FNX MINING COMPANY INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and 2005
(Expressed in thousands of Canadian dollars except where otherwise noted)

FNX MINING COMPANY INC.

Management's Responsibility for Financial Reporting

All information in the Annual Report, including the consolidated financial statements and management's discussion and analysis of the consolidated financial position and results of operation ("**MD&A**") of the Company, is the responsibility of the management of the Company and has been approved by its Board of Directors. The consolidated financial statements and MD&A were prepared by management in accordance with accounting principles and disclosure requirements generally accepted in Canada.

The preparation of financial statements and MD&A requires the selection of appropriate generally accepted accounting principles and the use of estimates and judgment by management to present fairly and consistently the consolidated financial position and the results of operations of the Company. Estimates are necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. In management's opinion, such estimates have been properly reflected in the consolidated financial statements and MD&A. Systems of internal accounting controls are designed and maintained by management in order to provide reasonable assurance, on a cost effective basis, of the reliability of this financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility principally through its Audit Committee composed of three independent directors. The committee meets periodically with management and the Company's independent auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues and to review the Annual Report, the consolidated financial statements and MD&A and the independent auditors' report to the shareholders. The Committee reports its findings to the Board for consideration when approving the annual consolidated financial statements and MD&A for issuance to shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the Company's independent auditors.

The consolidated financial statements have been audited on behalf of the shareholders by the Company's independent auditors, KPMG LLP, in accordance with generally accepted auditing standards. The auditors' report outlines the scope for their examination and their opinion on the consolidated financial statements.

Signed	Signed
"A. Terrance MacGibbon"	*"Ronald P. Gagel"*
Chief Executive Officer and President	Chief Financial Officer and Senior Vice President

March 28, 2007

FNX MINING COMPANY INC.

Auditors' Report

To the Shareholders of FNX Mining Company Inc.

We have audited the consolidated balance sheets of FNX Mining Company Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, retained earnings and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed

"KPMG LLP"

Chartered Accountants

Toronto, Ontario
March 28, 2007

FNX MINING COMPANY INC.

Consolidated Balance Sheets

As at December 31

(in thousands of Canadian dollars)	**2006**	2005
	$	$
Assets		
Current		
Cash and cash equivalents	**115,117**	152,460
Accounts receivable	**52,082**	18,562
Inventory (note 3)	**960**	867
Prepaid and other assets (note 4)	**259**	215
	168,418	172,104
Investments (note 5)	**30,380**	29,384
Property, plant and equipment (note 6)	**625,683**	531,266
Reclamation and other deposits (note 7)	**6,099**	3,630
	830,580	736,384
Liabilities		
Current		
Accounts payable and accrued liabilities	**29,580**	11,631
Current portion of deferred payment obligation (notes 16(b) and 17(c))	**7,244**	7,230
	36,824	18,861
Deferred payment obligation (notes 16(b) and 17(c))	**-**	7,000
Mine closure and site restoration (note 8)	**2,631**	1,162
Future income and resource taxes (note 9)	**165,136**	155,404
	167,767	163,566
	204,591	182,427
Shareholders' equity		
Share capital (note 10)	**560,266**	558,947
Contributed surplus – stock-based compensation (note 11)	**7,710**	5,677
Retained earnings (deficit)	**58,013**	(10,667)
	625,989	553,957
	830,580	736,384

Subsequent event (note 21) and Commitments (note 16)

The accompanying notes are an integral part of these consolidated financial statements.

Signed on behalf of the Board of Directors:

"Robert B. Low" Director

"Duncan Gibson" Director

FNX MINING COMPANY INC.

Consolidated Statements of Operations

For the Years Ended December 31

(in thousands of Canadian dollars except earnings per share)	2006	2005
	$	$
Mine operating revenues	**169,945**	84,602
Mine operating expenses		
Mining, excluding depreciation and amortization	**65,569**	51,484
Depreciation and amortization	**12,921**	8,768
	78,490	60,252
	91,455	24,350
Expenses		
Administration	**9,119**	8,141
Capital taxes (note 9(b))	**1,673**	1,135
Depreciation	**182**	89
Stock-based compensation (note 11)	**2,525**	1,068
Loss on disposition of Aurora (note 17(b))	**-**	2,600
Other expenses (income) (note 12)	**(7,042)**	(2,739)
	6,457	10,294
Earnings before taxes and non-controlling interest	**84,998**	14,056
Income and resource taxes (note 9)	**16,318**	4,721
Earnings before non-controlling interest	**68,680**	9,335
Non-controlling interest (note 13)	**-**	4,738
Net earnings for the year	**68,680**	4,597
Basic earnings per share (note 10(b))	**0.82**	0.08
Diluted earnings per share (note 10(b))	**0.81**	0.08

Consolidated Statements of Retained Earnings

For the Years Ended December 31

(in thousands of Canadian dollars)	2006	2005
	$	$
Deficit – beginning of year	**(10,667)**	(15,264)
Net earnings for the year	**68,680**	4,597
Retained earnings (deficit) – end of year	**58,013**	(10,667)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flow

For the Years Ended December 31
(in thousands of Canadian dollars)

