



**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2008**

**(Expressed in thousands of Canadian dollars except where otherwise noted)**



**Consolidated Balance Sheet**

As at

(in thousands of Canadian dollars)

(Unaudited)

	<b>March 31</b>	December 31
	<b>2008</b>	2007
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	29,137	35,160
Accounts receivable (note 15)	121,899	103,257
Inventory (note 4)	1,762	4,060
Prepaid and other assets	1,124	1,142
	<b>153,922</b>	143,619
<b>Investments</b> (note 5)	<b>43,166</b>	35,603
<b>Property, plant and equipment</b> (note 6)	<b>857,721</b>	815,376
<b>Intangible assets</b> (note 7)	<b>5,780</b>	6,605
<b>Reclamation deposits</b>	<b>6,485</b>	6,485
	<b>1,067,074</b>	1,007,688
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	99,504	72,405
Deferred revenue	250	975
	<b>99,754</b>	73,380
<b>Mine closure and site restoration</b>	<b>5,164</b>	5,087
<b>Future income and resource taxes</b>	<b>186,915</b>	178,180
	<b>192,079</b>	183,267
	<b>291,833</b>	256,647
<b>Shareholders' equity</b>		
Share capital (note 8)	568,160	567,700
Contributed surplus – stock-based compensation (note 9)	10,898	9,816
Retained earnings	192,023	167,960
Accumulated other comprehensive income (note 3)	4,160	5,565
	<b>775,241</b>	751,041
	<b>1,067,074</b>	1,007,688

*Subsequent event (note 17) and contingencies and litigation (note 16).*

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



**Consolidated Segmented Balance Sheet**

As at March 31, 2008

(in thousands of Canadian dollars)

(Unaudited)

	Mining Operations	Mining Services	Total
	\$	\$	\$
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	18,957	10,180	29,137
Accounts receivable	82,207	39,692	121,899
Inventory	1,218	544	1,762
Prepaid and other assets	742	382	1,124
	103,124	50,798	153,922
<b>Investments</b>	43,166	-	43,166
<b>Property, plant and equipment</b>	827,491	30,230	857,721
<b>Intangible assets</b>	-	5,780	5,780
<b>Reclamation deposits</b>	6,485	-	6,485
	980,266	86,808	1,067,074
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	76,800	22,704	99,504
Deferred revenues	-	250	250
	76,800	22,954	99,754
<b>Mine closure and site restoration</b>	5,164	-	5,164
<b>Future income and resource taxes</b>	184,457	2,458	186,915
	189,621	2,458	192,079
	266,421	25,412	291,833

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



**Consolidated Statements of Operations**

Three months ended March 31

(in thousands of Canadian dollars except earnings per share)

(Unaudited)

	2008	2007
	\$	\$
<b>Operating revenues</b>	<b>140,716</b>	80,473
<b>Operating expenses</b>		
Expenses, excluding depreciation and amortization	92,216	24,555
Depreciation and amortization	10,890	4,879
	<b>103,106</b>	29,434
	<b>37,610</b>	51,039
<b>Expenses</b>		
Administration	2,675	2,293
Capital taxes	-	450
Depreciation	220	97
Stock-based compensation (note 9)	1,174	888
Other expenses (income) (note 10)	(2,822)	(1,267)
	<b>1,247</b>	2,461
<b>Earnings before taxes</b>	<b>36,363</b>	48,578
<b>Income and resource taxes</b>	<b>12,300</b>	18,387
<b>Net earnings for the period</b>	<b>24,063</b>	30,191
<b>Basic earnings per share</b> (note 8(b))	<b>0.28</b>	0.36
<b>Diluted earnings per share</b> (note 8(b))	<b>0.28</b>	0.36

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



**Consolidated Segmented Statement of Operations**

For the three months ended March 31, 2008

(in thousands of Canadian dollars)

(Unaudited)

