was \$297.2 million (December 31, 2007 - \$302.7 million).

Expenses

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

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

Compensation expense for the three months ended March 31, 2008 was significantly lower than prior periods due to the prospective accounting for the cancellation of unit options and to lower option fair values associated with recent grants as a result of lower Unit prices.

Statement of Distributable Cash

CAD thousands, except as noted	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Canexus LP		
Net Income (Loss)	(3,347)	11,510
Charges and Credits to Income Not Involving Cash:		
Future Income Taxes	(48)	585
Amortization	9,942	10,873
Unrealized (Gains) Losses on Currency Translation	7,991	(2,935)
Change in Fair Value of Foreign Exchange Options	948	262
Change in Fair Value of Electricity Forward Swaps	-	277
Change in Fair Value of Interest Rate Swaps	(166)	-
Accrual for Future TCP Severance Costs	7,310	-
Other	842	740
	23,472	21,312
Contributions to Defined Benefit Pension Plan	-	(593)
Purchase of Foreign Exchange Options	(357)	-
Changes in Non-Cash Operating Working Capital and Due to Affiliates, Net	(10,547)	(2,748)
Cash From Operating Activities	12,568	17,971
Changes in Non-Cash Operating Working Capital and Due to Affiliates, Net	10,547	2,748
Maintenance Capital Expenditures	(1,436)	(2,274)
Amortization of the Purchase Cost of Foreign Exchange Options	(179)	(263)
Operating Non-Cash Items	(597)	(154)
Distributable Cash within Canexus LP ⁽¹⁾	20,903	18,028
Canexus Income Fund		
Share of Canexus LP's Distributable Cash ⁽¹⁾	8,057	6,956
Trust Administration Expenses	(88)	(81)
Distributable Cash available to Canexus Income Fund ⁽¹⁾	7,969	6,875
Cash Distributions Declared	4,345	6,944
Payout Ratio ⁽¹⁾	55%	101%
Payout Ratio Normalized for Timing of Maintenance Capital Expenditures of \$15.5 million for 2008 ⁽¹⁾	62%	108%

Note:

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

Distributable Cash within Canexus LP represents cash from operating activities adjusted for temporary changes in non-cash operating working capital 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 (see "non-GAAP Measures" on page 2) is not a recognized measure under Canadian GAAP and therefore, Canexus LP's method of calculating Distributable Cash is unlikely to be comparable to methods used by other trusts.

Net income for the three months ended March 31, 2008 is lower than net income for the three months ended March 31, 2007 primarily due to non-cash charges to net income for unrealized foreign exchange losses on our US dollar long-term debt (\$8.3 million) and for the accrual of future TCP severance costs (\$7.3 million). Cash from operating activities, before the impact of changes in non-cash operating working capital, has increased for the three months ended March 31, 2008, as compared to the three months ended March 31, 2007, as a result of an increase in gross margin (\$0.5 million), a decrease in interest expense (\$0.6 million), lower income taxes (\$0.3 million), an increase in realized foreign exchange gains (\$0.8 million) and an increase in cash proceeds realized on Canadian dollar foreign exchange call options.

The change in non-cash operating working capital and due to affiliates for the three months ended March 31, 2008 was primarily due to timing differences in the amount of accounts receivable, inventories and operating supplies and accounts payable and accrued liabilities. At December 31, 2007, accounts receivable from Aracruz Celulose, S.A., our primary customer in Brazil, were \$NIL (March 31, 2008 - \$9.8 million) due to early payment of amounts outstanding. Finished goods inventories at March 31, 2008 were also higher than at December 31, 2007 as a result of a higher than normal volume of product in-transit.

The change in non-cash operating working capital and due to affiliates for the three months ended March 31, 2007 was primarily due to timing differences in the amount of accounts payable and accrued liabilities.

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 IPO. It also includes the cost of foreign exchange call option contracts described further in the succeeding paragraph.

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

Distributions

The Fund made monthly distributions of \$0.0456 per Unit for the period January 1, 2008 to March 31, 2008 for total distributions declared of \$4.3 million (\$0.1368 per Unit) for the three months ended March 31, 2008.

At March 31, 2008 the Fund had a distribution receivable from Canexus LP. Upon receipt of this distribution in April 2008, the Fund paid distributions payable of \$1.5 million outstanding at March 31, 2008.

On January 31, 2008 the Fund announced, in conjunction with the announcement of the Board of Director approval of the Technology Conversion Project ("TCP") at Canexus LP's North Vancouver chlor-alkali facility (See Executive Summary and Highlights for Canexus LP below), the intended implementation of the DRIP. Under the DRIP implementation announced February 15, 2008, participants may elect, in the case of holders of Units of the Fund, to automatically reinvest monthly distributions in additional Units of the Fund and, in the case of Exchangeable LP Units of Canexus LP, to automatically reinvest monthly distributions in additional Exchangeable LP Units of Canexus LP, in each case at a 5 percent discount to the average market price of the Units on the TSX on the applicable distribution payment date.

Unitholders resident in the United States are not entitled to participate in the DRIP.

Income Taxes

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

On June 22, 2007, legislation that proposed changes to the taxation of publicly traded income trusts (the "SIFT" tax), received Royal Assent. As a result, the Fund has recognized a \$13.1 million future income tax liability as at March 31, 2008 on temporary differences in reported amounts for financial statement and tax purposes in the capital assets underlying its investment in Canexus LP.

Commencing in 2011, a 29.5 percent (2012 – 28.0 percent) tax will be applied to distributions from publicly traded income trusts which could result in reduced cash available for distributions. On February 26, 2008 the Government of Canada, in its Federal Budget, announced further changes to the SIFT tax rules. The provincial component of the SIFT tax will be based on the provincial rate where the Specified Investment Flow Through ("SIFT") has a permanent establishment rather than using a 13 percent flat rate. This may result in the combined SIFT tax rate applicable in 2012 to fall from 28 percent. Under the legislation, trusts existing at October 31, 2006 must limit their expansion to "normal growth" until 2011 to be eligible for grandfathering under the old rules. On December 15, 2006 the Government issued guidelines with respect to what it would consider normal growth for existing income trusts. Under these guidelines, the amount of equity units that an income trust can issue may not exceed the greater of \$50 million and the value of its publicly traded equity units on October 31, 2006 (subject to annual limits) prior to 2011. In addition, exchangeable limited partnership units in place at October 31, 2006 that are subsequently exchanged by the holder for equity will not be considered growth under the guidelines and outstanding debt at October 31, 2006 that is replaced with new equity will not be considered growth under the guidelines.

Under the normal growth guidelines, the Fund had available at December 31, 2007 a "safe harbour" amount of \$99.7 million. The "safe harbour" amount for the Fund for each of 2008, 2009 and 2010 is an additional \$49.8 million per year. Should any portion of the "safe harbour" not be utilized in any period, this portion will be available in a subsequent period. These amounts do not include equity that the Fund could issue to replace debt that was outstanding at October 31, 2006 nor does it include equity that would be issued for the Exchangeable LP Units issued to Nexen.

The legislation could have some or all of the following impacts, and the Fund could take some or all of the following actions:

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

At the current time the legislation is not expected to limit the Fund's near term growth opportunities. The Fund will carefully review its alternatives to most effectively achieve its business strategy and optimize value for the Unitholders.

Liquidity and Capital Structure

Outstanding Securities of the Fund

At March 31, 2008 the Fund had 31,787,161 Units outstanding (May 13, 2008 - 31,866,705 Units).

As at March 31, 2008, Nexen held 51,064,350 Exchangeable LP Units of Canexus LP (May 13, 2008 - 51,595,288 Exchangeable LP Units), 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.

Upon exchange of all or part of the Exchangeable LP Units outstanding, an equivalent number of Ordinary LP Units of Canexus LP will be issued to Canexus Commercial Trust, a wholly owned subsidiary of the Fund, resulting in a corresponding increase in the Fund's indirect interest in Canexus LP.

Business Risks

The Fund is entirely dependent on distributions from Canexus LP to make its own distributions. Any decrease in the cash generated by Canexus LP or any requirements for Canexus LP to retain cash for capital or other expenditures will reduce the 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 Risk Analysis" discussion relating to Canexus LP. Additional risk factors relating to the Fund and Canexus LP's operations are contained in the Fund's Annual Information Form for the year ended December 31, 2007, which has been 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 guarantees to and subordinated their rights to receive payments from Canexus LP in respect of Canexus LP's credit facilities and senior secured notes.

Selected Annual Financial Information

	Year Ended December 31	Year Ended December 31	Period Ended December 31
CAD thousands, except per unit amounts	2007	2006	2005 ⁽¹⁾
Equity Income from Investment in Canexus LP	21,047	18,190	11,518
Net Income	5,533	16,122	11,025
Earnings (\$/Unit)	0.17	0.51	0.35
Diluted Earnings (\$/Unit)	0.17	0.51	0.35
Cash Distributions Declared	26,908	27,775	10,325
Cash Distributions Declared (\$/Unit)	0.8475	0.8748	0.3252
	2007	2006	2005
Total Assets	304,183	311,450	321,007
Total Long-Term Liabilities	12,654	-	-

Note:

⁽¹⁾ For the period August 18, 2005 to December 31, 2005.

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 ("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 Brazil, largely for the pulp and paper and water treatment industries. The head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

As at March 31, 2008 the Fund held an indirect 38.4 percent interest (through its wholly owned subsidiary Canexus Commercial Trust) and Nexen Inc. held a 61.6 percent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP. 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 Inc. having the ability to appoint the majority of the board positions.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust and Nexen Inc. 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 partnership, to enter into any agreement and to incur any obligation related to the affairs of the partnership and is entitled to full reimbursement of all costs and expenses incurred on behalf of the partnership. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of the partnership, these costs and obligations have been reflected in the financial statements and notes thereto of Canexus LP.

Executive Summary

Canexus LP's first quarter 2008 financial and operating performance was strong generating distributable cash of \$20.9 million, up 16 percent from the same quarter the prior year despite the negative impact of a 16 percent increase in the average Canadian to US dollar foreign exchange rate for the first quarter of 2008, as compared to the first quarter of 2007. Strong sodium chlorate demand from US customers and the relatively stable Canadian to US dollar foreign exchange rate for the first quarter of 2008 contributed to an increase in North America sodium chlorate revenues of 9 percent from the fourth quarter of 2007 and 4 percent from the first quarter of 2007. Performance of our chlor-alkali business met expectations. Caustic soda price increases implemented April 1 and an expected rebound in chlorine demand for water treating, are anticipated to provide revenue growth in the second quarter.

Successful start-up of our Brandon plant expansion occurred on February 17, 2008. To date, operating performance of the expansion has exceeded our expectations. With a final expected cost of \$53.0 million, this expansion project is expected to boost plant capacity by approximately 12 percent and add approximately \$10 million in operating cash flow annually. The Brandon plant is the lowest-cost sodium chlorate plant in North America and the largest in the world. With the expansion complete, Brandon now provides debottlenecking opportunities that could add up to an additional 40,000 tonnes of capacity over the next 2 to 5 years.

Following the announcement of the approval by the Board of Directors of the TCP at our North Vancouver chlor-alkali facility on January 31, 2008, we began work on increasing necessary project resources and began negotiating agreements for detailed engineering and procurement and construction management services. This project is estimated to cost \$208 million and to be completed in the first quarter of 2010. Benefits of the project are expected to include incremental annual cash flow of \$35 to \$43 million as a result of decreased production costs and an increase in plant capacity. We accrued estimated future severance costs payable following start-up of the TCP in 2010 of \$7.3 million in the quarter. 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.

On May 1, 2008, amendments to the credit facility were made to increase the facility from \$350 million to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million Canadian. The amended credit facility matures August 18, 2011. All other terms and conditions of the amended credit facility remain substantially the same as those of the credit facility in place as at March 31, 2008. Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP.

Operating and financial performance of our Brazil operations remained strong during the first quarter of 2008. Our primary customer's demand remained strong throughout the quarter resulting in an increase in revenues of 4 percent from the fourth quarter of 2007 and 7 percent from the first quarter of 2007. Gross margin percentages decreased, as compared to both the fourth quarter of 2007 and the first quarter of 2008, as a result of an increase in caustic soda purchased on the open market for resale to our primary customer, which provide no margin.

A 2,000 tonne incremental sodium chlorate expansion project is currently in progress at our Brazil plant and is scheduled for start-up in January 2009. Options for further, more significant expansions are being evaluated to enable Canexus LP to secure additional supply positions in the growing sodium chlorate market. Management believes Canexus LP is well positioned to take advantage of growth opportunities associated with the pulp and chemical industries in South America.

Highlights

- Strong operating and financial performance for the quarter with distributable cash of \$20.9 million, up 16 percent from the first quarter of 2007. Strong North American demand for sodium chlorate and sodium chlorate price increases implemented throughout 2007 and in January 2008, combined with the relatively stable Canadian to US dollar exchange rate in the first quarter of 2008, contributed to this strong performance. Strong caustic soda markets helped offset the seasonally weaker chlorine markets in the North America chlor-alkali business. Caustic soda price increases have been announced for the second quarter of 2008.
- Our Brandon plant expansion successfully started on February 17, 2008. To date, operating performance of the expansion has exceeded our expectations. This expansion, after taking advantage of debottlenecking opportunities, may be capable of adding up to an additional 40,000 tonnes of capacity over the next 2 to 5 years.
- Canexus LP acquired and is now serving customer contracts from Olin Corporation following the announced closure of their Dalhousie, New Brunswick sodium chlorate plant.
- Continued progress on the TCP approved by the Board of Directors on January 31, 2008, with efforts focused on increasing the necessary project resources and negotiating detailed engineering and procurement and construction management agreements. This project is expected to contribute an estimated \$35 to \$43 million in incremental annual operating cash flow upon completion in the first quarter of 2010. We accrued \$7.3 million of estimated future severance costs payable in 2010 following start-up of the TCP. 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.
- A 2,000 tonne incremental sodium chlorate expansion project is currently in progress at our Brazil plant and is scheduled for start-up in January 2009.
- Distributions to Ordinary LP Unitholders and the Exchangeable LP Unitholder, Nexen Inc. for the three month period ended March 31, 2008 were \$0.1368 per Unit for total distributions of \$11.3 million.
- In March 2008, we entered into interest rate swap agreements under which we swap 3 month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million, for the period April 11, 2008 through April 10, 2013.
- On April 1, 2008, Canexus LP secured additional Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from June 1, 2008 to August 31, 2008.
- On May 1, 2008, amendments to the existing credit facility were made to increase the facility from \$350 million to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million Canadian. The amended credit facility matures August 18, 2011. Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013 and closed a US \$20 million senior secured revolving credit facility which bears interest at a rate based on either the US base rate or the US LIBOR rate, at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP.