	2006	2005
	$	$
Operating activities		
Net earnings for the year	**68,680**	4,597
Non-cash items		
Mine depreciation and amortization	**12,787**	8,768
Depreciation	**182**	89
Mine closure and site restoration (note 8)	**134**	62
Stock-based compensation (note 11)	**2,525**	1,068
Future income and resource taxes	**12,602**	3,941
Interest on deferred payment obligation	**514**	-
Loss on disposition of Aurora (note 17(b))	**-**	2,600
Non-controlling interest (note 13)	**-**	4,738
Other	**99**	(1,342)
	97,523	24,521
Net change in non-cash working capital (note 14)	**(15,708)**	2,650
	81,815	27,171
Financing activities		
Common shares issued (note 10)	**915**	101,859
Non-controlling interest, net (note 13)	**-**	1,972
	915	103,831
Investing activities		
Investments (note 15)	**(996)**	(310)
Property, plant and equipment	**(109,108)**	(46,459)
Reclamation term deposits	**(2,469)**	-
Deferred payment obligation	**(7,500)**	-
Deposit with mine contractor	**-**	(2,400)
Acquired on acquisition of Aurora, net (note 17(a))	**-**	2,438
Proceeds on disposition of Aurora (note 17(b))	**-**	11,005
Acquired on acquisition of SJV, net (note 17(c))	**-**	410
	(120,073)	(35,316)
Change in cash and cash equivalents for the year	**(37,343)**	95,686
Cash and cash equivalents – beginning of year	**152,460**	56,774
Cash and cash equivalents – end of year	**115,117**	152,460

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2006 and 2005
(amounts in thousands of Canadian dollars except where otherwise noted)

1. Nature of operations

FNX Mining Company Inc. ("**FNX**" or the "**Company**") is a Canadian company active in the mineral resource business which includes the acquisition, exploration, development and mining of mineral properties. FNX's mineral properties are primarily located in the Sudbury mining district of Canada from which the Company currently produces and sells nickel, copper, platinum, palladium, gold and cobalt, with nickel being the most significant for the Company to December 31, 2006. The Company, through a wholly-owned subsidiary, Aurora Platinum Corp. ("**Aurora**"), also holds base and precious metal exploration properties in various locations in Ontario and Quebec.

2. Accounting policies and basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("**GAAP**"). Summarized below are those policies considered significant to the Company.

(a) Basis of presentation

The consolidated financial statements include the accounts of FNX Mining Company Inc. and its wholly owned subsidiary, Aurora, and the accounts of the Sudbury Joint Venture ("**SJV"**). The SJV was an unincorporated joint venture with Dynatec Corporation ("**Dynatec**"), in which the Company held a 75% controlling interest until October 21, 2005. As each of FNX and Dynatec had acquired a 50% interest in Aurora on July 1, 2005, the consolidated financial statements include a proportionate share of the accounts of Aurora from July 1, 2005 to October 20, 2005. On October 21, 2005, FNX acquired the remaining 25% interest of the SJV and 50% interest in Aurora from Dynatec (the "**Dynatec Transaction**") and the consolidated financial statements include, from October 21, 2005, 100% of the consolidated accounts of Aurora and a 100% interest in the accounts of the former SJV (see note 17(c)).

Certain comparative figures for 2005 have been reclassified to conform with the presentation adopted for the current period.

(b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates and assumptions include, amongst other things, the recoverability of mining properties and mineral exploration properties, the composition of future income tax assets and tax liabilities, and metal sales receivables. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

(c) Revenue recognition and receivables

Revenue is recognized at the time that the crushed ore is shipped, which is also the time that title transfers. The contained metal in the crushed ore shipped is assayed and, pursuant to sales contracts, the appropriate negotiated amount of recoverable metal contained therein, including those metals considered to be by-products, is recorded in revenue. The crushed ore is sold under contracts that provide for final prices that are determined by quoted market prices in a period subsequent to the date of sale. Variations from the provisionally priced sales are recognized as revenue adjustments as they occur until the price is finalized. Provisional pricing is based upon market prices in the month of recognition.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on deposit, term deposits and other interest bearing investments that have maturities of less than 90 days from the date of acquisition.

(e) Marketable securities

Marketable securities are carried at the lower of cost or quoted market value and, due to the immaterial amounts involved, are included with prepaid and other assets on the balance sheet.

(f) Investments

Investments are stated at cost. When the Company believes there is an impairment in value that is other than temporary, the loss is recognized as an expense in the period.

(g) Inventory

In-process inventory includes ore mined and brought to surface, but not yet shipped, and is valued at the lower of cost and net realizable value. Cost of production includes costs to mine and crush ore and any depreciation charges associated with mining activities. Cost is determined on a first-in, first-out basis.

Pre-production inventory includes ore mined and brought to surface from a mine that has not achieved commercial production and is valued at the lower of cost and net realizable value.

(h) Property, plant and equipment

(i) Property acquisition, exploration and development

Acquisition, exploration and development costs associated with mineral exploration properties are deferred until the property achieves commercial production, at which time accumulated costs to date are transferred to mining properties. When the Board of Directors approves a decision to proceed to commercial production, accumulated costs to date for that project are transferred from mineral exploration properties to property under development. Commercial production occurs when a mining asset or property is substantially complete and ready for its intended use. The criteria considered in determining when commercial production commences include: achieving production of a pre-determined percentage of mine design capacity; sustaining continuous production and output; and reaching an expected net margin during the pre-production period. In a phased mining situation, consideration is given to achieving milestones at each phase of completion. Management will assess the operation's ability to sustain production over a period of from one to three months, depending upon the complexity of the situation and the stability of continuous operation. Commercial production will be considered to have commenced at the beginning of the month in which the criteria are met. Any income from production prior to commercial production is offset against development costs. Accumulated costs are amortized into the in-process inventory, using a unit-of-production basis over the expected life of the mine once commercial production is achieved.

