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2010 "IN-KIND" DISTRIBUTION

Description of "In-Kind" Distribution

The Board of Trustees of Noranda Operating Trust has approved the payment of a special distribution of \$0.48 payable on December 31, 2010 to holders of priority units ("**Priority Units**") of Noranda Income Fund (the "**Fund**") on 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, 2010.

The In-Kind Distribution is intended to ensure that, as required under the terms of its trust indenture, the Fund will not be liable to pay taxes under the *Income Tax Act* (Canada) (the "**Tax Act**") in respect of its current taxation year ending December 31, 2010, by distributing to its unitholders additional Priority Units having a value at least equal to the Fund's income for the year not already distributed to unitholders. The amount of the In-Kind Distribution is intended to equal the entire amount of the Fund's income for purposes of the Tax Act for 2010 since no other distributions have been made to unitholders in 2010.

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 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. 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 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 will be included in such unitholder's income and will be subject to tax under the Tax Act. Immediately following the In-Kind Distribution, the Priority Units will be automatically 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.

Exempt Plans

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 amount of the In-Kind Distribution, unless such rate is reduced under an applicable income tax convention. Under the *Canada-United States Income Tax Convention*, the Canadian withholding tax rate is reduced 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. 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.**