



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter Ended September 30, 2006

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This management's discussion and analysis of the financial condition and results of operations ("MD&A") of FNX Mining Company Inc. ("FNX" or the "Company") was prepared to enable a reader to assess material changes in the financial condition and results of operations of FNX as at and for the three and nine month periods ended September 30, 2006, in comparison to the corresponding prior-year periods. This MD&A is prepared as at October 31, 2006, and is intended to supplement and complement the unaudited interim consolidated financial statements of FNX for the periods ended September 30, 2006 and 2005, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should also be read in conjunction with both the audited annual consolidated financial statements and annual MD&A included in the 2005 Annual Report and the most recent Annual Information Form ("AIF") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward looking statements based on management's current expectations (please see "Cautionary Note Regarding Forward Looking Statements" below). All references to dollars herein are in Canadian dollars unless otherwise specified.



Executive Summary

FNX continues to significantly improve and maximize operating results at its 100% owned Sudbury, Ontario mining operations reporting record operating and financial quarterly results during the third quarter of 2006. During this quarter the Company reported higher revenues, earnings, cash margins, cash flow from operating activities, and produced more tons of ore and pounds and ounces of nickel, copper, and precious metals (platinum, palladium and gold) than in any previous quarter. In addition, significant by-product credits from copper and precious metal production resulted in a negative cash cost of US\$0.07 to produce a pound of nickel during the third quarter of 2006.

The Company shipped and sold 165,306 tons of ore resulting in the sale of 2.3 million pounds of nickel, 2.6 million pounds of copper and 7,935 ounces of total precious metals during the third quarter of 2006. FNX realized revenues of US\$14.20 per pound of nickel sold and had negative cash costs, net of by-product credits, of US\$0.07 per pound of nickel sold. The revenue per ton of ore sold was \$320 at a cash cost of \$100 per ton resulting in a cash operating margin per ton of ore sold of \$220. Nickel sales, along with significant by-product revenues from copper, platinum, palladium, gold and cobalt, resulted in operating revenues of \$53.0 million. Mine cash operating costs for the quarter totaled \$16.5 million, providing a cash operating margin of \$36.4 million.

Net earnings for the third quarter were \$20.5 million, equal to \$0.24 per share, and were \$49.0 million, or \$0.59 per share, for the nine months ended September 30, 2006, compared to a loss of \$2.2 million, or \$0.04 per share, and net earnings of \$4.1 million or \$0.08 per share, respectively, in 2005. Higher net earnings in 2006 were a result of record high metal prices this year along with increased production. Earnings in the third quarter of 2005 were adversely affected by a \$2.6 million accounting loss on the disposition of Aurora Platinum Corp. ("Aurora").

Cash flow from operating activities was \$27.3 million in the third quarter of 2006, or \$0.33 per share, compared to \$4.5 million in 2005, or \$0.08 per share. Cash balances and working capital were \$132.9 million and \$147.8 million, respectively, at September 30, 2006 and the Company continued to be debt free.

The bulk of the Company's drilling during the quarter was concentrated on the Levack Footwall Deposits ("LFD") and its associated mineralized systems (including the Rob's Footwall Deposit), as well as contact nickel and other footwall copper-nickel-precious metal targets on the Levack Mine property. As reported in the most recent LFD press release on September 13, 2006, successful drill results continue to expand the LFD mineralized system and confirm its grade and potential. Drilling to date from both underground and surface platforms at the Levack Mine property and Xstrata Nickel's Craig Mine has continued to expand the LFD to a dip length of 1,600 feet. The known plunge of the entire mineralized footwall system to date, from the top of Rob's Footwall to the most down-dip hole in the Lower Levack Footwall Zone, is over 2,300 feet. The deposit remains open, and drilling and borehole geophysical surveys (UTEM and RIM) completed to date indicate that the LFD, the transitional Rob's Footwall and the Lower Levack Footwall deposits may be connected and form one integrated, polymetallic copper-nickel-platinum-palladium-gold mineralized system. Additional drilling will be required to confirm this relationship.

Surface mapping and drilling programs are being conducted on the Company's wholly-owned subsidiary, Aurora's, Foy and Falconbridge properties.



At McCreedy West, mining at the Inter Main, 700 and PM Deposits continued in the third quarter producing more pounds and ounces of nickel, copper, platinum, palladium and gold than in any previous quarter.

Work is continuing with the Phase 1 program at Levack. Shaft rehabilitation has been completed, and work is 60% completed for the 2950 Loading Pocket. New cables have arrived and have been installed on the hoist. Pipe and services installation is still required below the 1200 Level. Procurement of critical path long lead items for the hoisting plant upgrades, loading pocket, spill pocket and underground equipment for the project continues on schedule, with the majority of this equipment arriving to site in the quarter. The underground equipment fleet for the 2006/2007 plan is now on site. Work is continuing with level rehabilitation on the 1200, 1300, 1500 and 1800 and the 2650 Levels. The production hoist modernization is 60% completed, and continues to be on schedule for commissioning in November.

At Podolsky shaft development was completed to final depth, including excavation for the loading pocket and shaft bottom arrangements. All major components of the loading pocket are now in place, and placement of the electrical, controls and instrumentation is scheduled for completion by early November. The changeover from the shaft sinking setup is ongoing and will be completed by early November, including commissioning of the hoist. On surface, work has commenced on the construction of the Office/Dry Complex.

During the third quarter of 2006, FNX reported no lost time accidents and no reportable environmental incidents.

FNX delisted its shares from trading on the American Stock Exchange ("**AMEX**") effective June 12, 2006. The Company filed a Form 15 with the United States Securities and Exchange Commission ("**SEC**") and on September 14, 2006 completed the deregistration of the Company's shares under section 12(b) of the Securities Exchange Act of 1934, as amended. The Company is no longer required to file certain reports, including Form 40-F and 6-K, with the SEC.