(ii) Plant and equipment

Expenditures for plant and equipment additions, major replacements and improvements are recorded at cost. Plant and equipment assets are amortized, once commercial production is achieved, on either a unit-of-production or a straight-line basis over the lesser of estimated useful life or expected life of the mine. The estimated useful life of equipment that is depreciated on a straight-line basis is as follows:

Mobile equipment	7 years
Furniture and fixtures	5 years
Computer Hardware	4 years
Computer Software	3 years
Vehicles	3 years

(iii) Impairment of long-lived assets

FNX reviews and evaluates the carrying value of its operating mines and mineral exploration and development properties for impairment when events or circumstances indicate that the carrying amounts of related assets or groups of assets may not be recoverable. If the total estimated future cash flows on an undiscounted basis for mining properties are less than the carrying amount of the asset, an impairment loss is measured and assets are written down to fair value, which is normally the discounted value of future cash flows, with a provision being charged to operations. Future cash flows are estimated based on estimated future recoverable mine production, expected sales prices (considering current and historical prices, price trends and related factors), production levels, cash costs of production, capital and reclamation costs, all based on life of mine plans. Future recoverable mine production is determined from proven and probable reserves and measured, indicated and inferred mineral resources after taking into account estimated dilution and recoveries during mining, and the accountable amount of metal to be recovered from ore processing and treatment. Estimates of recoverable production from measured, indicated and inferred mineral resources are based on management's confidence in converting such resources to proven and probable reserves. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. It is possible that changes in estimates could occur which may affect the expected recoverability of FNX's investments in mineral properties.

The accumulated costs for properties that are abandoned are charged to operations when the property is abandoned.

(iv) Corporate and other assets

Corporate and other assets relate to equipment not used in mining operations. Corporate and other assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a three to five year period.

(i) Mine closure and site restoration

The fair value of a liability for mine closure and site restoration, also known as an asset retirement obligation, is recognized in the period in which it is incurred. When a liability is initially recorded, a corresponding increase to the carrying amount of the related asset is recorded. The asset is amortized on a unit-of-production basis over the estimated life of the mine and the liability is increased, through accretion, by the interest factor that was applied in the initial measurement of fair value. FNX makes periodic assessments as to the reasonableness of its mine closure and site restoration obligation estimates and revises those estimates accordingly. Any revision to those estimates results in the respective asset and liability balances being adjusted, with a related increase or decrease in the amounts expensed for amortization or accretion in future periods.

The long-term mine closure and site restoration obligation is based on environmental plans in compliance with the current environmental and regulatory requirements. Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future mine closure and site restoration could differ from the amounts provided. The estimate of the total liability of future mine closure and site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. FNX is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

(j) Flow-through shares

From time to time, FNX financed a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers at the time the renunciation is made. Share capital is reduced and future income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the subscribers, except to the extent that FNX has unrecorded loss carryforwards and tax pools in excess of book value available for deduction.

(k) Income taxes

FNX uses the asset and liability method of accounting for income and mining taxes. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective income and mining tax basis (temporary differences). Future income and mining tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to be in effect in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income and mining tax assets and liabilities is recognized in earnings in the year in which the change is enacted or substantively enacted. The amount of future income and mining tax assets recognized is limited to the amount that is more likely than not to be realized.

The Federal Large Corporations Tax, (“**LCT**”) which is a tax based on a corporation’s taxable capital (as defined in the Income Tax Act (Canada)) as at the corporation’s taxation year end. As this capital based tax is creditable against federal income surtaxes and is not a deductible expense for the determination of taxable income, accounting rules require the LCT to be included in the provision for income and resource taxes on the statement of operations. The LCT was eliminated for taxation years commencing after December 31,

FNX MINING COMPANY INC.

2005. Many provincial jurisdictions, including the Province of Ontario, also charge a tax based on a corporation's taxable capital. This expense, however, is a deductible expense in the determination of taxable income and is separately disclosed in the statements of operations.

(l) Stock-based compensation

FNX's stock-based compensation plans are described in note 11. FNX accounts for all stock-based compensation using the fair value-based method. Under this method, compensation cost attributable to options or deferred share units granted is measured at fair value at the grant date. Any consideration received upon the exercise of a stock option is credited to share capital. The expense for stock options is recognized over the vesting period of the stock-based award, while the expense for deferred share units is recognized in the period for which the service was rendered.

(m) Earnings per share

Basic earnings per share are computed by dividing the earnings for the year by the weighted average number of common shares outstanding for the year. Diluted earnings per share are similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued using the treasury stock method.

(n) Foreign exchange

The Canadian dollar is the functional currency of the Company. Revenues and certain expenses are denominated in United States dollars. Monetary assets and liabilities are translated at period end exchange rates and non-monetary assets and liabilities are translated at historical rates. Gains and losses on translation of monetary assets and liabilities are recorded in earnings.

3. Inventory

	2006	2005
	$	$
In-process		
Cash costs	**298**	715
Non-cash costs	**85**	152
	383	867
Pre-production	**577**	-
	960	867

In-process inventory represents the cost of ore that has been mined and brought to surface but has not been shipped to CVRD Inco Limited ("**CVRD Inco**"), formerly Inco Limited, for concentrating, smelting and refining as at the balance sheet date. Cash costs include mining costs and all costs up to and including crushing but not haulage to the concentrator. Non-cash costs represent the amount of mine depreciation and amortization deferred to in-process inventories as at the balance sheet date. The mine depreciation and amortization included in the carrying value of in-process inventories is charged to the mine depreciation and amortization expense category of the statement of operations as the ore is shipped to CVRD Inco.

4. Prepaid and other assets

	2006	2005
	$	$
Prepaid	**200**	156
Marketable securities	**59**	59
	259	215

The Company holds the following portfolio of marketable securities in other assets at December 31, 2006 and 2005:

	2006		2005	
	Shares	**Amount**	Shares	Amount
	#000s	**$**	#000s	$
Platinum Group Metals Ltd.	**25**	**3**	25	3
Nevada Star Resource Corp.	**250**	**56**	200	55
Nevada Star Resource Corp. (warrants)	**-**	**-**	300	1
		59		59

The market value of marketable securities on December 31, 2006 was $112 (2005 - $93).

