



MANAGEMENT'S DISCUSSION AND ANALYSIS

First Quarter Ended March 31, 2008

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This management's discussion and analysis of the financial condition and results of operations ("**MD&A**") of FNX Mining Company Inc. ("**FNX**" or the "**Company**") was prepared to enable a reader to assess material changes in the financial condition and results of operations of FNX as at and for the three months ended March 31, 2008, in comparison to the corresponding prior-year periods. This MD&A is prepared as at May 7, 2008, and is intended to supplement and complement the audited consolidated financial statements of FNX for the years ended December 31, 2007 and 2006, which are prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). This MD&A should also be read in conjunction with the most recent Annual Information Form ("**AIF**") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward-looking statements based on management's current expectations (please see "Cautionary Note Regarding Forward-Looking Statements" below). All references to dollars herein are in Canadian dollars unless otherwise specified.



Company Overview

FNX is an Ontario based company operating in Canada and the United States with consolidated assets in excess of \$1 billion and more than 1,700 employees functioning within two operating segments: the Mining Operations segment; and, the Mining Services segment. The Mining Operations segment produces, develops and explores for nickel, copper, cobalt, platinum, palladium and gold in Canada's prolific Sudbury mining district. The Mining Services segment operates in both Canada and the United States providing services in contract mining, mine shaft sinking, lateral mine development, mine construction, civil underground construction, raise boring and Alimak raising.

Executive Summary

Consolidated Financial Results

Net earnings for the first quarter were \$24.1 million, equal to \$0.28 per share, compared to net earnings of \$32.3 million, or \$0.38 per share, during the fourth quarter of 2007 and \$30.2 million or \$0.36 per share, during the first quarter of 2007. In 2007, net earnings benefited from a reduction in income tax rates which led to an income tax recovery of \$18.7 million during the fourth quarter and from record high nickel prices experienced in the first quarter.

Cash flow from operating activities was a record high \$55.8 million during the first quarter of 2008, or \$0.66 per share, compared to \$50.9 million, or \$0.60 per share, during the fourth quarter of 2007, and \$36.4 million, or \$0.43 per share, during the first quarter of 2007. Cash balances and working capital were \$29.1 million and \$54.2 million, respectively, at March 31, 2008, compared to \$35.2 million and \$70.2 million, respectively, at December 31, 2007 and FNX remained debt free.

Mining Operations

Production

During the first quarter a record total of 284,899 tons of ore was shipped, including 199,054 tons of nickel ore and 85,845 tons of copper ore. This compared to 205,854 tons shipped in the first quarter of 2007, composed of 133,630 tons of nickel ore and 72,224 tons of copper ore. Payable nickel was 3.49 million pounds, payable copper was 6.89 million pounds and 7,272 ounces of platinum, palladium and gold ("**TPM**"), compared to 2.63 million pounds of payable nickel, 2.26 million pounds of payable copper and 5,961 ounces of TPM for the quarter ending March 31, 2007. The significant increase in copper production is attributed to the commencement of commercial production from a copper-rich footwall ore zone grading 11.7% copper at the Podolsky Mine. An interim agreement with Vale Inco on accountabilities and processing charges has been reached regarding Podolsky and Levack production. Negotiations over final process charges are expected to continue in the second quarter, and metallurgical testing and protocol setting for ongoing accountability setting will continue through the year.

The average metal prices received during the first quarter were US\$14.43 per pound of nickel, US\$3.84 per pound of copper, with record high TPM prices as well. This compares to the historical record high US\$21.65 per pound of nickel and US\$2.67 per pound of copper during the same period last year. The cash cost to produce a pound of nickel, net of by-product credits, for the quarter was US\$1.30, compared to US\$3.46 in the first quarter of 2007. This



lower cost was as a result of the higher production and sales of by-products this year, compared to the similar period of 2007.

Capital expenditures of \$52.7 million during the quarter included \$18.0 million to support mine start up at Podolsky, \$22.0 million at the Levack Complex and \$9.5 million of advanced exploration at the Levack Footwall including the extraction of a 15,207 ton bulk sample for metallurgical purposes.

During the quarter, the Company commissioned a new facility for weighing and sampling ore shipments at each of Levack and Podolsky allowing FNX the ability to ship directly to the customer from Levack and Podolsky in addition to McCreedy West. This added capability was one of the critical items to permit the Company to realize its future production plans.

Development/Advanced Exploration

Development of the transitional Rob's Zone at the top of the Levack Footwall Deposit progressed during the first quarter. Drifting crossed two narrow bands of massive sulphide mineralization at the top of the Rob's Zone. Drill stations were established and the decline down to a second Level 50 feet below progressed. A second cross-cut drift into the Zone is expected to occur during the second quarter. On-vein drifting to explore continuity and extent of the mineralization encountered at the top of the Rob's Zone was set to begin early in the second quarter. A raise from the top of the Rob's Zone for ventilation and secondary egress was initiated in the quarter with completion expected in the second quarter. By the end of the first quarter, a contractor was mobilized and work was initiated on shaft rehabilitation below the currently active working Levels. This work will enable a drift to be excavated from the bottom of the Levack No. 2 shaft to the middle of the Levack Footwall Deposit. Access to the 3600 Level is expected by year-end which will allow the development to the Levack Footwall Deposit to begin. Planning is ongoing for the infrastructure that will be needed to support mining once this deposit is accessed.

Pursuant to the terms of an agreement with Xstrata Nickel, which provided for the taking of a bulk sample of Levack Footwall Deposit ore from the end of the drift from the Craig Mine, by March 31, 2008 a 15,207 ton bulk sample had been hoisted to surface, crushed and sampled and is to be used for metallurgical testing.

Development in the Levack nickel deposits is ongoing with work done to extend ramps for additional access to ore zones and to tie levels together to increase efficiency. Several raises were completed and equipped for ventilation, egress, and rock handling.

At McCreedy West, development for both the nickel zones and the PM Zone continued. Significant exploration drifting to set up diamond drilling stations also was completed. Exploration success is required to continue to replace mined out reserves.

Development progressed on both the 1750 and 2450 Levels at Podolsky. The decline accessed and opened up the 2500 Level, allowing stoping and mine production to begin in the first quarter. The ramp up to the 2375 Level progressed and the development of the 2375 Level and access to the 2300 Level is expected to be completed in the second quarter. Development of the decline down from the 1750 Level to the 2500 Level progressed to the 1925 Level.



Exploration

The new definition drilling at Podolsky has resulted in the opportunity to update the geological modeling of the 2000 Deposit and to facilitate a better understanding of the distribution of the high-grade veins within it. A news release in February highlighted the effect of the definition drilling on increasing the grade of the mineral resource. Drilling began during the quarter from platforms off the 1750 Level to begin to further define the up-dip extents of the 2000 Deposit Breccia Zone and to provide more detailed diamond drill coverage of the 2000 Deposit Grey Gabbro Zone. Elsewhere on the Podolsky property, the 2008 exploration programme commenced with continued exploration drilling from surface at the Nickel Ramp Deposit. Both Contact Ni and Footwall-Hosted Cu-Ni-PGE targets will be tested in the second quarter as a second drill is being mobilized to the property.

Underground access at both the transitional Ni-Cu Rob's Deposit and the Levack Footwall Deposit reached important milestones in quarter. The upper portion of the Rob's Deposit was intersected by a drift off the decline that extends from the Levack Mine 2650 Level (26-135 Footwall Access Ramp), and was represented by two 18 inch (45 cm) wide Ni-Cu-PGE bearing pyrrhotite-rich veins. As development of the footwall ramp continues, selective drifting along one of the veins has begun to evaluate the continuity of the vein system, an especially important exercise given the complex vein orientations that have been modeled to date. The Levack Footwall Deposit was successfully intersected from the Xstrata Nickel Craig Mine 4000 Level (40-1 Exploration Ramp). The development project confirmed more than 360 feet of continuity of the trunk vein system on the footwall side of the mineral envelope. Definition drilling has extended this continuity and the western extent of the mineralized envelope more than 150 feet to the west. The definition drill programme is scheduled to continue in the second quarter.

For the first time in almost three years, FNX mobilized a surface diamond drill on the Victoria property to follow-up on both Contact Ni and footwall Cu-Ni-PGE targets. Detailed geological modeling, completed in 2007, resulted in the generation of new exploration targets on the property.

Mining Services

Revenues from Mining Services totaled \$49.4 million for the three months ended March 31, 2008. The operating margin for the same period was \$2.4 million. Net earnings for the period, after deductions for depreciation and amortization expenses including a charge for amortization of intangible assets of \$0.8 million, was a loss of \$1.0 million. Operating cash flow for the period was \$0.6 million. Overall the business climate in mining contracting remains positive particularly in the United States and it is anticipated that the volumes of work will increase going forward following the transition out of the Goldcorp contract which came to an end as expected at the end 2007.