Key Economic Trends and Sensitivities

The MD&A included in FNX's 2005 Annual Report contained a discussion of the key economic trends that affect the Company and how they impact FNX's financial statements. This interim MD&A provides an update to reflect any significant changes in those trends since the preparation of the 2005 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the price of nickel and, to a lesser extent, the price of copper and other metals (platinum, palladium, gold and cobalt) produced by the Company.

FNX plans to ship 635,000 tons of production and pre-production ore in 2006 and to have payable metal production of 8.1 million pounds of nickel, 9.7 million pounds of copper, 55,000 pounds of cobalt and 30,000 total ounces of platinum, palladium and gold, approximately 10,000 ounces less than originally budgeted due to lower mine tons from the PM Deposit early in the year and stope sequencing.

Nickel

Nickel accounted for approximately 69% of the Company's mine operating revenues in the third quarter of 2006, an increase from 57% in the second quarter of 2006 and a decrease from 73% in the third quarter of 2005. The cash settlement price of nickel on the London Metal Exchange ("LME") averaged US\$13.22 per pound in the third quarter of 2006, compared to an average of US\$9.03 per pound and US\$6.61 per pound in the second quarter of 2006 and the third quarter of 2005, respectively. The LME cash settlement price of nickel on October 31, 2006 was US\$14.88 per pound. Management continues to be of the view that the LME average cash settlement price for nickel will continue to be strong but volatile. Each US\$1.00 change in the price per pound of nickel is expected to generate a change in the Company's 2006 pre-tax earnings and cash flow from operating activities of approximately \$9.7 million, on an annualized basis.

Copper

Copper accounted for 20% of revenues in the third quarter of 2006, compared to 27% in the second quarter of 2006 and 15% in the second quarter of 2005 as the PM Deposit had not commenced commercial production until May 2005. The LME cash settlement price for copper has continued to increase in the third quarter of 2006 and averaged US\$3.48 per pound, compared to US\$3.27 per pound in the second quarter of 2006 and US\$1.70 per pound in the third quarter of 2005. The LME cash settlement price of copper on October 31, 2006 was US\$3.36 per pound. Each US\$0.50 change in the price per pound of copper is expected to generate a change in the Company's 2006 pre-tax earnings and cash flow from operating activities of approximately \$5.9 million, on an annualized basis. Management is of the view that the LME average cash settlement price for copper will remain strong relative to historic prices.

Precious and other metals

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt, which comprised 11% of FNX's revenues in the third quarter of 2006, compared to 16% of FNX's revenues in the second quarter of 2006 and 12% in the third quarter of 2005. The price of platinum increased from US\$968 per ounce at December 31, 2005 to US\$1,140 per ounce at September 30, 2006. The price of palladium increased from US\$254 per ounce at December 31, 2005 to US\$315 at September 30, 2006. The price of gold increased from US\$517 per ounce on December 31, 2005 to US\$598 per ounce on September 30, 2006. The price of cobalt has increased from US\$12.60 per pound on December 31, 2005 to US\$17.40 per pound on September 30, 2006. The contribution to FNX's revenues from the sale of platinum, palladium and gold is higher in 2006 than in 2005.

Foreign exchange

FNX reports its financial results in Canadian dollars. While the Company's minesite operating costs and most exploration and administration costs are in Canadian dollars, concentrating, smelting and refining costs and all metal sales are in United States dollars ("US\$"). The Canadian-US dollar exchange rate remained relatively stable during the third quarter as the average exchange rate was \$1.12/US\$, unchanged from the second quarter of 2006, compared to \$1.15/US\$ during the first quarter of 2006 and \$1.20/US\$ in the third quarter of 2005. The exchange rate was \$1.1231/US\$ on October 31, 2006. Each \$0.05 change in exchange rates is expected to generate a change in the Company's 2006 pre-tax earnings and cash flow from operating activities of approximately \$2.1 million, on an annualized basis.



Financial Results

Overview

The following table presents a summary of FNX's Consolidated Statements of Operations and other cash flow data for the periods ended September 30, 2006 and 2005.

Table 1	Three Months Ended			Nine Months Ended		
	2006	2005	Change	2006	2005	Change
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Mine operating revenues	52,964	18,588	34,376	119,743	61,876	57,867
Mine operating expenses ⁽¹⁾	(16,520)	(12,254)	(4,266)	(48,438)	(35,452)	(12,986)
Margin	36,444	6,334	30,110	71,305	26,424	44,881
Mine depreciation and amortization	(3,338)	(2,130)	(1,208)	(9,365)	(5,563)	(3,802)
Mining, net	33,106	4,204	28,902	61,940	20,861	41,079
Non-controlling interest	-	(919)	919	-	(4,738)	4,738
Earnings from operations	33,106	3,285	29,821	61,940	16,123	45,817
Administration	(1,850)	(1,412)	(438)	(7,125)	(5,541)	(1,584)
Capital taxes	(798)	-	(798)	(1,373)	-	(1,373)
Depreciation	(53)	(25)	(28)	(104)	(58)	(46)
Stock-based compensation	(589)	(365)	(224)	(1,721)	(726)	(995)
Taxes	(10,505)	(1,166)	(9,339)	(6,080)	(3,407)	(2,673)
Loss on disposition of Aurora	-	(2,600)	2,600	-	(2,600)	2,600
Other (expenses) income	1,165	65	(1,100)	3,476	330	3,146
Net earnings (loss)	20,476	(2,218)	22,694	49,013	4,121	44,892
Basic EPS	\$0.24	(\$0.04)	\$0.28	\$0.59	\$0.08	\$0.51
Cash flow from operating activities	27,316	4,523	22,793	49,626	12,962	36,664
Cash flow per share	\$0.33	\$0.08	\$0.25	\$0.59	\$0.25	\$0.34

⁽¹⁾ Mine operating expenses exclude mine depreciation and amortization.

As described in the MD&A for 2005, FNX changed its accounting policy with respect to revenue recognition. Revenue is recognized at the time the ore is shipped, which is also the time that title transfers. As a result of the change in accounting policy for revenue recognition, FNX's revenues and, therefore, net earnings will be more volatile in 2006 and beyond as the impact of changing metal prices on provisionally priced sales is recorded in subsequent periods.

