

Noranda Income Fund

Consolidated Condensed Interim Financial Statements

June 30, 2011

NORANDA INCOME FUND
CONSOLIDATED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(\$ thousands)

	<u>Notes</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Assets			
Non-current assets			
Property, plant and equipment		280,072	285,739
Deferred tax assets		2,921	2,145
Employee benefits		4,060	3,451
Derivative financial assets	10	156	377
		<u>287,209</u>	<u>291,712</u>
Current assets			
Inventories	4	76,943	78,555
Accounts receivable			
Trade		91,579	76,693
Xstrata Canada	9	16,447	34,203
Income taxes receivable		24	24
Derivative financial assets	10	3,307	5,637
Prepays and other assets		2,625	2,896
Cash and cash equivalents		1,894	3,398
		<u>192,819</u>	<u>201,406</u>
		<u>480,028</u>	<u>493,118</u>
Liabilities			
Non-current liabilities			
Long-term firm commitments	10	164	379
Rehabilitation liability	7	19,248	18,819
Employee benefits		10,851	10,618
Deferred tax liabilities		22,222	22,125
		<u>52,485</u>	<u>51,941</u>
Current liabilities			
Accounts payable and accrued liabilities			
Trade		19,774	21,195
Xstrata Canada	9	51,172	43,719
Income taxes payable		10,302	99
Bank and other loans	8	146,619	190,268
Firm commitments	10	196	3,499
		<u>228,063</u>	<u>258,780</u>
Total liabilities excluding net assets attributable to unitholders and non-controlling interest		<u>280,548</u>	<u>310,721</u>
Net assets attributable to unitholders and non-controlling interest		<u>199,480</u>	<u>182,397</u>
Net assets attributable to:			
Priority Unitholders	5	151,931	139,388
Ordinary Unitholders	5	50,645	46,464
		<u>202,576</u>	<u>185,852</u>
Non-controlling interest		(3,096)	(3,455)
		<u>199,480</u>	<u>182,397</u>
(See accompanying notes)			
Subsequent event	8		

NORANDA INCOME FUND
CONSOLIDATED CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(\$ thousands)

	Notes	Three months ended		Six months ended	
		June 30,		June 30,	
		2011	2010	2011	2010
Revenues					
Sales	9	168,989	157,733	354,687	328,890
Transportation and distribution costs		(4,359)	(3,876)	(9,085)	(7,426)
		<u>164,630</u>	<u>153,857</u>	<u>345,602</u>	<u>321,464</u>
Raw material purchase costs	9	<u>94,056</u>	<u>72,600</u>	<u>193,981</u>	<u>173,611</u>
Revenues less raw material purchase costs		<u>70,574</u>	<u>81,257</u>	<u>151,621</u>	<u>147,853</u>
Other expenses					
Production		43,193	47,136	89,347	88,821
Selling, general and administration		5,182	5,122	10,811	10,118
Foreign currency (gain) loss		(1,290)	5,830	(3,707)	3,762
Loss (gain) on derivative financial instruments	10	(769)	(2,865)	681	(5,305)
Depreciation of property, plant and equipment		8,516	9,291	17,349	17,842
Rehabilitation expense	7	828	1,541	545	2,040
		<u>55,660</u>	<u>66,055</u>	<u>115,026</u>	<u>117,278</u>
Earnings before interest and income taxes		<u>14,914</u>	<u>15,202</u>	<u>36,595</u>	<u>30,575</u>
Interest expense, net		4,526	3,301	9,525	6,365
Earnings before income taxes		<u>10,388</u>	<u>11,901</u>	<u>27,070</u>	<u>24,210</u>
Current income tax expense		3,913	25	10,403	54
Deferred income tax (recovery) expense		174	(282)	(600)	2,475
Earnings attributable to Unitholders and Non-controlling interest		<u>6,301</u>	<u>12,158</u>	<u>17,267</u>	<u>21,681</u>
Finance costs - distributions to Unitholders		-	-	-	-
Increase in net assets attributable to Unitholders and Non-controlling interest		<u>6,301</u>	<u>12,158</u>	<u>17,267</u>	<u>21,681</u>
Other comprehensive income					
Actuarial gain (loss) on defined benefit pension plans		314	(458)	(262)	(2,402)
Deferred income tax expense (recovery)		94	(137)	(78)	(719)
		<u>220</u>	<u>(321)</u>	<u>(184)</u>	<u>(1,683)</u>
Comprehensive income		<u>6,521</u>	<u>11,837</u>	<u>17,083</u>	<u>19,998</u>
Increase in net assets attributable to:					
Priority Unitholders		4,520	8,535	12,543	15,057
Ordinary Unitholders		1,507	2,845	4,181	5,019
		<u>6,027</u>	<u>11,380</u>	<u>16,724</u>	<u>20,076</u>
Non-controlling interest		274	778	543	1,605
		<u>6,301</u>	<u>12,158</u>	<u>17,267</u>	<u>21,681</u>
Comprehensive income attributable to:					
Priority Unitholders		4,520	8,535	12,543	15,057
Ordinary Unitholders		1,507	2,845	4,181	5,019
		<u>6,027</u>	<u>11,380</u>	<u>16,724</u>	<u>20,076</u>
Non-controlling interest		494	457	359	(78)
		<u>6,521</u>	<u>11,837</u>	<u>17,083</u>	<u>19,998</u>