As at the end of March, Mining Services had a backlog of work to complete totaling \$149 million with 850 active employees.

Other

During the quarter, the Mining Operations reported no lost time injuries to any FNX employees or contractors. The MSB recorded one lost time injury over the same period.

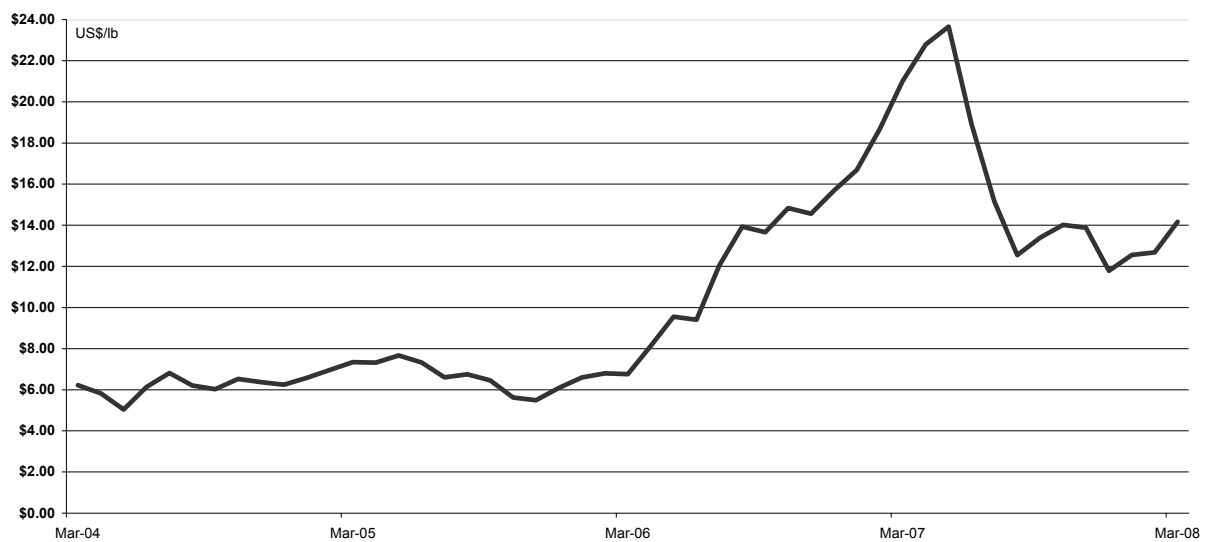
Key Economic Trends and Sensitivities

The MD&A included in FNX's 2007 Annual Report contained a discussion of the key economic trends that affect the Company and how they impact FNX's financial statements. This interim MD&A provides an update to reflect any significant changes in those trends since the preparation of the 2007 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the price of nickel and copper and, to a lesser extent, the price of other metals (platinum, palladium, gold and cobalt) produced by the Company.

Metal Prices

Nickel accounted for approximately 55% of the Company's mine operating revenues in the first quarter of 2008, compared to 76% in the fourth quarter of 2007 and 83% in the first quarter of 2007. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and the price of each metal and thus the decrease in nickel's contribution as a percentage of total revenues is a result of two effects: nickel prices have moderated since the comparable period in 2007 while copper and precious metal prices have generally been strengthening steadily since the first quarter of 2007; and, the achievement of commercial production at the Podolsky Mine during the first quarter of 2008 added high grade copper rich ore to the Company's production profile.

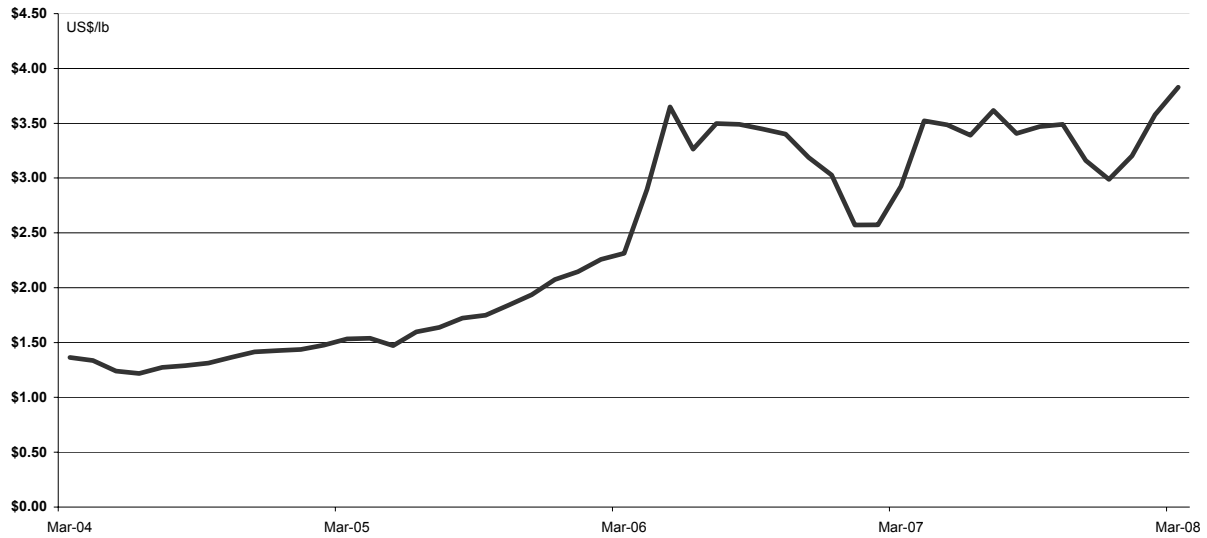
Figure 1 – Nickel Prices



Source: LME monthly average cash mean per lb

The cash settlement price of nickel on the London Metal Exchange (“LME”) increased from US\$11.70 per pound on December 31, 2007 to US\$14.16 on March 31, 2008. The LME average cash settlement price averaged US\$13.13 per pound in the first quarter of 2008, compared to US\$13.23 in the fourth quarter of 2007 and US\$18.79 in the first quarter of 2007. Management is of the view that the LME cash settlement price for nickel will exhibit continued volatility in 2008; however, the price should remain strong relative to historic long-term average prices. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to nickel prices.