Operating revenues were \$53.0 million in the third quarter of 2006, approximately 32% higher than in the second quarter of 2006, and were \$34.4 million, or 185%, higher than in the third quarter of 2005. FNX had net earnings of \$20.5 million, equal to \$0.24 per share for the quarter, compared to a net loss of \$2.2 million, or \$0.04 per share, in the same quarter last year and \$25.3 million, or \$0.30 per share, in the second quarter of 2006. Cash flow from operating activities was \$27.3 million in the third quarter, or \$0.33 per share, compared to \$14.8 million, or \$0.18 per share in the second quarter of 2006 and \$4.5 million, or \$0.08 per share, in the third quarter of 2005.

As a result of strong operating results the third quarter of 2006 included a provision for income taxes of \$10.5 million, compared to a tax recovery of \$6.5 million during the second quarter of 2006. While FNX's capital expenditures program in 2006 continues to increase the total amount of tax deductions available to the Company, Canadian income tax rules restrict the amount of



such deductions permitted in any particular taxation year. As a result of the unprecedented earnings of the Company in 2006 to date, it appears unlikely that FNX will be able to reduce its 2006 taxable income to nil. Accordingly, the Company has included in the \$10.5 provision for taxes a \$2.7 million accrual for the estimated amount of income taxes due for 2006 to date. The income tax recovery for the second quarter of 2006 of \$6.5 million included a future income tax benefit of \$13.8 million as a result of a decrease in Canadian federal income tax rates.

FNX's cash position at September 30, 2006 was \$4.8 million lower than at June 30, 2006 and \$19.6 million lower than at December 31, 2005, as a result of the Company's significant capital expenditure program. Working capital was \$147.8 million at September 30, 2006, an increase of \$0.2 million from June 30, 2006.

Metal Production and Sales

The following table presents a summary of FNX's metal production and sales information for the periods ended September 30, 2006 and 2005.

Table 2	Three Months Ended September 30			Nine Months Ended September 30		
	2006	2005	Change	2006	2005	Change
Ore sold (tons)						
Nickel ore	75,248	74,616	632	233,040	242,293	(9,253)
Copper ore	90,058	37,179	52,879	233,744	63,670	170,074
Total ore	165,306	111,795	53,511	466,784	305,963	160,821
Grade of ore sold						
Nickel ore (%Ni)	1.8	1.9	(0.1)	1.6	1.7	(0.1)
Copper ore (%Cu)	1.4	1.8	(0.4)	1.6	3.0	(1.4)
Payable metal sold (000s lbs)						
Nickel	2,280	1,798	482	6,139	5,867	272
Non-controlling interest	-	(450)	450	-	(1,467)	1,467
Net to FNX	2,280	1,348	932	6,139	4,400	1,739
Copper						
Copper	2,640	1,344	1,296	7,309	4,158	3,151
Non-controlling interest	-	(336)	336	-	(1,040)	1,040
Net to FNX	2,640	1,008	1,632	7,309	3,118	4,191
Metal sales revenue						
Average Ni price (US\$/lb)	14.20	6.28	7.92	10.82	6.85	3.97
Average Cu price (US\$/lb)	3.60	1.73	1.87	3.29	1.56	1.73
C\$/US\$ exchange rate	1.12	1.20	(0.08)	1.13	1.22	(0.09)
Total revenue (\$000s)	52,964	18,588	34,376	119,743	61,876	57,867
Revenue (\$/ton of ore sold)	320	166	154	257	202	55
Cash cost						
Mining (\$000s)	16,520	12,254	(4,266)	48,438	35,452	12,986
Cash cost (\$/ton of ore sold)	100	110	10	104	116	12
Cash cost (US\$/lb of Ni sold)	(0.07)	3.35	3.42	0.51	3.19	2.68

- Notes:
1. All production figures are shown on a 100% basis with Dynatec's 25% interest in 2005 shown as non-controlling interest.
 2. Tons of ore, grade and payable metal sold relate to ore that was mined from McCreedy West, was shipped to Inco and was, accordingly, recognized in revenue during the three and nine month periods ended September 30, 2006 and 2005, respectively.
 3. Cash operating cost per pound of nickel sold excludes mine depreciation and amortization and includes mining, milling, smelting, refining, haulage and marketing costs and is net of by-product credits.
 4. Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Zone.



Metal sales

Ore sold in the third quarter of 2006 totaled 165,306 tons, compared to 111,795 sold in the third quarter of 2005. Year to date ore sold totaled 466,784 tons, compared to 305,963 during the same period 2005, representing an increase of 53%. Nickel sales of 2,280,000 pounds in the third quarter of 2006 were 482,000 pounds more than the third quarter of 2005, and were 315,000 pounds more than in the second quarter of 2006. Copper sales in the third quarter of 2006 of 2,640,000 pounds were 1,296,000 pounds more than in the same period in 2005, representing a 96% increase, and were 46,000 pounds higher than in the second quarter of 2006. The total ounces of precious metals were 7,935 ounces during the third quarter of 2006, up from 7,332 in the second quarter of 2006, and were 22,226 ounces year to date in 2006 representing a 276% increase from the 5,911 ounces produced during the first nine months of 2005. Year-over-year metal sales increased primarily as a result of the PM Deposit reaching commercial production in May 2005.

Metal sales revenue

The nickel and copper contained in the ore that FNX sells to Inco Limited ("Inco") for further processing each month is priced at and ultimately paid to FNX on the basis of the lower of the month's average LME cash settlement price and the monthly average LME three month seller price. FNX's average realized nickel price was US\$14.20 per pound and US\$10.82 per pound of nickel sold in the third quarter and year to date 2006, respectively, compared to US\$6.28 per pound and US\$6.85 per pound, respectively, last year. FNX realized US\$0.98 per pound of nickel more than the LME average price for the third quarter of 2006 as a result of \$8.8 million of additional revenue from the metal sales settlements related to metal sales that were provisionally priced in prior periods. These settlement variances arise as a result of the revenue recognition accounting policy adopted in 2005, whereby FNX recognizes revenue when ore is shipped and title passes. Provisional pricing is used at that time as the final prices are not determined until future periods. For nickel and copper, final pricing occurs two months after shipment. Year to date settlement variance revenue is \$16.8 million in 2006, compared to \$0.9 million during the same period in 2005.