	<b>Mining Operations</b>	<b>Mining Services</b>	<b>Total</b>
	\$	\$	\$
<b>Operating revenues</b>	<b>91,323</b>	<b>49,393</b>	<b>140,716</b>
<b>Operating expenses</b>			
Expenses, excluding depreciation and amortization	45,232	46,984	92,216
Depreciation and amortization	8,593	2,297	10,890
	<b>53,825</b>	<b>49,281</b>	<b>103,106</b>
	<b>37,498</b>	<b>112</b>	<b>37,610</b>
<b>Expenses</b>			
Administration	2,675	-	2,675
Depreciation	220	-	220
Stock-based compensation	598	576	1,174
Other expenses (income)	(2,423)	(399)	(2,822)
	<b>1,070</b>	<b>177</b>	<b>1,247</b>
<b>Earnings before taxes</b>	<b>36,428</b>	<b>(65)</b>	<b>36,363</b>
<b>Income and resource taxes</b>	<b>11,409</b>	<b>891</b>	<b>12,300</b>
<b>Net earnings for the period</b>	<b>25,019</b>	<b>(956)</b>	<b>24,063</b>

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



**Consolidated Statements of Cash Flow**

For the three months ended March 31

(in thousands of Canadian dollars)

(Unaudited)

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Operating activities</b>		
Net earnings for the period	<b>24,063</b>	30,191
Non-cash items		
Depreciation and amortization	<b>11,110</b>	4,976
Stock-based compensation	<b>1,174</b>	888
Future income and resource taxes	<b>8,974</b>	6,515
Interest on deferred payment obligation	-	63
Loss on disposal of fixed assets	<b>(94)</b>	-
Decrease in value of investments held-for-trading	<b>38</b>	-
Other	<b>(244)</b>	-
	<b>45,021</b>	42,633
Net change in non-cash working capital (note 11)	<b>10,775</b>	(6,207)
	<b>55,796</b>	36,426
<b>Financing activities</b>		
Common shares issued	<b>340</b>	1,189
<b>Investing activities</b>		
Investments	<b>(10,000)</b>	-
Property, plant and equipment	<b>(52,660)</b>	(44,693)
	<b>(62,660)</b>	(44,693)
Effect of exchange rate changes on cash	<b>501</b>	-
<b>Change in cash and cash equivalents for the period</b>	<b>(6,023)</b>	<b>(7,078)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>35,160</b>	<b>115,117</b>
<b>Cash and cash equivalents – end of period</b>	<b>29,137</b>	<b>108,039</b>

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



**Consolidated Segmented Statement of Cash Flow**

For the three months ended March 31, 2008

(in thousands of Canadian dollars)

(Unaudited)

	<b>Mining Operations</b>	<b>Mining Services</b>	<b>Total</b>
	\$	\$	\$
<b>Operating activities</b>			
Net earnings for the period	25,019	(956)	24,063
Non-cash items			
Depreciation and amortization	8,813	2,297	11,110
Stock-based compensation	598	576	1,174
Future income and resource taxes	8,974	-	8,974
Loss on disposal of fixed assets	-	(94)	(94)
Decrease in value of investments held-for-trading	38	-	38
Other	(244)	-	(244)
	<b>43,198</b>	<b>1,823</b>	<b>45,021</b>
Net change in non-cash working capital	11,955	(1,180)	10,775
	<b>55,153</b>	<b>643</b>	<b>55,796</b>
<b>Financing activities</b>			
Common shares issued	340	-	340
<b>Investing activities</b>			
Investments	(10,000)	-	(10,000)
Property, plant and equipment	(50,783)	(1,877)	(52,660)
	<b>(60,783)</b>	<b>(1,877)</b>	<b>(62,660)</b>
Effect of exchange rate changes on cash	-	501	501
<b>Change in cash and cash equivalents for the period</b>	<b>(5,290)</b>	<b>(733)</b>	<b>(6,023)</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>24,247</b>	<b>10,913</b>	<b>35,160</b>
<b>Cash and cash equivalents – end of period</b>	<b>18,957</b>	<b>10,180</b>	<b>29,137</b>

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

**Consolidated Statements of Retained Earnings**

For the three months ended March 31

(in thousands of Canadian dollars)

(Unaudited)

	<b>2008</b>	2007
	\$	\$
<b>Retained earnings – beginning of period</b>	<b>167,960</b>	58,013
<b>Net earnings for the period</b>	<b>24,063</b>	30,191
<b>Retained earnings – end of period</b>	<b>192,023</b>	88,204

**Consolidated Statements of Comprehensive Income**

For the three months ended March 31

(in thousands of Canadian dollars)

(Unaudited)

	<b>2008</b>	2007
	\$	\$
<b>Net earnings for the period</b>	<b>24,063</b>	30,191
<b>Other comprehensive income, net of tax</b>		
Unrealized gain/(Loss) on available for sale investments (note 3)	<b>(2,075)</b>	11,646
Cumulative translation adjustment (note 3)	<b>670</b>	-
<b>Comprehensive income</b>	<b>22,658</b>	41,837

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2008 and 2007  
(amounts in thousands of Canadian dollars except where otherwise noted)  
(Unaudited)

### 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 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 to the Company to date.