Figure 2 - Copper Prices

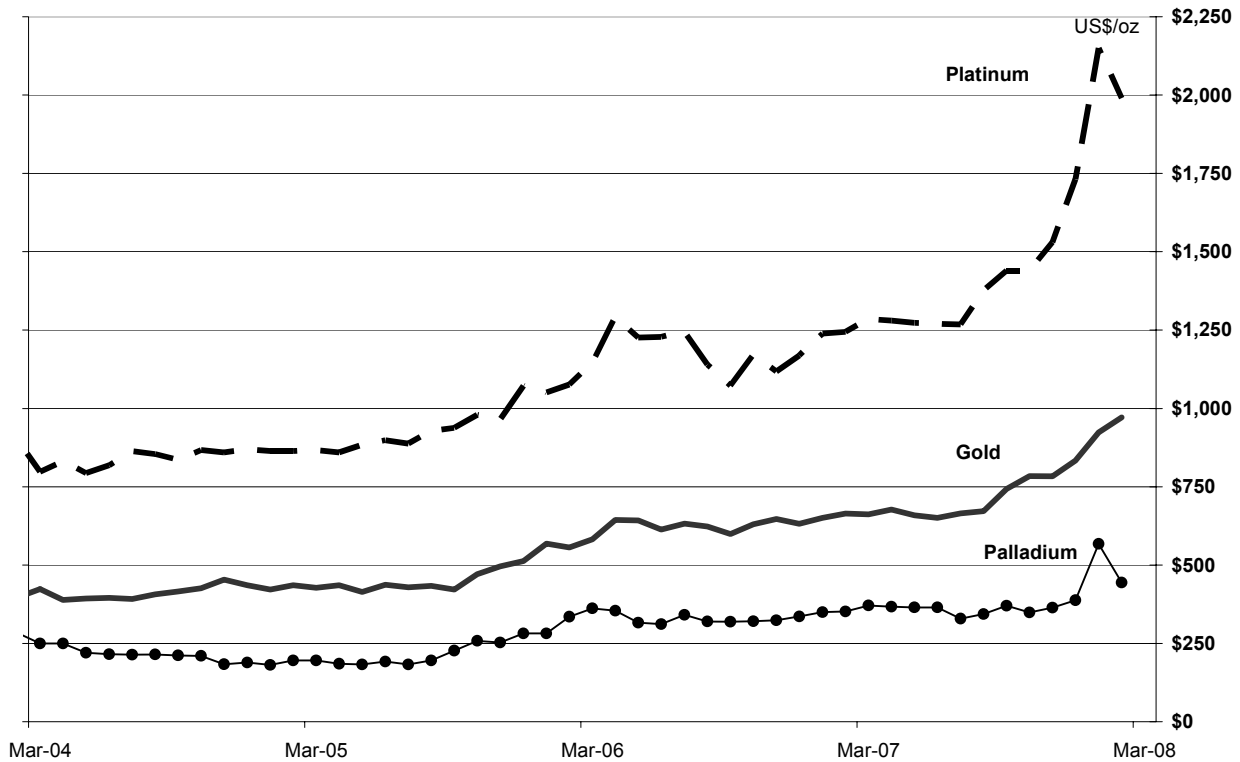


Source: LME monthly average cash mean per lb

Copper, which is included in revenue but is considered to be a by-product for purposes of calculating the cash operating cost per pound of nickel, accounted for 29% of revenues in the first quarter of 2008, an increase of 18% and 20% over the fourth and first quarters of 2007, respectively, due to higher copper prices and higher copper volumes associated with the commencement of commercial production at the Podolsky Mine in January 2008.

The LME cash settlement price of copper continued to strengthen during the first quarter of 2008 and averaged US\$3.54 per pound, compared to US\$3.21 per pound in the fourth quarter of 2007 and US\$2.69 per pound in the first quarter of 2007. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to copper prices.

Figure 3 - TPM Prices

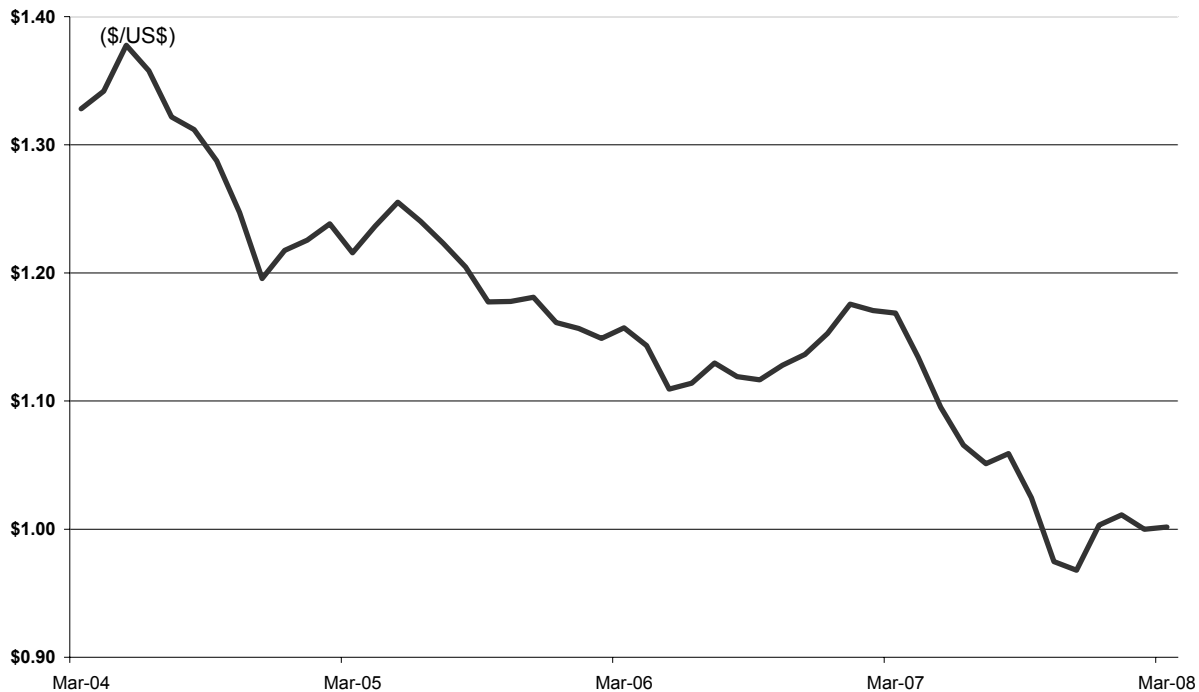


Source: *metalbulletin.com* monthly average price per oz

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt which contributed a combined 15% to FNX's revenues during the first quarter of 2008 compared to 12% and 8% during the fourth and first quarters of 2007, respectively. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and by the unit price of each metal. The production levels of TPM's in 2008 are forecast to be higher than in 2007 and, as a result, the contribution as a percentage of total revenue from the sale of TPM's is expected to increase in 2008, compared to 2007, due to the commencement of commercial production at the Podolsky Mine.

The average prices for TPM's have shown considerable strength during the first quarter of 2008 as power and other disruptions in South Africa reduced global production levels, which in turn caused certain metals to reach record highs during the quarter. Figure 4 and Table 2 illustrate the movement and strength in TPM prices since December 31, 2007.

Figure 4 – Foreign Exchange Rate: Canadian to United States Dollar



Source: Bank of Canada's monthly average close.

FNX reports its financial results in Canadian dollars. While the Company's minesite operating costs and most exploration and administration costs are in Canadian dollars, revenues from metal sales and concentrating, smelting and refining costs are in US dollars. The Canadian dollar depreciated relative to the US dollar during the quarter as the average rate for the first quarter of 2008 was \$1.00/US\$, compared to \$0.98/US\$ in the fourth quarter of 2007. Table 1 below illustrates FNX's sensitivity to \$/US\$ exchange rates.

Summary

The following table summarizes average commodity prices and Canadian-US dollar exchange rates over the last four years and the spot prices and exchange rate on May 7, 2008.

Table 1 – Commodity Prices	Three months ended March 31				May 7,	
	2005	2006	2007	2008	2007	2008
Nickel (US\$/lb)	6.68	11.00	16.88	13.13	18.79	12.89
Copper (US\$/lb)	1.67	3.05	3.22	3.54	2.69	3.86
Cobalt (US\$/lb)	14.55	15.32	28.28	46.36	25.81	47.13
Platinum (US\$/oz)	897	1,142	1,303	1,879	1,191	1,945
Palladium (US\$/oz)	202	320	355	444	343	427
Gold (US\$/oz)	445	604	697	928	650	874
Foreign exchange \$/US\$	1.21	1.13	1.07	1.00	1.17	1.01

(1) Commodity prices are based on monthly averages as published on metalbulletin.com.

(2) Foreign exchange rates as published by the Bank of Canada.

Sensitivity Analysis

Net earnings, earnings per share (“EPS”) and cash flow from operating activities are affected by external factors including fluctuations in metal prices and changes in exchange rates between the Canadian and US dollars. Table 2 illustrates the sensitivity of certain items, on an annualized basis, of the Company’s forecast 2008 results to changes in key metal prices and foreign exchange rates.

Table 2 – Sensitivity	Change in Price	Effect on Net Earnings	Effect on EPS	Effect on Cash Flow from Operating Activities
Nickel	US\$1.00 / lb	\$9.9 million	\$0.12	\$13.6 million
Copper	US\$0.25 / lb	\$7.1 million	\$0.08	\$9.7 million
\$/US\$	\$0.10 movement	\$22.7 million	\$0.27	\$31.1 million

Financial Results

Overview

The following table presents a summary of FNX’s Consolidated Statements of Operations and other cash flow data for the three months ended March 31, 2008 and 2007.

Table 3 – Financial Overview	Three Months Ended March 31				
		2008		2007	
	Mining Operations	Mining Services	Total	Total	Change
	\$000s	\$000s	\$000s	\$000s	\$000s
Revenues	91,323	49,393	140,716	80,473	60,243
Expenses ⁽¹⁾	(45,232)	(46,984)	(92,216)	(24,555)	(67,661)
Margin	46,091	2,409	48,500	55,918	(7,418)
Depreciation and amortization	(8,593)	(2,297)	(10,890)	(4,879)	(6,011)
Mining operations and services, net	37,498	112	37,610	51,039	(13,429)
Administration	(2,675)	-	(2,675)	(2,293)	(382)
Capital taxes	-	-	-	(450)	450
Depreciation	(220)	-	(220)	(97)	(123)
Stock-based compensation	(598)	(576)	(1,174)	(888)	(286)
Taxes	(11,409)	(891)	(12,300)	(18,387)	6,087
Other (expenses) income	2,423	399	2,822	1,267	1,555
Net earnings	25,019	(956)	24,063	30,191	(6,128)
Basic earnings per share			\$0.28	\$0.36	(\$0.08)
Diluted EPS			\$0.28	\$0.36	(\$0.08)
Cash flow from operating activities			55,795	36,426	19,369
Cash flow per share from operating activities ⁽²⁾			\$0.66	\$0.43	\$0.23
Diluted cash flow per share from operating activities ⁽²⁾			\$0.65	\$0.43	\$0.22

(1) Operating expenses exclude depreciation and amortization.