NORANDA INCOME FUND
CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO
UNITHOLDERS AND NON-CONTROLLING INTEREST
(\$ thousands)

	Priority Units and Ordinary Units	Earnings Attributable to Unitholders and Non- controlling interest	Finance costs	Accumulated other comprehensive loss	Total	Attributable to		
						Priority Units	Ordinary Units	Non- controlling interest
Balance at January 1, 2011	255,037	284,746	(350,704)	(6,682)	182,397	139,388	46,464	(3,455)
Comprehensive income	-	17,267	-	(184)	17,083	12,543	4,181	359
Balance at June 30, 2011	255,037	302,013	(350,704)	(6,866)	199,480	151,931	50,645	(3,096)

	Priority Units and Ordinary Units	Earnings Attributable to Unitholders and Non- controlling interest	Finance costs	Accumulated other comprehensive loss	Total	Attributable to		
						Priority Units	Ordinary Units	Non- controlling interest
Balance at January 1, 2010	255,037	254,181	(350,704)	(3,112)	155,402	118,963	39,654	(3,215)
Comprehensive income	-	21,681	-	(1,683)	19,998	15,057	5,019	(78)
Balance at June 30, 2010	255,037	275,862	(350,704)	(4,795)	175,400	134,020	44,673	(3,293)

NORANDA INCOME FUND
CONSOLIDATED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(\$ thousands)

	<u>Notes</u>	Six months ended	
		June 30,	
		<u>2011</u>	<u>2010</u>
Operating activities			
Comprehensive income		17,083	19,998
Adjustments:			
Depreciation of property, plant and equipment		17,349	17,842
Net change in rehabilitation liability	7	429	2,016
Deferred income tax (recovery) expense		(678)	1,756
(Gain) loss on derivative financial instruments	10	(363)	835
Change in fair value of embedded derivatives	10	(3,939)	(8,863)
Accretion on bank and other loans		4,724	475
Write-down of inventory		-	1,144
Loss on sale of assets		398	337
Net change in employee benefits		(376)	242
		<u>34,627</u>	<u>35,782</u>
Net change in non-cash working capital items		<u>23,756</u>	<u>(7,520)</u>
Cash provided by operating activities		<u>58,383</u>	<u>28,262</u>
Investing activities			
Purchase of property, plant and equipment		(12,430)	(12,707)
Proceeds from sale of property, plant and equipment		916	139
Cash used in investing activities		<u>(11,514)</u>	<u>(12,568)</u>
Financing activities			
Proceeds from bank debt		114,911	198,602
Debt financing costs		(1,750)	(1,100)
Repayment of bank debt		(161,534)	(213,536)
Cash used in financing activities		<u>(48,373)</u>	<u>(16,034)</u>
Net decrease in cash and cash equivalents		<u>(1,504)</u>	<u>(340)</u>
Cash and cash equivalents at January 1		<u>3,398</u>	<u>3,214</u>
Cash and cash equivalents at end of period		<u>1,894</u>	<u>2,874</u>

1. Corporate information

Noranda Income Fund (the "Fund") is an income trust that is domiciled in Canada and whose Priority Units are publicly traded. The registered office is located at 100 King Street West, First Canadian Place, Suite 6900 P.O. Box 403, Toronto, Ontario, Canada, M5X 1E3.

The Fund was created in 2002, initially to acquire from Noranda Inc., indirectly through the Noranda Operating Trust (the "Operating Trust") and the Noranda Income Limited Partnership (the "Partnership"), the CEZinc Processing Facility (the "Processing Facility"). The Processing Facility produces refined zinc metal and various byproducts from zinc concentrates and is located in Salaberry-de-Valleyfield, Quebec.

As at June 30, 2005, Noranda Inc. changed its name to Falconbridge Limited ("Falconbridge") pursuant to a corporate amalgamation. Falconbridge changed its name to Xstrata Canada Corporation ("Xstrata Canada") after being acquired by Xstrata plc. ("Xstrata"). Xstrata is a global diversified mining group listed on the London and Swiss stock exchanges.

Supply and processing agreement

Pursuant to a 15 year Supply and Processing Agreement signed on 3 May 2002 between Xstrata Canada and the Noranda Income Limited Partnership, Xstrata Canada is obligated to sell to the Processing Facility, except in certain circumstances, up to 550,000 tonnes of zinc concentrate annually at a concentrate price (based on the price of zinc metal on the London Metal Exchange ("LME") for "payable zinc metal" contained in the concentrate less a processing fee initially set at \$0.352 per pound of that "payable zinc metal." As at January 1, 2004, the processing fee is the processing fee in the previous year adjusted annually (i) upward by 1% and (ii) upward or downward by 10% of the year-over-year percentage change in average cost of electricity per megawatt hour for the Processing Facility. The processing fee for 2011 is \$0.389 (2010 - \$0.385) per pound. "Payable zinc metal" in respect of a quantity of concentrate is equal to 96% of the assayed zinc metal content on the concentrate under the Supply and Processing Agreement.

Under the Supply and Processing Agreement, Xstrata Canada acts as the exclusive agent for the Partnership to arrange the sale of zinc metal and byproducts and related hedging and derivative arrangements.