5. Investments

	2006		2005	
	Shares	**Amount**	Shares	Amount
	# 000s	**$**	# 000s	$
Dynatec Corporation	**7,717**	**10,032**	7,717	10,032
Lake Shore Gold Corp.	**13,300**	**14,630**	13,300	14,630
Superior Diamonds Inc.	**6,860**	**3,070**	6,860	3,070
INV[1] (common shares)	**3,150**	**1,956**	2,320	960
INV (common share purchase warrants)	**2,348**	**692**	2,348	692
		30,380		29,384

[1] International Nickel Ventures Corporation ("**INV**")

The market value of the investments on December 31, 2006 was $50,535 (2005 - $49,094).

6. Property, plant and equipment

	2006		
	Cost	**Accumulated amortization**	**Net**
	$	**$**	**$**
Mining			
McCreedy West			
Property and development	**69,244**	**21,572**	**47,672**
Plant and equipment	**19,748**	**7,050**	**12,698**
	88,992	**28,622**	**60,370**
Property under development			
Levack	**136,998**	**-**	**136,998**
Exploration	**427,384**	**-**	**427,384**
Corporate	**1,376**	**445**	**931**
	654,750	**29,067**	**625,683**

	2005		
	Cost	Accumulated amortization	Net
	$	$	$
Mining			
McCreedy West			
Property and development	62,923	11,451	51,472
Plant and equipment	14,176	4,452	9,724
	77,099	15,903	61,196
Exploration	469,991	-	469,991
Corporate	365	286	79
	547,455	16,189	531,266

(a) Sudbury basin properties

On November 29, 2001, FNX entered into a definitive agreement (the "**Option to Purchase Agreement**") with Inco to acquire a 100% interest in the mineral rights to five Inco mineral properties located in the Sudbury Basin, Ontario (Kirkwood, Levack, McCreedy West, Podolsky and Victoria, collectively, the "**Properties**"), and the right to use such part of the surface rights and on-site facilities as are required to permit exploration, development and mining operations to be conducted on the Properties. The Option to Purchase Agreement became effective January 10, 2002 (the "**Effective Date**"). FNX entered into an agreement (the "**SJV Agreement**") with Dynatec, which also became effective on the Effective Date, pursuant to which Dynatec acquired 25% of FNX's interest, rights and obligations in the Option to Purchase Agreement. Accordingly, on the Effective Date, FNX and Dynatec formed a joint venture known as the SJV, with FNX holding a 75% interest and Dynatec a 25% interest. FNX managed exploration activities relating to the SJV and Dynatec managed mining operations.

On October 21, 2005, 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.

The Option to Purchase Agreement includes the following additional terms:

- If FNX discovers a New Deposit (as defined in the Option to Purchase Agreement) on any of the Properties and elects to complete a bankable feasibility study on such New Deposit recommending production, and should such New Deposit contain mineral resources having a value (based on then current metal prices) of at least 600 million pounds of nickel or nickel equivalent at the time of such bankable feasibility study, CVRD Inco has a right to re-acquire a 51% interest in such New Deposit but not the Properties (the "**Back-in Right**") by bringing the New Deposit into commercial production without financial recourse to FNX. Until CVRD Inco achieves payback, it shall receive 80% of net revenues from production from the New Deposit. If CVRD Inco re-acquires a 51% interest in such New Deposit, CVRD Inco and FNX will form a joint venture, with CVRD Inco as the operator, to hold and operate the New Deposit.

- CVRD Inco continues to be responsible for all environmental liabilities existing on the Properties at the Effective Date. The Company is responsible for all environmental liabilities incurred on the Properties that result from the actions taken after the Effective Date. Processing environmental obligations belong to CVRD Inco.

- CVRD Inco has a right of first offer to purchase any interest in the Properties that the SJV proposes to sell to an arm's-length third party but does not apply to the transfer of interest in the Properties between FNX and Dynatec.

On the Effective Date, the Company and CVRD Inco agreed to a form of off-take agreement (the "**Off-take Agreement**"), which forms the basis of separate Off-take Agreements to be entered into with CVRD Inco upon the commencement of mining of any deposits found on the Properties. As of March 30, 2003, an Off-take Agreement had been entered into with CVRD Inco for Phase 1 of the McCreedy West Property. Under each Off-take Agreement CVRD Inco is granted the right to purchase all ores produced on the Properties for recovered accountable metals derived from the Properties, less applicable milling, smelting and refining charges. CVRD Inco also has the right to refuse to purchase any ores that are unsuitable for treatment or if Inco does not have sufficient processing capacity to handle such ores, in which case, FNX is entitled to have such ores processed by a third party whereby CVRD Inco will be entitled to be paid a 2% net smelter royalty for nickel, copper and cobalt and a net smelter royalty ranging from 2.5% to 5% for precious and platinum group metals.

(b) McCreedy West

McCreedy West is located in the Sudbury Basin region of Ontario. Commercial production from the Inter Main Deposit at the McCreedy West Mine was achieved on November 1, 2003. Commencing May 2005, revenues 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.

(c) Property under development - Levack

Levack is located in the Sudbury Basin region of Ontario and is adjacent to the McCreedy West property. A decision was made in the fourth quarter of 2006 to develop Levack (excluding the Levack Footwall) for commercial production. The accumulated mineral property and exploration capital costs to date, net of $1,230 of pre-production revenue credits, were transferred from mineral exploration properties to property under development. Once Levack achieves commercial production the accumulated capital costs will be transferred to the appropriate categories of mining property and development and plant and equipment.