(2) Cash flows per share are non-GAAP performance measures (see Non-GAAP Performance Measures below).

Mining Operations

Metal Production and Sales

The following table presents a summary of the production and sales information for FNX's Sudbury mining operations for the three months ended March 31, 2008 and 2007.

Table 4 – Mining Operations Production and Sales Summary	Three months ended March 31		
	2008	2007	Change
Ore sold (tons)			
Nickel ore	199,054	133,630	65,424
Copper ore	85,845	72,224	13,621
Total ore sold	284,899	205,854	79,045
Grade of ore sold			
Nickel ore (%Ni)	1.3	1.2	0.1
Copper ore (%Cu)	4.2	1.3	2.9
Payable metal sold			
Nickel (000s lbs)	3,492	2,628	864
Copper (000s lbs)	6,892	2,261	4,631
TPM (ozs)	7,272	5,961	1,311
Cobalt (000s lbs)	54.6	33.7	20.9
Metal sales revenue			
Average Ni price (US\$/lb)	14.43	21.65	(7.22)
Average Cu price (US\$/lb)	3.84	2.67	1.17
\$/US\$ exchange rate	1.00	1.17	(0.17)
Total revenue (\$000s)	91,323	80,473	10,850
Revenue (\$/ton of ore sold)	321	391	(70)
Cash cost			
Mining (\$000s)	45,232	24,555	20,677
Cash cost (\$/ton of ore sold)	159	119	40
Cash cost (US\$/lb of Ni sold)	1.30	3.46	(2.16)
Cash operating margin (\$/ton of ore sold)	162	272	(110)

- (1) Cash operating cost per pound of nickel sold excludes mine depreciation and amortization and includes mining, milling, smelting, refining, haulage and marketing costs and is net of by-product credits.
- (2) Copper grades reflect a blend of the previous PM Deposit and 700 Zone ores with the very high grade Podolsky Mine ore.
- (3) TPM represents total precious metals – platinum, palladium and gold.
- (4) Cash costs per ton and per pound are non-GAAP performance measures (see Non-GAAP Performance Measures below).

Pursuant to an agreement with Vale Inco Limited (“**Vale Inco**”), FNX ships all of its ore to Vale Inco’s Clarabelle Mill in Sudbury, Ontario for processing. The number of tons of ore sold has been increasing consistently year over year and reached 284,899 tons in the first quarter of 2008, a 38% increase over the first quarter of 2007 and a 19% increase over the fourth quarter of 2007, as a result of the commencement of commercial production at the Podolsky Mine. FNX has budgeted to increase its annual production in 2008 to 1,451,000 tons of ore to be shipped to the Clarabelle Mill, an increase of 57% over the Company’s 2007 ore production as a result of



the commencement of production from the Podolsky Mine. Levack Complex is budgeted to produce a total of 1,158,000 tons of ore (599,000 tons of nickel ore and 559,000 tons of copper ore), while the Podolsky Mine is expected to produce 293,000 tons of copper ore during 2008. In addition, pursuant to the terms of an agreement with Xstrata Nickel which provided for the taking of a bulk sample of Levack Footwall Deposit ore from the end of the drift from the Craig Mine, in March 2008 a 15,207 ton bulk sample had been hoisted to surface, crushed and sampled and is to be used for metallurgical testing.

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.



The following table presents a summary of the production and sales information at the Levack Complex for the three months ended March 31, 2008 and 2007.

Table 5 – Production and Sales Summary Levack Complex	Three months ended March 31		
	2008	2007	Change
Ore sold (tons)			
Nickel ore	199,054	133,630	65,424
Copper ore	61,733	72,224	(10,491)
Total ore sold	260,787	205,854	54,933
Grade of ore sold			
Nickel ore (%Ni)	1.3	1.2	0.1
Copper ore (%Cu)	1.2	1.3	(0.1)
Payable metal sold			
Nickel (000s lbs)	3,150	2,628	522
Copper (000s lbs)	2,257	2,261	(6)
TPM (ozs)	4,546	5,961	(1,415)
Cobalt (000s lbs)	52.9	33.7	19.2
Metal sales and costs			
Revenue (\$/ton of ore sold)	251	391	(140)
Cash cost (\$/ton of ore sold)	140	119	21
Cash operating margin (\$/ton of ore sold)	111	272	(161)

(1) TPM represents total precious metals – platinum, palladium and gold.

(2) Cash costs per ton and per pound are non-GAAP performance measures (see Non-GAAP Performance Measures below).

The following table presents a summary of the production and sales information at the Podolsky Mine for the three months ended March 31, 2008 and 2007.

Table 6 – Production and Sales Summary Podolsky Mine	Three months ended March 31		
	2008	2007	Change
Ore sold (tons)			
Copper ore	24,112	-	24,112
Grade of ore sold			
Copper ore (%Cu)	11.7	-	11.7
Payable metal sold			
Nickel (000s lbs)	342	-	342
Copper (000s lbs)	4,635	-	4,635
TPM (ozs)	2,726	-	2,726
Cobalt (000s lbs)	1.7	-	1.7
Metal sales and costs			
Revenue (\$/ton of ore sold)	1,068	-	1,068
Cash cost (\$/ton of ore sold)	359	-	359
Cash operating margin (\$/ton of ore sold)	709	-	709

(1) TPM represents total precious metals – platinum, palladium and gold.

(2) Cash costs per ton and per pound are non-GAAP performance measures (see Non-GAAP Performance Measures below).



Metal Sales

Ore sold in the first quarter of 2008 totaled 284,899 tons, compared to 205,854 tons sold in the first quarter of 2007 and 239,066 tons sold in the fourth quarter of 2007, representing increases of 38% and 19%, respectively. Nickel sales of 3.5 million pounds in the first quarter of 2008 were 204,000 pounds higher than the fourth quarter of 2007 and 864,000 pounds higher than the first quarter of 2007, as a result of the ramping up of production at the Levack nickel deposits since declaring commercial production on January 1, 2007. Copper sales in the first quarter of 2008 were a record 6.9 million pounds, 246% higher than the fourth quarter of 2007 and 205% higher than in the first quarter of 2007. Precious metals sales totaled 7,272 ounces during the first quarter of 2008, up from 5,062 ounces in the fourth quarter of 2007 and 5,961 ounces during the first quarter of 2007. The significant increase in copper and precious metals and to a lesser extent the increase in nickel was a result of the commencement of commercial production at the Podolsky Mine on January 1, 2008. Due to the high grade nature of the ore shipped from Podolsky during the quarter, Vale Inco's Clarabelle Mill experienced difficulties with the blending and processing of these ores. Accordingly, the Company was restricted in the quantity of ore shipments it could deliver to the mill from Podolsky in the first quarter of 2008. The mill has been working through the issues and by April these restrictions had largely been resolved.

Metal sales in 2008 are expected to be higher than in 2007 as a result of the commencement and ramping up of production at the Podolsky Mine and the continuing ramp up of production at the Levack nickel deposits.

Metal Sales Revenue

Revenue is recognized at the time ore is shipped to Vale Inco, which is also the time that title transfers. The contracts under which FNX sells its ore provide for final pricing based upon quoted market prices in periods subsequent to the month of sale, which, for nickel and copper, is the second month following shipment. Any variance in the price of the metals sold is adjusted in subsequent periods. The use of provisional pricing can lead to higher volatility in quarterly revenues. The nickel and copper contained in the ore that FNX sells to Vale Inco for further processing each month is priced at and ultimately paid to FNX on the basis of the lower of the month's average LME cash settlement price and the monthly average LME three month seller price. When foreign exchange rates remain stable, in a rising metal price environment, the Company will realize higher metal prices than the average metal price in the period, while the converse is true in a declining metal price environment.