Long-term refinancing

On July 28, 2011, the Fund completed a long-term financing by way of a \$90 million offering of Senior Secured Notes and a \$150 million asset-based revolving credit facility (note 8).

2. Statement of compliance

Basis of preparation

The consolidated condensed interim financial statements for the three and six months periods ended June 30, 2011, were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and are covered by IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS"). The same accounting policies and methods of computation were followed in the preparation of these consolidated condensed interim financial statements as were followed in the preparation of the consolidated condensed interim financial statements for the three month period ended March 31, 2011. These consolidated condensed interim financial statements do not include all of the information required for annual financial statements.

In addition, the consolidated condensed interim financial statements for the three month period ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended 31 December 2010 prepared in accordance with previous Canadian generally accepted accounting principles ("GAAP"). Accordingly, these consolidated condensed interim condensed financial statements for the three and six month periods ended 30 June 2011 should be read together with the annual consolidated financial statements for the year ended 31 December 2010 prepared in accordance with previous Canadian GAAP as well as the consolidated condensed interim condensed financial statements for the three month period ended March 31, 2011.

The policies applied in these consolidated condensed interim financial statements are based on IFRS issued and effective as at August 4, 2011, the date the Board of Trustees approved these financial statements. Any subsequent changes to IFRS that are given effect in the Fund's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements,

including the transition adjustments recognized on change-over to IFRS in note 11 as well as the consolidated interim financial statements for the three-month period ended March 31, 2011.

Basis of consolidation

The consolidated interim financial statements comprise the financial statements of the Fund and its wholly-owned subsidiaries and Canadian Electrolytic Zinc Limited (the "Manager"), a special purpose entity ("SPE") as at June 30, 2011. All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Fund and are presented separately in the statements of comprehensive income and within the statements of financial position. Losses within a subsidiary are attributable to the non-controlling interests even if that results in a deficit balance.

The financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as the Fund.

Use of estimated and judgments

The consolidated condensed interim financial statement for the three and six months periods ended June 30, 2011 has been prepared using the same estimates and judgments as outlined in the consolidated interim financial statement for the three-month period ended March 31, 2011.

Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as the current year.

3. New standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund's consolidated financial statements have been disclosed in the consolidated interim financial statements for the three-month period ended March 31, 2011. In addition the following is a standard issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt those standards when they become effective.

IAS 19 Employee Benefits

In June 2011, the IASB released amendments to IAS 19, Employee Benefits. This includes the removal of the option for deferred recognition of changes in defined benefit plan assets and liabilities (known as the "corridor approach"). In addition, the changes represent a further significant step in reporting gains and losses outside of profit and loss, with no subsequent recycling, as actuarial gains and losses will be excluded permanently from earnings and enhancing the disclosure requirements, providing better information about the characteristics and the risks associated through participation in these plans. The amended version of IAS 19 will be effective for the annual periods beginning on January 1, 2013, with earlier application permitted. The Fund has not yet assessed the impact of the adoption of this standard on its consolidated interim financial statements.

4. Inventories

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Spare parts	9,173	8,794
Raw materials	28,604	18,150
Work-in-process	15,960	14,385
Finished products	<u>23,206</u>	<u>37,226</u>
	<u>76,943</u>	<u>78,555</u>

During the three and six month periods ended June 30, 2011, \$145.8 million and \$300.7 million (June 30, 2010 - \$129.0 million and \$280.3 million) of inventory was expensed including amortization related to property, plant and equipment of \$8.5 million and \$17.3 million (June 30, 2010 - \$9.3 million and \$17.8 million), respectively. During the three month period ended June 30, 2010, a write down of inventory from cost to net realizable value of \$1.1

million was recorded in raw material purchase costs. As at June 30, 2011, raw material, work in process and finished goods were all carried at cost.

5. Priority and Ordinary Unitholders

The net assets attributable to unitholders consist of the following:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
37,497,975 Priority units	151,931	139,388
12,500,000 Ordinary units and Special Fund Units	50,645	46,464

As at June 30, 2011, the Fund had 37,497,975 Priority Units outstanding. Priority unitholders can redeem their units at a present formula price, to a maximum of \$50 per month, subject to the Fund's banking covenants. Pursuant to the Fund's trust indenture, an unlimited number of Priority Units are issuable. Each Priority Unit is transferable and represents an equal, undivided beneficial interest in the Fund and entitles the holder thereof to participate equally in distributions of the Fund and to one vote.

The Partnership has 12,500,000 Ordinary Units outstanding, which are exchangeable into Priority Units on a one-for-one basis only after May 2, 2017, or earlier upon the occurrence of certain events. Each Ordinary Unit is entitled to receive a cash distribution on a monthly basis in an amount that is equal to the monthly cash distribution paid to each Priority Unit, provided each Priority Unit is first paid an amount that is equal to the monthly cash distribution of not less than \$0.08333 per Priority unit (the "Base Distribution") before any amount is paid to holders of Ordinary Units.

The 12,500,000 outstanding special voting units of the Fund listed above (the "Special Fund Units") provide voting rights in respect of the Fund to the holder of Ordinary Units and vote with the Priority Unitholders as one class. All Ordinary Units are held by a wholly-owned subsidiary of Xstrata Canada.