FNX holds a 100% interest in Levack.

(d) Mineral exploration properties

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

	2006	2005
	$	$
Aurora Properties	**96,134**	92,123
Kirkwood	**1,680**	1,600
Levack [(1)]	**-**	81,509
Levack Footwall	**231,008**	219,188
Podolsky	**92,327**	69,396
Victoria	**6,235**	6,175
	427,384	469,991

(1) Accumulated capital costs were transferred to property under development during the fourth quarter of 2006.

As at December 31, 2006, FNX held a 100% interest in the Kirkwood, Levack Footwall, Podolsky and Victoria mineral exploration properties, all of which are located in the Sudbury Basin region of Ontario.

The Aurora Properties are located in the Sudbury Basin region, Timmins, northwestern Ontario and the Temiscamingue region of Quebec (see note 20). All of the Aurora Properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them. 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 Xstrata Nickel ("**Xstrata Nickel**"). As at December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, (2005 - 70% and 30%) in the Falconbridge Joint Venture, as Xstrata Nickel did not participate in the 2006 exploration program. 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.

(e) Corporate

Corporate assets consist of computer hardware and software, office equipment, and furniture and fixtures at the Toronto head office and the Sudbury exploration office.

7. Reclamation and other deposits

	2006	2005
	$	$
Reclamation term deposits	**3,699**	1,230
Deposit with mine contractor	**2,400**	2,400
	6,099	3,630

Reclamation deposits include various amounts with government agencies in the Province of Ontario in connection with the Levack, McCreedy West and Podolsky properties.

Deposit with mine contractor relates to amounts advanced to Dynatec as a deposit on mining contractor services to be provided by Dynatec in connection with a Mining Services Agreement entered into on October 21, 2005. The deposit will be applied against Dynatec's invoice for December 2007.

8. Mine closure and site restoration

FNX's asset retirement obligations relate to the final mine closure and site reclamation costs at Levack, McCreedy West and Podolsky.

	2006	2005
	$	$
Balance – beginning of year	**1,162**	1,100
Accretion expense	**134**	62
Revisions to estimated obligations	**1,335**	-
Balance – end of year	**2,631**	1,162

FNX estimates the total future mine closure and site reclamation costs associated with the Sudbury operations to be approximately $3,699 (2005 - $1,600). 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% has been 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 one year after the closure of its mining operations.

The cost estimates of future mine closure and site restoration obligations are based on reclamation standards that meet current regulatory requirements. In view of the uncertainties concerning environmental remediation, the ultimate cost of the mine closure and site restoration obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement costs is subject to change based upon amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended regulations, laws and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate when applicable. Environmental laws are continually evolving and FNX is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

9. Income taxes

(a) Future tax liability

Future income tax liability at December 31 is comprised of the following:

	2006	2005
	$	$
Future income tax liabilities		
Mineral properties	**171,849**	163,734
Investments	**1,453**	1,705
Mining contractor services	**(2,644)**	(5,777)
Other	**(5,522)**	(4,258)
	165,136	155,404

(b) Provision for income taxes

	2006	2005
	$	$
Current	**6,587**	780
Future	**9,731**	3,941
	16,318	4,721

Income tax expense differs from the amount that would have been computed by applying the combined federal and provincial statutory income tax rate of 36% (2005 - 34%) to earnings before income taxes. The reasons for the differences are a result of the following:

	2006	2005
	$	$
Earnings before income taxes and non-controlling interest	**84,998**	14,056
Expected tax at statutory rates	**30,701**	4,779
Tax rate reduction	**(17,267)**	-
Ontario mining taxes	**6,766**	22
Resource allowance (deduction)	**(4,216)**	(1,436)
Non-deductible/(non-taxable) income	**334**	675
Non-controlling interest	**-**	(1,611)
Loss on sale of AHL to Dynatec	**-**	1,574
Federal large corporation tax	**-**	718
	16,318	4,721

FNX incurred $nil (2005 - $718) of LCT, which is included in the provision for income and resource taxes, and $1,673 (2005 - $1,135) of provincial capital taxes were charged to the statement of operations.

10. Share capital and earnings per share

(a) Common shares issued and outstanding (i)

	2006		2005	
	Shares	**Amount**	Shares	Amount
	# 000s	**$**	# 000s	$
Balance – beginning of year	**83,530**	**558,947**	50,266	126,415
Stock options exercised	**206**	**915**	993	4,959
From contributed surplus (note 11)	**-**	**404**	-	2,953
Income tax benefits renounced to flow-through shareholders (ii)	**-**	**-**	-	(8,533)
Acquisition of Aurora (note 17(a))	**-**	**-**	4,271	49,712
Acquisition of 100% of Sudbury assets and Aurora	**-**	**-**	20,500	284,950
Public offering (iii)	**-**	**-**	7,500	98,491
Balance – end of year	**83,736**	**560,266**	83,530	558,947

(i) FNX is authorized to issue an unlimited number of common shares.

(ii) On June 17, 2004, FNX issued 2.5 million flow-through common shares for gross proceeds of $20,600. Financing costs of $1,200 and a future income tax asset of $500 resulted in a net amount of $19,900. In 2005, FNX renounced the associated income tax deductions to the flow-through shareholders. The estimated tax benefit of $8,533 related to the $20,600 of flow-through shares was charged to share capital with a corresponding increase in the related future income tax liability.

(iii) On November 28, 2005, FNX closed a bought deal financing pursuant to which it issued an aggregate of 7,500,000 common shares at a price of $13.60 per share for aggregate gross proceeds of $102,000. Costs of $5,100 and a future income tax asset of $1,591 resulted in a net amount of $98,491.