On October 15, 2007, the Company acquired a mining services business (the "MSB" or the "Mining Services" segment) from Sherritt International Corporation ("Sherritt"), comprised of a Canadian mining services division and the shares of Dynatec Mining Corporation ("DMC"), which provides mining services in the United States. The consolidated financial statements include the results of operations for the MSB for the period from January 1, 2008 to March 31, 2008. Accordingly, segmented information is presented only for 2008.

### 2. Accounting policies and basis of presentation

The unaudited interim consolidated financial statements of FNX have been prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies as those disclosed in note 2 to FNX's audited consolidated financial statements for the year ended December 31, 2007, except as noted below. Generally accepted accounting principles for interim consolidated financial statements do not conform in all respects to the disclosures required for annual consolidated financial statements and, accordingly, these unaudited interim consolidated financial statements should be read in conjunction with FNX's audited annual consolidated financial statements and accompanying notes. In the opinion of management, all adjustments considered necessary for the fair presentation of results for the periods presented have been reflected in these unaudited interim consolidated financial statements. These adjustments consist only of normal recurring adjustments.

#### (a) Changes in accounting policies

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentations. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 replaced Section 3861, Financial Instruments - Disclosure and Presentation, and increases emphasis on disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Application of these pronouncements did not have an impact on the reported results of operations.

Effective January 1, 2008, the Company prospectively adopted CICA Handbook Section 3031 recommendations relating to the accounting for inventories which revises and

enhances the requirements for assigning costs to and disclosure of inventories. Application of this pronouncement did not have an impact on the reported results of operations.

**(b) New accounting pronouncements**

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section standardizes Canadian GAAP with International Financial Reporting Standards (“IFRS”) and applies to interim and annual statements relating to fiscal years beginning on or after October 1, 2008. This standard is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board confirmed that use of IFRS will be required for publicly accountable profit-oriented enterprises. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS.

**3. Accumulated other comprehensive income**

The following table summarizes information regarding FNX’s accumulated other comprehensive income (“OCI”) as at and for the three months ended March 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance – beginning of period	5,565	-
Adjustment at beginning of period due to change in accounting for available-for-sale <sup>1</sup> assets	-	16,507
Changes in fair value of available-for-sale <sup>2</sup> assets	(2,075)	11,646
Cumulative translation adjustment	670	-
Balance – end of period	<u>4,160</u>	<u>28,153</u>

<sup>1</sup> Tax impact of \$nil (2007 - \$3,648)

<sup>2</sup> Tax impact of (\$324) (2007 - \$2,574)

**4. Inventory**

	<u>March 31</u> <u>2008</u>	<u>December 31</u> <u>2007</u>
	\$	\$
In-process		
Cash costs	611	1,618
Non-cash costs	607	997
	<u>1,218</u>	<u>2,615</u>
Pre-production	-	769
Supplies	544	676
	<u>1,762</u>	<u>4,060</u>

Mining Operations in-process inventory represents the cost of ore that has been mined and brought to surface but has not been shipped to Vale Inco Limited (“Vale Inco”), 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 mining operations depreciation and amortization expense category of the statement of operations as the ore is shipped to Vale Inco.

The supplies inventory relates to the MSB and includes spare parts, consumable operating supplies as well as the cost of inventory held on construction sites for installation at customers' facilities.

**5. Investments**

	March 31, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
	# 000s	\$	# 000s	\$
Lake Shore Gold Corp.	13,300	23,940	13,300	23,275
INV <sup>1</sup> (common shares)	7,662	6,896	7,662	6,895
Superior Diamonds Inc.	6,861	1,852	6,861	2,573
Fieldex Exploration Inc.	6,500	1,235	6,500	1,723
Strategic Resources Acquisition Corp.	3,509	8,245	-	-
INV (common share purchase warrants)	3,154	748	3,154	786
Visible Gold Mines Inc.	1,066	250	1,066	351
		<b>43,166</b>		<b>35,603</b>

<sup>1</sup> International Nickel Ventures Corporation ("INV")

During the three months ended March 31, 2008, the investments were measured at a fair value of \$43,166 resulting in a revaluation loss of \$2,075, net of tax, recognized in accumulated OCI.