6. Distributions

As a result of the Bridge Facility, the Fund was restricted from making cash distributions to unitholders. Under the Senior Secured Notes (note 8), the Fund will be permitted to distribute excess cash flows to its unitholders subject to compliance with certain financial covenants and other customary restrictions. In addition, under the credit agreement entered into in connection with the ABL Facility, the Fund will be permitted to distribute excess cash flows to its unitholders subject to a minimum excess availability and other customary restrictions (note 8).

When not restricted by its financing arrangement, or otherwise, the Fund's policy is to make distributions to unitholders equal to cash flows from operations before variations in working capital and after permanent debt reductions and such reserves for operating and capital expenditures as may be considered appropriate by the board of trustees. The Fund determines the cash available for distribution on a monthly basis for the unitholders of record of the Fund on the last business day of each calendar month and these distributions are to be paid on or about 25 days thereafter.

The Fund is required by its Trust Indentures to distribute to its Priority Units by December 31, of each year amounts equal to its taxable income and net capital gains for the year. Such distributions are to be made in cash, unless the Fund is restricted from distributing cash or sufficient cash is not available, in which case such distributions are to be satisfied in whole or in part by the issuance of additional Priority Units having a value equal to the amount of cash which is unavailable for distribution. Following such an "in-kind" distribution, the Priority Units are automatically consolidated such that each certificate representing a number of units prior to the in-kind distribution of additional units is deemed to represent the same number of units after the distribution of additional units and the consolidation.

Cash distributions on Ordinary Units of the Partnership are subordinated to distributions on Priority Units of the Fund until 2017 except upon the occurrence of certain events. Each Ordinary Unit is entitled to receive a cash distribution on a monthly basis in an amount that is equal to the monthly cash distribution paid to each Priority Unit, provided each Priority Unit is first paid an amount that is equal to the monthly cash distribution of not less than \$0.08333 per Priority Unit (the "Base Distribution") before any amount is paid to the holder of the Ordinary Units. If, notwithstanding the subordination of the Ordinary Units, the cash available for distribution is not sufficient

to make the Base Distribution on the Priority Units in a month, the amount of the deficiency shall not accumulate and will not be paid to holders of the Priority Units. If the cash available for distribution in a month is not sufficient to make a distribution on the Ordinary Units that is equal to the distribution on the Priority Units, the amount of the deficiency will accumulate and be paid to holders of the Ordinary Units if there is excess cash available for distribution, above the Base Distribution, in a subsequent month. Any accumulated distribution deficiency related to the Ordinary Units is not accrued by the Fund until such time as excess cash is available for distribution above the Base Distribution and a cash distribution is approved by the board of trustees. In the event of an exchange of Ordinary Units on a one-to-one basis for Priority Units after May 2, 2017, any accumulated distribution deficiency related to the Ordinary Units prior to the exchange is not accrued by the Fund until such time as excess cash is available for distribution above the Base Distribution and a cash distribution is approved by the board of trustees. Subsequent to the exchange, there will be no further accumulation of the distribution deficiency. As at June 30, 2011, the accumulated distribution deficiency was \$2.5 million.

7. Rehabilitation liability

	<u>June 30, 2011</u>	<u>December 31 2010</u>
Opening balance	18,819	16,551
Accretion of reclamation expense	336	708
Site restoration expenditures	(116)	(238)
Change in estimates	<u>209</u>	<u>1,798</u>
Closing balance	<u><u>19,248</u></u>	<u><u>18,819</u></u>

The Fund has determined the fair value of this rehabilitation liability as at June 30, 2011, by using a discount rate of 3.31% (December 31, 2010 - 3.39%).

Although the ultimate amount to be incurred is uncertain, the liability for rehabilitation on an undiscounted basis is estimated to be approximately \$37,800. The liabilities are expected to be settled from now until 2046.

8. Bank and other loans

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Bridge facility - Term loan tranche	120,000	130,000
Bridge facility - Revolving facility tranche	<u>28,107</u>	<u>64,730</u>
	148,107	194,730
Deferred financing fees	<u>(1,488)</u>	<u>(4,462)</u>
	<u><u>146,619</u></u>	<u><u>190,268</u></u>

Subsequent event

On July 28, 2011, the Operating Trust completed a private placement of \$90 million senior secured notes bearing interest at 6.875% due December 28, 2016 ("Senior Secured Notes") and a 5-year asset based revolving credit facility ("ABL Facility") in an amount up to \$150 million. The proceeds were used to repay all amounts outstanding under the existing Bridge Facility, for working capital and general corporate purposes. The Senior Secured Notes will amortize on a straight-line basis to a \$15 million remaining principal balance at maturity.

The Senior Secured Notes and the ABL Facility were fully and unconditionally guaranteed, on a senior secured basis (subject to the terms of an inter creditor agreement with the lenders under the new ABL Facility), by the Fund, the Manager and the Partnership.

The Senior Secured Notes and ABL Facility contain customary representations, warranties and covenants.

Bridge facility

On December 2, 2010, the Fund obtained a Bridge Facility for an amount of \$250 million from a syndicate of lenders, comprised of a \$130 million term loan tranche ("Term Loan Tranche") and a \$120 million operating line of credit ("Revolving Facility Tranche").