(iv) Under the terms of the Company's Shareholder Rights Plan (the "**Rights Plan**"), one right ("**Right**") is attached to each existing common share and each common share subsequently issued will have one Right attached to it. The Rights will separate from the common shares and become exercisable following a bid, other than a bid which meets certain criteria as a permitted bid ("**Permitted Bid**"), for 20% or more of the common shares of FNX. In the event of a bid which is not a Permitted Bid, each Right, other than the Rights attached to common shares held by the party making the bid, would permit the holder the right to purchase common shares effectively at 50% of the price at that time. In the event of a Permitted Bid, the Rights will be deemed to be redeemed at $0.00001 per Right. The Rights Plan effectively allows FNX 60 days to assess a bid and, if more than 50% of the common shares held by independent shareholders are tendered within that 60 day period, requires a public announcement of that fact by the bidder who must allow an additional 10 days from that date for additional shareholders to tender their shares.

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(b) Earnings per share

	2006	2005
Net earnings available to shareholders ($)		
Basic and diluted	**68,680**	4,597
Weighted average shares outstanding (#000s)		
Basic	**83,701**	57,657
Effect of dilutive stock options	**710**	502
Diluted	**84,411**	58,159
Stock options excluded from dilution	**185**	658
Earnings per share		
Basic	**$0.82**	$0.08
Diluted	**$0.81**	$0.08

11. Contributed surplus - stock-based compensation

Until March 16, 2005, FNX had only one stock-based compensation plan, a stock option plan (the "**Option Plan**"). The Board of Directors implemented a policy requiring all directors and executive officers to hold a minimum of 5,000 common shares and/or deferred share units ("**DSUs**") within five years of their appointment to qualify for membership on the Board or appointment as an executive officer of the Company.

The following table summarizes information regarding FNX's contributed surplus - stock-based compensation for the years ended December 31, 2006 and 2005:

	2006	2005
	$	$
Balance – beginning of year	**5,677**	7,562
Stock-based compensation	**2,437**	1,068
Transfer of exercised options to share capital	**(404)**	(2,953)
Balance – end of year	**7,710**	5,677

The following table summarizes information regarding FNX's stock-based compensation expense for the years ended December 31, 2006 and 2005:

	2006	2005
	$	$
Stock options	**2,437**	1,068
Deferred share units	**88**	-
Stock-based compensation	**2,525**	1,068

(a) Stock option plan

The Option Plan is for directors, officers, employees and certain individuals that provide ongoing services to FNX. Under the Option Plan, options are typically granted for a five year period and in such numbers as reflects the level of responsibility of the particular optionee and his or her contribution to the business and activities of FNX. Options granted under the Plan prior to 2004 vested at the discretion of the Board of Directors, while options granted in

2004 vested 50% after one year from the date of grant with the balance vested after two years from the date of grant. Effective January 1, 2005, options granted under the Option Plan have a five year term and vest 33.3% on the anniversary date of each of the first three years following the grant date. Except in specified circumstances, options are not assignable and terminate upon the optionee ceasing to be employed by or associated with FNX. The terms of the Option Plan further provide that the price at which shares may be issued under the Option Plan cannot be less than the market price of the shares when the relevant options are granted.

The following table summarizes information regarding FNX's outstanding and exercisable stock options as at December 31, 2006:

Outstanding				**Exercisable**	
Range of exercise prices per share	**Shares**	**Weighted average months remaining**	**Weighted average exercise price per share**	**Shares**	**Weighted average exercise price per share**
$	**# 000s**	**#**	**$**	**# 000s**	**$**
0.50 to 4.95	**199**	**2**	**1.84**	**199**	**1.84**
5.04 to 6.85	**652**	**17**	**6.40**	**640**	**6.43**
7.40	**297**	**39**	**7.40**	**114**	**7.40**
8.15 to 12.99	**815**	**33**	**9.63**	**531**	**8.87**
13.00	**242**	**48**	**13.00**	**72**	**13.00**
13.01 to 13.83	**282**	**49**	**13.58**	**53**	**13.75**
14.01 to 18.04	**185**	**56**	**15.53**	**-**	**-**
	2,672		**9.15**	**1,609**	**7.27**

The following table summarizes information regarding FNX's stock options as at and for the years ended December 31, 2006 and 2005:

	2006		2005	
	Shares	**Weighted average exercise price per share**	Shares	Weighted average exercise price per share
	# 000s	**$**	# 000s	$
Balance – beginning of period	**2,561**	**7.02**	2,523	5.60
Granted	**499**	**13.52**	1,063	10.72
Exercised	**(206)**	**4.45**	(993)	4.99
Forfeited	**(182)**	**9.06**	(32)	7.65
Balance – end of period	**2,672**		2,561	

For purposes of stock-based compensation, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the weighted average assumptions used for grants as follows: dividend yield of 0.0% (2005 - 0%), expected volatility of 45% (2005 - 49%), risk-free interest rate of 4.1% (2005 - 4.0%) and expected life of 36 months (2005 - 36 months).

(b) **Deferred share units plan**

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 settled in cash and 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 $653 related to 37,678 DSUs.

12. Other expenses (income)

	2006	2005
	$	$
Interest income	(5,735)	(1,816)
Shares and warrants received for management services to INV (note 15)	-	(1,342)
Management fees	(149)	(165)
Foreign exchange (gain) loss	(1,671)	514
Interest on deferred payment obligation	514	-
Miscellaneous	(1)	70
	(7,042)	(2,739)

13. Non-controlling interest

Non-controlling interest represented Dynatec's 25% interest in the SJV to October 2005, at which time, FNX acquired Dynatec's interest in the SJV (see note 2(a)).