Pursuant to an agreement dated February 6, 2008, FNX acquired 3.509 million common shares of Strategic Resource Acquisition Corporation ("SRA") or approximately 10.7% of the issued and outstanding common shares of SRA through a private transaction. The shares were acquired at \$2.85 per share, which represented a 5% discount to the closing pricing of the SRA common shares on January 31, 2008, the date the negotiations had commenced. The MSB provides contract mining services to a wholly-owned subsidiary of SRA in the United States (note 15(a)).

**6. Property, plant and equipment**

	<b>March 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
	\$	\$	\$
Mining			
Levack Complex			
Property and development	259,261	45,964	213,297
Plant and equipment	92,222	13,649	78,573
	<u>351,483</u>	<u>59,613</u>	<u>291,870</u>
Podolsky			
Property and development	130,610	1,528	129,082
Plant and equipment	24,424	1,034	23,390
	<u>155,034</u>	<u>2,562</u>	<u>152,472</u>
	<u>506,517</u>	<u>62,175</u>	<u>444,342</u>
Exploration	381,603	-	381,603
Corporate	2,681	1,135	1,546
	<u>890,801</u>	<u>63,310</u>	<u>827,491</u>
Mining Operations	890,801	63,310	827,491
Mining Services	32,853	2,623	30,230
	<u>923,654</u>	<u>65,933</u>	<u>857,721</u>

	<b>December 31, 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
	\$	\$	\$
Mining			
Levack Complex			
Property and development	248,371	42,697	205,674
Plant and equipment	81,077	11,353	69,724
	<u>329,448</u>	<u>54,050</u>	<u>275,398</u>
Property under development			
Podolsky	136,988	-	136,988
Exploration	371,182	-	371,182
Corporate	2,402	916	1,486
	<u>840,020</u>	<u>54,966</u>	<u>785,054</u>
Mining Operations	840,020	54,966	785,054
Mining Services	31,466	1,144	30,322
	<u>871,486</u>	<u>56,110</u>	<u>815,376</u>

**(a) Levack Complex**

The Levack Complex is located in the Sudbury mining district of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack mines. The two adjacent properties are considered to be one mining operation as they are integrated from an operational perspective, produce similar ore and sell all production to the same purchaser, Vale Inco.

FNX holds a 100% interest in the Levack Complex.

**(b) Podolsky**

Podolsky is located in the Sudbury mining district region of Ontario. Commencing January 1, 2008, mining revenues and expenses from ore mined from the Podolsky property have been included in the statement of operations and the accumulated costs to date have been transferred from property under development to the appropriate categories of mining property and development and plant and equipment.

FNX holds a 100% interest in Podolsky.

**(c) 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:

	<b>March 31 2008</b>	December 31 2007
	<b>\$</b>	<b>\$</b>
Levack Footwall	<b>279,226</b>	269,773
Aurora Properties	<b>91,543</b>	91,507
Victoria	<b>6,889</b>	6,359
Kirkwood	<b>2,479</b>	2,480
Podolsky Nickel Ramp <sup>1</sup>	<b>1,466</b>	1,063
	<b>381,603</b>	<b>371,182</b>

<sup>1</sup> A portion of accumulated capital costs were transferred to property under development during the third quarter of 2007. Remaining costs are for the Nickel Ramp project on the Podolsky property.

As at March 31, 2008, FNX held a 100% interest in the Levack Footwall, Podolsky Nickel Ramp, Victoria and Kirkwood mineral exploration properties, all of which are located in the Sudbury mining district of Ontario. The Levack Footwall Deposit is located on the Levack property but is at the advanced exploration stage.

The Aurora Properties are located in the Sudbury mining district of Ontario as all non-Sudbury properties were sold during 2007. All of the Aurora Properties and the Levack Footwall, Victoria and Kirkwood properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them.