The maturity of the Bridge Facility was June 3, 2011, subject to a further extension of six months at the option of the Fund at similar terms and conditions, and mandatory principal repayments in certain circumstances. Effective June 3, 2011, the Bridge Facility was extended to December 1, 2011 for a total of \$220 million comprised of \$120 million under the Term Loan Tranche and \$100 million under the Revolving Facility Tranche. The credit agreement governing the Bridge Facility contained covenants that restrict the Fund in several respects, including the ability to make cash distributions or redeem or repurchase units. On July 28, 2011 the Bridge Facility was fully repaid.

Term loan tranche

The Term Loan Tranche was used to partly repay all of the outstanding Notes in the amount of \$153.5 million that matured on December 20, 2010. The Term Loan Tranche was subject to certain adjustments to include a quarterly reduction of this portion of the Bridge Facility and any repayments permanently reduce the amount available on the Term Loan Tranche.

Borrowings under the Term Loan Tranche were available by way of Canadian prime rate advances or bankers' acceptance and bear interest at Canadian prime rate plus applicable margins between 3.5% and 4.5%.

Revolving facility tranche

The Revolving Facility Tranche was used to refinance the Revolving Facility that matured on December 3, 2010, to finance general corporate purposes including working capital and to repay the remaining \$23.5 million of the Notes mentioned above. The terms of the Revolving Facility Tranche are substantially the same as the terms of the previous Revolving Facility.

Under the Revolving Facility Tranche, the amount available to be drawn varies on a monthly basis and was based on 65% of the Fund's eligible inventory and 80% of the Fund's eligible accounts receivable (both as defined in the credit agreement) from the previous month. The monthly calculation is subject to a maximum available to be drawn of \$100 million. The amount available on the Revolving Facility Tranche of the Bridge Facility as at June 30th, 2011 was \$100 million, of which, \$28 million was drawn, including letters of credit outstanding.

Borrowings under the Revolving Facility Tranche were available by way of Canadian prime rate advances, US base rate advances, bankers' acceptances, US dollar Libor advances and Canadian and US dollar letters of credit. The Revolving Facility Tranche bore interest at rates that vary with the Canadian prime rate, US base rate, the bankers' acceptance rate, or Libor rates plus applicable margins between 3.5% and 4.5%.

9. Related parties

The consolidated financial statements include the financial statements of the Fund and the subsidiaries listed in the following table:

Name	Country of Incorporation	% Equity Interest	
		2011	2010
Subsidiaries:			
Noranda Income Limited Partnership	Canada	81%	81%
Noranda Operating Trust	Canada	100%	100%
Special Purpose Entity:			
Canadian Electrolytic Zinc Limited ¹	Canada	0%	0%

¹ Canadian Electrolytic Zinc Limited is a wholly owned subsidiary of Xstrata Canada

During the three and six-month period ended June 30, the Company entered into the following transactions in the ordinary course of business with Xstrata Canada and its subsidiaries:

	Three-months ended June 30,		Six-months ended June 30,	
	2011	2010	2011	2010
Sales of zinc metal	309	1,640	12,654	2,375
Sales of byproducts	8,820	4,986	15,149	10,834
Purchases of zinc concentrate	92,148	53,748	191,845	138,894
Purchases of plant equipment, raw materials and operating supplies	2,856	3,142	4,631	5,045
Support services	308	291	618	586

Glencore International AG ("Glencore") owns approximately 34.1% of Xstrata. Sales to a subsidiary of Glencore excluded in sales of zinc metal for the three and six-months ended June 30, 2011 were \$1,963 and \$13,408 respectively (2010 – 6,080 and \$29,337 respectively). Amounts due from Glencore, included in accounts receivable, were \$215 and \$756 as at June 30, 2011 and 2010, respectively.

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. All amounts due to and from related parties are non-interest bearing and are due in the ordinary course of business. All transactions with Xstrata Canada and affiliated companies are carried out in the normal course of operations, and are recorded at fair value.

10. Derivatives and hedges

Inventory management program

The Fund purchases metal in the form of zinc concentrate to be processed eventually into refined zinc metal for sale to customers. As agent of the Fund, Xstrata Canada provides the hedging arrangements in the event that the structure of the Fund's sales and purchase contracts does not minimize exposure to changes in zinc prices during the period in which the zinc is refined.

The derivatives associated with the Fund's inventory management program do not meet the requirements for hedge accounting. As a result, these derivative financial instruments have been recognized on the consolidated statements of financial position as either a derivative financial asset or liability with the change in their fair value at each reporting period date recognized as a gain or a loss on derivative financial instruments. As at June 30, 2011, the Fund had bought forward approximately 27 million pounds of zinc (December 31, 2010 – bought forward 16 million pounds of zinc).

During the three and six-months ended June 30, 2011, the change in fair value of these derivatives was a gain of \$0.8 million and a loss of \$0.7 million respectively which was recognized in the consolidated statements of comprehensive income in loss (gain) on derivative financial instruments (2010 - gain on derivative financial instruments of \$2.3 million and \$5.1 million). As at June 30, 2011, the fair value of these positions, as determined with reference to level 1, quoted market prices, was a current derivative financial asset of \$1.5 million (December 31, 2010 - current derivative financial asset of \$2.1 million).