Summary of Quarterly Results

CAD thousands, except as noted	Three Months Ended			
	March 31 2008	December 31 2007	September 30 2007	June 30 2007
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	113	114	108	101
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	47	44	53	43
Sales Revenues	108,728	103,331	104,990	99,207
Cost of Goods Sold	77,500	76,469	68,872	75,064
Gross Margin ⁽¹⁾	31,228	26,862	36,118	24,143
Gross Margin (%) ⁽¹⁾	29%	26%	34%	24%
Net Income (Loss)	(3,347)	4,210	21,361	17,466
Plus: Provision for Income Taxes	327	2,240	2,623	1,379
Plus: Amortization	9,942	11,566	11,034	10,897
Plus: Interest Expense	2,442	2,374	3,091	2,878
EBITDA ⁽¹⁾	9,364	20,390	38,109	32,620
Capital Expenditures				
Maintenance	1,436	3,744	2,518	4,195
Continuous Improvement	640	584	218	569
Expansion	11,704	17,970	10,874	9,546
Total Capital Expenditures	13,780	22,298	13,610	14,310
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$1.00	US \$1.01	US \$0.95	US \$0.88

CAD thousands, except as noted	Three Months Ended			
	March 31 2007	December 31 2006	September 30 2006	June 30 2006
Sodium Chlorate Sales Volume (000s Metric Tonnes (MT))	110	115	111	105
Chlor-alkali Sales Volume (000s Metric Electro-Chemical Units (MECU))	48	44	51	52
Sales Revenues	106,079	100,862	100,805	97,055
Cost of Goods Sold	75,320	73,013	70,413	67,230
Gross Margin ⁽¹⁾	30,759	27,849	30,392	29,825
Gross Margin (%) ⁽¹⁾	29%	28%	30%	31%
Net Income	11,510	3,794	11,043	21,784
Plus: Provision for Income Taxes	642	(1,335)	592	873
Plus: Amortization	10,873	10,319	10,001	9,942
Plus: Interest Expense	3,034	2,827	2,807	2,634
EBITDA ⁽¹⁾	26,059	15,605	24,443	35,233
Capital Expenditures				
Maintenance	2,274	3,814	2,908	3,382
Continuous Improvement	108	842	98	302
Infrastructure and IT	395	874	-	2,534
Expansion	8,332	6,414	2,083	94
Total Capital Expenditures	11,109	11,944	5,089	6,312
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.86	US \$0.88	US \$0.89	US \$0.88

Note:

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

Results of Operations

Changes in Net Income Three Months Ended March 31, 2008 versus Three Months Ended March 31, 2007

CAD thousands	
Net Income for Three Months Ended March 31, 2007	11,510
Items Increasing (Decreasing) Net Income	
Sales Revenues	2,649
Cost of Goods Sold	(2,180)
Amortization	931
General and Administrative Expenses	75
Interest Expense	592
Change in Fair Value and Realized Gains on Foreign Exchange Options	(123)
Change in Fair Value of Interest Rate Swaps	166
Change in Fair Value of Electricity Forward Swaps	277
Changes in Currency Translation Gains (Losses)	(10,106)
Income Taxes	315
Accrual for Future TCP Severance Costs	(7,310)
Other	(143)
Net Income for Three Months Ended March 31, 2008	(3,347)

Net income for the three months ended March 31, 2008 decreased by \$14.9 million or 129 percent over the three months ended March 31, 2007. Net income for the three months ended March 31, 2008 is lower than net income for the three months ended March 31, 2007 primarily due to non-cash charges to net income for unrealized foreign exchange losses on our US dollar long-term debt (\$8.3 million) and for the accrual of future TCP severance costs (\$7.3 million). EBITDA for the three months ended March 31, 2008 decreased by \$16.7 million or 64 percent over the three months ended March 31, 2007.

An increase in gross margin of \$0.5 million increased net income

Three Months Ended March 31, 2008	North America			Total
	Sodium Chlorate	Chlor-alkali	Brazil	
Sales Revenues	52,247	32,258	24,223	108,728
Cost of Goods Sold	36,515	22,651	18,334	77,500
Gross Margin ⁽¹⁾	15,732	9,607	5,889	31,228
Gross Margin (%) ⁽¹⁾	30%	30%	24%	29%

Three Months Ended March 31, 2007	North America			Total
	Sodium Chlorate	Chlor-alkali	Brazil	
Sales Revenues	50,104	33,378	22,597	106,079
Cost of Goods Sold	35,590	24,030	15,700	75,320
Gross Margin ⁽¹⁾	14,514	9,348	6,897	30,759
Gross Margin (%) ⁽¹⁾	29%	28%	31%	29%

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 4 percent from \$50.1 million for the three months ended March 31, 2007 to \$52.3 million for the three months ended March 31, 2008 due to a 5 percent increase in sales volumes offset by slightly lower realized selling prices. Price increases implemented throughout 2007 and in January 2008 almost entirely offset the 16 percent appreciation in the average Canadian to US dollar foreign exchange rate in the first quarter of 2008, as compared to the first quarter of 2007. The increase in sales volumes was due to strong demand from US customers. Gross margins increased from 29 percent for the three months ended March 31, 2007 to 30 percent for the same period in 2008 primarily due to overall lower per unit production costs, as a result of increased production volumes between quarters and increased production at our low-cost Brandon, Manitoba facility following start-up on February 17, 2008 of our expansion project, offset by higher electricity costs incurred by our Bruderheim, Alberta plant.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment decreased 3 percent from \$33.4 million for the three months ended March 31, 2007 to \$32.3 million for the three months ended March 31, 2008 due to a 2 percent decline in realized selling prices and a 1 percent decrease in sales volumes. The decline in sales volumes was primarily due to weaker chlorine sales (See Chlor-alkali Outlook on page 17). Lower realized selling prices for chlorine were caused both by

weaker demand and the significantly stronger Canadian dollar. Gross margins for the North American chlor-alkali business increased from 28 percent for the three months ended March 31, 2007 to 30 percent for the same period in 2008 primarily due to lower electricity and period costs and higher production volumes.

Brazil

Sales revenue in Brazil increased 7 percent from \$22.6 million for the three months ended March 31, 2007 to \$24.2 million for the three months ended March 31, 2008. A significant increase in caustic soda sales volume and 4 percent higher chlor-alkali realized selling prices were partially offset by a 10 percent decline in sodium chlorate realized selling prices. Lower electricity costs contributed to the decline in sodium chlorate selling prices due to the pass-through nature of the contract with our primary customer, which contributes to lower sales revenues as costs decrease. The decline in gross margin percentages from 31 percent for the three months ended March 31, 2007 to 24 percent for the same period in 2008 is the result of significant purchases of caustic soda on the open market to supply our primary customer's increased demand which generate no margin as well as, the impact on our fixed US dollar margins of the significant strengthening of the Canadian dollar in the first quarter of 2008 from the first quarter of 2007.

Lower amortization expense increased net income by \$0.9 million

Amortization expense decreased for the three months ended March 31, 2008 as compared to the same period the prior year, primarily due to lower amortization for our Beauharnois sodium chlorate production facility which is almost fully amortized.

Lower interest expense increased net income by \$0.6 million

The decrease in interest expense for the three months ended March 31, 2008 was primarily due to the impact of the stronger Canadian dollar on US dollar interest expense and lower interest rates, offset by higher debt levels. Outstanding long-term debt at March 31, 2008 was US \$213,000,000 as compared to US \$164,000,000 at March 31, 2007. The Canadian to US dollar foreign exchange rate averaged US \$1.00 for the three months ended March 31, 2008 versus US \$0.86 for the same period the prior year. The weighted average interest rate on borrowings for the three months ended March 31, 2008 was 4.74 percent as compared to 6.18 percent for the same period the prior year. Interest capitalized on major projects during the three months ended March 31, 2008 was \$414,789 (March 31, 2007 - \$40,310).

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

During the three months ended March 31, 2008, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from March 1, 2008 to May 31, 2008 and Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to February 27, 2008. Realized gains of \$0.6 million and mark-to-market losses in fair value of \$0.9 million were recorded on these options for a net loss of \$0.3 million.

During the three months ended March 31, 2007, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.87 beginning January 17, 2007 and expiring July 11, 2007. Realized gains of \$0.1 million and mark-to-market losses in fair value of \$0.3 million were recorded on these options for a net loss of \$0.2 million.

Changes in fair value of interest rate swaps increased net income by \$0.2 million

In March 2008, we entered into interest rate swap agreements under which we swap 3 month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million, for the period April 11, 2008 through April 10, 2013. At March 31, 2008 we recorded mark-to-market gains in fair value of \$0.2 million on these swaps.

Changes in fair value of electricity forward swaps increased net income by \$0.3 million

From time to time, Canexus LP uses forward swap contracts to manage our exposure to the price of electricity in Alberta. We did not have any forward contracts outstanding during the three months ended March 31, 2008. At March 31, 2007, we had forward swap contracts under which we paid a fixed weighted average price of \$66.12 per MWh and received a floating price on 198,000 MWh for the period April 1, 2007 to December 31, 2007. We recorded mark-to-market losses in fair value of \$0.3 million on these swaps for the three months ended March 31, 2007.

Changes in currency translation gains (losses) decreased net income by \$10.1 million

During the three months ended March 31, 2008, fluctuations in exchange rates resulted in unrealized losses of \$8.0 million and realized gains of \$1.0 million for a net loss of \$7.0 million versus unrealized gains of \$2.9 million and realized gains of \$0.2 million for a total gain of \$3.1 million for the three months ended March 31, 2007. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the three months ended March 31, 2008 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$8.3 million as compared to an unrealized currency translation gain of \$2.1 million for the three months ended March 31, 2007.

Lower income taxes increased net income by \$0.3 million

Income taxes decreased for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007, due to lower earnings in subsidiary companies.

Accrual for estimated future TCP severance costs payable decreased net income by \$7.3 million

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

Capital Expenditures

Capital expenditures for the three months ended March 31, 2008 were \$13.8 million as compared to \$11.1 million for the three months ended March 31, 2007. This increase was primarily due to an increase in expansion capital expenditures of \$3.4 million. Higher expenditures related to the TCP at our North Vancouver plant (increase of \$7.3 million) were offset by lower expenditures related to the expansion of our Brandon, Manitoba sodium chlorate plant (decrease of \$3.9 million).

The start-up of our Brandon plant expansion occurred on February 17, 2008. Of the final expected cost of \$53.0 million, excluding capitalized interest: \$48.9 million had been spent as at March 31, 2008.

On January 31, 2008, the Board of Directors of Canexus Limited announced their approval of the TCP for our North Vancouver chlor-alkali facility. This project is anticipated to cost a total of \$208 million, of which \$16.9 million, including capitalized interest of \$0.5 million, had been spent as at March 31, 2008. The project is anticipated to be completed in the first quarter of 2010. The TCP will replace existing 50-year old diaphragm technology and assets with proven membrane technology that is more cost-efficient and environmentally friendly. Project benefits are expected to include incremental annual operating cash flow of between \$35 and \$43 million as a result of decreased production costs and increased plant capacity. The TCP is not expected to have a significant impact on our ongoing chlor-alkali operations until the first quarter of 2010, at which point we anticipate a 4 week shutdown period to complete tie-in's and commission the new membrane technology.

Changes in Net Income Three Months Ended March 31, 2008 versus Three Months Ended December 31, 2007

CAD thousands	
Net Income for Three Months Ended December 31, 2007	4,210
Items Increasing (Decreasing) Net Income	
Sales Revenues	5,397
Cost of Goods Sold	(1,031)
Amortization	1,624
General and Administrative Expenses	36
Interest Expense	(68)
Change in Fair Value and Realized Gains on Foreign Exchange Options	(682)
Change in Fair Value of Interest Rate Swaps	166
Change in Fair Value of Electricity Forward Swaps	800
Changes in Currency Translation Gains (Losses)	(8,990)
Income Taxes	1,913
Accrual for Future TCP Severance Costs	(7,310)
Other	588
Net Income for Three Months Ended March 31, 2008	(3,347)

Net income for the three months ended March 31, 2008 decreased from the three months ended December 31, 2007 by \$7.6 million or 180 percent. This decrease was the result of an increase in unrealized foreign exchange losses on our US dollar long-term debt and an accrual for future severance costs associated with the TCP, partially offset by higher gross margins and lower income taxes. EBITDA for the three month period ended March 31, 2008 decreased from the three month period ended December 31, 2007 by \$11.0 million or 54 percent.

Net income increased due to an increase in gross margin of \$4.4 million

Three Months Ended March 31, 2008	North America		Brazil	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	52,247	32,258	24,223	108,728
Cost of Goods Sold	36,515	22,651	18,334	77,500
Gross Margin ⁽¹⁾	15,732	9,607	5,889	31,228
Gross Margin (%) ⁽¹⁾	30%	30%	24%	29%

Three Months Ended December 31, 2007	North America		Brazil	Total
	Sodium Chlorate	Chlor-alkali		
Sales Revenues	47,800	32,200	23,331	103,331
Cost of Goods Sold	35,934	22,756	17,779	76,469
Gross Margin ⁽¹⁾	11,866	9,444	5,552	26,862
Gross Margin (%) ⁽¹⁾	25%	29%	24%	26%

Note:

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

North American Sodium Chlorate

Sales revenue for the North American sodium chlorate segment increased 9 percent from \$47.8 million for the three months ended December 31, 2007 to \$52.3 million for the three months ended March 31, 2008 due to an increase in realized selling prices of 9 percent. Gross margins increased from 25 percent to 30 percent primarily as a result of higher realized selling prices, increased production at our low-cost Brandon, Manitoba facility following start-up on February 17, 2008 of our expansion project and lower period costs, partially offset by higher electricity costs in Alberta and higher production at our Bruderheim, Alberta plant.