The 7% year-over-year appreciation in the value of the Canadian dollar relative to the US dollar resulted in lower revenue in Canadian dollars than would otherwise have been realized.



The following table shows the increase (decrease) in FNX's nickel sales revenue (in Canadian dollars) as a result of an increase (decrease) in the quantity of nickel sold and the price of nickel earned by comparing the third quarter of 2006 to previous periods.

Table 3	Q3-2006		YTD-2006		Q3-2006	
	compared to		compared to		compared to	
	Q3-2005		YTD-2005		Q2-2006	
	\$000s		\$000s		\$000s	
Increase (decrease) in nickel sold:						
<i>Number of pounds sold (000s lbs)</i>	482		272		315	
Change in revenue due to quantity		3,643		2,285		3,656
<i>Price per pound sold (US\$/lb)</i> ⁽¹⁾	7.89		3.12		3.84	
Change in revenue due to price		19,040		23,219		9,811
Net change in sales revenue		22,683		25,504		13,467

⁽¹⁾ The price of nickel is quoted in US dollars. FNX, however, reports revenue in Canadian dollars. As a result of the approximately 7% appreciation in the Canadian dollar compared to the US dollar from the third quarter of 2005 to the third quarter of 2006, the increase in the price per pound of nickel in Canadian dollar terms has not been as large as the increase in US dollar terms. The effect of changes in the Canadian dollar-US dollar exchange rate realized by FNX has not been separately identified in the table above.

Mining cost of sales

Mine operating expenses excluding mine depreciation and amortization costs ("cash operating costs") were \$16.5 million in the third quarter of 2006, \$0.6 million higher than the second quarter of 2006, and \$4.3 million higher than the third quarter of 2005. FNX's cash operating cost per pound of nickel sold, a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was negative US\$0.07 for the quarter, US\$3.42 per pound lower than in the third quarter of 2005 and US\$0.50 per pound higher than in the second quarter of 2006. The cash operating cost per pound benefited from higher by-product credits in 2006. Cash operating costs were \$4.3 million higher in the third quarter of 2006, compared to the third quarter of 2005, due to the higher number of tons of ore sold.

The following tables present the calculation of cash operating costs per pound of nickel sold.

Table 4	Three months ended			Three months ended		
	September 30, 2006			September 30, 2005		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	16,520	14,727	6.46	12,254	10,197	5.67
By-product credits:						
Copper	(10,666)	(9,509)	(4.17)	(2,778)	(2,312)	(1.29)
Other ⁽²⁾	(6,030)	(5,376)	(2.36)	(2,227)	(1,853)	(1.03)
Cash operating costs	(176)	(158)	(0.07)	7,249	6,032	3.35
Nickel sold (000s lbs)		2,280			1,798	

Table 4 (continued)	Nine months ended September 30, 2006			Nine months ended September 30, 2005		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	48,438	42,763	6.97	35,452	28,959	4.94
By-product credits:						
Copper	(27,106)	(23,930)	(3.90)	(7,946)	(6,491)	(1.11)
Other ⁽²⁾	(17,789)	(15,705)	(2.56)	(4,585)	(3,745)	(0.64)
Cash operating costs	3,543	3,128	0.51	22,921	18,723	3.19
Nickel sold (000s lbs)		6,139			5,867	

(1) Operating expenses exclude mine depreciation and amortization.

(2) Platinum, palladium, gold and cobalt.

(3) Canadian dollars have been translated into US dollars using the average rate realized by FNX for the relevant period.

Total operating costs are expected to be higher in 2006 compared to 2005 as a result of greater quantities of ore mined and sold due to the commencement and ramp-up of production from the PM Deposit. The PM Deposit's relatively higher copper and precious metals by-product content should result in higher by-product credits in 2006 compared to 2005.

Mine depreciation and amortization expense was \$3.3 million in the third quarter of 2006, compared to \$2.1 million in the third quarter of 2005. Mine depreciation and amortization expense will be higher in 2006, compared to 2005, due to the increase in production rates from ramping up the PM Deposit and the additional amortization associated with the significantly higher carrying value of the McCreedy West Mine as a result of the Company's purchase of Dynatec's 25% interest in the former Sudbury Joint Venture ("**SJV**") and 50% interest in Aurora (the "**Dynatec Transaction**").

Cash operating margin per ton of ore sold

Cash operating margin per ton of ore sold, a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was \$220 per ton in the third quarter of 2006, compared to \$156 per ton in second quarter of 2006 and \$56 per ton in the third quarter of 2005. By-product credits were the main factor contributing to the higher margin in 2006, compared to the third quarter of 2005, thereby contributing to the higher cash operating margin per ton of ore sold in 2006.



The following table presents the calculation of cash operating margin per ton of ore sold ⁽¹⁾ for the periods indicated.

Table 5	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$/ton	\$/ton	\$/ton	\$/ton
Mine operating revenue	320	166	257	202
Mine operating expenses ⁽²⁾	(100)	(110)	(104)	(116)
Cash operating margin per ton of ore sold	220	56	153	86

(1) Components of the cash operating margin per ton of ore sold are calculated by dividing each of mine operating revenue and mine operating expenses, as per the statements of operations, by tons of ore sold.

(2) Mine operating expenses exclude mine depreciation and amortization.

With metal prices continuing to be volatile, grades forecast to remain stable and increasing tonnages of lower margin ore mined from the PM Deposit, FNX anticipates that the cash operating margin per ton of ore sold will continue to be volatile.

Other Items in the Statements of Operations

Administration

Administration expenses were \$1.9 million and \$7.1 million in the third quarter and year to date 2006, respectively, compared to \$1.4 million and \$5.5 million in 2005. Administration expenses were higher this year, primarily due to the addition of personnel to assist in facilitating the growth of FNX's business as a result of the Dynatec Transaction and for annual bonuses for exceeding corporate objectives for the 2005 year.