Hedges of fixed firm commitments

Certain customers request a fixed sales price instead of the LME average price in the month of shipment. Xstrata enters into commodity forward and futures contracts on behalf of the Fund that will allow the Fund to receive the LME average price in the month of shipment while customers pay the agreed-upon fixed price. Xstrata Canada accomplishes this by settling the futures contracts during the month of shipment, which generally results in the realization of the LME average price. In the event that the futures contracts have to be terminated early, due to the customer cancelling a fixed price order, Xstrata Canada has the right to charge the customer with the cost of settling the LME futures contract. A high degree of correlation between the changes in the fair value of the contracts and the fixed sales commitments permits hedge accounting to be used.

As at June 30, 2011, Xstrata Canada had futures contracts hedging approximately 27 million pounds of zinc (December 31, 2010 - 23 million pounds) to be sold pursuant to firm commitments at fixed prices and delivery dates related to the Fund. As at June 30, 2011, the fair value of these contracts as determined with reference to pooled market prices (level 1) was recognized as a current derivative financial asset of \$0.2 million and a non-current derivative financial asset of \$0.2 million (December 31, 2010 - current derivative financial asset of \$3.5 million and non-current derivative financial asset of \$0.4 million) and the fair value of the firm fixed sales

commitments was recognized as a current firm commitment liability of \$0.2 million and a long-term firm commitment liability of \$0.2 million (December 31, 2010 - current firm commitment liability of \$3.5 million and a long-term firm commitment liability of \$0.4 million).

The net change in fair value of these net positions, representing the ineffective portion of the hedge position for the three and six-months ended June 30, 2011 was recognized in the consolidated statements of comprehensive income as a loss of on derivative financial instruments of \$0.04 million and nil, respectively (2010 - gain of \$0.6 and \$0.2 million).

US dollar overnight transactions

The Fund also has exposure to the US dollar for its cash, account receivable, inventory, accounts payable and accrued liabilities and bank debt. The Fund attempts to manage the overall economic exposure to US dollar by matching US dollar assets to US dollar liabilities. This currency exposure is managed in part through US dollar overnight transactions. As at June 30, 2011, the Fund had bought forward US dollars with a notional amount of US\$92 million and sold forward dollars with a notional amount of \$90.4 million. An unrealized gain of \$1.7 million related to these open positions was recorded in current derivative financial assets as at June 30, 2011.

Embedded derivatives

For the three and six-months ended June 30, 2011, the Fund recorded an increase of raw material purchase costs of \$6.1 million and a decrease of raw material purchase costs of \$3.9 million related to the change in fair value, as determined with reference to pooled market prices (level 1) of the embedded derivatives resulting from the quotational pricing feature of its zinc concentrate payables (2010 - decrease of \$ 6.7 million and \$8.9 million).

11. Explanation of transition to IFRS

As stated in note 20 to the consolidated interim financial statements for the three months period ended March 31, 2011, IFRS 1 sets out the procedures that the Fund must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Fund is required to establish its IFRS accounting policies for 2011 and in general, apply these retrospectively to determine the IFRS opening balance sheet as at the transition date of January 1, 2010.

The accounting policies set out in note 20 to the consolidated interim financial statements for the three months period ended March 31, 2011 have been applied in preparing the interim financial statements for the three and six month periods ended June 30, 2011, the comparative information presented for the three and six month periods ended June 30, 2010 and year ended December 31, 2010 and in preparation of an opening IFRS statement of financial position at January 1, 2010 (the Fund's date of transition).

NORANDA INCOME FUND
CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(\$ thousands)

	As at June 30, 2010		
	Canadian GAAP	Effect of Transition	IFRS
Assets			
Non-current assets			
Property, plant and equipment	291,838	-	291,838
Deferred tax assets	-	2,031	2,031
Employee benefits	-	1,947	1,947
Derivative financial assets	165	-	165
	<u>292,003</u>	<u>3,978</u>	<u>295,981</u>
Current assets			
Inventories	75,283	-	75,283
Accounts receivable			
Trade	75,101	3	75,104
Xstrata Canada	10,813	-	10,813
Income taxes receivable	-	17	17
Derivative financial assets	1,494	-	1,494
Firm commitments	7,087	-	7,087
Deferred tax assets	-	-	-
Prepays and other assets	1,473	607	2,080
Cash and cash equivalents	2,080	794	2,874
	<u>173,331</u>	<u>1,421</u>	<u>174,752</u>
	<u>465,334</u>	<u>5,399</u>	<u>470,733</u>
Liabilities			
Non-current liabilities			
Long-term firm commitments	178	-	178
Rehabilitation liability	9,341	9,226	18,567
Employee benefits	-	8,733	8,733
Deferred tax liabilities	14,641	7,984	22,625
	<u>24,160</u>	<u>25,943</u>	<u>50,103</u>
Current liabilities			
Accounts payable and accrued liabilities			
Trade	18,727	2,733	21,460
Xstrata Canada	27,664	(2,828)	24,836
Income taxes payable	-	54	54
Derivative financial liabilities	6,553	-	6,553
Bank and other loans	193,078	(751)	192,327
Deferred tax liabilities	-	-	-
Firm commitments	-	-	-
	<u>246,022</u>	<u>(792)</u>	<u>245,230</u>
Total liabilities excluding net assets attributable to unitholders and non-controlling interest	<u>270,182</u>	<u>25,151</u>	<u>295,333</u>
Net assets attributable to unitholders and non-controlling interest	<u>195,152</u>	<u>(19,752)</u>	<u>175,400</u>
Net assets attributable to:			
Priority Unitholders	146,365	(12,345)	134,020
Ordinary Unitholders	48,787	(4,114)	44,673
Non-controlling interest	-	(3,293)	(3,293)
	<u>195,152</u>	<u>(19,752)</u>	<u>175,400</u>

