noranda
Income Fund

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2011 "IN-KIND" DISTRIBUTION

Description of "In-Kind" Distribution

The Noranda **Income Fund (the "Fund")** has approved the payment of a special distribution of $**0.58 per priority unit of the Fund ("Priority Units")** payable on December 31, 2011 to holders of Priority Unitson such date, to be paid "in-kind" by the distribution of additional Priority Units (the "**In-Kind Distribution**"). The In-Kind Distribution will also be settled on December 31, 2011. As noted below, immediately following the In-Kind Distribution the Priority Units will be automatically consolidated such that there will be no net increase in the number of units held by a unitholder.

On October 31, 2006, the Department of Finance announced amendments to the *Income Tax Act* (Canada) (the "**Tax Act**") to include the specified investment flow-through rules, which effective 2011 subject the Fund to tax on its "non-portfolio earnings" (as defined in the Tax Act) (the "**NPE Earnings**"). The Fund is subject to tax on its NPE Earnings at the same rate as a Canadian corporation provided it distributes a sufficient portion of such earnings to unitholders; otherwise, it would be subject to tax on such earnings at the higher personal income tax rate applicable to individuals. The In-Kind Distribution is to ensure that, as required under the terms of its trust indenture, as amended, the Fund will minimize, to the extent possible, its liability to pay taxes under the Tax Act in respect of its taxation year ending December 31, 2011.

In light of these changes in taxation laws, to ensure that unitholders are not subject to an excess amount of tax, the Board of Trustees of Noranda Operating Trust has adopted an amendment to the Fund's trust indenture in accordance with its prescribed amendment procedures. Currently, the Fund's trust indenture requires the Fund to distribute all of its income to unitholders, which would, in the absence of an amendment, result in the Fund making a larger year-end In-Kind Distribution to unitholders than is necessary. As amended, the trust indenture now only requires that the Fund distribute a specified percentage of its income (expected to be approximately 71.6% in 2011), resulting in a lower overall tax liability to unitholders as a result of the In-Kind Distribution while enabling the Fund to take advantage of the reduced corporate tax rate under the specified flow-through rules described above. A copy of the Fund's amended trust indenture is available on SEDAR at www.sedar.com.

It is expected that substantially all of the In-Kind Distribution will be attributable to NPE Earnings, which (as described below) will generally be treated for Canadian tax purposes as a dividend to unitholders that will be taxed to the unitholders in the same way as dividends from a Canadian corporation. Accordingly, Canadian resident unitholders will generally be subject to a lower tax rate than the rate that was applicable to such unitholders on the 2010 in-kind distribution.

Immediately following the In-Kind Distribution, the Priority Units will be automatically consolidated such that the number of outstanding Priority Units after the consolidation is the same number of Priority Units outstanding immediately prior to the In-Kind Distribution. As a result, a Canadian resident unitholder will hold after the automatic consolidation the same number of Priority Units held by such unitholder immediately prior to the In-Kind Distribution.

As described below, non-resident unitholders will be subject to Canadian withholding tax on the In-Kind Distribution. As such, unless alternative arrangements are made with respect to the satisfaction of the withholding tax obligations, the intermediary through which non-resident unitholders beneficially hold their Priority Units will be required to withhold a portion of a non-resident unitholder's Priority Units, which withheld Priority Units will be sold by the applicable intermediary on behalf of the non-resident unitholder to satisfy such unitholder's withholding tax liability. The effect of such withholding would be that the non-resident unitholder will hold less Priority Units following the In-Kind Distribution and the automatic consolidation than such unitholder held prior to the In-Kind Distribution. Non-resident unitholders are encouraged to contact the intermediary through which they hold Priority Units to determine the impact of the In-Kind Distribution on their holdings.

TAX TREATMENT OF "IN-KIND" DISTRIBUTION

Holders of Priority Units Resident in Canada

The following summary describes certain Canadian federal income tax considerations applicable under the Tax Act to Canadian resident individual unitholders (other than certain trusts) of the In-Kind Distribution.

The following information is based on the Fund's understanding of the Tax Act and is provided as general information only. This information is not exhaustive of all possible income tax considerations under the Tax Act and is not intended to be legal or tax advice to any particular holder of Priority Units. Unitholders should consult their own legal, business and/or tax advisors as to the tax implications of receiving the In-Kind Distribution in light of their particular circumstances.

Taxable Canadian Residents

In general, the amount of the In-Kind Distribution received by a Canadian resident unitholder that is attributable to the Fund's NPE Earnings will be deemed by the Tax Act to be a taxable dividend received by the unitholder from a taxable Canadian corporation and will be taxed as such under the Tax Act. Canadian resident unitholders will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations in respect of such amount, including the enhanced gross-up and dividend tax credit applicable to "eligible dividends" in accordance with the provisions of the Tax Act. Where any amount of the In-Kind Distribution received by a Canadian resident unitholder is not attributable to NPE Earnings, such amount will be included in the unitholder's income and will be subject to tax under the ordinary rules in the Tax Act applicable to distributions from a trust.

Immediately following the In-Kind Distribution, the Priority Units will automatically be consolidated such that the number of outstanding Priority Units held by a Canadian resident unitholder after the consolidation will be the same number of Priority Units held by such unitholder immediately prior to the In-Kind Distribution, but the aggregate adjusted cost base of the Priority Units held by the unitholder will have been increased by the amount of the In-Kind Distribution. Such consolidation will not be considered to give rise to a disposition of the unitholder's Priority Units.

<u>Exempt Plans</u>

There should be no Canadian income tax consequences under the Tax Act of the In-Kind Distribution on Priority Units held by a registered retirement savings plan, registered retirement income fund, deferred profit sharing plan, registered education savings plan, registered disability savings plan or a tax-free savings account, as such terms are defined in the Tax Act.

Non-resident Holders of Priority Units

A unitholder that is not resident in Canada will generally be subject to Canadian withholding tax at a rate of 25% on the entire amount of the In-Kind Distribution, unless such rate is reduced under an applicable income tax convention. For the purposes of applying the provisions of an applicable income tax convention, the portion of the In-Kind Distribution that is attributable to NPE Earnings will be treated as a dividend from a Canadian corporation. Under the *Canada-United States Income Tax Convention*, the Canadian withholding tax rate will generally be reduced to 15% for U.S. residents entitled to the benefits of such tax convention. As described above, unless alternative arrangements are made with respect to the satisfaction of the withholding tax obligations, the intermediary through which non-resident unitholders beneficially hold their Priority Units may withhold a portion of a non-resident unitholder's Priority Units, which withheld Priority Units will be sold by the applicable intermediary on behalf of the non-resident unitholder to satisfy such unitholder's withholding tax liability, resulting in a net reduction in the number of Priority Units held by such non-resident unitholder following the automatic consolidation of the Priority Units. Such disposition of Priority Units on behalf of the non-resident unitholder will not generally be taxable under the Tax Act.

The brief summary above does not describe any foreign tax considerations that may be relevant to non-resident unitholders. **Non-resident unitholders should consult their own tax advisors as to the implications of the In-Kind Distribution, the availability of any foreign tax credits, the withholding and disposition of Priority Units to satisfy any Canadian withholding tax liability and the automatic consolidation of Priority Units.**