14. Supplementary cash flow information

	2006	2005
	$	$
Net change in non-cash working capital		
Accounts receivables	(33,520)	(6,724)
Inventory	(93)	(735)
Prepaid and other assets	(44)	104
Accounts payable and accrued liabilities	17,949	10,005
	(15,708)	2,650
Other information		
Interest paid	-	12
Income and resource taxes paid	-	-

15. Related party transactions

Prior to 2005, FNX invested in INV, which was a private mineral prospecting company at such time. The President and Chief Executive Officer of the Company (who is a director of

FNX and a director of INV), two other directors and two senior officers of FNX also invested in INV in 2004. In 2005, FNX invested a further $60 of funds in INV, resulting in FNX holding 920,230 common shares of INV. In December 2005, as part of a planned Initial Public Offering by INV, FNX was issued 500,000 common shares for cash consideration of $250 and an additional 900,000 common shares with an ascribed value of $450 in payment of past administrative services and financial support provided by FNX to INV from November 2003 to December 2005. Also in December 2005, FNX was issued common share purchase warrants, with an ascribed value of $691, in exchange for FNX foregoing its right of first option to acquire any property interest of INV. Each of the 2,347,886 share purchase warrants entitles the holder to acquire one common share of INV at a price of $1.40 until December 7, 2010. Subsequent to year end FNX purchased an additional 830,000 common shares of INV for cash consideration of $996.

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 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 served 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 twelve month periods ending December 31, 2006 and 2005 FNX invoiced INV $355 and $264, respectively, for services provided under the agreement.

16. Commitments and other

(a) Operating leases

The Company is committed to payments under operating leases for office space and equipment in the total amount of approximately $585. Annual payments are as follows:

	$
2007	1,130
2008	650
2009	407
2010	85
2011	63
	2,335

(b) Deferred payment obligation

Pursuant to the Dynatec Transaction the Company has one future payment remaining to Dynatec, discounted at the risk-free rate, as follows (see note 17(c)):

	2006	2005
	$	$
Total obligation	**7,500**	15,000
Less: Interest component	**(256)**	(770)
Current portion	**(7,244)**	(7,230)
Deferred payment obligation	**-**	7,000

17. Acquisitions and dispositions

(a) Acquisition of Aurora

On May 4, 2005, the Company announced it had entered into an agreement with Aurora whereby FNX agreed to acquire all of the issued and outstanding common shares of Aurora in exchange for common shares of FNX. The transaction to acquire Aurora closed on July 1, 2005. FNX issued 4,270,803 common shares with an ascribed value for accounting purposes of $11.64 per common share. Accordingly, the share consideration totaled $49,712 plus $729 costs of the transaction for a total of $50,441. The principal assets of Aurora acquired by FNX were 13,300,000 common shares of Lake Shore Gold Corp., 6,860,715 common shares of Superior Diamonds Inc., an interest in a joint venture with Falconbridge in the Sudbury mining district and various other mineral exploration properties located in Ontario and Quebec. The ascribed value of the mineral properties acquired from Aurora was greater than the mineral properties tax values. Accordingly, a future income tax liability of $17,194 was accrued. The allocation of the purchase price as at July 1, 2005, based on the consideration paid for the acquisition of Aurora, is summarized below:

	Purchase of 100% of Aurora
	$
Net assets acquired:	
Cash and cash equivalents	**3,167**
Accounts receivable	**635**
Investments	**12,663**
Property, plant and equipment	**51,321**
Current liabilities	**(151)**
Future income taxes	**(17,194)**
	50,441
Consideration paid:	
Common shares	**49,712**
Cash	**729**
	50,441

(b) Disposition of 50% of Aurora to Dynatec

In a related but independent transaction, FNX and Dynatec entered into an agreement dated May 18, 2005, whereby FNX agreed to sell to Dynatec on July 1, 2005 a 50% interest in Aurora for $12,247 in cash plus that number of common shares of Dynatec equal to the number of FNX shares issued to the common shareholders of Aurora times 1.806825. The number of common shares of Dynatec so issued totaled 7,716,594. The value of Dynatec's shares on July 1, 2005 was $1.30 per common share. Accordingly, the total consideration received by FNX from Dynatec was valued at $22,621. As 50% of FNX's interest in Aurora was valued for accounting purposes at $25,221, the sale to Dynatec resulted in a pre-tax, non-recurring, non-cash loss of $2,600. In addition, as a result of a difference between the values of the Dynatec shares for accounting and tax purposes, a further future income tax expense of $687 was charged to earnings. Accordingly, the total non-recurring, non-cash loss as a result of the disposition of a 50% interest in Aurora to Dynatec was $3,287. The following table summaries the July 1, 2006 disposition of 50% of the net assets of Aurora:

	Sale of 50%of Aurora to Dynatec
	$
Net assets sold:	
Cash and cash equivalents	**1,584**
Accounts receivable	**317**
Investments	**6,331**
Property, plant and equipment	**25,661**
Current liabilities	**(75)**
Future income taxes	**(8,597)**
	25,221
Consideration received:	
Cash and cash equivalents	**12,247**
Cash for reimbursement of costs	**342**
Common shares of Dynatec	**10,032**
	22,621
Loss before tax	**2,600**
Future income tax expense	**687**
Loss on disposition	**3,287**

As a result of the two transactions described above, each of FNX and Dynatec held a 50% interest in Aurora throughout the third quarter of 2005. FNX accounted for its interest in Aurora using the proportionate consolidation method for the third quarter of 2005. Subsequent to the end of the third quarter of 2005, FNX reacquired the 50% interest in Aurora it had sold to Dynatec (see Dynatec Transaction below).