North American Chlor-alkali

Sales revenue for the North American chlor-alkali segment increased slightly from \$32.2 million for the three months ended December 31, 2007 to \$32.3 million for the three months ended March 31, 2008. Sales volumes were up slightly for the three months ended March 31, 2008 and realized selling prices were consistent for each of the three months ended March 31, 2008 and December 31, 2007. Gross margin percentages increased from 29 percent for the three months ended December 31, 2007 to 30 percent for the three months ended March 31, 2008 due to lower electricity costs, partially offset by higher natural gas costs.

Brazil

Sales revenue in Brazil increased 4 percent from \$23.3 million for the three months ended December 31, 2007 to \$24.2 million for the three months ended March 31, 2008 primarily as a result of higher realized selling prices for chlor-alkali products of 12 percent, offset by lower sales volumes of both sodium chlorate (8 percent) and chlor-alkali products (3 percent) and 2 percent lower realized selling prices for sodium chlorate. The increase in realized selling prices for chlor-alkali products is due to the pass-through nature of the contract with our primary customer, which contributes to higher sales revenues as costs increase. Higher costs were incurred for the purchase of caustic soda on the open market to supply our primary customer's demand. Gross margin percentages remained consistent at 24 percent for each of the three months ended March 31, 2008 and December 31, 2007.

Lower amortization expense increased net income by \$1.6 million

Amortization expense decreased for the three months ended March 31, 2008 as compared to the three months ended December 31, 2007, primarily due to lower amortization for our Beauharnois sodium chlorate production facility which is almost fully amortized.

Higher interest expense decreased net income by \$0.1 million

Interest expense was higher for the three months ended March 31, 2008 as compared to the three months ended December 31, 2007, due to higher borrowings and less interest expense being capitalized to major projects, offset by lower interest rates. Outstanding long-term debt at March 31, 2008 was US \$213,000,000 as compared to US \$204,000,000 at December 31, 2007. The weighted average interest rate on borrowings for the three months ended March 31, 2008 was 4.74 percent as compared to 6.19 percent for the three months ended December 31, 2007. Interest capitalized on major projects during the three months ended March 31, 2008 was \$414,789 and for the three months ended December 31, 2007 was \$834,732.

Changes in foreign exchange options decreased net income by \$0.7 million

During the three months ended March 31, 2008, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from March 1, 2008 to May 31, 2008 and Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9497 for the period September 5, 2007 to

February 27, 2008. Realized gains of \$0.6 million and mark-to-market losses in fair value of \$0.9 million were recorded on these options for a net loss of \$0.3 million.

During the three months ended December 31, 2007, Canexus LP had Canadian dollar foreign exchange options that entitled Canexus LP to sell US \$5.0 million per month and acquire Canadian dollars at a price of US \$0.9497 per Canadian dollar beginning September 5, 2007 and expiring on February 27, 2008. Realized gains of \$1.1 million were offset by mark-to-market fair value losses of \$0.7 million for a net gain of \$0.4 million.

Changes in fair value of interest rate swaps increased net income by \$0.2 million

In March 2008, we entered into interest rate swap agreements under which we swap 3 month US LIBOR floating rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million, for the period April 11, 2008 through April 10, 2013. At March 31, 2008 we recorded mark-to-market gains in fair value of \$0.2 million on these swaps.

Changes in fair value of electricity forward swaps increased net income by \$0.8million

From time to time, Canexus uses forward swap contracts to manage our exposure to the price of electricity in Alberta. We did not have any forward contracts outstanding during the three months ended March 31, 2008. During the three months ended December 31, 2007, we had forward swap contracts under which we paid a fixed weighted average price of \$66.12 per MWh and received a floating price on 66,270 MWh for the period October 1 to December 31, 2007. We recorded mark-to-market losses in fair value of \$0.8 million for the three months ended December 31, 2007.

Changes in currency translation gains (losses) decreased net income by \$9.0 million

During the three months ended March 31, 2008, fluctuations in exchange rates resulted in unrealized losses of \$8.0 million and realized gains of \$1.0 million for a net loss of \$7.0 million versus unrealized gains of \$4.5 million and realized losses of \$2.5 million for a net gain of \$2.0 million for the three months ended December 31, 2007. Currency translation gains (losses) result from the translation of our US dollar denominated debt and the translation of our US and Brazilian Real denominated monetary balances into their functional currencies. During the three months ended March 31, 2008 we recorded an unrealized currency translation loss on our US dollar denominated debt of \$8.3 million as compared to an unrealized currency translation gain of \$1.5 million for the three months ended December 31, 2007.

Lower income taxes increased net income by \$1.9 million

Income taxes were lower for the three months ended March 31, 2008 as compared to the three months ended December 31, 2007, due to decreased foreign exchange fluctuations in the Brazilian subsidiary.

Accrual for estimated future TCP severance costs payable decreased net income by \$7.3 million

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

Other income and expense items increased net income by \$0.6 million

During the three month period ended December 31, 2007 we recorded an unrealized loss of \$0.6 million on investments in non-bank sponsored asset backed commercial paper ("ABCP") to reflect an estimated impairment in value.

Selected Annual Financial Information

CAD thousands, except as noted	Years Ended December 31		
	2007	2006	2005
Sales Volumes			
Sodium Chlorate (000s Metric Tonnes (MT))	433	443	447
Chlor-alkali (000s Metric Electro-Chemical Units (MECU))	188	195	195
Sales Revenues			
Sales Revenues	413,607	405,331	397,423
Cost of Goods Sold	295,725	285,716	275,211
Gross Margin ⁽¹⁾	117,882	119,615	122,212
Gross Margin (%) ⁽¹⁾	29%	30%	31%
Net Income			
Net Income	54,547	47,143	54,345
Plus: Provision for Income Taxes	6,884	789	3,006
Plus: Amortization	44,370	40,223	50,739
Plus: Interest Expense	11,377	10,713	3,242
EBITDA ⁽¹⁾	117,178	98,868	111,332
Cash Distributions Declared (\$/Unit)			
Cash Distributions Declared (\$/Unit)	0.8475	0.8748	0.3252
Capital Expenditures			
Maintenance	12,731	12,098	14,161
Continuous Improvement	1,479	1,242	-
Infrastructure and IT	395	5,215	-
Expansion	46,722	8,799	218
Total Capital Expenditures	61,327	27,354	14,379
Average Foreign Exchange Rate (CAD \$ to US \$)			
Average Foreign Exchange Rate (CAD \$ to US \$)	US \$0.92	US \$0.88	US \$0.82

	At December 31		
	2007	2006	2005
Total Assets	488,199	486,384	485,127
Total Long-Term Liabilities	256,084	221,584	216,451

Note:

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

The operations of Canexus LP currently includes sodium chlorate production facilities at Beauharnois, Quebec, Brandon, Manitoba, Bruderheim, Alberta, and Nanaimo, British Columbia; a chlor-alkali production facility at North Vancouver, British Columbia; and a sodium chlorate and chlor-alkali production facility in Brazil. The chemicals business acquired by Canexus LP from Nexen on August 18, 2005 (the "Chemicals Business") does not include the Amherstburg, Ontario facility, which was retained by Nexen and shut down on July 31, 2005. However, the historical financial information in this MD&A includes the results of the Amherstburg facility prior to August 18, 2005.

Price increases implemented during 2007 contributed to higher revenues on lower sales volumes despite the significant strengthening of the Canadian dollar throughout 2007.

Gross margin of 29 percent in 2007 declined from prior years primarily due to some temporary downtime experienced during the second quarter of 2007 combined with the significant strengthening of the Canadian dollar. On April 25, 2007, our North American chlor-alkali facility at North Vancouver experienced a disruption in water supply which consequently resulted in damage to one of the plant's three production circuits. Approximately 30 percent of the plant's practical capacity, or 130 MECU's per day, was affected by the damaged circuit. The financial impact of this event on Canexus LP was approximately \$2.8 million resulting from lost sales margins and costs to repair the damage. The plant resumed operating at full capacity on June 8, 2007. This event overlapped with a regularly scheduled maintenance turnaround at this facility in May 2007 with a cost of \$1.4 million (non-capital) and had a negative impact on results from lost sales margins of \$1.7 million.

Outlook

Sodium Chlorate

The sodium chlorate market strengthened during the first quarter of 2008. Demand for sodium chlorate exports from North America has increased significantly in the past 6 months, which is increasing the total demand from North American manufacturing plants. The increase in sodium chlorate export demand is primarily due to high power prices in Chile resulting in it being less expensive to import the product than to produce it locally and to the significant appreciation in the Euro which has resulted in a recalibration of the relative competitiveness of European sodium

chlorate plants. In addition, domestic North American demand continued to be strong throughout the first quarter of 2008 due to a strong pulp market and higher pulp prices. North American pulp mills are operating at high rates consistent with the robust pulp market conditions. Some North American pulp mills have completed projects to increase pulp throughput, further increasing sodium chlorate demand.

Market pulp price increases were announced for both hardwood and softwood pulp during the first quarter of 2008. Global pulp inventories have increased moderately over the last two quarters; inventories entering the second quarter of 2008 are approximately 7 percent higher than at the same time in 2007. The improvement in global pulp inventories may moderate upward pulp price momentum in the coming months, especially in the hardwood sector where operating issues that constrained Indonesian mills in 2007 appear to have abated, and significant new capacity is due on-stream later in 2008 and early 2009.

The sodium chlorate supply and demand balance is expected to remain balanced over the foreseeable future, with the possibility of periodic shortages, particularly during periods when incremental industry production is curtailed due to electricity price spikes or maintenance outages. Canexus LP's Brandon, Manitoba plant expansion successfully came on-stream in the first quarter of 2008 and is currently performing above expectations. In contrast to the Brandon expansion, Olin Corporation announced in the first quarter of 2008 that their 20,000 metric tonne Dalhousie, New Brunswick sodium chlorate manufacturing facility will cease operations later this year. North American operating rates are projected to increase by approximately 1 percent as a result of the Olin plant closure, and to average approximately 93 percent during 2008.

Healthy sodium chlorate market fundamentals, coupled with the continued strength of the Canadian dollar, enabled price increase announcements effective in the first quarter of 2008. The fourth quarter 2007 surge in the Canadian dollar reinforced sodium chlorate price momentum particularly for US customers, as evidenced by the substantial increases in prices for product delivered to mills in the US during the first quarter of this year. Continued upward movement of North American prices is projected for the balance of 2008, propelled by strong market fundamentals that support additional recovery of margin lost in the US due to the increase in Canadian dollar strength.

Pope & Talbot, Ltd. and Pope & Talbot, Inc. (collectively, "Pope & Talbot"), entered bankruptcy protection proceedings during the fourth quarter of 2007. Production continued at its pulp mills while Pope & Talbot management pursued an asset sale to prospective buyers. The asset sale failed to materialize and the mills ceased production the week of May 4, 2008. The assets are now under receivership and a trustee's control. The extent of downtime or the resumption of operation of the mills is unknown at this time. Product supplied to these mills will be targeted to other consumers in the interim. The overall annual volume impact is expected to be modest given the current strength of demand for these products.

Chlor-alkali

North American chlor-alkali industry operating rates averaged 91 percent during 2007 based on strong demand fundamentals. First quarter 2008 operating rates opened strong, but dropped to 89 percent in February, a capacity utilization trend that is consistent with both 2006 and 2007. Soft North American demand for PVC chlorine derivatives that began in the fourth quarter of 2007, continued through the first quarter of 2008. US chlorine demand in the PVC sector is expected to continue to struggle as a result of slow housing construction following the sub-prime mortgage industry meltdown and a generally weakening economy. However, US chlorine derivative exports are partially off-setting softer domestic demand due to the weak US dollar and favorable manufacturing cost economics versus Asian and European producers due to high oil prices. Chlorine demand is projected to improve in the second quarter of 2008 with the increased seasonal demand for water treating.

The caustic soda market in North America experienced several supply challenges during the first quarter of 2008 opposite strong demand in most sectors. Univar Canada, a chemical distributor and direct competitor of Canexus LP in Western Canada and the US Pacific Northwest, and Olin Corporation both declared force majeure and allocated customers to 70 to 75 percent of contract volume. The force majeure actions were lifted in March, but not before exacerbating the tight supply situation in North America. Entering the second quarter of 2008, most suppliers have enacted some form of order control. The supply issue at West Coast terminals in North America resulted from production problems in Asia and trans-Pacific shipping delays due to poor weather and vessel availability, highlighting the vulnerability of West Coast consumers to the current net-import supply demand balance in the region. Approximately two thirds of the caustic supply in Western Canada and the US West Coast is imported from Asia through terminals on the West Coast. Overall, the US caustic supply will continue to be constrained through the second quarter of 2008, at a minimum, due to Occidental Chemicals' conversion of a plant from caustic soda to caustic potash, and the delayed startup of Shintech's new chlor-alkali manufacturing plant at Plaquemine, LA.

The current chlor-alkali supply and demand fundamentals support modest MECU ("metric electrochemical unit") price improvement. Caustic prices are rising significantly, partially offset by a decline in chlorine prices associated with softer chlorine demand. High energy costs and the tight caustic market are enabling the MECU price improvement which is expected to continue through the third quarter of 2008 before beginning to decline in the fourth quarter of 2008. Modest downward movement in fourth quarter 2008 caustic prices is forecast due to expectations of lower economic growth in North America and increased supply from Asia.