The mineral properties included in the Aurora Properties that are located in the Sudbury mining district are subject to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel ("**Xstrata Nickel**"), a business unit of Xstrata Canada Corporation. As at December 31, 2007, the Company and Xstrata Nickel held a 78% and 22% interest, respectively (2006 - 74% and 26%), in the Falconbridge Joint Venture. As Xstrata Nickel has elected not to participate in the 2008 exploration program, Xstrata Nickel's interest will continue to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between 50% and 100% interests in the mineral exploration properties included in the Aurora Properties.

**(d) Corporate**

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

**7. Intangible assets**

	March 31 2008	December 31 2007
	\$	\$
Cost	7,431	7,431
Accumulated amortization	(1,651)	(826)
	<u>5,780</u>	<u>6,605</u>

Intangible assets arose from the acquisition of the MSB from Sherritt on October 15, 2007.

**8. Share capital and earnings per share**

The following table summarizes information regarding FNX's share capital as at and for the three months ended March 31, 2008 and 2007:

**(a) Common shares issued and outstanding <sup>1</sup>**

	2008		2007	
	Shares # 000s	Amount \$	Shares # 000s	Amount \$
Balance – beginning of period	84,564	567,700	83,736	560,266
Stock options exercised	24	340	283	1,189
From contributed surplus (note 9)	-	120	-	436
Balance – end of period	<u>84,588</u>	<u>568,160</u>	<u>84,019</u>	<u>561,891</u>

<sup>1</sup> FNX is authorized to issue an unlimited number of common shares.

**(b) Earnings per share**

	Three months ended March 31	
	2008	2007
<b>Net earnings available to shareholders (\$)</b>		
Basic and diluted	<u>24,063</u>	<u>30,191</u>
<b>Weighted average shares outstanding (#000s)</b>		
Basic	84,578	83,908
Effect of dilutive stock options	615	1,123
Diluted	<u>85,193</u>	<u>85,031</u>
Stock options excluded from dilution	502	27
<b>Earnings per share (\$)</b>		
Basic	<u>0.28</u>	<u>0.36</u>
Diluted	<u>0.28</u>	<u>0.36</u>



**9. Contributed surplus**

The following table summarizes information regarding FNX's contributed surplus as at and for the three months ended March 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance – beginning of period	9,816	7,710
Stock-based compensation	1,202	589
Transfer of exercised options to share capital (note 8)	(120)	(436)
Receipt and cancellation of shares	-	-
Balance – end of period	<u>10,898</u>	<u>7,863</u>

The following table summarizes information regarding FNX's stock-based compensation expense for the three months ended March 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	\$	\$
Stock options	1,201	589
Deferred share units	(27)	299
Stock-based compensation expense	<u>1,174</u>	<u>888</u>

FNX has two stock-based compensation plans: a stock option plan (the “**Option Plan**”); and a deferred share unit plan (the “**DSU Plan**”). The Board of Directors has implemented a policy requiring all directors, the Chief Executive (“**CEO**”) and the Chief Financial Officer (“**CFO**”) to hold a minimum number of common shares and/or deferred share units within five years of their appointment. The required shareholding is for directors, 5,000 common shares, for the Chief Executive Officer the requirement is equal to the value of that number of common shares representing two times the amount of the CEO’s base salary and, for the CFO, the requirement is 5,000 common shares.

**(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 may be granted for a term not exceeding 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 Option Plan vest at the discretion of the Board of Directors or the Compensation Committee. In 2004, the Board established a policy pursuant to which options would vest 50% after one year from the date of grant with the balance vesting after two years from the date of grant. Effective January 1, 2005, the Board established a policy pursuant to which options would vest as to 33.3% each year on the anniversary date of each of the first three years following the grant date. Options are not assignable and, except in specified circumstances, terminate upon the optionee ceasing to be employed by or associated with FNX. The exercise price of each option may not be less than the closing price of the common shares on the last trading day immediately preceding the date the options are granted.