NORANDA INCOME FUND
CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(\$ thousands)

	As at June 30, 2010				
	CEZ	ARO	Income Taxes	Elimination	Effect of Transition
Assets					
Non-current assets					
Deferred tax assets	2,031	-	-	-	2,031
Employee benefits	1,947	-	-	-	1,947
	<u>3,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,978</u>
Current assets					
Accounts receivable					
Trade	3	-	-	-	3
Noranda Income Limited Partnership	2,828	-	-	(2,828)	-
Income taxes receivable	17	-	-	-	17
Prepays and other assets	607	-	-	-	607
Cash and cash equivalents	794	-	-	-	794
	<u>4,249</u>	<u>-</u>	<u>-</u>	<u>(2,828)</u>	<u>1,421</u>
	<u>8,227</u>	<u>-</u>	<u>-</u>	<u>(2,828)</u>	<u>5,399</u>
Liabilities					
Non-current liabilities					
Rehabilitation liability	-	9,226	-	-	9,226
Employee benefits	8,733	-	-	-	8,733
Deferred tax liabilities	-	-	7,984	-	7,984
	<u>8,733</u>	<u>9,226</u>	<u>7,984</u>	<u>-</u>	<u>25,943</u>
Current liabilities					
Accounts payable and accrued liabilities					
Trade	2,733	-	-	-	2,733
Xstrata Canada	-	-	-	(2,828)	(2,828)
Income taxes payable	54	-	-	-	54
Ordinary Unitholders' interest	-	-	-	(54,328)	(54,328)
	<u>2,787</u>	<u>-</u>	<u>-</u>	<u>(57,907)</u>	<u>(55,120)</u>
Priority Unitholders' interest					
Priority Unitholders equity	-	-	-	(191,273)	(191,273)
Deficit	-	-	-	50,449	50,449
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(140,824)</u>	<u>(140,824)</u>
Total liabilities excluding net assets attributable to unitholders and non-controlling interest	<u>11,520</u>	<u>9,226</u>	<u>7,984</u>	<u>(198,731)</u>	<u>(170,001)</u>
Net assets attributable to unitholders and non-controlling interest	<u>(3,293)</u>	<u>(9,226)</u>	<u>(7,984)</u>	<u>195,903</u>	<u>175,400</u>
Net assets attributable to:					
Priority Unitholders	-	(6,920)	(5,988)	146,928	134,020
Ordinary Unitholders	-	(2,306)	(1,996)	48,975	44,673
Non-controlling interest	<u>(3,293)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,293)</u>
	<u>(3,293)</u>	<u>(9,226)</u>	<u>(7,984)</u>	<u>195,903</u>	<u>175,400</u>

NORANDA INCOME FUND
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(\$ thousands)

	Three month ended June 30, 2010			Six month ended June 30, 2010		
	Canadian	Effect of	IFRS	Canadian	Effect of	IFRS
	GAAP	Transition		GAAP	Transition	
Revenues						
Sales	157,733	-	157,733	328,890	-	328,890
Transportation and distribution costs	(3,876)	-	(3,876)	(7,426)	-	(7,426)
	153,857	-	153,857	321,464	-	321,464
Raw material purchase costs	72,600	-	72,600	173,611	-	173,611
Revenues less raw material purchase costs	81,257	-	81,257	147,853	-	147,853
Other expenses						
Production	48,074	(938)	47,136	90,765	(1,944)	88,821
Selling, general and administration	5,298	(176)	5,122	10,478	(360)	10,118
Foreign currency gain	5,830	-	5,830	3,762	-	3,762
Gain on derivative financial instruments	(2,865)	-	(2,865)	(5,305)	-	(5,305)
Depreciation of property, plant and equipment	9,291	-	9,291	17,842	-	17,842
Rehabilitation expense	182	1,359	1,541	359	1,681	2,040
	65,810	245	66,055	117,901	(623)	117,278
Earnings before interest and income tax	15,447	(245)	15,202	29,952	623	30,575
Interest expense, net	4,052	(751)	3,301	7,116	(751)	6,365
Earnings before income tax	11,395	506	11,901	22,836	1,374	24,210
Current income tax expense	-	25	25	-	54	54
Deferred income tax expense	-	(282)	(282)	1,494	981	2,475
Earnings attributable to Unitholders and Non-controlling interest	11,395	763	12,158	21,342	339	21,681
Finance costs - distributions to Unitholders	-	-	-	-	-	-
Increase (decrease) in net assets attributable to Unitholders and Non-controlling interest	11,395	763	12,158	21,342	339	21,681
Other comprehensive income (loss)						
Actuarial loss on defined benefit pension plans	-	(458)	(458)	-	(2,402)	(2,402)
Deferred income tax recovery	-	(137)	(137)	-	(719)	(719)
	-	(321)	(321)	-	(1,683)	(1,683)
Comprehensive income (loss)	11,395	442	11,837	21,342	(1,344)	19,998
Increase (decrease) in net assets attributable to:						
Priority Unitholders	8,546	(11)	8,535	16,007	(950)	15,057
Ordinary Unitholders	2,849	(4)	2,845	5,335	(316)	5,019
Non-controlling interest	-	778	778	-	1,605	1,605
	11,395	763	12,158	21,342	339	21,681
Comprehensive income (loss) attributable to:						
Priority Unitholders	8,547	(12)	8,535	16,007	(950)	15,057
Ordinary Unitholders	2,848	(3)	2,845	5,335	(316)	5,019
Non-controlling interest	-	457	457	-	(78)	(78)
	11,395	442	11,837	21,342	(1,344)	19,998