Table 7 – Average Metal Prices	Three Months Ended March 31			
	2008		2007	
	Realized Price	Market Price	Realized Price	Market Price
Nickel (US\$/lb)	14.43	13.13	21.65	18.79
Copper (US\$/lb)	3.84	3.54	2.67	2.69
Cobalt (US\$/lb)	55.54	46.36	31.34	25.81
Platinum (US\$/oz)	2,727	1,879	1,530	1,191
Palladium (US\$/oz)	630	444	395	343
Gold (US\$/oz)	1,013	928	771	650
\$/US\$	1.00	1.00	1.17	1.17

- (1) Market prices of nickel and copper are based on the LME cash settlement price.
(2) Market prices of TPM & Cobalt are based on monthly averages as published on Metalbulletin.com.
(3) Market price of foreign exchange is as per the Bank of Canada.

Mine operating revenues, including the aforementioned provisional price adjustments, totaled \$91.3 million in the first quarter of 2008, approximately 78% higher than in the fourth quarter of 2007 and 13% higher than in the first quarter of 2007. Revenues were higher in the first quarter of 2008, compared to 2007, as a result of record high production in nickel, copper and TPM's, in conjunction with higher realized metal prices, in particular TPM's and copper.

FNX realized US\$1.30 per pound of nickel more than the LME average price for the first quarter of 2008. FNX realized \$10.0 million of additional revenue related to metal sales that were provisionally priced in prior periods. In the first and fourth quarter of 2007, FNX realized US\$2.86 and (US\$1.07), respectively, per pound of nickel more (less) than the LME average price as a result of \$12.3 million and \$nil million, respectively, of additional revenue related to metal sales that were provisionally priced in prior periods.

The 2% quarter over quarter depreciation in the value of the Canadian dollar relative to the US dollar in the first quarter of 2008 resulted in higher revenue in Canadian dollars than would otherwise have been realized.

The following table shows the increase (decrease) in FNX's nickel sales revenue in Canadian dollars as a result of an increase (decrease) in the quantity of nickel sold and the price of nickel earned by comparing the first quarter of 2008 to the first quarter and fourth quarter of 2007.

Table 8 – Net Change in Nickel Sales Revenue	Q1-2008 compared to Q1-2007	Q1-2008 compared to Q4-2007
	\$000s	\$000s
\$ Change due to quantity	21,897	2,428
\$ Change due to price	(37,842)	9,020
Net change in nickel sales revenue	(15,945)	11,448
<i>Change in quantity sold (000s lbs)</i>	<i>864</i>	<i>204</i>
<i>Change in revenue (US\$/lb)</i>	<i>(7.22)</i>	<i>2.27</i>

Mining Cost of Sales

Mine operating expenses, excluding mine depreciation and amortization costs, (“cash operating costs”) were \$45.2 million in the first quarter of 2008, \$19.8 million higher than in the fourth quarter of 2007, and \$20.1 million higher than the first quarter of 2007. Cash operating costs are expected to be higher in 2008 due to higher tonnages mined and ore sold this year due to the commencement of commercial production at the Podolsky Mine, the continued ramp up of production at the Levack nickel deposits and higher processing costs under the terms of the interim payable metal contract with Vale Inco.

Cash Operating Cost Per Pound of Nickel

While the cash operating cost per pound of nickel sold is an important industry benchmark, FNX considers the cash operating cost per ton of ore sold and the cash operating margin per ton of ore sold, both non-GAAP performance measures (see discussion under Non-GAAP Performance Measures below), to be more relevant benchmarks in evaluating costs and profitability for the Company’s operating mines. FNX’s cash operating cost per pound of nickel sold was US\$1.30 for the quarter, US\$2.83 per pound lower than in the fourth quarter of 2007 and US\$2.17 lower than the first quarter of 2007. The cash operating cost per pound of nickel sold is highly volatile from period to period, as it is affected not only by the actual cash costs incurred but also by the number of pounds of nickel produced and by the quantity and price of the by-product metals. With Podolsky achieving commercial production on January 1, 2008 and possible future production from the Cu-Ni-TPM rich Levack Footwall Deposit, the percentage of copper and TPM ore as a percentage of total ore production is expected to increase and thus the cash operating cost per pound of nickel is also expected to decrease year over year.

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

Table 9 – Cash Operating Cost Per Pound of Nickel Sold	Three months ended March 31, 2008			Three months ended March 31, 2007		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Mine operating expenses ⁽¹⁾	45,232	45,029	12.90	24,555	20,957	7.97
By-product credits:						
Copper	(26,647)	(26,528)	(7.60)	(7,074)	(6,037)	(2.30)
Other ⁽²⁾	(14,010)	(13,947)	(4.00)	(6,790)	(5,795)	(2.21)
Cash operating costs	4,575	4,555	1.30	10,691	9,125	3.46
Nickel sold (000s lbs)		3,492			2,628	

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

(2) Platinum, palladium, gold and cobalt.

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

Cash Operating Margin Per Ton of Ore Sold

The cash operating margin per ton of ore sold was \$162 per ton in the first quarter of 2008, compared to \$109 per ton in the fourth quarter of 2007 and \$272 per ton in the first quarter of 2007. Higher metal prices and greater quantities of ore sales caused margins to increase 48.6% over the fourth quarter of 2007. On a year over year basis, the cash operating margin per ton of ore sold decreased due to record high realized nickel prices in the first quarter of 2007. Cash operating costs per ton are expected to be higher than historically as a result of



increases in costs related to the new interim provisional terms from Vale Inco and the higher processing charges associated with the very high grade copper ores from Podolsky (the greater the metal content the higher the total processing costs).

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

Table 10 – Cash Operating Margin Per Ton ⁽¹⁾	Three months ended	
	March 31	
	2008	2007
	\$/ton	\$/ton
Mine operating revenue	321	391
Mine operating expenses ⁽²⁾	(159)	(119)
Cash operating margin per ton of ore sold	162	272

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

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

With metal prices continuing to be volatile, grades forecast to remain stable and the Podolsky mine commencing commercial production on January 1, 2008, FNX anticipates that the cash operating margin per ton of ore sold will continue to fluctuate but be relatively high compared to historic averages. In the first quarter of 2008, the Company experienced higher cash operating cash per ton as a result of lower production units and higher refining costs per ton for limited initial production from the Podolsky Mine, which was declared in commercial production January 1, 2008. In addition, due to the high grade nature of the Podolsky copper ores, the processing cost per ton of ore will be higher than those at the Levack Complex. The Company’s target of \$120 per ton of cash operating costs as an overall benchmark for all combined mining operations will increase in 2008 due to higher initial mining costs as the Podolsky Mine has commenced production, the higher than estimated processing costs of the new interim provisional terms and higher processing costs due to increased metal production.

Mine Depreciation and Amortization

Mine depreciation and amortization expense was \$8.6 million in the first quarter of 2008, \$0.2 million higher than in the fourth quarter of 2007, and \$3.7 million higher than during the first quarter of 2007. Mine depreciation and amortization expense is anticipated to increase in 2008 as a result of an increase in budgeted production from both the Levack Complex and Podolsky achieving commercial production in January 2008.

Mining Services

On October 15, 2007, the Company acquired the Dynatec mining services business (“**MSB**”), comprised of a Canadian mining services division and Dynatec Mining Corporation (“**DMC**”) which provides mining services in the United States. The consolidated financial results include the results of operations from the Mining Services segment for the period January 1, 2008 to March 31, 2008.

Revenues from the Mining Services segment for the three months ended March 31, 2008 totaled \$49.3 million, compared to \$54.3 million during the fourth quarter of 2007 (for the period from October 16 to December 31, 2007). Contract costs for the first quarter of 2008 totaled \$47.0



million, compared to \$49.8 million during the fourth quarter of 2007, and depreciation and amortization expenses, including amortization of intangible assets acquired upon the acquisition of the MSB, totaled \$2.3 million, compared to \$2.0 million during the fourth quarter of 2007.

Cash operating margin, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), calculated as the operating revenues of the MSB less operating costs of the MSB excluding depreciation and amortization, was \$2.4 million during the first quarter of 2008, compared to \$4.5 million for the fourth quarter of 2007. The MSB has operated at a virtual breakeven position since its acquisition in late 2007, as it incurred a net loss of \$1.0 million during the first quarter of 2008 and had net earnings of \$1.2 million during the fourth quarter of 2007. First quarter earnings were negatively impacted when a client that accounted for 27% of the MSB's fourth quarter 2007 revenues, assumed the on-site workforce and cancelled the contract effective January 1, 2008. The potential loss of this client was, however, taken into consideration in the valuation and determination of the purchase price of the MSB. As at March 31, 2008, the MSB had a backlog of work to be completed of approximately \$148 million. As part of the normal course of business, the MSB regularly sources new clients and new contracts to replace expiring contracts and management continues to pursue new opportunities on an ongoing basis.