Depreciation

Depreciation expenses for the Toronto head office and Sudbury exploration office equipment, furniture and fixtures were not significant.

Stock-based compensation

Stock-based compensation expense was \$0.6 million in the third quarter of 2006, compared to \$0.5 million in the second quarter and \$0.4 million in the third quarter of 2005. Year to date stock-based compensation was \$1.7 million in 2006, an increase of \$1.0 million from the same period in 2005 as a result of the increase in the number of options in 2006 compared to 2005. In the third quarter of 2006, 91,000 stock options were granted, 9,000 were exercised, and 38,000 were cancelled, while in the third quarter of 2005 options to purchase 160,000 shares were granted, 97,000 were exercised and none expired or were cancelled.

Loss on disposition of Aurora

Notwithstanding that the acquisition of a 100% interest in Aurora on July 1, 2005 and the immediate subsequent disposition of a 50% interest in Aurora to Dynatec were essentially simultaneous transactions, accounting rules require these transactions to be handled separately.



For purposes of the acquisition of 100% of Aurora the fair value of the 4,270,803 common shares of FNX issued to shareholders of Aurora was \$11.64 per share. Accordingly, for accounting purposes, the fair value of the shares of FNX issued was \$49.7 million, excluding \$0.7 million of transaction costs. This fair value amount was ascribed to the net assets acquired.

Also on July 1, 2005, FNX sold to Dynatec a 50% interest in Aurora with an accounting cost base of \$25.2 million, being half of the fair value of the FNX shares issued to acquire Aurora as described above. The consideration received from Dynatec was \$12.2 million in cash and 7,716,594 common shares of Dynatec. As the Dynatec transaction was independent of the acquisition of Aurora, for accounting purposes, the fair value of the shares received from Dynatec at the date the transaction closed was \$1.30 per share for a total fair value of \$10.0 million. The fair value of cash and share proceeds received from Dynatec, therefore, totaled \$22.6 million. Accordingly, for accounting purposes, FNX recorded a one-time, pre-tax, non-cash loss on the sale to Dynatec, of \$2.6 million, being the difference between the \$22.6 million of fair value proceeds received and FNX's \$25.2 million of fair value costs. In addition, as a result of the difference between the value of the Dynatec shares for accounting and tax purposes, a further future income tax expense of \$0.7 million was charged to earnings.

Other expenses (income)

Other expenses (income) resulted in net income of \$1.2 million and \$3.5 million in the third quarter and year to date of 2006, respectively, compared to net income of \$0.1 million and \$0.3 million, respectively, in 2005. Other income primarily consists of interest income on cash and cash equivalents of the Company.

Provision for income and resource taxes and provincial capital taxes

In the third quarter of 2006 FNX reported a provision from income taxes of \$10.5 million, compared to a recovery of taxes of \$6.5 million in the second quarter of 2006.¹ Year to date the Company has a provision of income taxes of \$6.1 million, compared to an income tax provision of \$3.4 million during the first nine months of 2005. No cash income taxes or resource taxes were payable in 2005. The Company continues to have significant income and resource tax deductions available to reduce cash taxes; however, as discussed above the Company anticipates incurring some cash taxes during 2006.

Many provincial jurisdictions, including the Province of Ontario, charge a tax based on a corporation's taxable capital. This expense, however, is deductible in the determination of taxable income and the Company separately discloses it in the statement of operations. Primarily as a result of the issuance of 20,500,000 common shares to Dynatec under the Dynatec Transaction and 7,500,000 common shares under a public offering, both of which occurred in the fourth quarter of 2005, the Company's taxable capital at September 30, 2006 for provincial capital tax purposes is significantly higher than at September 30, 2005. Accordingly,

¹ In June 2006, the Government of Canada enacted legislation reducing corporate tax rates over a period of several years. During the second quarter of 2006 FNX recorded a future income tax recovery of \$13.8 million to reflect the positive impact of these tax rate reductions on transactions in prior years for which future taxes will be paid. Quarterly pre-tax earnings attracted income and resource taxes at an effective rate of 38%, or \$7.3 million, and when combined with the aforementioned future income tax liability adjustment resulted in a net \$6.5 million tax recovery.



FNX charged to earnings \$0.8 million and \$1.4 million in provincial capital tax expense for the third quarter of 2006 and year to date, respectively, compared to \$nil in 2005.

Non-controlling interest

As a result of the Dynatec Transaction in October 2005, which resulted in the termination of the SJV, the non-controlling interest has been eliminated.

Hedging

FNX does not currently have any commodity or foreign exchange hedging or other derivative instruments and there are currently no plans to enter into any such contracts.

EBITDA

Earnings before interest income and expense, income and capital taxes, stock-based compensation and depreciation and amortization (“**EBITDA**”), a non-GAAP performance measure (please see discussion under non-GAAP Performance Measures below), was \$34.4 million during the third quarter of 2006, \$31.4 million higher than in the third quarter of 2005 and \$13.2 million higher than in the second quarter of 2006. The EBITDA for the nine months ended September 30, 2006 was \$50.0 million higher than the same period in 2005.

The following table presents the calculation of EBITDA for the periods indicated.

Table 6	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
	\$000s	\$000s	\$000s	\$000s
Mine operating revenue	52,964	18,588	119,743	61,876
Mine operating expenses ⁽¹⁾	(16,520)	(12,254)	(48,438)	(35,452)
Cash operating margin	36,444	6,334	71,305	26,424
Administration	(1,850)	(1,412)	(7,125)	(5,541)
Other (expenses) income ⁽²⁾	(155)	(288)	(469)	(541)
Non-controlling interest ⁽³⁾	-	(1,584)	-	(6,606)
EBITDA	34,439	3,050	63,711	13,736

⁽¹⁾ Mine operating expenses exclude mine depreciation and amortization.

⁽²⁾ Excludes interest income and interest expense.

⁽³⁾ Calculated as 25% of cash operating margin.