NORANDA INCOME FUND
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(\$ thousands)

Three-months ended June 30, 2010

	CEZ	ARO	Income Taxes	Elimination	Effect of Transition
Revenues					
Sales	72	-	-	(72)	-
Other expenses					
Production	(938)	-	-	-	(938)
Selling, general and administration	(104)	-	-	(72)	(176)
Rehabilitation expense	-	1,359	-	-	1,359
	<u>(1,042)</u>	<u>1,359</u>	<u>-</u>	<u>(72)</u>	<u>245</u>
Earnings before interest and income tax	1,114	(1,359)	-	-	(245)
Interest expense, net	-	-	-	(751)	(751)
Earnings before income tax	1,114	(1,359)	-	751	506
Current income tax expense	25	-	-	-	25
Deferred income tax expense	311	-	(593)	-	(282)
Increase (decrease) in net assets attributable to Unitholders and Non-controlling interest	<u>778</u>	<u>(1,359)</u>	<u>593</u>	<u>751</u>	<u>763</u>
Other comprehensive income (loss)					
Actuarial loss on defined benefit pension plans	(458)	-	-	-	(458)
Deferred income tax recovery	(137)	-	-	-	(137)
	<u>(321)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(321)</u>
Comprehensive income (loss)	<u>457</u>	<u>(1,359)</u>	<u>593</u>	<u>751</u>	<u>442</u>
Increase (decrease) in net assets attributable to:					
Priority Unitholders	-	(1,020)	445	563	(12)
Ordinary Unitholders	-	(339)	148	188	(3)
Non-controlling interest	778	-	-	-	778
	<u>778</u>	<u>(1,359)</u>	<u>593</u>	<u>751</u>	<u>763</u>
Comprehensive income (loss) attributable to:					
Priority Unitholders	-	(1,020)	445	563	(12)
Ordinary Unitholders	-	(339)	148	188	(3)
Non-controlling interest	457	-	-	-	457
	<u>457</u>	<u>(1,359)</u>	<u>593</u>	<u>751</u>	<u>442</u>

NORANDA INCOME FUND
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(\$ thousands)

	Six month ended June 30, 2010				
	CEZ	ARO	Income Taxes	Elimination	Effect of Transition
Revenues					
Sales	144	-	-	(144)	-
Other expenses					
Production	(1,944)	-	-	-	(1,944)
Selling, general and administration	(216)	-	-	(144)	(360)
Rehabilitation expense	-	1,681	-	-	1,681
	<u>(2,160)</u>	<u>1,681</u>	<u>-</u>	<u>(144)</u>	<u>(623)</u>
Earnings before interest and income tax	2,304	(1,681)	-	-	623
Interest expense, net	-	-	-	(751)	(751)
Earnings before income tax	<u>2,304</u>	<u>(1,681)</u>	<u>-</u>	<u>751</u>	<u>1,374</u>
Current income tax expense	54	-	-	-	54
Deferred income tax expense	645	-	336	-	981
Earnings attributable to Unitholders and Non-controlling interest	1,605	(1,681)	(336)	751	339
Finance costs - distributions to Unitholders	-	-	-	-	-
Increase (decrease) in net assets attributable to Unitholders and Non-controlling interest	<u>1,605</u>	<u>(1,681)</u>	<u>(336)</u>	<u>751</u>	<u>339</u>
Other comprehensive income (loss)					
Actuarial loss on defined benefit pension plans	(2,402)	-	-	-	(2,402)
Deferred income tax recovery	(719)	-	-	-	(719)
	<u>(1,683)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,683)</u>
Comprehensive income (loss)	<u>(78)</u>	<u>(1,681)</u>	<u>(336)</u>	<u>751</u>	<u>(1,344)</u>
Increase (decrease) in net assets attributable to:					
Priority Unitholders	-	(1,261)	(252)	563	(950)
Ordinary Unitholders	-	(420)	(84)	188	(316)
Non-controlling interest	1,605	-	-	-	1,605
	<u>1,605</u>	<u>(1,681)</u>	<u>(336)</u>	<u>751</u>	<u>339</u>
Comprehensive income (loss) attributable to:					
Priority Unitholders	-	(1,261)	(252)	563	(950)
Ordinary Unitholders	-	(420)	(84)	188	(316)
Non-controlling interest	(78)	-	-	-	(78)
	<u>(78)</u>	<u>(1,681)</u>	<u>(336)</u>	<u>751</u>	<u>(1,344)</u>