Canexus Quimica Brazil

Canexus LP's Brazil operations continue to deliver strong results, ending the first quarter of 2008 ahead of plan. Canexus Brazil's primary customer, Aracruz Celulose S.A., continues to exceed chlorate, caustic and hydrochloric acid consumption versus plan. The elevated chemical consumption from Aracruz is projected to continue through the end of 2008.

The outlook for the regional bleached pulp market continues to be positive. Several major pulp producers have announced plans to expand existing facilities, and/or construct new production lines during the next several years. The stable Brazilian economy and projected healthy GDP growth rate, and an advantaged fiber position for the Brazilian pulp industry all support future pulp and chemicals growth in the region. A 2,000 tonne incremental sodium chlorate expansion in progress at Canexus' Brazil manufacturing plant is scheduled for startup in January 2009, and options for further, more significant expansions are being evaluated to enable Canexus to secure additional supply positions in the growing sodium chlorate market. Management believes Canexus LP is well positioned to take advantage of growth opportunities associated with the pulp and chemical industries in South America.

Liquidity and Capital Structure

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

The following table presents the excess (shortfall) of cash flows from operating activities and the excess (shortfall) of net income (loss), over cash distributions declared for the three months ended March 31, 2008, as compared to the three months ended March 31, 2007 and for the years ended December 31, 2007 and December 31, 2006 and the period ended December 31, 2005.

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

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

	Three Months Ended		Years Ended		Period Ended
	March 31 2008	March 31 2007	2007	2006	2005 ⁽¹⁾
Cash Flows from Operating Activities	12,568	17,971	81,869	81,302	42,926
Net Income (Loss)	(3,347)	11,510	54,547	47,143	30,206
Cash Distributions Declared	11,283	17,998	70,319	71,992	26,762
Excess (Shortfall) of Cash Flows from Operating Activities over Cash Distributions Declared	1,285	(27)	11,550	9,310	16,164
Excess (Shortfall) of Net Income (Loss) over Cash Distributions Declared	(14,630)	(6,488)	(15,772)	(24,849)	3,444

Note:

⁽¹⁾ For the period August 18, 2005 to December 31, 2005. The Fund acquired its indirect investment in Canexus LP on August 18, 2005.

Distributions declared exceeded the net loss for the three months ended March 31, 2008 due to non-cash expenses including amortization, unrealized foreign exchange losses, mark-to-market adjustments on foreign exchange call option contracts and an accrual for future TCP severance costs payable in 2010 upon start-up of the TCP. Distributions declared exceeded net income for the three months ended March 31, 2007 due to non-cash expenses including amortization, mark-to-market adjustments on foreign exchange call option contracts and electricity forward swap contracts. Distributions declared exceeded net income for the years ended December 31, 2007 and December 31, 2006 due to non-cash expenses including amortization and mark-to-market adjustments on foreign exchange call option contracts and electricity forward swap contracts.

Net Debt and Total Equity

	March 31 2008	December 31 2007
Bank Debt	218,943	201,572
Less: Cash and Cash Equivalents	(5,754)	(10,056)
Less: Non-Cash Working Capital	(39,863)	(28,515)
Total Net Debt ⁽¹⁾	173,326	163,001
Total Equity ⁽²⁾	160,594	169,698

Notes:

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

(2) At March 31, 2008 there were 31,787,161 Ordinary LP Units (held indirectly by the Fund) and 51,064,350 Exchangeable LP Units (held by Nexen Inc.) outstanding. At December 31, 2007, there were 31,750,000 Ordinary LP Units and 50,535,714 Exchangeable LP Units outstanding. The Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) at no extra cost for Units of the Funds at the option of Nexen Inc. at any time.

Liquidity

During the periods presented, Canexus LP consistently generated positive cash flows from operating activities. Cash generated from operating activities was used to fund capital expenditures and remaining excess cash (after distributions), if any, was used to repay short-term borrowings.

The following table provides an overview of Canexus LP's cash flows each period:

	Three Months Ended		Change
	March 31, 2008	March 31, 2007	
Cash Flow from Operating Activities	12,568	17,971	(5,403)
Cash Flow used in Financing Activities	(2,174)	(5,180)	3,006
Cash Flow used in Investing Activities	(14,835)	(14,737)	(98)

Cash Flow from Operating Activities

Cash 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. An increase in non-cash operating working capital resulted in a decrease in cash flow from operating activities. The increase in non-cash operating working capital is due to lower than normal working capital at December 31, 2007 as a result of early payment by Aracruz Celulose, S.A. in Brazil in December 2007.

Cash Flow used in Financing Activities

The change in cash used in financing activities from the prior year three month period is comprised of:

Reduction in Repayments of Short-Term Borrowings, Net	3,448
Proceeds from Long-Term Debt	(8,488)
Credit Facility Underwriting Costs	(1,105)
Funding of Asset Retirement Expenditures from Restricted Investments	(57)
Issuance of Ordinary and Exchangeable LP Units Pursuant to the DRIP	2,466
Distributions Paid to Ordinary and Exchangeable LP Unitholders	6,742
	3,006

Cash Flow used in Investing Activities

The change in cash used in investing activities from the prior year three month period is comprised of:

Increase in Capital Expenditures	(2,671)
Changes in Non-Cash Working Capital	2,573
	(98)

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 volumes and sales prices, electricity costs, foreign currency exchange rates and interest rates and any changes in these will impact future liquidity. 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.

Debt Covenants

As at March 31, 2008, Canexus LP was compliant with all debt covenants contained in its credit facility agreement.

Capital Resources

Canexus LP has commitments of \$42.9 million as at March 31, 2008 and \$40.9 million as at May 13, 2008, in addition to project inception-to-date expenditures at March 31, 2008 of \$16.9 million, including \$0.5 million of capitalized interest, for the TCP at our North Vancouver chlor-alkali facility. This project is being financed through any or all of our amended and restated credit facility, proceeds from the issuance of senior secured notes, draws on our US \$20 million senior secured revolving credit facility and DRIP proceeds. Management anticipates maintenance capital expenditures of \$15.5 million for 2008 and ongoing annual maintenance capital expenditures of approximately \$14 million, which will be financed primarily out of cash flows from operating activities. Additional growth opportunities, including production de-bottlenecking opportunities and acquisitions, may result in additional expansion capital requirements which, if incurred, would be financed from a combination of cash on hand, debt or issuances of Units of the Funds or other securities of the Fund.

At March 31, 2008, Canexus LP had a \$350 million, four year revolving credit facility which matures August 18, 2010 and which can be extended each year, at the option of the lenders, for an additional year to provide for an ongoing four year term. The credit facility is available for draw down during the revolving period and has interest rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio of Canexus LP and which can be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We can draw down the credit facility in either Canadian or US dollars. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. At March 31, 2008 we had \$218,942,700 (US \$213,000,000) outstanding on this credit facility. The credit facility can also be used to fund future acquisitions and capital expenditures. Short-term swing line loans of up to \$20 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. As at March 31, 2008 there were \$12.2 million of swing line loans outstanding.

On May 1, 2008, amendments to the credit facility were made to increase the facility from \$350 million to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million Canadian. The amended credit facility matures August 18, 2011. All other terms and conditions of the amended credit facility remain substantially the same as those of the credit facility in place as at March 31, 2008. Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate, at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP.

Canexus is the applicant on three Letters of Credit as at March 31, 2008 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.4 million) and in favour of the Independent System Operator for power curtailment obligations (\$0.2 million) and a documentary letter of credit in favour of Chlorine Engineers Corporation Ltd. for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million). The CIBC Mellon Letter of Credit expires on January 1, 2009 and is automatically renewed for one year periods unless otherwise advised. The Independent System Operator Letter of Credit expires on December 1, 2008 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires on January 31, 2009.

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. As at March 31, 2008 these obligations and commitments were as follows:

	Total	<1 year	1-3 years	4-5 years	>5 years
Operating Leases ⁽¹⁾	79,561	10,692	26,399	19,589	22,881
Purchase Obligations ⁽²⁾	151,094	17,470	49,843	54,529	29,252
Expansion Capital Expenditures ⁽³⁾	42,926	28,665	14,261	-	-
Asset Retirement Obligations ⁽⁴⁾	73,538	1,550	2,150	2,975	66,863
Long-Term Debt ⁽⁵⁾	218,943	-	218,943	-	-
Total	566,062	58,377	311,596	77,093	118,996

Notes:

- (1) Payments for operating leases are included in 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 Brazil, 90 to 100 percent of the cost of which is passed through to our primary customer.
- (3) Capital expenditures committed at March 31, 2008 related to the TCP at our North Vancouver chlor-alkali facility. The total estimated cost of this project is \$208 million.

- (4) As at March 31, 2008, undiscounted asset retirement obligations are \$74 million. The estimated fair value (\$44.7 million) of these obligations has been provided for in Canexus LP's unaudited consolidated balance sheet. 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 \$13.1 million of restricted investments to be used for future site remediation and asset retirement obligations. Approximately \$4.1 million of restricted investments are invested in non-bank sponsored ("third party") asset backed commercial paper that was due to be received on September 28, 2007 and was not repaid. The third-party asset backed commercial paper market is currently illiquid and is in the process of being restructured. Canexus LP recorded a \$600,000 allowance for estimated impairment in value in the fourth quarter of 2007 (See Note 10 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2008).
- (5) Long-Term Debt amounts are included in Canexus LP's March 31, 2008 unaudited consolidated balance sheet. These balances will fluctuate and do not have fixed repayment terms. Interest is payable on outstanding balances 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. Interest payments have been excluded from the above table as the amount and timing of any interest payments will fluctuate depending on balances outstanding and applicable interest rates.

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

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

Liabilities for unfunded pension and other post retirement benefit obligations have been included in the March 31, 2008 unaudited consolidated balance sheet however, these obligations have not been included in the above table due to the uncertainty related to the amount and timing of any payments.

From time to time Canexus LP enters into contracts, particularly relating to the sale of products in the ordinary course, that 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. There are audits in progress and items under review, some of which may increase Canexus LP's tax liability. While the results of these items cannot be ascertained at this time, 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

We entered into a credit facility with a syndicate of financial institutions in 2005. The credit facility consists of a \$350 million, revolving facility maturing on August 18, 2010, a portion of which was used to acquire the Chemicals Business and can otherwise be used for general purposes, including future acquisitions and capital expenditures. The credit facility is available for draw down during the revolving period. The credit facility bears interest at rates that vary depending on the consolidated debt to EBITDA ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may draw down the credit facility in either Canadian or US dollars. Short-term swing line loans of up to \$20 million Canadian are available under the credit facility provided that the aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests, and subordination agreements.

On May 1, 2008, amendments to the credit facility were made to increase the facility from \$350 million to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million Canadian. The amended credit facility matures August 18, 2011. All other terms and conditions of the amended credit facility remain substantially the same as those of the credit facility in place as at March 31, 2008. Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate, at our option and matures August 18, 2011. Proceeds from these facilities are available for general corporate and partnership purposes, including capital expenditures and acquisitions and the construction and completion of the TCP.

Market Risk Analysis

Canexus LP is exposed to normal market risks inherent in the chemicals business including product price risk, electricity price risk, foreign currency rate risk and interest rate risk. In addition, Canexus LP is exposed to credit risk and liquidity risk. Canexus LP recognizes these risks and manages its operations to minimize its exposures to the extent practical. For additional information regarding risks impacting the chemicals business, refer to the "Risk Factors" section included in Canexus Income Fund's Annual Information Form for the year ended December 31, 2007, which has been filed on the Fund's SEDAR profile at www.sedar.com.

Product Price Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per MT of North American produced sodium chlorate, net income before income taxes for the three months ended March 31, 2008 would have changed by \$4.9 million before the impact of foreign exchange on US sales. For every \$50 change in the price per MECU of chlor-alkali products in North America, net income before income taxes for the three months ended March 31, 2008 would have changed by \$1.8 million before the impact of foreign exchange on US sales. These sensitivities to changes in prices are based on 98,100 MT of North American sodium chlorate sales and 35,300 MECU's of North American chlor-alkali sales for the three months ended March 31, 2008.

Sensitivities of \$50 per MT for sodium chlorate and \$50 per MECU for chlor-alkali products is considered reasonably possible given historical product price changes and market expectations for future movement.

Electricity Price Risk

The cost of electricity is a key production cost. For every 2 percent change in the price of electricity, net income before income taxes for the three months ended March 31, 2008 would have changed by \$0.4 million. This sensitivity to changes in electricity prices is based on electricity consumption of 647,000 million MWh for the three months ended March 31, 2008.

A 2 percent change in the price of electricity is considered reasonably possible given historical price changes and market expectations for future movement.

From time to time Canexus LP has utilized forward swap contracts to manage our exposure to the price of electricity in Alberta which is a deregulated market. At March 31, 2008 and May 13, 2008, we did not have any forward swap contracts outstanding.

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market as well as, the majority of sales margins in Brazil. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. A 5 percent increase in the Canadian to US dollar exchange rate would have decreased net income before income taxes by \$1.7 million for the three months ended March 31, 2008 before the impact of hedging instruments. A 5 percent decrease in the Canadian to US dollar exchange rate would have increased net income before income taxes by \$1.9 million for the three months ended March 31, 2008 before the impact of hedging instruments. A sensitivity of 5 percent was selected as this is considered reasonable given the current level of the Canadian to US dollar exchange rate and market expectations for future movements.

The Canadian to US dollar exchange rate averaged US \$1.00 for the three months ended March 31, 2008 with a high of US \$1.03 and a low of US \$0.96. For the three months ended March 31, 2007 the rate averaged US \$0.86 with a high of US \$0.87 and a low of US \$0.84.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has entered into US dollar denominated debt and incurs other expenditures in US dollars. In addition, Canexus LP has secured Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from March 1, 2008 through May 31, 2008. On April 1, 2008, Canexus LP secured additional Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from June 1, 2008 to August 31, 2008. 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.