Health, Safety, Environment and Community

Health and Safety

In the first quarter of this year, FNX strengthened its team with the addition of two corporate positions dedicated to the development and implementation of the occupational health, safety and environmental management systems ("**HSEMS**"). The primary focus during the quarter was working with employees and management in evaluating the risks associated with the work environment and work methods. The secondary focus was on the development of software to assist in the management of the various programs within the HSEMS, such as the assessment of risk, the investigation of incidents and non-conformities, and the tracking of legal requirements.

Given its extensive exploration activities, FNX joined the Eastern Safety Group of the Canadian Diamond Drillers Association. This allows FNX to be an active member in a forum where pertinent health and safety issues are discussed.

The FNX Health and Safety Advisory Committee, consisting of expert professionals from industry, consulting and academia, met to review FNX's health and safety performance for 2007 and discuss FNX's key HSEMS initiatives for 2008.

Mining Operations and exploration personnel and all onsite contractors experienced a Total Medical Injury Frequency Rate ("**TMIFR**") of 6.9 compared to 7.6 for the same period last year. Mining Services experienced a TMIFR of 2.7 for the quarter compared to 5.5 for the first quarter of 2007. While FNX recognizes this improved performance, the Company also acknowledges that even one injury exceeds the goal of "zero harm" in the workplace.

The Company has over 500 unionized employees at the Levack Complex and Podolsky mines which have a collective agreement that expires on June 30, 2008. Negotiations with respect to concluding terms of a new collective agreement will be initiated shortly.



Environment

The Podolsky Mine operations Closure Plan was accepted for filing by the Ministry of Northern Development and Mines in January, providing regulatory authority to move from advanced exploration to mine operation.

There were no environmental incidents at the Levack or McCreedy West mines. The Podolsky Mine received a Provincial Officers Order from the Ministry of the Environment (MOE) requiring the mine to reduce ammonia levels in the discharge from the water treatment plant. Measures were taken by the team at Podolsky which were successful in reducing ammonia levels well below regulatory limits. The long term solution includes the installation of the previously planned new ammonia treatment module in the existing water treatment plant by the end of July 2008.

Community

Consultation with the Wahnipitae First Nation to develop an IBA (Impact Benefit Agreement) in reference to the Podolsky Mine is ongoing with the completion expected in the near future. This effort to develop and strengthen the relationship with our neighbour is expected to build a foundation for our working together into the future. FNX is also sponsoring various community groups in the Sudbury area, including Science North and Earthdancers to help the community to develop and strengthen.

Other Items in the Statements of Operations

Administration

Administration expenses were \$2.7 million in the first quarter of 2008, compared to \$2.8 million and \$2.3 million in the fourth and first quarter of 2007, respectively. Administration expense was on budget in the quarter and is budgeted to be higher in 2008 compared to 2007 primarily due to the addition of personnel to assist in facilitating the growth of FNX's business.

Depreciation

Depreciation expense for the Toronto head office and Sudbury exploration office equipment, furniture and fixtures was not significant and is not budgeted to be significant in 2008.

Stock-based Compensation

Stock-based compensation expense was \$1.2 million in the first quarter of 2008, compared to \$1.1 million and \$0.9 million during in the fourth and first quarter of 2007, respectively. In the first quarter of 2008, options to purchase 99,000 common shares were granted, compared to 96,000 in the first quarter of 2007, and 24,000 options were exercised, compared to 283,000 in the first quarter of 2007, and 62,000 options were cancelled, compared to 6,000 in the first quarter of 2007. Stock-based compensation expense is based upon the Black-Scholes option pricing model.

Other Expenses (Income)

Other expenses (income) resulted in net income of \$2.8 million in the first quarter of 2008, compared to a net expense of \$2.4 million and net income of \$1.3 million during in the fourth and first quarter of 2007, respectively. Other income primarily consists of foreign exchange



gains resulting from the depreciation of the Canadian dollar during the quarter and interest income on cash and cash equivalents of the Company. Interest income is budgeted to be lower in 2008 as a result of lower average cash balances in 2008, compared to 2007. As at March 31, 2008, the Company had \$29.1 million of cash and cash equivalents on hand and FNX will continue to earn interest income from conservative deposits with a major Canadian bank in 2008. Although financial markets and corporate credit were adversely affected in the third quarter of 2007 by defaults in the asset backed commercial paper market ("**ABCP**"), FNX was not affected by this situation as the Company did not hold ABCP in its portfolio of investments.

Provision for Income and Resource Taxes and Provincial Capital Taxes

Income and resource tax expense was recorded at a rate of 34% compared to 38% in 2007. The current portion was \$3.3 million and the future income tax expense was \$9.0 million. The future income tax liability ("**FITL**") increased to \$186.9 million at March 31, 2008. The fourth quarter of 2007 experienced an \$18.7 million future income tax recovery that was recorded in the Statement of Operations in the fourth quarter of 2007, thereby resulting in a negative 69% effective tax rate for the quarter.

Many provincial jurisdictions, including the Province of Ontario, charge a tax based on a corporation's taxable capital. This expense, however, is deductible in the determination of taxable income and the Company separately discloses it in the Statement of Operations. The Province of Ontario's 2007 economic statement has proposed to eliminate capital taxes for mining companies effective January 1, 2008 and, accordingly, no amounts for capital taxes were accrued in the first quarter of 2008. In the first quarter of 2007, FNX charged to earnings \$0.5 million for provincial capital taxes.

Hedging

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

EBITDA

Earnings before interest income and expense, income and capital taxes, stock-based compensation and depreciation and amortization ("**EBITDA**"), a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was \$48.3 million in the first quarter of 2008, compared to \$24.5 million and \$53.8 million in the fourth and first quarter of 2007, respectively.



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

Table 11 – EBITDA	Three months ended March 31	
	2008	2007
	\$000s	\$000s
Operating revenue	140,716	80,473
Operating expenses ⁽¹⁾	(92,216)	(24,555)
Operating margin	48,500	55,918
Administration	(2,675)	(2,293)
Other (expenses) income ⁽²⁾	2,512	135
EBITDA	48,337	53,760

(1) Operating expenses exclude operating depreciation and amortization and amortization of intangibles.

(2) Excludes interest income and interest expense.

(3) 2008 results include the Mining Services segment.

Financial Condition and Liquidity

Cash and Cash Flows

Cash flow from operating activities totaled a record \$55.8 million in the first quarter of 2008, compared to \$36.4 million and \$50.9 million during in the first and fourth quarter of 2007, respectively. The cash flows were higher in 2008 due to greater quantities of ore mined and sold as a result of Podolsky commencing commercial production.

Financing activities resulted in net cash inflows of \$0.3 million in the first quarter of 2008, compared to \$1.2 million and \$5.7 million during the first and fourth quarter of 2007, respectively, from the issuance of 24,000, 283,000 and 704,333 common shares, respectively, for stock options exercised under the Company's stock option plan.

Investing activities for the first quarter of 2008, resulted in a net cash outflow of \$62.7 million, compared to a net cash outflow of \$44.7 million and \$129.8 million during the first and fourth quarter of 2007, respectively. Development, equipment and exploration expenditures are budgeted to be \$237.4 million in 2008 and although the first quarter expenditures were below this run rate capital expenditures are expected to be in line with budget for the year.

The net change in cash balances as a result of operating, financing and investing activities was a net cash outflow of \$6.0 million since December 31, 2007, compared to a net cash outflow of \$7.1 million during the first quarter of 2007. Although FNX remained debt free as at March 31, 2008, on April 1, 2008 the Company obtained a US\$100 million revolving/non-revolving term credit facility (the "LOC") provided by a consortium of banks for working capital and general corporate purposes.

Working Capital

Working capital decreased \$16.0 million during the first quarter of 2008 to \$54.2 million, primarily due to the increase in accounts payable and reduced cash balances as a result of high levels of cash expenditures on capital assets.

The Company had \$29.1 million of cash and \$43.2 million of investments for a total of \$72.3 million of liquid assets at March 31, 2008. As described above, on April 1, 2008 the company



obtained the LOC for working capital and general corporate purposes. Accounts receivable from Vale Inco increase with increasing production, which results in a greater need for working capital.

Reclamation and Other Deposits

Reclamation deposits remain unchanged from the fourth quarter of 2007 at \$6.5 million and include various amounts with Vale Inco and the Province of Ontario in connection with the Levack, McCreedy West and Podolsky properties. Reclamation deposits are subject to re-assessment based upon changes in the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

Investments

On February 12, 2008, FNX announced that it had acquired through a private transaction 3,508,772 common shares of Strategic Resource Acquisition Corporation (“SRA”) or approximately 10.7% of the issued and outstanding common shares of SRA. 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, and totaled \$10.0 million. The MSB provides contract mining services to a wholly-owned subsidiary of SRA in Tennessee. During the period January 1 to March 31, 2008, 60% of MSB revenues were derived from 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.