Financial Condition and Liquidity

Cash and cash flows

Cash flow from operating activities totaled \$27.3 million and \$49.6 million in the third quarter and year to date 2006, respectively, compared to \$4.5 million and \$13.0 million, respectively in 2005. The cash flows were significantly higher in 2006 due to higher realized metal prices resulting in a higher cash operating margin and greater quantities of ore mined and sold due to the commencement and ramp up of production from the PM Deposit.



Financing activities resulted in net cash inflows of \$0.1 million and \$0.8 million in the third quarter of 2006 and year to date, respectively, from the issuance of 9,000 and 190,000 common shares, respectively, for stock options exercised under the Company's stock option plan. 2005 financing activities were lower as a result of cash contributions to the former SJV.

Investing activities for the third quarter of 2006 resulted in net cash outflows of \$32.1 million, compared to a net cash outflow of \$1.5 million in 2005. Exploration, development and equipment expenditures that were capitalized as property, plant and equipment totaled \$68.6 million for the year to date 2006 and are budgeted to total \$97 million for the entire year.

The net change in cash balances as a result of operating, financing and investing activities was a net cash outflow of \$19.6 million since December 31, 2005, compared to a net cash inflow of \$0.7 million during the comparative period in 2005. FNX remains debt free and the Company's cash position of \$132.9 million at September 30, 2006, is sufficient to meet all planned cash expenditures in 2006.

Working capital

Working capital increased \$0.2 million during the third quarter of 2006 to \$147.8 million, due to higher accounts receivable and payable, and decreased \$5.4 million year to date, primarily as a result of increased capital expenditures.

Reclamation and other deposits

Reclamation deposits increased \$0.1 from the second quarter of 2006 and include various amounts with government agencies in the Province of Ontario in connection with the McCreedy West and Podolsky properties. Reclamation deposits are subject to change based upon changes in the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

In October 2005, a \$2.4 million deposit was advanced to Dynatec as a deposit for mining contractor services to be provided by Dynatec in connection with the Mining Services Agreement entered into on October 21, 2005. The deposit will ultimately be applied against Dynatec's invoice for December 2007.

Investments

FNX continues to hold 7,716,594 common shares of Dynatec, 13,300,000 common shares of Lake Shore Gold Corp., 6,860,715 common shares of Superior Diamonds Inc., and 3,150,230 common shares and 2,347,886 share purchase warrants of International Nickel Ventures Corporation ("**INV**"), all of which are publicly traded corporations. The combined book value was \$30.4 million and, as at September 30, 2006, the market value was \$40.0 million.

Property, plant and equipment

(i) Summary

Acquisition costs and expenditures on property, plant and equipment totaled approximately \$32.1 million during the third quarter of 2006 and \$68.6 million year to date. The cash expenditures consisted of exploration drilling, underground exploration/development, including



shaft sinking at Podolsky and shaft rehabilitation at Levack, and the purchase of certain mining equipment.

The following table shows the net increase in property, plant and equipment expenditures for 2006 by property location.

Table 7	Nine months ended September 30, 2006	Three months ended September 30, 2006	Six months ended June 30, 2006
	\$000s	\$000s	\$000s
Aurora Properties	3,292	1,860	1,432
McCreedy West	8,223	2,505	5,718
Kirkwood	69	25	44
Levack	33,076	19,253	13,823
Levack Footwall	8,917	2,941	5,976
Podolsky	12,202	3,088	9,114
Victoria	31	19	12
	65,810	29,691	36,119
Corporate	670	314	356
	66,480	30,005	36,475

FNX's total capital expenditure budget on property, plant and equipment for 2006 is \$97 million (including \$12 million for exploration). In 2006, FNX is budgeting \$14 million to acquire equipment and further develop the PM Deposit at the McCreedy West Mine. Capital expenditures at Levack in 2006 are budgeted at \$47 million (including exploration on the Levack Footwall Deposit) and will focus on continuing dewatering and shaft rehabilitation, installing ore handling infrastructure and development work to reach future production targets. Capital expenditures at Podolsky in 2006 are budgeted at \$28 million and involved further shaft sinking to reach the final planned depth of 2,650 feet, installation of ore handling infrastructure, development into the 2000 Deposit to extract a bulk sample in early 2007 and the construction of certain environmental and other surface infrastructures including a water treatment plant. Capitalized exploration expenditures on the rest of FNX's properties, is budgeted at approximately \$5 million in 2006. The Company has sufficient cash resources on hand and will generate additional cash flow from operating activities to fund its capital expenditure program in 2006.

(ii) Sudbury Basin properties

On January 10, 2002, FNX entered into an agreement with Dynatec, pursuant to which Dynatec acquired 25% of FNX's 100% interest in the mineral rights to five former Inco mineral properties located in the Sudbury Basin, Ontario (Kirkwood, Levack, McCreedy West, Podolsky and Victoria, collectively, the "**Properties**") and FNX and Dynatec formed a joint venture known as the SJV, with FNX holding a 75% interest and Dynatec a 25% interest. Inco retained certain processing and other rights on the Properties. FNX managed exploration activities relating to the SJV and Dynatec managed mining operations.

On October 21, 2005, FNX and Dynatec closed the Dynatec Transaction, whereby FNX increased its ownership to 100% of the SJV assets by acquiring Dynatec's 25% interest in the SJV and 50% interest in Aurora. Accordingly, FNX now holds a 100% interest in the Properties, including the Aurora Properties in Sudbury and elsewhere.

(iii) McCreedy West

Commercial production from the Inter Main Deposit at the McCreedy West Mine was achieved on November 1, 2003 and the scheduled mining rate of 1,000 tons per day was reached in April 2004. Commencing May 2005, revenue and expenses from ore mined and shipped from the McCreedy West PM Deposit have been included in the statement of operations. FNX holds a 100% interest in McCreedy West.