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 facility. A change in the 30 day US LIBOR rate of 15 percent would have resulted in a change in net income before income taxes of \$0.4 million for the three months ended March 31, 2008. A sensitivity of 15 percent is considered reasonably possible given current 30 day US LIBOR rates and market expectations for future movement.

In March 2008, we entered into interest rate swap agreements under which we swap 3 month US LIBOR floating interest rates for a fixed rate of interest of 3.2 percent on a notional amount of \$50 million, for the period April 11, 2008 through April 10, 2013. These interest rate swaps are settled quarterly. The fair value of these swap agreements are included in derivative financial instruments with changes in their fair value included in other income (See Note 15 to the unaudited consolidated financial statements of Canexus LP). Fair value has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions.

Credit Risk

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

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

Our North American customers are diverse with no one customer accounting for more than 10 percent of total trade accounts receivable at March 31, 2008.

The majority of our Brazil production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at March 31, 2008 trade amounts owing from Aracruz Celulose S.A. represented 20 percent of total trade accounts receivable (December 31, 2007 – NIL).

On October 29, 2007 Pope & Talbot, Ltd. applied for protection under the *Companies' Creditors Arrangement Act* ("CCAA") and on November 19, 2007, Pope & Talbot, Inc. applied for protection pursuant to *Chapter 11* of the *US Bankruptcy Code* (collectively "Pope & Talbot"). Pope & Talbot has been a long-standing, important customer to Canexus LP and currently takes approximately 70 percent of the production from our Nanaimo sodium chlorate plant. In addition, we supply two other Pope & Talbot mills. PT Pindo Deli Pulp and Paper Mills made an offer to purchase three of Pope & Talbot's pulp mills which was approved by the courts on February 12, 2008. On May 1, 2008 PT Pindo Deli Pulp and Paper Mills provided Pope & Talbot with a written notice of termination of the Asset Purchase Agreement ("APA") on the grounds that Pope & Talbot was not able to cure certain terms and conditions under the APA. On May 10, 2008, PricewaterhouseCoopers were appointed as interim receivers. As at May 13, 2008, subsidiaries of Canexus LP are owed \$1.3 million by Pope & Talbot. Canexus LP has a general allowance for doubtful accounts receivable of \$2.0 million as at March 31, 2008 which management believes is sufficient to absorb any credit loss exposure related to Pope & Talbot.

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 reserve borrowing facilities.

As at March 31, 2008 Canexus LP had financial assets held-for-trading of \$6.0 million, loans and receivables of \$66.5 million, financial assets held-to-maturity of \$13.1 million and financial liabilities of \$286.7 million. All financial assets and financial liabilities have short terms to maturity with the exception of long-term debt (See Note 11 to the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2008).

Transactions with Related Parties

In preparing the consolidated financial statements, all material inter-company accounts and transactions within the operations of Canexus LP have been eliminated.

Due to affiliates at March 31, 2008 and December 31, 2007 relate to amounts owing in the normal course of operations as discussed below.

Canexus Limited employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by Canexus Limited are recovered in full from Canexus Chemicals Canada Limited Partnership (directly and indirectly wholly-owned by Canexus LP). Amounts outstanding to Canexus Limited for these costs as at March 31, 2008 and December 31, 2007 are due to timing.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. In addition, Canexus LP had a separate forward swap contract with a Nexen Inc. affiliate to manage our exposure to the price of electricity in deregulated jurisdictions until

December 31, 2007. Under this forward swap contract, Canexus LP paid a fixed rate and received a floating rate per MWh.

Three Months Ended March 31	2008	2007
Electricity Purchases and Retail Service Fees	4,895	5,080
Natural Gas Purchases and Retail Service Fees	2,623	2,371
Forward Swap Receipts	-	183
Total	7,518	7,634

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

Canexus LP's assets were assessed for impairment at the end of 2007 and no impairment was found based on future cash flow estimates used. There have been no significant changes in circumstances or conditions during the three months ended March 31, 2008.

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

Asset Retirement Obligations

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

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

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

Changes in Accounting Policies

Financial Instruments

Effective January 1, 2008, the Fund and Canexus LP adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 8 of the unaudited consolidated financial statements of the Fund for the three months ended March 31, 2008 and in Note 7 of the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2008.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of

risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

Capital Disclosures

Effective January 1, 2008, the Fund and Canexus LP adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 9 of the unaudited consolidated financial statements of the Fund for the three months ended March 31, 2008 and in Note 14 of the unaudited consolidated financial statements of Canexus LP for the three months ended March 31, 2008.

Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value.

The adoption of these standards resulted in the reclassification of major spare parts and stand-by equipment from inventories and operating supplies to property, plant and equipment of \$1.5 million on January 1, 2008 for Canexus LP.

Financial Statement Presentation

Effective January 1, 2008, the Fund and Canexus LP adopted the revised recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of either the Fund or Canexus LP.

New Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and harmonizes this standard with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect the adoption of this section to have a material impact on either the Fund's or Canexus LP's results of operations or financial position.

Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund is currently developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Fund and Canexus LP.

Forward Looking Statements and Information

This MD&A contains forward-looking statements and information relating to expected future events and financial and operating results of the Fund, Canexus LP and its subsidiaries that involve risks and uncertainties. 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Fund's Annual Information Form for the year ended December 31, 2007, which has been filed on the Fund's SEDAR profile at www.sedar.com. Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, the Fund and Canexus LP disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is recorded, processed, summarized and reported within the time periods specified and that such information is accumulated and communicated to our management, including the President and Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

We maintain adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There were no changes to internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the three months ended March 31, 2008.

Canexus Income Fund

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2008

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME For the Three Months Ended March 31

CAD thousands, except per unit amounts	2008	2007
Revenues		
Equity Income (Loss) from Investment in Canexus Limited Partnership	(1,291)	4,441
Expenses		
Trust Administration Expenses	88	81
Unit Based Compensation (Note 11)	110	637
	198	718
Income (Loss) Before Future Income Taxes	(1,489)	3,723
Provision for Future Income Taxes	411	-
Net Income (Loss)	(1,900)	3,723
Earnings (Loss) Per Unit (Note 6)	(0.06)	0.12
Diluted Earnings (Loss) Per Unit (Note 6)	(0.06)	0.12

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT) For the Three Months Ended March 31

CAD thousands	2008	2007
Beginning of Period	(32,328)	4,797
Net Income (Loss)	(1,900)	3,723
Distributions Paid	(2,896)	(4,629)
Distributions Payable	(1,449)	(2,315)
End of Period	(38,573)	1,576

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED BALANCE SHEETS As at March 31, 2008 and December 31, 2007

CAD thousands	March 31 2008	December 31 2007
ASSETS		
Current Assets		
Due from Affiliates	-	39
Distribution Receivable from Canexus Limited Partnership	1,449	1,448
Prepaid Expenses	21	29
Total Current Assets	1,470	1,516
Investment in Canexus Limited Partnership (Note 7)	297,193	302,667
Total Assets	298,663	304,183
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts Payable and Accrued Liabilities	24	2
Due to Affiliates	19	-
Distribution Payable to Unitholders (Note 10)	1,449	1,448
Total Current Liabilities	1,492	1,450
Future Income Tax Liabilities (Note 12)	13,065	12,654
Total Liabilities	14,557	14,104
Equity		
Unitholder's Equity (31,787,161 Fund Units outstanding) (Note 5)	317,662	317,500
Contributed Surplus (Note 11)	5,017	4,907
Deficit	(38,573)	(32,328)
Total Equity	284,106	290,079
Total Liabilities and Equity	298,663	304,183

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three Months Ended March 31

CAD thousands	2008	2007
Operating Activities		
Net Income (Loss)	(1,900)	3,723
Charges and Credits to Income Not Involving Cash		
Equity (Income) Loss from Investment in Canexus Limited Partnership (Note 7)	1,291	(4,441)
Unit Based Compensation (Note 11)	110	637
Future Income Taxes (Note 12)	411	-
Distributions Received from Canexus Limited Partnership (Note 7)	4,344	4,629
Due to Affiliates, Net	58	64
Change in Non-Cash Operating Working Capital	30	18
	4,344	4,630
Financing Activities		
Distributions Paid	(4,344)	(4,629)
Units Issued Pursuant to the DRIP (Note 5)	162	-
	(4,182)	(4,629)
Investing Activities		
Investment in Canexus Limited Partnership (Note 7)	(162)	-
Increase in Cash	-	1
Cash – Beginning of Period	-	-
Cash – End of Period	-	1

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Income Fund

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS For the Three Months Ended March 31

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

1. Organization and Business of the Fund

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

As at March 31, 2008, the Fund held an indirect 38.4 percent interest (through its wholly owned subsidiary Canexus Commercial Trust) in Canexus LP. Nexen Inc. held a 61.6 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 Inc. having the ability to appoint the majority of the board positions.

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2007. The Fund does not have any comprehensive income and accordingly, has not presented statements of other comprehensive income and accumulated other comprehensive income.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly the Fund's financial position at March 31, 2008 and the results of its operations and cash flows for the three months ended March 31, 2008 and March 31, 2007. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of the Fund for the year ended December 31, 2007, except as described in Note 3.

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

3. Changes in Accounting Policies

(a) Financial Instruments

Effective January 1, 2008, the Fund adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 8.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

(b) Capital Disclosures

Effective January 1, 2008, the Fund adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital

and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 9.

(c) Financial Statement Presentation

Effective January 1, 2008, the Fund adopted the revised recommendations of the CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of the Fund.

4. New Accounting Pronouncements

(a) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and harmonizes this standard with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We currently do not expect the adoption of this section to have any impact on the Fund's results of operations or financial position.

(b) Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund is currently developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Fund.

5. Unitholders' Equity

CAD thousands	March 31, 2008		December 31, 2007	
	Number of Units	Amount	Number of Units	Amount
Units				
Beginning of Period	31,750,000	317,500	31,750,000	317,500
Issued Pursuant to the DRIP	37,161	162	-	-
End of Period	31,787,161	317,662	31,750,000	317,500

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

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

Under the terms of the Exchange, Voting and Registration Rights Agreement dated August 18, 2005, the Exchangeable LP Units held by Nexen Inc. are exchangeable for Units of the Fund on a one-for-one basis. The Fund has reserved 51,064,350 Units as at March 31, 2008 (December 31, 2007 - 50,535,714 Units) for the exchange of the Exchangeable LP Units.

Upon exchange of all or part of the Exchangeable LP Units outstanding, an equivalent number of Ordinary LP Units of Canexus LP will be issued to Canexus Commercial Trust, a wholly owned subsidiary of the Fund, resulting in a corresponding increase in the Fund's indirect interest in Canexus LP.

6. Earnings Per Unit

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Weighted average number of Units outstanding	31,756,125	31,750,000
Units issuable pursuant to deferred trust units ("DTUs") and notional reinvestments (Note 11(b))	100,318	53,474
Units issuable pursuant to options and corresponding bonus rights (Note 11(a))	13,301	61,663
Notional units to be purchased from proceeds from exercise/redemption of options and corresponding bonus rights	(12,703)	(55,121)
Weighted average number of diluted Units outstanding	31,857,041	31,810,016

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

In calculating the weighted average number of diluted Units outstanding for the three months ended March 31, 2008, 87,000 weighted average deferred trust units and 13,318 corresponding weighted average additional DTUs (from notional reinvestments) were included and 13,000 weighted average unit options and 301 corresponding weighted average notional bonus units were included. We excluded 2,216,800 unit options and 394,569 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

In calculating the weighted average number of diluted Units outstanding for the three months ended March 31, 2007, 49,000 weighted average deferred trust units and 4,474 corresponding weighted average additional DTUs (from notional reinvestments) and 53,739 weighted average unit options and 7,924 corresponding weighted average notional bonus units were included. We excluded 1,397,500 unit options and 157,429 corresponding notional bonus units as their option exercise price was greater than the average Unit trading price and associated distributions declared.

7. Investment in Canexus LP

	Three Months Ended March 31, 2008		Year Ended December 31, 2007	
	Number of Ordinary LP Units	Investment	Number of Ordinary LP Units	Investment
Beginning of Period	31,750,000	302,667	31,750,000	309,103
Equity Income (Loss) from Investment in Canexus LP	-	(1,291)	-	21,047
Distributions Reinvested Pursuant to the DRIP	37,161	162	-	-
Distributions Received from Canexus LP	-	(2,896)	-	(26,035)
Distribution Receivable from Canexus LP	-	(1,449)	-	(1,448)
End of Period	31,787,161	297,193	31,750,000	302,667

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

8. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

The Fund has classified its financial instruments as follows:

	March 31 2008	December 31 2007
Financial Assets		
Loans and Receivables, measured at amortized cost		
Due From Affiliates	-	39
Distribution Receivable from Canexus Limited Partnership	1,449	1,448
	1,449	1,487
Financial Liabilities		
Other Financial Liabilities, measured at amortized cost		
Accounts Payable and Accrued Liabilities	24	2
Due to Affiliates	19	-
Distribution Payable to Unitholders	1,449	1,448
	1,492	1,450

The Fund did not have held-for-trading or available-for-sale financial instruments during the three month period ended March 31, 2008.

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

(b) Financial Risk Management

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

9. Capital Risk Management

The Fund manages its capital to ensure that it has the financial capacity and liquidity to meet obligations as they come due and to provide returns to Unitholders. The capital structure of the Fund consists of issued capital (See Note 5). The Fund manages its capital structure and makes adjustments to it in order to maintain flexibility in order to preserve its ability to meet financial obligations, to provide an appropriate investment return to its Unitholders and to maintain a capital structure that allows financing options to the Fund as financing needs arise. Management, upon approval of the Board of Directors, will balance its overall capital structure through new Unit issues, the issuance of debt or by undertaking other activities as deemed appropriate under its circumstances.

10. Distributions

The Fund pays monthly distributions to its Unitholders of record on the last business day of each month approximately 15 days after the end of each month. The Fund declared distributions of \$4.3 million (\$0.1368 per Unit) for the three months ended March 31, 2008 and \$6.9 million (\$0.2187 per Unit) for the three months ended March 31, 2007. Of the total distributions declared for the three month period ended March 31, 2008, \$0.2 million were reinvested by Unitholders in additional Fund Units pursuant to the DRIP (See Note 5). Total distributions of \$69.3 million (\$2.1843 per Unit) have been declared from inception of the Fund to March 31, 2008.