The following table summarizes information regarding FNX's outstanding and exercisable stock options as at March 31, 2008:

Range of exercise prices per share	Outstanding			Exercisable	
	Shares	Weighted average months remaining	Weighted average exercise price per share	Shares	Weighted average exercise price per share
5.04 to 6.85	202	6	6.61	203	6.61
7.40	222	24	7.40	222	7.40
8.15 to 12.99	351	27	10.55	195	10.21
13.00	130	33	13.00	53	13.00
13.01 to 13.83	179	34	13.56	79	13.68
14.01 to 18.04	153	41	15.61	29	15.84
18.05 to 29.66	374	53	26.52	26	18.34
30.20 to 34.65	53	50	31.56	-	-
37.53	308	56	37.53	-	-
	<u>1,972</u>		<u>18.43</u>	<u>807</u>	<u>9.60</u>

The following table summarizes information regarding FNX's stock options as at and for the three months ended March 31, 2008 and 2007:

	2008		2007	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
Balance – beginning of period	1,959	18.07	2,672	9.15
Granted	99	27.41	96	20.09
Exercised	(24)	14.19	(283)	4.19
Forfeited/Cancelled	(62)	23.00	(6)	12.36
Balance – end of period	<u>1,972</u>		<u>2,479</u>	

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 year to date weighted average assumptions used for grants as follows: dividend yield of 0% (2007 - 0%), expected volatility of 45% (2007 - 44%), risk-free interest rate of 3.7% (2007 - 4.0%) and expected life of 36 months (2007 - 36 months).

**(b) Deferred share units plan**

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 \$1,140 related to 43,973 DSUs.

**10. Other expenses (income)**

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Interest income	(311)	(1,195)
Management fees	-	(30)
Foreign exchange	(2,387)	(40)
Interest on deferred payment obligation	-	63
Miscellaneous	(124)	(65)
	<b>(2,822)</b>	<b>(1,267)</b>

**11. Supplementary cash flow information**

	<b>Three months ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Net change in non-cash working capital		
Accounts receivables	(18,642)	(25,791)
Inventory	2,298	573
Prepaid and other assets	18	(590)
Accounts payable and accrued liabilities	27,101	19,601
	<b>10,775</b>	<b>(6,207)</b>
Other information		
Interest paid	-	-
Income and resource taxes paid	348	-

**12. Related party transactions**

INV provided notification of termination of the January 1, 2006 agreement between FNX and INV effective December 31, 2007 and, other than one common director, FNX and INV do not have any common directors, officers or employees. Accordingly, INV ceased to be a related party at that time. There were no transactions between FNX and INV during the three month period ended March 31, 2008 while, during the three month period ended March 31, 2007, FNX invoiced INV \$62 for services provided under the agreement.

**13. Segmented information**

FNX has two operating segments: Mining Operations and Mining Services, which was acquired on October 15, 2007.

The Mining Operations segment operates in one geographic location, Ontario, Canada, and is responsible for mineral exploration, development and mining.



The Mining Services segment, comprised of the Canadian mining services division and DMC, provides mining and civil underground construction services in Canada and the United States.

The following table summarizes information regarding FNX's operations by geographic location as at and for the three months ended March 31, 2008.

	<u>Canada</u>	<u>United States</u>	<u>Total</u>
	\$	\$	\$
Operating revenues	103,536	37,180	140,716
Operating expenses			
Expenses, excluding depreciation and amortization	57,985	34,231	92,216
Depreciation and amortization	10,332	558	10,890
Other expenses (income)	1,403	(156)	1,247
Earnings before taxes	<u>33,816</u>	<u>2,547</u>	<u>36,363</u>
Accounts receivable	95,849	26,050	121,899
Accounts payable and accrued liabilities	85,330	14,174	99,504
Property, plant and equipment	845,772	11,949	857,721
Capital expenditures	52,021	639	52,660

#### 14. Capital management

The Company's objectives when managing capital are to:

- ensure that the Company has the financial capacity to support its operations throughout the metals cycles;
- ensure that the Company has the capital and capacity to support the current mine development plans and the long-term growth strategy; and
- provide investors with superior returns over time.

The Company's capital structure reflects the requirements of a company focused on significant growth in a capital intensive industry that experiences lengthy development lead times as well as risks associated with capital costs and timing of project completion due to factors that are beyond the Company's control, including the availability of resources, the issuance of necessary permits, costs of various inputs and the volatility of metals prices.

The adequacy of the Company's capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, the metals markets, the mining industry, economic conditions and the associated risks.

In order to maintain or adjust its capital structure, the Company may adjust its capital spending, issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or issue new debt or repay existing debt.

Although the Company has not historically utilized debt facilities as part of its capital management program, as at April 1, 2008, FNX finalized a US\$100 million revolving line of credit facility ("LOC") with a group of banks to assist in managing working capital and possible adverse currency and commodity price fluctuations. The Company will be subject to certain covenants with respect to the LOC (note 17).