(iv) Exploration

The carrying value of the mineral exploration properties represents the accumulated costs to date for the acquisition of and exploration costs incurred by FNX on its non-producing mineral exploration properties. Mineral exploration properties are not being amortized. FNX's active mineral exploration properties are located in the Sudbury mining district, and are comprised as follows:

Table 8	September 30 2006	December 31 2005
	\$000s	\$000s
Aurora Properties	95,415	92,123
Kirkwood	1,669	1,600
Levack	114,585	81,509
Levack Footwall	228,105	219,188
Podolsky	81,598	69,396
Victoria	6,206	6,175
	527,578	469,991

FNX holds a 100% interest in the Kirkwood, Levack (including the Levack Footwall), Podolsky and Victoria mineral properties, all of which are located in the Sudbury Basin region of Ontario.

The Aurora Properties are located in the Sudbury Basin region, Timmins, and in north-western Ontario and the Temiscamingue region of Quebec. All of Aurora's properties are in the exploration stage. The most material mineral properties that are included in the Aurora properties are located in the Sudbury Basin region and are pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Falconbridge Limited ("**Falconbridge**"). As at December 31, 2005, the Company and Falconbridge held a 70% and 30% interest, respectively, in the Falconbridge Joint Venture and, as Falconbridge is not participating in the 2006 exploration program, Falconbridge's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between 50% and 100% interests in the remaining mineral exploration properties included in the Aurora properties.



During the third quarter, FNX drilled 57,682 feet of exploration diamond drilling in 90 holes. The following table details the drilling by property and has been adjusted to reflect the drilling of exploration holes only (definition drilling holes are not reported).

Table 9	Three months ended September 30, 2006		Nine months ended September 30, 2006	
	# Holes	# Feet	# Holes	# Feet
Levack	53	15,946	93	34,925
McCreedy West – Exploration	9	5,283	23	16,943
Levack Footwall	12	11,909	68	93,754
Podolsky	-	-	2	2,344
Aurora – Sudbury	6	22,102	12	32,034
Aurora – Non-Sudbury	12	8,540	12	8,540
	92	63,780	210	188,540

Drilling at the McCreedy West Mine during the third quarter of 2006 continued to delineate and define additional resources and reserves at the Inter Main, East Main and PM Deposits. For the past two years, underground drilling at the McCreedy West Mine has been successful in outlining sufficient new reserves to replace those mined during the year and results to date this year indicate that this objective will also be achieved for the current year.

The bulk of the Company's drilling during the quarter was concentrated on the LFD and its associated mineralized systems (including the Rob's Footwall Deposit), as well as contact nickel and other footwall copper-nickel-precious metal targets on the Levack Mine property. As reported in the most recent LFD press release on September 13, 2006, successful drill results continue to expand the LFD mineralized system, and confirm its grade and potential. Drilling to date from both underground and surface platforms at the Levack Mine property and Xstrata Nickel's Craig Mine has continued to expand the LFD to a dip length of 1,600 feet. The known plunge of the entire mineralized footwall system to date, from the top of Rob's Footwall to the most down-dip hole in the Lower Levack Footwall Zone, is over 2,300 feet. The deposit remains open, and drilling and borehole geophysical surveys (UTEM and RIM) completed to date indicate that the LFD, the transitional Rob's Footwall and the Lower Levack Footwall deposits may be connected and form one integrated, polymetallic copper-nickel-platinum-palladium-gold mineralized system. Additional drilling will be required to confirm this relationship.

Drilling from underground platforms at Xstrata Nickel's Craig Mine was interrupted late in the quarter due to logistical and accessibility issues. The issues are being resolved and drilling from Xstrata Nickel's Craig Mine is expected to resume early in November. During the quarter, the Company initiated drilling on the up-dip extension of the LFD and the Rob's Deposit with a drill rig operating from FNX's Levack Mine. FNX currently has three surface drills and one underground drill testing the Levack footwall deposits and surrounding areas and expects two more drill rigs to restart drilling from Xstrata's Craig Mine in early November with a third drill rig planned for mid-November.

FNX has initiated the construction of ore and waste handling systems on the Levack Mine 2650 Level as a precursor to ramp development into the Rob's Footwall and up-dip extension of the LFD. This development will also provide strategically located drill platforms on which to test the Levack footwall deposits.



Surface mapping and drilling programs are being conducted on the Company's wholly-owned subsidiary, Aurora's, Foy and Falconbridge properties.

Mine closure and site restoration

FNX estimates the total future mine closure and site reclamation costs (also known as asset retirement obligations) associated with the Sudbury operations to be \$1.7 million, \$0.1 million higher than at December 31, 2005. These estimates are formally reviewed by technical personnel every year or more frequently if required by regulatory agencies. A credit adjusted risk free rate of 6.0% was utilized to determine the mine closure and site restoration obligation recorded in the consolidated balance sheets. Management anticipates that such obligations will substantially be settled at or near the closure of its mining operations.

Non-controlling interest

Non-controlling interest was eliminated in 2005.

Share capital

During the third quarter of 2006, share capital increased by \$0.1 million from \$560.0 million to \$560.1 million as a result of the exercise of 9,000 stock options. Year to date share capital has increased by \$1.2 million as a result of the exercise of 190,000 stock options. During the third quarter of 2005, 97,000 common shares were issued upon the exercise of stock options for total cash consideration of \$0.6 million. As at September 30, 2006, stock options to purchase 2.6 million common shares at a weighted average of \$8.82 per share were outstanding. The number of stock options outstanding as at October 31, 2006 represents 3.1% of the issued and outstanding common shares as at that time.

During the first three quarters of 2005, share capital increased \$47.8 million from \$126.4 million to \$174.2 million as a result of the acquisition of Aurora on July 1, 2005.

On March 16, 2005, as amended, the Board of Directors approved the implementation of a deferred share unit plan (the "**DSU Plan**"), effective July 1, 2005. The purpose of the DSU Plan is to promote a greater alignment of interests between shareholders and Directors and executive employees by linking a portion of Director compensation and executive employee bonuses to the future value of FNX's common shares. The DSU Plan is only eligible to Directors and executive employees of FNX and is to allow Directors and executive employees the choice to receive, in increments of 25%, up to 100% of their director compensation or management bonus in the form of DSUs rather than by way of cash. Under the terms of the DSU Plan, the number of DSUs granted is based upon the fair market value of FNX's common shares at that time. DSUs are only paid out upon the Director's or executive employee's death or resignation from the Board or the Company. Included in accrued liabilities is \$0.4 million related to 35,100 DSUs.