11. Unit Based Compensation

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

(a) Trust Unit Incentive Plan

The Fund has granted options and corresponding bonus rights to officers and employees under the Trust Unit Incentive Plan.

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

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

The number of Units reserved under the Trust Unit Incentive Plan is equal to 5 percent of the issued and outstanding Units (March 31, 2008 - 4,142,576), which is the maximum allowable under the Plan (on a non-diluted basis, including the number of Exchangeable LP Units - see Note 5). Of that number, as at March 31, 2008, 2,229,800 Units are reserved and available for issuance upon the exercise of options and redemption of bonus rights.

As at March 31, 2008, a total of 2,229,800 Unit options and 2,229,800 corresponding bonus rights have been granted with the Unit options having a weighted average exercise price of \$6.97. Accumulated notional bonus Units on these bonus rights were 395,012 as at March 31, 2008. At March 31, 2008 there are 421,362 vested Unit options exercisable into 421,362 Units, as well as 421,362 corresponding bonus rights redeemable into 118,478 notional bonus Units accumulated thereon. As at March 31, 2007, a total of 1,452,000 Unit options and 1,452,000 corresponding bonus rights had been granted, with the Unit options having a weighted average exercise price of \$8.65. Accumulated notional bonus Units on these bonus rights were 161,834 at March 31, 2007. At March 31, 2007 there were 218,110 vested Unit options exercisable into 218,110 Units, as well as 218,110 corresponding bonus rights redeemable into 55,024 notional bonus Units.

The estimated weighted average fair value of Unit options issued is \$0.91 per Unit option (March 31, 2007 - \$1.17) using the Generalized Black-Scholes option pricing model under the following weighted average assumptions:

	March 31, 2008	March 31, 2007
Risk-Free Interest Rate (%)	4.18	4.04
Estimated Hold Period Prior to Exercise (years)	5	5
Expected Volatility in the Price of Units (%)	30.2	29.8
Expected Annual Distributions per Unit (\$/unit)	0.7246	0.8748

(b) DTUCP

As at March 31, 2008, there were 101,759 DTUs outstanding under the DTUCP comprised of 87,000 DTUs granted and 14,759 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs. As at March 31, 2007, there were 54,264 DTUs outstanding under the DTUCP comprised of 49,000 DTUs granted and 5,264 additional DTUs accumulated by notional reinvestments of the monthly cash distributions into DTUs.

An aggregate of 200,000 Units are reserved under the DTUCP.

12. Income Taxes

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

The Fund, a specified investment flow-through entity, will be subject to income tax beginning in 2011. As a result, the Fund has recognized a \$13.1 million future income tax liability as at March 31, 2008 on temporary differences in reported amounts for financial statement and tax purposes in the property, plant and equipment underlying its investment in Canexus LP, which differences are expected to reverse subsequent to 2010.

13. Related Party Transactions

Canexus Limited as administrator of Canexus Income Fund, the General Partner of Canexus LP and indirectly, the Trustee of Canexus Commercial Trust, incurs expenditures on behalf of these entities for which it is reimbursed at cost.

14. Economic Dependence

For the purposes of declaring distributions, the Fund is entirely dependent on cash distributions received from Canexus LP.

Canexus Limited Partnership

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2008

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS) For the Three Months Ended March 31

CAD thousands	2008	2007
Revenues		
Sales	108,728	106,079
Expenses		
Cost of Goods Sold	77,500	75,320
Amortization	9,942	10,873
General and Administrative	7,430	7,505
Interest	2,442	3,034
	97,314	96,732
Income before Other Income (Expense) and Income Taxes	11,414	9,347
Other Income (Expense) (Note 15)	(14,434)	2,805
Income (Loss) before Income Taxes	(3,020)	12,152
Provision for Income Taxes		
Current	375	57
Future	(48)	585
	327	642
Net Income (Loss)	(3,347)	11,510
Other Comprehensive Income (Loss), Net of Tax	3,060	(938)
Comprehensive Income (Loss)	(287)	10,572

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS For the Three Months Ended March 31

CAD thousands	2008	2007
Deficit		
Beginning of Period	(37,177)	(21,405)
Net Income	(3,347)	11,510
Distributions Declared	(11,283)	(17,998)
End of Period	(51,807)	(27,893)
Accumulated Other Comprehensive Loss		
Beginning of Period	(31,790)	-
Adoption of Financial Instruments Accounting Policy	-	(16,862)
Other Comprehensive Income (Loss), Net of Tax	3,060	(938)
End of Period	(28,730)	(17,800)

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED BALANCE SHEETS At March 31, 2008 and December 31, 2007

CAD thousands, except unit amounts	March 31 2008	December 31 2007
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 19(c))	5,754	10,056
Accounts Receivable (Note 5)	66,501	55,167
Inventories and Operating Supplies (Note 6)	35,388	32,245
Derivative Financial Instruments (Note 7)	299	724
Prepaid Expenses (Note 8)	2,892	2,796
Total Current Assets	110,834	100,988
Property, Plant and Equipment, Net (Note 9)	377,669	368,105
Restricted Investments (Note 10)	13,111	13,007
Future Income Tax Assets	6,140	6,099
Other Long-Term Assets	1,066	-
Total Assets	508,820	488,199
LIABILITIES AND EQUITY		
Current Liabilities		
Short-Term Borrowings (Note 11)	12,224	13,588
Accounts Payable and Accrued Liabilities	46,940	43,571
Distribution Payable to Ordinary LP Unitholders	1,449	1,448
Distribution Payable to Nexen Inc., Exchangeable LP Unitholder	2,329	2,305
Accrued Interest Payable	425	615
Due to Affiliates (Note 18)	1,850	890
Total Current Liabilities	65,217	62,417
Long-Term Debt (Note 11)	218,943	201,572
Future Income Tax Liabilities	10,115	9,777
Asset Retirement Obligations (Note 12)	43,113	-
Other Long-Term Liabilities	10,838	2,612
Total Liabilities	348,226	318,501
Equity		
Ordinary LP Units (31,787,161 outstanding) (Note 13)	301,912	301,750
Exchangeable LP Units (51,064,350 outstanding) (Note 13)	(60,781)	(63,085)
	241,131	238,665
Deficit		
Accumulated Other Comprehensive Loss	(51,807)	(37,177)
	(28,730)	(31,790)
Total Deficit and Accumulated Other Comprehensive Loss	(80,537)	(68,967)
Total Equity	160,594	169,698
Total Liabilities and Equity	508,820	488,199

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS For the Three Months Ended March 31

CAD thousands	2008	2007
Operating Activities		
Net Income	(3,347)	11,510
Charges and Credits to Income Not Involving Cash (Note 19(a))	26,819	9,802
Contributions to Defined Benefit Pension Plan	-	(593)
Purchase of Foreign Exchange Options	(357)	-
Due to Affiliates, Net	1,065	(1,411)
Changes in Non-Cash Operating Working Capital (Note 19(b))	(11,612)	(1,337)
	12,568	17,971
Financing Activities		
Repayments of Short-Term Borrowings, Net	(1,364)	(4,812)
Proceeds from Long-Term Debt	9,079	17,567
Credit Facility Underwriting Costs	(1,105)	-
Distributions Paid to Ordinary LP Unitholders	(4,343)	(6,946)
Distributions Paid to Nexen Inc., Exchangeable LP Unitholder	(6,913)	(11,052)
Issuance of Ordinary LP Units Pursuant to the DRIP	162	-
Issuance of Exchangeable LP Units Pursuant to the DRIP	2,304	-
Funding of Asset Retirement Expenditures from Restricted Investments (Note 10)	6	63
	(2,174)	(5,180)
Investing Activities		
Expenditures on Property, Plant and Equipment	(13,780)	(11,109)
Changes in Non-Cash Investing Working Capital (Note 19(b))	(1,055)	(3,628)
	(14,835)	(14,737)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	139	(27)
Decrease in Cash and Cash Equivalents	(4,302)	(1,973)
Cash and Cash Equivalents - Beginning of Period	10,056	3,979
Cash and Cash Equivalents - End of Period	5,754	2,006
Supplemental Cash Flow Information (Note 19(c))		

See accompanying notes to the Unaudited Consolidated Financial Statements

Canexus Limited Partnership

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS For the Three Months Ended March 31

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 Brazil, largely for the pulp and paper and water treatment industries. The head office is located in Calgary, Alberta with a corporate office located in Houston, Texas.

As at March 31, 2008, Canexus Income Fund (the "Fund") indirectly held a 38.4 percent interest and Nexen Inc. held a 61.6 percent controlling interest in Canexus LP. Canexus LP is managed by Canexus Limited, the general partner ("General Partner"), which holds a 0.01 percent interest in Canexus LP. 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 Inc. having the ability to appoint the majority of the board positions.

Pursuant to the Limited Partnership Agreement between Canexus Limited, Canexus Commercial Trust (a wholly owned subsidiary of Canexus Income Fund) and Nexen Inc. 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 partnership, to enter into any agreement and to incur any obligation related to the affairs of the partnership and is entitled to full reimbursement of all costs and expenses incurred on behalf of the partnership. As general and administrative costs incurred by Canexus Limited and pension obligations entered into by Canexus Limited are on behalf of the partnership, these costs and obligations have been reflected in the consolidated financial statements and notes thereto of Canexus LP.

2. Summary of Significant Accounting Policies

These unaudited consolidated financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1751, Interim Financial Statements. Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") have been omitted or condensed. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Canexus LP for the year ended December 31, 2007.

In the opinion of management, the unaudited consolidated financial statements contain all adjustments of a normal and recurring nature necessary to present fairly Canexus LP's financial position at March 31, 2008 and the results of its operations and cash flows for the three months ended March 31, 2008 and March 31, 2007. The unaudited consolidated financial statements were prepared using the same accounting policies as described in Note 2 of the audited consolidated financial statements of Canexus LP for the year ended December 31, 2007, except as described in Note 3.

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

3. Changes in Accounting Policies

(a) Financial Instruments

Effective January 1, 2008, Canexus LP adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation, which replace Section 3861, Financial Instruments – Disclosure and Presentation. The new disclosures are included in Note 7.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

(b) Capital Disclosures

Effective January 1, 2008, Canexus LP adopted the new recommendations of CICA Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's capital and objectives, policies and processes for managing capital. The new disclosures are included in Note 14.

(c) Inventories

Effective January 1, 2008, Canexus LP adopted the recommendations of CICA Handbook Section 3031, Inventories, which replaces Section 3030. The new section is harmonized with International Accounting Standards and provides additional guidance on the measurement and disclosure requirements for inventories. Specifically, Section 3031 requires inventories to be measured at the lower of cost or net realizable value.

The adoption of these standards resulted in the reclassification of major spare parts and stand-by equipment from inventories and operating supplies to property, plant and equipment of \$1.5 million on January 1, 2008.

(d) Financial Statement Presentation

Effective January 1, 2008, Canexus LP adopted the revised recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. Section 1400 was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. Currently, the amended requirements have no impact on the financial statements or disclosures of Canexus LP.

4. New Accounting Pronouncements**(a) Goodwill and Intangible Assets**

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and harmonizes this standard with International Financial Reporting Standard IAS 38, Intangible Assets. The new requirements are effective for fiscal years beginning on or after October 1, 2008. We do not expect the adoption of this section to have a material impact on Canexus LP's results of operations or financial position.

(b) Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board ("ASB") announced that publicly accountable entities ("PAEs") will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Canexus LP is currently developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of Canexus LP.

5. Accounts Receivable

	March 31 2008	December 31 2007
Accounts Receivable – Trade	49,997	37,580
Accounts Receivable – Value Added Taxes and Other	18,501	19,587
Allowance For Doubtful Accounts	(1,997)	(2,000)
	66,501	55,167

The aging of trade receivables as at March 31, 2008 is set out below:

	March 31, 2008		
	North America	Brazil	Total
Current	24,374	12,660	37,034
Past Due 0 – 30 days	9,498	6	9,504
Past Due 31 – 60 days	2,577	-	2,577
Past Due 61 – 90 days	177	-	177
Past 90 days	705	-	705
	37,331	12,666	49,997

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

	Three Months Ended March 31, 2008
Balance, Beginning of Period	2,000
Write Off of Specific Accounts Receivable	(3)
Balance, End of Period	1,997

See note 7(b)(ii) for a description of our management of credit risk. Payment terms to customers have historically not been rigidly enforced. This has resulted in some customer accounts exceeding their due dates. Management expects all amounts past due 90 days or less to be collectible with the possible exception of amounts due from Pope & Talbot, Inc. and Pope & Talbot, Ltd (collectively "Pope & Talbot"). The amount outstanding past 90 days of \$705,000 is due from Pope & Talbot Ltd. who applied for protection under the *Companies' Creditors Arrangement Act* ("CCAA") on October 29, 2007 and Pope & Talbot, Inc. who on November 19, 2007 applied for protection pursuant to *Chapter 11* of the *US Bankruptcy Code*. In total, Canexus LP has net accounts receivable with Pope & Talbot of \$1.3 million (\$1.6 million less a \$0.3 million customer deposit). Canexus LP has a general allowance for doubtful accounts receivable of \$2.0 million which management believes is sufficient to absorb credit risk loss exposure at March 31, 2008, including the credit risk loss exposure of Pope & Talbot.

6. Inventories and Operating Supplies

	March 31 2008 ⁽¹⁾	December 31 2007
Raw Materials and Work-in-Progress	6,308	5,318
Finished Goods	16,550	13,664
Operating Supplies	12,530	13,263
	35,388	32,245

Note:

⁽¹⁾ Major spare parts and stand-by equipment of \$1.5 million were reclassified from inventories and operating supplies to property, plant and equipment on January 1, 2008 (See Note 3(c)).