## 15. Financial instruments

The carrying amount of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, investments, reclamation deposits, and accounts payable and accrued liabilities, approximate their fair values due to the short term maturities of these financial instruments.

As described below, the Company has exposure to credit risk, liquidity risk, foreign exchange risk and market risk from its use of financial instruments. In addition, other quantitative disclosures regarding these risks are included throughout these consolidated financial statements.

### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum counterparty credit exposure at period end consists of the following, which approximates fair value:

	<b>Carrying amount</b>	
	<b>March 31 2008</b>	December 31 2007
	\$	\$
Cash and cash equivalents	29,137	35,160
Accounts receivable	121,899	103,257
Investments	43,166	35,603
Reclamation deposits	6,485	6,485
	<b>200,687</b>	<b>180,505</b>

#### (i) Trade and accounts receivable

FNX's Mining Operations sells all of the ore it produces from the Levack Complex and Podolsky to Vale Inco and, accordingly, Vale Inco is currently the sole customer of the Mining Operations (note 16(b)).

During the period January 1 to March 31, 2008, 60% of MSB revenues were derived from one client, SRA. One of FNX's executive officers became a director of SRA in March 2008. All transactions between SRA and the Company were at arms length.

The maximum exposure to credit risk for trade accounts receivables included in the total accounts receivable balance at the reporting date by customer type was:

	<b>Carrying amount</b>	
	<b>March 31 2008</b>	December 31 2007
	\$	\$
Mining Operations - Vale Inco	89,389	62,803
Mining Services - SRA	10,434	12,242
Mining Services - other contracts	21,268	27,918
	<b>121,091</b>	<b>102,963</b>



The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established for groups of similar assets in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets. As at the reporting date, the balance in the allowance for doubtful accounts was \$nil (\$nil at December 31, 2007).

The aging of trade accounts receivable at the reporting date was:

	<u>Gross</u>	<u>Allowance</u>
	\$	\$
Not past due	113,364	-
Past due 0-30 days	5,091	-
Past due 31-120 days	2,636	-
More than one year	-	-
	<u>121,091</u>	<u>-</u>

*(ii) Investments*

Investment certificates are maintained on deposit with certain investment dealers.

*(iii) Guarantees*

The Company has provided certain financial guarantees to the Ontario Government and Vale Inco with respect to estimated future reclamation expenditures and letters of credit covering the estimated expenditures are maintained with a major Canadian chartered bank. In the normal course of business, certain of the Mining Services contracts require DMC to provide the client with a performance or surety bond from an insurance company. The Company has provided guarantees to an insurance company that has issued surety bonds in the United States on behalf of DMC. As at March 31, 2008, the aggregate principal amount of the surety bonds which the Company has guaranteed was US\$11.0 million.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. FNX strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements which are addressed through a combination of committed credit facilities and access to capital markets. Effective April 1, 2008, the Company entered into a LOC with a consortium of major banks which provides the Company with the right to borrow for working capital and general corporate purposes (note 17).

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of

financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) *Currency risk*

Fluctuations in the Canadian/US dollar exchange rate can impact FNX's earnings and cash flows. Most of FNX's revenues are denominated in US dollars, whereas certain of FNX's obligations and operating expenses are denominated in Canadian dollars and other foreign currencies. If the value of the Canadian dollar increases relative to the US dollar, FNX's results of operations, financial condition and liquidity could be materially adversely affected. The Company converts a majority of its US dollars into Canadian dollars upon receipt; however, its self-sustaining US subsidiary maintains sufficient cash on hand in order to fund internal operations.

Management estimates each \$0.10 change in the value of the Canadian/US dollar exchange rate impacts US denominated financial instruments at March 31, 2008 and earnings before tax by approximately \$7.9 million.