Post-retirement benefits

FNX does not currently have any post-retirement benefit plans for its employees, officers and directors. The Company does, however, match contributions made by employees and officers to their registered retirement savings plans to a maximum of the lesser of 5% of salary and the maximum permitted by regulation.



Related Party Transactions

In periods prior to December 31, 2005, FNX had acquired 2,320,230 common shares and 2,347,886 common share purchase warrants of INV, which was a private mineral prospecting company at such time. The President and Chief Executive Officer of FNX (who is also a director of FNX and a director of INV), two other directors and two senior officers of FNX also invested in INV. As part of an initial public offering by INV, on March 17, 2006, FNX purchased an additional 830,000 common shares of INV for cash consideration of \$996,000. As at June 30, 2006, FNX owned 3,150,230 common shares of INV, representing 9.1% of the issued and outstanding common shares of INV, and 2,347,886 common share purchase warrants at an exercise price of \$1.40 per common share.

Under the terms of an agreement between FNX and INV, dated January 1, 2006, FNX has agreed to provide certain administrative services and facilities to INV as well as the non-exclusive services of certain personnel, all in consideration of a flat fee of \$10,000 per month. These services and facilities include commercially reasonable office facilities and communication equipment and the non-exclusive services of certain FNX personnel, including the Senior Vice President and Chief Financial Officer of FNX who is also the Vice President and Chief Financial Officer of INV, as well as accounting staff as required by the Vice President and Chief Financial Officer of INV and administrative staff as required by INV. The services provided by these personnel are limited to 20% of the time of each such individual per week on the basis of a 40 hour work week. In addition, the non-exclusive services of the Vice President Business Development of FNX (who also serves as the President and Chief Executive Officer of INV) and the Vice President of Investor Relations and Corporate Secretary of FNX (who also serves as the Director of Investor Relations for INV) are provided to INV pursuant to the agreement in consideration of the reimbursement to FNX of an amount equal to the salary and benefits paid by FNX to each such officer, multiplied by the percentage of their respective time spent providing services to INV. The services provided by the Vice President of Investor Relations and Corporate Secretary of FNX are limited to 20% of the time of such individual per week on the basis of a 40 hour work week. No similar limitations apply to the services provided by the Vice President Business Development of FNX. The agreement may be terminated by either party at any time upon the provision of 30 days written notice to the other party, at nominal cost. During the three and nine months ended September 30, 2006, FNX invoiced INV \$0.1 million and \$0.3 million, respectively, for services provided under the agreement.



Non-GAAP Performance Measures

Cash operating margin per ton of ore sold, cash operating cost per pound of nickel sold and EBITDA are included in this MD&A because these statistics are key performance measures that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to plan and to assess the overall effectiveness and efficiency of mining operations. Management believes that the inclusion of these statistics in the MD&A helps an investor to assess performance “through the eyes of management” and that certain investors use these statistics to assess the Company’s performance. These performance measures do not have a meaning within GAAP and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Outstanding Share Data

As at September 30, 2006, stock options to purchase 2.6 million common shares at a weighted average price of \$8.82 per share were outstanding. The number of stock options outstanding at September 30, 2006 represents 3.1% of the issued and outstanding common shares at that time. The number of common shares issued and outstanding as at September 30, 2006 totaled 83.7 million. From October 1, 2006 to October 31, 2006, 48,000 stock options have been granted, nil were cancelled and 3,000 have been exercised. As at October 31, 2006, the Corporation had 83,729,766 common shares outstanding and stock options to purchase 2,610,206 common shares had been granted and were outstanding.

Summary of Selected Quarterly Financial Information

Table 10	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
2006					
Revenue	26,799	39,981	52,964		
Net earnings	3,193	25,344	20,476		
Basic and diluted EPS	\$0.04	\$0.30	\$0.24		
2005					
Revenue	19,057	24,231	18,588	22,726	84,602
Net earnings (loss)	2,484	3,855	(2,218)	477	4,597
Basic and diluted EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08
2004					
Revenue	12,007	16,738	15,321	16,345	60,411
Net earnings	1,778	1,048	842	2,328	5,997
Basic and diluted EPS	\$0.04	\$0.02	\$0.02	\$0.05	\$0.12

The quarterly trend since 2004 has generally been towards increasing revenues (subject to metal price fluctuations) and net earnings as a result of higher levels of ore mined and the resultant metal sales.



Cautionary Note Regarding Forward Looking Statements

Certain statements in this document constitute “forward-looking statements” within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1943. These forward looking statements are based on current expectations and involve risks and uncertainties, referred to above and/or in FNX’s AIF dated March 30, 2006 and filed with Canadian provincial securities regulatory authorities, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward looking statements. Examples of such forward looking statements include statements regarding financial results and expectations for 2006, including, but not limited to, interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production of ore and/or metals, metal prices, demand for metals, currency exchange rates, cash operating margins, cash operating cost per pound of nickel sold, costs per ton of ore, expenditures on property, plant and equipment, increases and decreases in production, reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions. Factors that could cause actual results, developments or events to differ materially from those anticipated include, among others, the factors described or referred to elsewhere herein and/or the AIF, and include unanticipated and/or unusual events. Many of such factors are beyond FNX’s ability to control or predict. Actual results may differ materially from those anticipated. Readers of this MD&A are cautioned not to put undue reliance on forward looking statements due to their inherent uncertainty. FNX disclaims any intent or obligation to update publicly any forward looking statements, whether as a result of new information, future events or results or otherwise. These forward looking statements should not be relied upon as representing management’s views as of any date subsequent to the date of this MD&A.

Additional information, including quarterly and annual consolidated financial statements, AIF, Management Information Circular and other disclosure documents, may also be examined and/or obtained through the Internet by accessing FNX’s website at www.fnxmining.com or by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.