7. Financial Instruments and Financial Risk Management

(a) Classification of Financial Instruments

Canexus LP has classified its financial instruments as follows:

	March 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Held-For-Trading, measured at fair value				
Cash and Cash Equivalents	5,754	5,754	10,056	10,056
Derivative Financial Instruments				
Fair Value of Foreign Exchange Options	133	133	724	724
Fair Value of Interest Rate Swaps	166	166	-	-
	299	299	724	724
	6,053	6,053	10,780	10,780
Loans and Receivables, measured at amortized cost				
Accounts Receivable	66,501	66,501	55,167	55,167
Held-to-Maturity, measured at amortized cost				
Restricted Investments (Note 10)	13,111	13,111	13,007	13,007
Financial Liabilities				
Other Financial Liabilities, measured at amortized cost				
Short-Term Borrowings	12,224	12,224	13,588	13,588
Accounts Payable and Accrued Liabilities	46,940	46,940	43,571	43,571
Distributions Payable	3,778	3,778	3,753	3,753
Accrued Interest Payable	425	425	615	615
Due to Affiliates	1,850	1,850	890	890
Long-Term Debt	218,943	218,943	201,572	201,572
	284,160	284,160	263,989	263,989

Canexus LP did not have available-for-sale financial instruments during the three month period ended March 31, 2008.

Canexus LP's maximum exposure for all financial instruments is their carrying value which approximates their fair value as at March 31, 2008. Derivative financial instruments are carried at fair value which has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions. The carrying value of accounts receivable approximate their fair value as these financial instruments are near maturity. The carrying value of restricted investments, net of an allowance for impairment, approximates their fair value (See Note 10). The carrying value of short-term borrowings, accounts payable and accrued liabilities, distributions payable, accrued interest payable and due to affiliates approximate

their fair value as these financial instruments are near maturity. The carrying value of long-term debt approximates its fair value as this debt bears interest at floating rates (See Note 11).

(b) Financial Risk Management

(i) Overview

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

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

(ii) Credit Risk

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

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

Credit risk concentrations as at March 31, 2008 for trade accounts receivable were as follows:

Industry Category	North America		Brazil		Total	
	Carrying Value	Percent	Carrying Value	Percent	Carrying Value	Percent
Pulp and Paper	27,877	75	10,380	82	38,257	76
Water Treatment	4,604	12	381	3	4,985	10
Oil and Gas	778	2	-	-	778	2
Other	4,072	11	1,905	15	5,977	12
	37,331	100	12,666	100	49,997	100

Geographical Area	Carrying Value	Percent
Canada	14,966	30
United States	22,365	45
Brazil	12,666	25
	49,997	100

Our North American customers are diverse with no one customer accounting for more than 10 percent of total trade accounts receivable at March 31, 2008.

The majority of our Brazil production is sold to Aracruz Celulose S.A. under a long-term sales agreement. As at March 31, 2008 trade amounts owing from Aracruz Celulose S.A. represented 20 percent of total trade accounts receivable (December 31, 2007 – 0 percent).

(iii) Liquidity Risk

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

As at March 31, 2008, Canexus LP had financial assets held-for-trading of \$6.1 million, loans and receivables of \$66.5 million, financial assets held-to-maturity of \$13.1 million and financial liabilities of \$284.2 million. All financial assets and financial liabilities have short terms to maturity (one to three months) with the exception of long-term debt (See Note 11).

(iv) Market Risks

Foreign Currency Rate Risk

A substantial portion of the revenues of Canexus LP are denominated in or referenced to the US dollar, including the sale of certain chemical products into the US market as well as the majority of sales margins in Brazil. A significant portion of Canexus LP's North American expenses are denominated in Canadian dollars. A 5 percent increase in the Canadian to US dollar exchange rate would have decreased net income before income taxes by \$1.7 million for the three month period ended March 31, 2008 before the impact of hedging instruments. A 5 percent decrease in the Canadian to US dollar exchange rate would have increased net income before income taxes by \$1.9 million for the three month period ended March 31, 2008 before the impact of hedging instruments. A sensitivity of 5 percent was selected as this is considered reasonable given the current level of the Canadian to US dollar exchange rate and market expectations for future movements.

To manage the exposure to the Canadian to US dollar exchange rate, Canexus LP has entered into US dollar denominated debt (See Note 11) and incurs other expenditures in US dollars. In addition, Canexus LP has secured Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from March 1, 2008 through May 31, 2008. On April 1, 2008, Canexus LP secured additional Canadian dollar foreign exchange call option contracts on US \$5.0 million per month which entitle Canexus LP to sell US dollars and acquire Canadian dollars at a price of US \$0.9709 per Canadian dollar from June 1, 2008 to August 31, 2008. 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.

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

Product Price Risk

Product price risk related to sodium chlorate and chlor-alkali products is a significant market risk exposure. For every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate, net income before income taxes for the three month period ended March 31, 2008 would have changed by \$4.9 million before the impact of foreign exchange on US sales. For every \$50 change in the price per metric electro-chemical unit ("MECU") of chlor-alkali products in North America, net income before income taxes for the three month period ended March 31, 2008 would have changed by \$1.8 million before the impact of foreign exchange on US sales. These sensitivities to changes in prices are based on 98,100 MT of North American sodium chlorate sales and 35,300 MECU's of North American chlor-alkali sales for the three month period ended March 31, 2008.

Sensitivities of \$50 per MT for sodium chlorate and \$50 per MECU for chlor-alkali products is considered reasonably possible given historical product price changes and market expectations for future movement.

Electricity Rate Risk Management

The cost of electricity is a key production cost. For every 2 percent change in the price of electricity, net income before income taxes would have changed by \$0.4 million for the three month period ended March 31, 2008. This sensitivity to changes in electricity prices is based on electricity consumption of 647,000 million MWh for the three month period ended March 31, 2008.

A 2 percent change in the price of electricity is considered reasonably possible given historical price changes and market expectations for future movement.

Canexus LP has utilized forward swap contracts from time to time, to manage our exposure to the price of electricity in Alberta, which is a deregulated market. At March 31, 2008 we did not have any forward swap contracts outstanding.

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 facility. A change in the 30 day US LIBOR rate of 15 percent would have changed net income before income taxes by \$0.4 million for the three month period ended March 31, 2008. A sensitivity of 15 percent is considered reasonably possible given current 30 day US LIBOR rates and market expectations for future movement.

In March 2008, we entered into interest rate swap agreements under which we swap 3 month US LIBOR floating interest rates for a fixed rate of interest of 3.2 percent on a notional amount of US \$50 million, for the period April 11, 2008 through April 10, 2013. These interest rate swaps are settled quarterly. The fair value of these swap agreements are included in derivative financial instruments with changes in their fair value included in other income (Note 15).

Fair value has been determined based on the estimated cash payment or receipt necessary to settle the contracts and is provided by the counterparty financial institutions.

8. Prepaid Expenses

	March 31 2008	December 31 2007
Prepaid Insurance	1,188	1,951
Prepaid Freight	495	423
Prepaid Property Tax	203	21
Other	1,006	401
	2,892	2,796

9. Property, Plant and Equipment

March 31, 2008	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	563,041	305,582	257,459
North America Chlor-alkali	164,450	120,917	43,533
Brazil	108,390	37,047	71,343
Other	12,307	6,973	5,334
	848,188	470,519	377,669

December 31, 2007	Cost	Accumulated Amortization	Net Book Value
North America Sodium Chlorate	557,274	300,248	257,026
North America Chlor-alkali	155,416	118,846	36,570
Brazil	103,245	34,152	69,093
Other	11,960	6,544	5,416
	827,895	459,790	368,105

The balances at March 31, 2008 include capitalized costs of \$23.2 million relating primarily to our technology conversion project ("TCP") at our North Vancouver facility (\$16.9 million including capitalized interest of \$0.5 million) as well as other projects under construction or development. The balances at December 31, 2007 included capitalized costs of \$62.4 million relating primarily to our Brandon plant expansion (\$45.9 million including capitalized interest of \$1.2 million) and our North Vancouver TCP (\$8.9 million including capitalized interest of \$0.3 million) as well as other projects under construction or development. These costs are not being amortized.

10. Restricted Investments

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

	March 31 2008	December 31 2007
Balance Beginning of Period	13,007	13,736
Interest Earned	110	525
Funding of Asset Retirement Obligation Expenditures ⁽¹⁾	(6)	(654)
Allowance for Impairment ⁽²⁾	-	(600)
Balance End of Period	13,111	13,007

Notes:

⁽¹⁾ Includes \$63,000 of 2006 expenditures funded in 2007 and \$6,000 of 2007 expenditures funded in 2008.

⁽²⁾ On June 29, 2007, Canexus invested a portion (\$4.1 million) of the restricted investments in non-bank sponsored asset backed commercial paper ("ABCP") with a maturity of September 28, 2007. Canexus has not been repaid the principal and interest on this investment to date due to liquidity issues in the ABCP market. We recorded, in other income (expense), an unrealized loss to reflect an estimated impairment in value of \$0.6 million (14.9 percent of the original investment) to earnings in the fourth quarter of 2007. These assets have been classified as "held-to-maturity" and are included in restricted investments on the balance sheet.

11. Long-Term Debt and Short-Term Borrowings

Canexus LP has a \$350 million, four year revolving credit facility which matures August 18, 2010. The credit facility is available for draw down during the revolving period. The credit facility bears interest at rates that vary depending on the consolidated debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA") ratio of Canexus LP and which may be based on the lender's Canadian prime rate, the US base rate, Canadian bankers' acceptances or the US LIBOR rate, at our option. We may draw down the credit facility in either Canadian or US dollars. short-term swing line loans of up to \$20 million Canadian are available under the credit facility provided that the

aggregate principal outstanding under the credit facility does not exceed \$350 million Canadian. The credit facility is secured by a floating charge debenture over all of our assets and certain guarantees, security interests and subordination agreements. The credit facility also contains covenants with respect to certain financial ratios. At March 31, 2008 we were in compliance with all covenants.

At March 31, 2008 we had \$218,942,700 (US \$213,000,000) outstanding on this credit facility. The weighted average interest rate for the three month period ended March 31, 2008 was 4.74 percent and total interest and standby fees incurred were \$2,638,782. At March 31, 2007 we had \$189,075,600 (US \$164,000,000) outstanding on this credit facility. The weighted average interest rate for the three month period ended March 31, 2007 was 6.18 percent and total interest and standby fees incurred were \$2,910,687.

At March 31, 2008 we had \$12,224,609 of swing line loans outstanding (March 31, 2007 - \$7,047,692). The weighted average interest rate for the three month period ended March 31, 2008 was 5.68 percent and total interest and standby fees incurred were \$168,594. The weighted average interest rate for the three month period ended March 31, 2007 was 6.00 percent and total interest and standby fees incurred were \$110,955.

On May 1, 2008, amendments to the credit facility were made to increase the facility from \$350 million to \$410 million and to increase available short-term swing line loans under the facility from \$20 to \$35 million Canadian. The amended credit facility matures August 18, 2011. All other terms and conditions of the amended credit facility remain substantially the same as those of the credit facility in place as at March 31, 2008.

Also on May 1, 2008, Canexus LP issued US \$50 million of senior secured notes which bear interest at a fixed interest rate of 6.57 percent and mature May 1, 2013. In addition, Canexus LP closed a US \$20 million senior secured revolving credit facility. This credit facility bears interest at a rate based on either the US base rate or the US LIBOR rate at our option and matures August 18, 2011.

Canexus is the applicant on three Letters of Credit as at March 31, 2008 including standby letters of credit in favour of CIBC Mellon for the Canexus Supplemental Pension Plan obligations (\$1.4 million) and in favour of the Independent System Operator for power curtailment obligations (\$0.2 million) and a documentary letter of credit in favour of Chlorine Engineers Corporation Ltd. for obligations related to the engineering and purchase of an electrolyzer system for the TCP (US \$18.4 million). The CIBC Mellon Letter of Credit expires on January 1, 2009 and is automatically renewed for one year periods unless otherwise advised. The Independent System Operator Letter of Credit expires on December 1, 2008 and is automatically renewed for one year periods unless otherwise advised. The Chlorine Engineers Corporation Ltd. Letter of Credit expires on January 31, 2009.

12. Asset Retirement Obligations

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

	March 31 2008	December 31 2007
Beginning of Period	42,123	40,677
Additions	780	-
Expenditures on Asset Retirement Obligations	-	(616)
Accretion Expense	642	2,572
Effect of Foreign Exchange	168	(550)
Change in Obligations Reclassified to Current Liabilities ⁽¹⁾	(600)	40
End of Period	43,113	42,123

Note:

⁽¹⁾ Obligations estimated to be due within 12 months are included in accounts payable and accrued liabilities. At March 31, 2008 \$1,550,000 was included in accounts payable and accrued liabilities (December 31, 2007 - \$950,000).

Our total estimated undiscounted asset retirement obligations at March 31, 2008 amounted to \$74 million (December 31, 2007 - \$73 million). We have discounted the total estimated asset retirement obligations using a weighted average credit-adjusted risk-free rate of 5.4 percent. Approximately \$3.7 million included in our asset retirement obligations are expected to be settled over the next three years.

13. 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 ("GP"), Canexus Limited.

	Three Months Ended March 31, 2008		Year Ended December 31, 2007	
	Number of Units	Amount	Number of Units	Amount
GP Units				
Beginning of Period	1	-	1	-
Issued	-	-	-	-
End of Period	1	-	1	-
Ordinary LP Units				
Beginning of Period	31,750,000	301,750	31,750,000	301,750
Issued Pursuant to the DRIP	37,161	162	-	-
End of Period	31,787,161	301,912	31,750,000	301,750
Exchangeable LP Units				
Beginning of Period ⁽¹⁾	50,535,714	(63,085)	50,535,714	(63,085)
Issued Pursuant to the DRIP	528,636	2,304	-	-
End of Period	51,064,350	(60,781)	50,535,714	(63,085)

Note:

⁽¹⁾ This amount represents the difference between the amount paid to Nexen Inc. for the purchase of the Chemicals Business and the net book value of the Chemicals Business on the purchase date.