(ii) *Commodity Prices and interest rates*

The profitability of the Company will be significantly affected by changes in the market price of nickel and copper and to a lesser extent by cobalt, platinum, palladium and gold. The level of interest rates, the rate of inflation, world supply and demand of base metals and precious metals and stability of exchange rates can all cause significant fluctuations in base metal and precious metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of base metals and precious metals has fluctuated widely in recent years, and future serious price declines could cause continued commercial production to be impracticable. Depending on the price of base metals and precious metals, cash flow from mining operations may not be sufficient to cover operating costs. Any figures for reserves and resources presented by FNX will be estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the price of base metals and precious metals may render reserves and resources uneconomical. Moreover, short-term operating factors relating to the reserves, such as the need for orderly development of the ore bodies or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

The crushed ore shipped to Vale Inco is sold under terms 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. Management estimates that for each \$1.00 change in the price per pound of nickel or \$0.25 change in the price per pound of copper would impact the March 31, 2008 trade account receivable from Vale Inco and earnings before tax by approximately \$3.6 million and \$1.8 million, respectively.

(iii) *Hedging*

FNX has not entered into any hedging agreements in respect of metal prices or foreign exchange rates at this time. Such contracts would prevent losses in situations where the price changed adversely and would prevent gains in situations where the price changed favourably.

**16. Contingencies and litigation**

**(a) Mining Services**

In the normal course of business the MSB enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.

The MSB is involved from time to time in litigation which arises in the normal course of operations. With respect to these claims, the Company believes the claims are without merit and that any impact on the operations of the Company will either not be material or a sufficient provision has been made. The Company's policy is to recognize the losses, if any, on any such litigation when the outcome becomes reasonably determinable.

**(b) Mining Operations**

The payable metals Vale Inco is required to pay for ore shipped by FNX are determined based on the metal which Vale Inco is able to recover from the various ore deposits. This will vary depending on the particular metallurgical composition of each ore deposit as determined by metallurgical testing of the various ore deposits. There are several different final payable metals terms for the various ore deposits at McCreedy West to reflect the differences in the metallurgical composition of the ore deposits.

New interim processing costs terms and interim provisional payable metals terms, based on preliminary and limited metallurgical testing, have been established for the Levack and Podolsky mines. Additional and more extensive metallurgical testing, to be conducted over the next several months, is required in order to determine final payable metals terms and processing costs terms for both mines. Management anticipates this to be completed by year end.

Podolsky's new interim provisional payable metals and processing costs terms are effective for all ore shipped from September 2007, the date ore shipments commenced from the Podolsky Mine, until final payable metals and processing costs terms are determined, which management anticipates to be in place by year end. FNX's pre-production revenue credits accrued at December 31, 2007 and the metals production forecasts for 2008 were previously based on management's estimated payable metals and processing costs terms. The pre-production revenue credits were revalued using the new interim provisional payable metals and processing costs terms, resulting in a \$1.6 million increase in the carrying value of Podolsky being recorded in the first quarter of 2008 as these amounts were previously offset against the carrying value.

Levack's new interim provisional payable metals and processing costs terms replaced the Levack interim provisional terms that had been used up to December 31, 2007, which were based on those at McCreedy West. Levack's new interim provisional terms are effective from January 1, 2008 until final payable metals and processing costs terms are determined, which management anticipates to be in place by year end, and are less favourable to FNX than the previous interim provisional terms. Once final payable metals and processing costs terms are determined, they will also be applied to ore shipped from Levack in 2006 and 2007. The Company cannot, at this time, determine the amount, if any, of such adjustment.



Management considers the new provisional payable metals terms at both Levack and Podolsky to be conservative based on the results of the metallurgical testing FNX has conducted to date. Depending on the outcome of the final payable metals and costs terms there may be a material increase or decrease in payable metals and/or processing costs to be recorded.

**17. Subsequent event**

On April 1, 2008 the Company established a US\$100 million secured line of credit facility with a consortium of major banks, which provides the Company with the right to borrow for working capital and general corporate purposes.

The LOC matures on March 31, 2009, subject to an extension option as well as a right to elect a one-year term out of the LOC, in which case repayment of outstanding amounts is made in four equal installments commencing on June 30, 2009 and ending on March 31, 2010.

Borrowings may be made in the form of United States Base Rate loans or London Interbank Offered Rate (LIBOR) loans. Borrowings bear interest, when drawn, at the United States Base Rate (plus a margin ranging from 0.250% to 0.875%) or at LIBOR (plus a margin ranging from 1.250% to 1.875%) depending on the Company's current leverage ratio and whether the LOC has been converted from revolving to non-revolving.

The LOC is secured by a first priority general security interest in all present and future personal property pursuant to a general security agreement (subject to permitted encumbrances) and contains covenants and events of defaults customary to this type of facility.