(c) The Dynatec Transaction

On October 5, 2005, FNX announced that it had entered into an agreement with Dynatec, the Dynatec Transaction, whereby FNX would increase its ownership to 100% of the Sudbury assets for total purchase consideration of $299,180, plus corporate transaction costs of $1,101. The transaction closed on October 21, 2005. The material terms of the transaction were as follows:

(i) FNX acquired Dynatec's 25% interest in the SJV and 50% interest in Aurora;

(ii) FNX issued 20,500,000 common shares to Dynatec;

(iii) FNX and Dynatec entered into a Voting Trust agreement with a term of three years pursuant to which votes attached to the common shares held by Dynatec will be voted in line with recommendations of the board of directors of FNX on various fundamental changes and initiatives (including, among other matters, mergers, acquisitions and the nomination of directors to the FNX board), such agreement ceasing to be in effect should Dynatec's ownership stake in FNX decline below 10% on a fully-diluted basis;

(iv) FNX was provided with a right of first refusal in the event that Dynatec wishes to distribute any of the common shares that it holds, which will permit FNX to designate the purchasers of the FNX common shares to be sold by Dynatec for a period of 10 business days at a price acceptable to Dynatec (net of commissions) which, in the event of a sale by way of a prospectus, shall not exceed 95% of the volume weighted average of the trading prices of the common shares on the Toronto Stock Exchange for the five trading days immediately prior to receipt of written notice from Dynatec of its election to sell such common shares (the "**VWAP**") and, in the event of a sale that will not be done by way of a prospectus, shall not exceed the VWAP, and if FNX elects not to exercise its right of first refusal or is unable to arrange for the sale of the common shares in accordance with terms attaching thereto, Dynatec may, for a period of 90 days thereafter, enter into an underwriting agreement to sell such common shares through a public distribution in Canada and, if a prospectus is required in connection with such sale, FNX will take such reasonable steps, at Dynatec's cost, as are necessary to qualify by prospectus in Canada the distribution of such common shares;

(v) Dynatec was provided with representation on FNX's board of directors that is the greater of two nominees and that number of nominees that is equal to Dynatec's fully diluted ownership position, for a period of three years (such representation being dependent upon Dynatec maintaining an ownership stake in FNX of at least 10% on a fully-diluted basis);

(vi) FNX agreed to purchase, at the option of Dynatec, $10,000 of Dynatec's common shares in the next Dynatec offering of common shares to the public at the issue price of the offering, provided that the offering is for a minimum of $100,000 and is completed before October 21, 2006; however, Dynatec subsequently completed a common share offering of in excess of $100,000 without exercising their option and, accordingly, the Dynatec option described herein has fallen away;

(vii) Dynatec will provide contractor mining services at the Sudbury properties until December 31, 2007, subject to FNX having approval, control and direction over the services provided by Dynatec. Under the mining services agreement, Dynatec will be paid a fee of 7% on a cost reimbursement basis; and

(viii) Dynatec is to be paid $7,500 on each of December 31, 2006 and 2007. The $7,500 amount due on December 31, 2006 was paid.

The total purchase consideration of $300,281 was satisfied by the issuance of 20,500,000 common shares of FNX, the future payment to Dynatec of $7,500 on each of December 31, 2006 and 2007, plus cash transaction costs of $1,101. The 20,500,000 common shares issued by FNX to Dynatec had an ascribed value for accounting purposes of $13.90 per common share (based upon the volume weighted average trading price of FNX's shares for the day of, the two trading days before and the two trading days after October 5, 2005, the date of the announcement of the transaction). Accordingly, the share consideration totaled $284,950. The discounted value, at 3.6%, of the two $7,500 payments to Dynatec was $14,230. An independent valuation of the mining and mineral exploration properties was completed and the purchase price was accordingly allocated to the mineral properties. The ascribed value of the mineral properties acquired was greater than the mineral properties tax values. Accordingly, a future income tax liability of $133,218 was accrued. The allocation of the purchase price as at October 21, 2005, based on the consideration paid for the acquisition of Dynatec's interest in the SJV and Aurora, is summarized below:

	Purchase of SJV and Aurora
	$
Net assets acquired:	
Cash and cash equivalents	1,511
Accounts receivable	(2,606)
Investments	11,368
Property, plant and equipment	398,083
Current liabilities	(642)
Non-controlling interest	25,785
Future income taxes	(133,218)
	300,281
Consideration paid:	
Common shares	284,950
Deferred payment obligation	14,230
Cash	1,101
	300,281

18. Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable and current liabilities approximate their fair value due to the short-term maturities of these instruments. The company has a deferred payment obligation to Dynatec, which is carried at fair market value, as the discount rate on the acquisition date approximates the current discount rate. FNX does not currently have any commodity or foreign exchange hedging or other derivative instruments.

19. Segmented information

The Company operates in one geographic location, Sudbury, Ontario, Canada, and one segment, mineral exploration, development and mining.

The Company sells all of its ore produced to CVRD Inco under the terms of an off-take agreement and, accordingly, CVRD Inco is currently FNX's sole customer. CVRD Inco has agreed to concentrate, smelt and refine all of FNX's ore produced through to December 31, 2007.

20. Subsequent event

On February 16, 2007, the Company entered into an agreement with Fieldex Exploration Inc. ("**Fieldex**") whereby Fieldex agreed to issue 6.5 million common shares to the Company (subject to the condition that if the market value of the 6.5 million shares at the time of closing is less than $2,200, Fieldex will issue additional common shares so that the shares issued to the Company have an aggregate market value of $2,200) in exchange for 100% of FNX's interest in its Aurora Properties located in the Temiscamingue region of Quebec. The transaction is expected to close in April 2007.