Property, Plant and Equipment

(i) Summary

Expenditures on property, plant and equipment totaled approximately \$52.7 million during the first quarter of 2008 compared to \$60.3 million, net of \$8.9 million of pre-production revenue credits from development ore at Podolsky, during the fourth quarter of 2007 and \$44.7 million during the first quarter of 2007. The cash expenditures consisted of drilling, underground development, including raise development at Podolsky and underground access rehabilitation and development at Levack, and the purchase of certain mining equipment. Table 10 shows the net increase in property, plant and equipment expenditures for the three months ended March 31, 2008, by property location and 2008 annual budget.

Table 12 – PP&E Expenditures	Three months ended March 31, 2008	Annual budget 2008
	\$000s	\$000s
Levack Complex	22,034	97,425
Podolsky Mine	18,047	55,485
Levack Footwall	9,453	59,798
Aurora Properties	36	2,060
Podolsky Nickel Ramp	403	11,603
Kirkwood	-	113
Victoria	530	3,280
Corporate	280	778
Mining Services segment	1,877	6,876
	52,660	237,418

The 2008 approved capital, mine development and exploration budget totals an historic high of \$237.4 million and consists of \$216.7 million for capital equipment, mine development and advanced exploration programs and \$20.7 million for general exploration. The expenditures are budgeted to be incurred as follows: \$30.6 million at McCreedy West; \$66.8 million at Levack; \$67.0 million at Podolsky; \$59.8 million on the Levack Footwall Deposit; \$5.5 million on other exploration properties; \$6.9 million in the Mining Services segment; and, \$0.8 million on other.

(ii) Levack Complex

FNX holds a 100% interest in the Levack Complex, which is located in the Sudbury mining district of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack properties. For reporting purposes, the two adjacent properties are considered to be one operating segment as they are integrated from an operational perspective, produce similar ore and sell all production to the same purchaser, Vale Inco. Commencing January 1, 2007, mining revenues and expenses from ore mined and shipped from the Levack property have been included in the Statement of Operations.

The Levack Mine commenced commercial production in January of 2007 and continued accessing and developing ore horizons to ramp up production from 9,000 tons per month to 20,000 tons per month by December 31, 2007. The plan for 2008 is to continue accessing and developing new ore production areas to increase current production levels to over 40,000 tons per month by year's end.

During the first quarter of 2008, a minimum amount of ore from McCreedy West was hauled to the Levack shaft for hoisting as logistical issues in the skip pocket necessitated the installation of new liners. The tramming of ore from McCreedy West to Levack is expected to ramp up in the second quarter.

Installation of a new on-site weigh scale and sampling tower at Levack was completed during the quarter. The system was certified and then approved by Vale Inco, which allowed ore hoisted from the Levack shaft to be directly delivered to Vale Inco. Investment in the Levack Complex was predominantly for underground drifting and raising with mine equipment the next largest component.

(iii) Podolsky

FNX holds a 100% interest in Podolsky, which is located in the Sudbury mining district of Ontario. It was determined that, effective January 1, 2008, the Podolsky Mine achieved commercial production. Accordingly, commencing January 1, 2008, mining revenues and expenses from ore mined and shipped from the Podolsky property have been included in the Statement of Operations

The installation of a new on-site weigh scale and sampling tower was also completed at Podolsky during the first quarter of 2008, which was certified and accepted by Vale Inco, allowing ore hoisted to be directly shipped to Vale Inco. As expected, drift development accounted for almost half the investment in the property during the quarter. A significant amount of raising was completed in the quarter. This included the equipping and commissioning of a secondary egress raise for the mine, significant footage in a main air raise, and several internal ventilation raises. Expenditures for mine equipment, the sampling system, and surface

infrastructure account for a portion of the investment. The North Ramp decline progressed during the quarter and is expected to be completed in 2008.

(iv) *Exploration Properties*

The carrying value of the mineral exploration properties represents the accumulated costs to date for the acquisition of and exploration costs incurred by FNX on its non-producing mineral exploration properties. Mineral exploration properties are not amortized. FNX's mineral exploration properties at March 31, 2008, are all located in the Sudbury mining district and are shown in the following table.

Table 13 – Accumulated Costs of Exploration Properties	March 31 2008	December 31 2007
	\$000s	\$000s
Levack Footwall	279,226	269,773
Podolsky ⁽¹⁾	1,466	1,063
Aurora Properties	91,543	91,507
Victoria	6,889	6,359
Kirkwood	2,479	2,480
	381,603	371,182

⁽¹⁾ Accumulated capital costs for Podolsky were transferred to property under development during the third quarter of 2007. Remaining costs are for the Podolsky Nickel Ramp project.

As at March 31, 2008, FNX held a 100% interest in the Levack Footwall Deposit (located on the Levack Complex property), Podolsky Nickel Ramp, Kirkwood and Victoria mineral properties. The mineral properties included in the Aurora Properties at March 31, 2008 are located in the Sudbury mining district of Ontario and are pursuant to a joint venture agreement (the “**Falconbridge Joint Venture**”) with Xstrata Nickel. As at December 31, 2007, the Company and Xstrata Nickel held a 78% and 22% interest (2006 - 74% and 26%), respectively, in the Falconbridge Joint Venture. Xstrata Nickel has elected not to participate in the 2008 exploration program and, as a result, Xstrata Nickel's interest will continue to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between a 50% and 100% interest in the mineral exploration properties included in the Aurora Properties.

During the first quarter of 2008, FNX completed 65 diamond drill holes for a total of 67,601 feet. The decrease in both the number of boreholes and total footage drilled from the fourth quarter of 2007 is attributed to the regular start-up and mobilization of new crews and equipment for new, 2008 drill programmes. New procedures and protocols for improving the health and safety of FNX's diamond drill contractors were developed and implemented in partnership with the contractors early in the quarter.

Exploration drilling during the quarter at the McCreedy West mine property was completed in both Contact Ni and Footwall Cu-Ni-PGE target environments. McCreedy West Contact Ni drilling was focused on the McVack environment, east of the currently known Inter Main Deposit pods near the Levack property boundary. Diamond drilling from the Xstrata Nickel Craig Mine 2000 level tested the boundary area down-dip and west of the Inter Main Deposit.

The bulk of the Company's exploration diamond drill footage continued to be concentrated on the Levack Footwall Deposit and its associated sulphide mineralized system, on Contact Ni targets near the Craig Mine property boundary, and on Cu-Ni-PGE targets in the footwall to both



the No. 7 and No.1 orebodies. Xstrata Nickel, as part of a contract development agreement with FNX, completed the 40-1 Exploration Access Ramp from the Craig Mine 4000 Level, and excavated more than 360 feet of continuous trunk vein system. FNX also intersected the interpreted up-dip extension of the Rob's Deposit with development of the 26-135 FW Access Ramp from the Levack mine 2650 Level. This development is designed to provide access to both the Rob's Deposit and the up-dip extents of the LFD from the Levack mine infrastructure. Three underground drill rigs were focused on drilling the Levack Footwall Deposit environment from the 4300 (43-3) Level at Craig Mine and the 26-135 FW Access Ramp at Levack Mine. The 43-3 platform provided access to deeper and western extents of the LFD, whereas the 26-135 platform was used to better define the up-dip extents of the LFD. One underground rig in the drill drifts off the Craig Mine 40-1 access was dedicated to definition drilling of the LFD from the 9150 elevation at approximately 50 foot centres. Two other underground rigs were positioned on the 1800 and 1200 levels of Levack Mine to test the footwall of the No. 7 and No. 1 orebodies. One surface rig was dedicated to drilling Contact Ni targets along the Levack-Craig mine mutual property boundary.

Pursuant to the terms of an agreement with Xstrata Nickel, which provided for the taking of a bulk sample of Levack Footwall Deposit ore from the end of the drift from the Craig Mine, by March 31, 2008 a 15,207 ton bulk sample had been hoisted to surface, crushed and sampled and is to be used for metallurgical testing.

A surface diamond drill rig continued to definition drill the Podolsky Nickel Ramp deposit during the first quarter of 2008. This surface drill campaign is designed to support the advanced exploration development and future scoping studies for the Nickel Ramp deposits. The Nickel Ramp deposit is Contact Ni-style mineralization situated below the historically mined Whistle Pit, with a current inferred resource of 6.68 million tons of 0.75% Ni and 0.21% Cu. The objectives of the drilling will be to further validate historical drill intersections, upgrade the resource classification of the deposit, and to provide material for metallurgical and mineralogical testing. A second surface rig is scheduled to begin drilling on exploration targets elsewhere on the Podolsky property early in the second quarter.