The GP Unitholder is entitled to one vote for each unit held at all meetings of holders of partnership units and to an allocation of 0.01 percent of the income or loss of Canexus LP for each fiscal year.

The Ordinary LP Unitholders and the Exchangeable LP Unitholder are entitled to one vote for each LP unit held at all meetings of holders of the LP units and have economic rights that are equivalent in all material respects, except that Exchangeable LP Units are exchangeable, directly or indirectly, on a one-for-one basis (subject to customary anti-dilution protections) for Units of the Fund at the option of the holder at any time. Additionally, Exchangeable LP Units have special voting rights that entitle the holder to receive notice of, attend and to vote at all meetings of Unitholders of the Fund.

Canexus LP declared distributions of \$0.1368 per Unit for the three month period ended March 31, 2008 to Ordinary and Exchangeable LP Unitholders. On March 13, 2008, a distribution of \$0.0456 was declared payable to Ordinary and Exchangeable LP Unitholders of record March 31, 2008 for payment on or about April 15, 2008.

14. Capital Risk Management

Canexus LP manages its capital structure and makes adjustments to it in order to maintain flexibility in order to preserve its ability to meet financial obligations, deploy capital to provide an appropriate investment return to its LP Unitholders and to maintain a capital structure that allows financing options to Canexus LP as financing needs arise. The capital structure of Canexus LP consists of cash and cash equivalents, short-term borrowings, long-term debt and equity comprised of Ordinary and Exchangeable LP Units issued.

	March 31, 2008	December 31, 2007
Cash and Cash Equivalents	5,754	10,056
Short-Term Borrowings	(12,224)	(13,588)
Long-Term Debt	(218,943)	(201,572)
Ordinary LP Units	(301,912)	(301,750)
Exchange LP Units	60,781	63,085
	(466,544)	(443,769)

Management, upon approval of the Board of Directors, will balance its overall capital structure through new LP Unit issues, the issuance of new debt or by undertaking other activities as deemed appropriate to its circumstances. Canexus LP monitors capital using financial metrics equivalent to those defined in the financial covenants of its credit agreements and are as follows:

- Consolidated Senior Debt to EBITDA Ratio not to exceed 3.5 to 1.0
- Consolidated Total Debt to EBITDA Ratio not to exceed 4.0 to 1.0
- Consolidated EBITDA to Interest Expense Ratio not to be less than 3.0 to 1.0

Under the amendments to the credit facility made on May 1, 2008 and under the US \$50 million senior secured notes and the US \$20 million senior secured revolving credit facility (See Note 11) the Consolidated Senior Debt to EBITDA Ratio and the Consolidated Total Debt to EBITDA Ratio are not to exceed 4.5 to 1.0 through to and including December 31, 2010,

at which time they revert back to the level shown above. The Consolidated EBITDA to Interest Expense Ratio is not to be less than 2.5 to 1.0 through to and including December 31, 2010, at which time it reverts back to the levels shown above. Consolidated Senior Debt, Consolidated Total Debt and Consolidated EBITDA are non-GAAP measures and are defined in the credit facility agreement. Consolidated Senior Debt is defined as the aggregate of all long-term debt of the Fund and Canexus LP including Canexus LP's credit facility 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 exchange gains/losses, mark-to-market changes in fair value of derivative financial instruments and other non-cash items. Consolidated Interest Expense is the sum of the Fund's and Canexus LP's interest expense incurred, before the capitalization of any interest, on a rolling twelve month basis.

As at March 31, 2008 and December 31, 2007, Canexus LP was in compliance with all financial covenants.

	Twelve Months Ended	
	March 31, 2008	December 31, 2007
Net Income	39,690	54,547
Interest	10,785	11,377
Income Taxes	6,569	6,884
Amortization	43,439	44,370
Non-cash (Income) Expense Items	(14,000)	(31,638)
Canexus Income Fund Trust Administration Expense	(289)	(283)
Consolidated EBITDA	86,194	85,257
Short-Term Borrowings	12,224	13,588
Long-Term Debt	218,943	201,572
Consolidated Senior Debt	231,167	215,160
Consolidated Senior Debt	231,167	215,160
Subordinated Long-Term Debt	-	-
Consolidated Total Debt	231,167	215,160
Interest	10,785	11,377
Capitalized Interest	1,512	1,479
Consolidated Interest Expense	12,297	12,856
Consolidated Senior Debt to EBITDA Ratio	2.68:1	2.52:1
Consolidated Total Debt to EBITDA Ratio	2.68:1	2.52:1
Consolidated EBITDA to Interest Expense Ratio	7.01:1	6.63:1

15. Other Income (Expense)

Three Months Ended March 31	2008	2007
Currency Translation Gains (Losses)		
Unrealized		
Debt	(8,292)	2,121
Other	301	814
Realized	984	164
	(7,007)	3,099
Gains (Losses) on Held-for-Trading Financial Instruments		
Change in Fair Value of Foreign Exchange Options	(948)	(262)
Realized Gains on Foreign Exchange Options	634	71
Change in Fair Value of Interest Rate Swaps	166	-
Change in Fair Value of Electricity Forward Swaps	-	(277)
Change in Fair Value of Foreign Exchange Forward Swaps	-	7
Interest Income Earned on Cash and Cash Equivalents	27	24
	(121)	(437)
Gains (Losses) on Held-to-Maturity Financial Instruments		
Interest Income on Restricted Investments	110	148
Other		
Accrual for Future TCP Severance Costs	(7,310)	-
Other	(106)	(5)
	(7,416)	(5)
Total Other Income (Expense)	(14,434)	2,805

16. Commitments, Contingencies and Guarantees

Canexus LP assumes various contractual obligations and commitments in the normal course of its business activities. As at March 31, 2008 these obligations and commitments were as follows:

	2008	2009	2010	2011	2012	Thereafter
Operating Leases	10,692	14,067	12,332	10,492	9,097	22,881
Purchase Obligations ⁽¹⁾	17,470	24,362	25,481	26,652	27,877	29,252
Expansion Capital Expenditures ⁽²⁾	28,665	13,544	717	-	-	-
	56,827	51,973	38,530	37,144	36,974	52,133

Notes

⁽¹⁾ Contractual commitment for the purchase of electricity in Brazil, approximately 90 to 100 percent of the cost of which is passed on to our primary customer.

⁽²⁾ Contractual obligations related to the TCP at our North Vancouver chlor-alkali facility. Total anticipated capital expenditures for TCP are \$208 million. As at March 31, 2008, actual capital expenditures were \$16.9 million for the TCP, including capitalized interest of \$0.5 million.

From time to time, Canexus LP enters into multi-year salt supply contracts with certain strategic suppliers. These contracts are entered into in the normal course of business, are discretionary in nature and do not give rise to any material commitments and therefore, have not been included in the table above.

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.

17. Pension and Other Post Retirement Benefits

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

Three Months Ended March 31	2008	2007
Cost of Benefits Earned by Employees	883	853
Interest Cost on Benefits Earned	839	744
Expected Return on Plan Assets	(909)	(823)
Net Amortization and Deferral	5	35
Net Pension Expense	818	809

(b) Employer Funding Contributions

Total funding contributions for 2008 for our defined benefit pension plans are estimated to be between \$2 and \$3 million. An actuarial valuation of our defined benefit pension plans is currently being performed which will determine required funding contributions for 2008.

(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 \$132,323 for the Canadian plan and \$18,751 for the US plan for the three month period ended March 31, 2008 and \$89,034 for the Canadian plan and \$38,476 for the US plan for the three month period ended March 31, 2007.

(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 month period ended March 31, 2008 was \$82,000 (March 31, 2007 - \$81,999). As at March 31, 2008 other long-term liabilities includes a \$1,206,599 (December 31, 2007 - \$1,124,599) post retirement benefit liability.

Post retirement benefits in the US consist of a medical benefits bonus plan approved on October 30, 2007. Prior to October 30, 2007, the post retirement benefits consisted of a medical benefit which was adopted on December 9, 2006. Under the bonus plan, US employees as of December 9, 2006 who attain a minimum of 10 years of completed service are entitled to a benefit of US \$4,000 for every year of completed service. The total amount payable will be paid to employees on the 1st day of the seventh month following the date of retirement and will be grossed up by 40 percent to reimburse retirees for estimated personal taxes. The amounts paid may be used to offset costs of medical expenses or health insurance but are not required to be used for such purposes. The transitional obligation arising on the initial adoption of the plan is being amortized over the remaining average service life of the existing US employee group. The expense recognized for the three months ended March 31, 2008 was \$17,000.

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

Due to affiliates at March 31, 2008 and December 31, 2007 relate to amounts owing in the normal course of operations as discussed below.

Canexus Limited employs all persons necessary to conduct the business of Canexus LP. All payroll and related costs incurred by Canexus Limited are recovered in full from Canexus Chemicals Canada Limited Partnership (directly and indirectly wholly-owned by Canexus LP). Amounts outstanding to Canexus Limited for these costs as at March 31, 2008 and December 31, 2007 are due to timing.

Canexus LP has an agreement with a Nexen Inc. affiliate for the purchase of some of its electricity and natural gas requirements at floating market rates plus a retail service fee. In addition, Canexus LP had a separate forward swap contract with a Nexen Inc. affiliate to manage our exposure to the price of electricity in deregulated jurisdictions until December 31, 2007. Under this forward swap contract, Canexus LP paid a fixed rate and received a floating rate per MWh.

Three Months Ended March 31	2008	2007
Electricity Purchases and Retail Service Fees	4,895	5,080
Natural Gas Purchases and Retail Service Fees	2,623	2,371
Forward Swap Receipts	-	183
Total	7,518	7,634

19. Cash Flows

(a) Charges and Credits to Income Not Involving Cash

Three Months Ended March 31	2008	2007
Amortization	9,942	10,873
Change in Fair Value of Foreign Exchange Options	948	262
Change in Fair Value of Electricity Forward Swaps	-	277
Change in Fair Value of Foreign Exchange Forward Swaps	-	(7)
Change in Fair Value of Interest Rate Swaps	(166)	-
Unrealized Currency Translation (Gains) Losses	7,991	(2,935)
Future Income Taxes	(48)	585
Pension and Post Retirement Benefit Expense	914	911
Accrual for Future TCP Severance Costs	7,310	-
Other	(72)	(164)
	26,819	9,802

(b) Changes in Non-Cash Working Capital

Three Months Ended March 31	2008	2007
Accounts Receivable	(11,334)	355
Inventories and Operating Supplies	(4,646)	1,767
Prepaid Expenses	(453)	610
Accounts Payable and Accrued Liabilities	2,769	(8,516)
Accrued Interest Payable	(190)	36
Effect of Foreign Exchange on Non-Cash Working Capital	1,187	783
Total Change in Non-Cash Working Capital	(12,667)	(4,965)
Relating to:		
Operating Activities	(11,612)	(1,337)
Investing Activities	(1,055)	(3,628)
Total Change in Non-Cash Working Capital	(12,667)	(4,965)

(c) Other Cash Flow Information

Three Months Ended March 31	2008	2007
Interest Paid	2,951	2,998
Income Taxes Paid	621	484
Cash and Cash Equivalents		
Cash	5,580	1,724
Cash Equivalents ⁽¹⁾	174	282
Total	5,754	2,006

Note:

⁽¹⁾ Cash equivalents are comprised of balances in financial institution 30 day investment accounts.

20. Operating Segments

Canexus LP's operations are comprised of North American sodium chlorate production facilities at Beauharnois, Quebec, Brandon, Manitoba, Bruderheim, Alberta, 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 Brazil. In Brazil, most of our sales are made to a single customer, Aracruz Celulose S.A., under a long-term sales agreement.

(a) Operating Segments

Three Months Ended March 31, 2008	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
Revenues					
Sales	52,247	32,258	24,223	-	108,728
Expenses					
Cost of Goods Sold	36,515	22,651	18,334	-	77,500
Amortization	5,840	2,537	1,564	1	9,942
General and Administrative	2,805	2,475	628	1,522	7,430
Interest	-	-	-	2,442	2,442
	45,160	27,663	20,526	3,965	97,314
Income (Loss) before Other Income (Expense) and Income Taxes	7,087	4,595	3,697	(3,965)	11,414
Other Income (Expense)	-	-	-	(14,434)	(14,434)
Income (Loss) before Income Taxes	7,087	4,595	3,697	(18,399)	(3,020)
Expenditures on Property, Plant and Equipment	4,378	8,754	307	341	13,780

Three Months Ended March 31, 2007	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- Alkali			
Revenues					
Sales	50,104	33,378	22,597	-	106,079
Expenses					
Cost of Goods Sold	35,590	24,030	15,700	-	75,320
Amortization	6,888	2,295	1,689	1	10,873
General and Administrative	2,839	2,443	444	1,779	7,505
Interest	-	-	-	3,034	3,034
	45,317	28,768	17,833	4,814	96,732
Income (Loss) before Other Income and Income Taxes	4,787	4,610	4,764	(4,814)	9,347
Other Income	-	-	-	2,805	2,805
Income (Loss) before Income Taxes	4,787	4,610	4,764	(2,009)	12,152
Expenditures on Property, Plant and Equipment					
	8,814	1,124	493	678	11,109

Identifiable Assets	North America		Brazil	Corporate	Total
	Sodium Chlorate	Chlor- alkali			
March 31, 2008	306,537	73,067	110,283	18,933	508,820
December 31, 2007	301,146	65,312	104,655	17,086	488,199

(b) Geographic Segments

Property, Plant and Equipment, Net	March 31	December 31
	2008	2007
Canada	306,142	298,834
United States	184	178
Brazil	71,343	69,093
	377,669	368,105

Sales	Three Months Ended	Three Months Ended
	March 31, 2008	March 31, 2007
Canada	40,504	37,375
United States	44,001	46,107
Brazil	24,223	22,597
	108,728	106,079