A surface diamond drill rig began to drill new Contact Ni and Footwall Cu-Ni-PGE exploration targets at the Victoria property in the first quarter of 2008.

All of the Company's mineral exploration properties are at the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them.

Mine Closure and Site Restoration

FNX estimates the total future mine closure and site reclamation costs (also known as asset retirement obligations) associated with the Sudbury operations to be \$6.5 million, unchanged from 2007. Management anticipates that such obligations will substantially be settled at or near the closure of its mining operations.

Share Capital

During the first quarter of 2008, share capital increased by \$0.5 million as a result of the exercise of 24,000 stock options. During the first quarter of 2007, share capital increased \$1.6 million as a result of the exercise of 0.3 million stock options. As at March 31, 2008, stock options to purchase 2.0 million common shares at a weighted average of \$18.43 per share were outstanding.



Under the terms of a deferred share unit plan (the “**DSU Plan**”), the number of DSUs granted to Directors and executive employees is based upon the fair market value of FNX’s common shares at that time. DSUs are only paid out in cash upon the Director’s or executive employee’s death or resignation from the Board or the Company. Included in accrued liabilities is \$1.1 million related to 43,973 DSUs.

Post-Retirement Benefits

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

Non-GAAP Performance Measures

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

Outstanding Share Data

As at March 31, 2008, stock options to purchase 2.0 million common shares at a weighted average price of \$18.43 per share were outstanding. The number of stock options outstanding at March 31, 2008 represents 2.3% of the issued and outstanding common shares at that time. The number of common shares issued and outstanding as at May 7, 2008 totaled 84.7 million. From April 1, 2008 to May 1, 2008, 211,000 stock options have been granted, 15,000 were cancelled and 77,401 have been exercised. As at May 1, 2008, the Corporation had 84.7 million common shares outstanding and stock options to purchase 2.1 million common shares had been granted and were outstanding.

Adoption of New Accounting Standards

We monitor the recently issued Canadian Institute of Chartered Accountants (“**CICA**”) accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on our consolidated financial statements and note disclosures.

Changes in Accounting Policies

Effective January 1, 2008, the Company prospectively adopted the 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.

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.

Internal Controls Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the three months ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Quarterly Metal Production and Sales Statistics

Table 14 – 2008 Statistics	Q1	Q2	Q3	Q4	Total
Ore sold (tons)					
Nickel ore	199,054				199,054
Copper ore	85,845				85,845
Total ore sold	284,899				284,899
Grade of ore sold					
Nickel ore (%Ni)	1.3				1.3
Copper ore (%Cu)	4.2				4.2
Payable metal sold					
Nickel (000s lbs)	3,492				3,492
Copper (000s lbs)	6,892				6,892
TPM (ozs)	7,272				7,272
Cobalt (000s lbs)	55				55
Metal sales revenue					
Average Ni price (US\$/lb)	14.43				14.43
Average Cu price (US\$/lb)	3.84				3.84
\$/US\$ exchange rate	1.00				1.00
Total mining revenue (\$000s)	91,323				91,323
Revenue (\$/ton of ore sold)	321				321
Cash cost of metals sold					
Mining (\$000s)	45,232				45,232
Cash cost (\$/ton of ore sold)	162				162
Cash cost (US\$/lb of Ni sold)	1.30				1.30

- (1) Cash operating cost per pound of nickel sold excludes mine depreciation and amortization and includes mining, milling, smelting, refining, haulage and marketing costs and is net of by-product credits.
- (2) Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Deposit.
- (3) TPM represents total precious metal – platinum, palladium and gold.

Table 15 – 2007 Statistics	Q1	Q2	Q3	Q4	Total
Ore (tons)					
Pre-production ore Sold	-	-	1,405	16,724	18,129
Nickel ore	133,630	159,195	156,232	182,160	631,217
Copper ore	72,224	74,494	92,040	56,906	295,664
Total ore sold	205,854	233,689	248,272	239,066	926,881
Grade of ore sold					
Nickel ore (%Ni)	1.2	1.3	1.3	1.2	1.3
Copper ore (%Cu)	1.3	1.5	1.4	1.2	1.4
Payable metal sold					
Nickel (000s lbs)	2,628	3,104	3,198	3,289	12,219
Copper (000s lbs)	2,261	2,426	2,929	1,995	9,611
TPM (ozs)	5,961	5,282	8,073	5,064	24,380
Cobalt (000s lbs)	34	38	44	42	158
Metal sales revenue					
Average Ni price (US\$/lb)	21.65	18.54	11.65	12.16	15.69
Average Cu price (US\$/lb)	2.67	3.73	3.57	2.94	3.27
\$/US\$ exchange rate	1.17	1.10	1.04	0.98	1.07
Total revenue (\$000s)	80,473	79,187	56,767	51,324	267,751
Revenue (\$/ton of ore sold)	391	339	229	215	289
Cash cost of metals sold					
Mining (\$000s)	24,555	24,304	26,015	25,443	100,317
Cash cost (\$/ton of ore sold)	119	104	105	106	108
Cash cost (US\$/lb of Ni sold)	3.46	2.58	2.39	4.13	3.11

- (1) Cash operating cost per pound of nickel sold excludes mine depreciation and amortization and includes mining, milling, smelting, refining, haulage and marketing costs and is net of by-product credits.
- (2) Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Deposit.
- (3) TPM represents total precious metal – platinum, palladium and gold.

Table 16 - Consolidated Quarterly Statements of Operations					
2008	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Operating revenues					
Mine operating revenues	91,323				91,323
Mine services revenues	49,393				49,393
	140,716				140,716
Mine operating expenses	45,232				45,232
Mine services expenses	46,984				46,984
Depreciation and amortization	10,890				10,890
	103,106				103,106
	37,610				37,610
Expenses					
Administration	2,675				2,675
Stock-based compensation	1,174				1,174
Depreciation	220				220
Other expenses (income)	(2,822)				(2,822)
	1,247				1,247
	36,363				36,363
Income and resource taxes	12,300				12,300
Net earnings	24,063				24,063
Basic earnings per share	0.28				0.28
Diluted earnings per share	0.28				0.28

Table 17 - Consolidated Quarterly Statements of Operations					
2007	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Operating revenues					
Mine operating revenues	80,473	79,187	56,767	51,324	267,751
Mine services revenues	-	-	-	54,292	54,292
	80,473	79,187	56,767	105,616	322,043
Mine operating expenses	24,555	24,304	26,015	25,443	100,317
Mine services expenses	-	-	-	49,764	49,764
Depreciation and amortization	4,879	5,951	7,080	10,387	28,297
	29,434	30,255	33,095	85,594	178,378
	51,039	48,932	23,672	20,022	143,665
Expenses					
Administration	2,293	2,177	1,958	2,826	9,254
Capital taxes	450	272	594	403	1,719
Stock-based compensation	888	690	777	1,072	3,427
Depreciation	97	110	138	144	489
Other expenses (income)	(1,267)	(6,110)	1,550	2,380	(3,447)
	2,461	(2,861)	5,017	6,825	11,442
	48,578	51,793	18,655	13,197	132,223
Income and resource taxes	18,387	16,802	6,170	(19,083)	22,276
Net earnings	30,191	34,991	12,485	32,280	109,947
Basic earnings per share	0.36	0.42	0.15	0.38	1.31
Diluted earnings per share	0.36	0.41	0.15	0.38	1.30

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this document constitute “forward-looking statements”. These forward-looking statements are based on current expectations and involve risks and uncertainties, referred to above and/or in FNX's Annual Information Form (“AIF”) filed with Canadian provincial securities regulatory authorities, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. Examples of such forward-looking statements include statements regarding financial results and expectations for 2008, including, but not limited to, interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production of ore and/or metals, metal prices, demand for metals, currency exchange rates, cash operating margins, cash operating cost per pound of nickel sold, costs per ton of ore, expenditures on property, plant and equipment, increases and decreases in production, reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions. Factors that could cause actual results, developments or events to differ materially from those anticipated include, among others, the factors described or referred to elsewhere herein and/or the AIF, and include unanticipated and/or unusual events. Many of such factors are beyond FNX's ability to control or predict. Actual results may differ materially from those anticipated. Readers of this MD&A are cautioned not to put undue reliance on forward-looking statements due to their inherent uncertainty. FNX disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise. These forward-looking statements should not be relied upon as representing management's views as of any date subsequent to the date of this MD&A.

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