



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### First Quarter Ended March 31, 2007

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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, 2007, in comparison to the corresponding prior-year period. This MD&A is prepared as at May 1, 2007, and is intended to supplement and complement the unaudited consolidated financial statements of FNX for the periods ended March 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 both the audited annual consolidated financial statements and annual MD&A included in the 2006 Annual Report and the most recent Annual Information Form ("**AIF**") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward looking statements based on management's current expectations (please see "Cautionary Note Regarding Forward-Looking Statements" below). All references to dollars herein are in Canadian dollars unless otherwise specified.



## **Executive Summary**

### **Operations**

FNX continues to significantly improve and maximize operating results at its 100% owned Sudbury, Ontario mining operations, reporting record operating and financial quarterly results during the first quarter of 2007. During this quarter the Company reported higher revenues, earnings, earnings per share, cash operating margins, cash flow from operating activities, and produced more tons of ore and pounds of nickel than in any previous quarter.

Effective January 1, 2007, the nickel deposits on the Levack property commenced commercial production. As the Levack and McCreedy properties are adjacent to each other and the operations overlap, the combined operations are considered to be one mining operation entitled the Levack Complex. The Company's first quarter record earnings were a result of increased production and high metal prices, in particular, the price of nickel.

The Company shipped and sold 205,854 tons of ore from the Levack Complex resulting in the sale of 2.6 million pounds of nickel, 2.3 million pounds of copper and 5,961 ounces of total precious metals during the first quarter of 2007. FNX realized revenues of US\$21.65 per pound of nickel sold and had cash operating costs, net of by-product credits, of US\$3.47 per pound of nickel sold. The revenue per ton of ore sold was \$391 at a cash cost of \$119 per ton resulting in a cash operating margin per ton of ore sold of \$272. Nickel sales, along with significant by-product revenues from copper, platinum, palladium, gold and cobalt resulted in operating revenues of \$80.5 million. Mine cash operating costs for the quarter totaled \$24.6 million, providing a cash operating margin of \$55.9 million.

During the first quarter net earnings were a record \$30.2 million, equal to \$0.36 per share, compared to net earnings of \$19.7 million, or \$0.23 per share, and \$3.2 million, or \$0.04 per share, during the fourth and first quarter of 2006, respectively.

Cash flow from operating activities was \$36.4 million in the first quarter of 2007, or \$0.43 per share, compared to \$32.1 million, or \$0.38 per share, and \$7.4 million, or \$0.09 per share during the fourth and first quarter of 2006, respectively. Cash balances and working capital were \$108.0 million and \$130.7 million, respectively, at March 31, 2007, compared to \$115.1 million and \$131.6 million, respectively, at December 31, 2006 and the Company remains debt free.

### **Development/Advanced Exploration**

Xstrata Nickel completed preparations on the Craig Mine 4025 Level for development of the Levack Footwall Deposit access drift. The drift was collared and 460 feet of lateral development was completed by the end of the quarter. Access to the Levack Footwall Deposit from the 4025 Level access drift will provide important opportunities for the Company to initiate geological mapping, detailed diamond drilling, resource estimation, metallurgical testing and mine planning on a portion of the deposit. On the Levack Complex side, logistical preparations are progressing well in advance of collaring an access ramp from the 2650 Level to the Rob's Footwall Deposit.

Access development to the Levack Footwall Deposit is progressing from the Levack No. 2 Shaft on the 2650 Level, as well as from Xstrata Nickel's Craig Mine. The development from Levack is targeted to intersect the footwall deposit mineralization at the 3000 Level horizon, while development from the Craig Mine is targeted for the 4000 Level horizon. The development work



is being conducted as part of an advanced underground exploration program into the Levack Footwall Deposit and is designed to support diamond drilling, bulk sampling and other geological studies. FNX expects to intersect mineralization from both these areas in the fourth quarter of 2007.

The emphasis at Podolsky is now on mine development including bulk sampling and diamond drilling of the 2000 Deposit mineralization and pre-production development of the mine. Level development is progressing from the shaft at both the 2450 and 1750 elevations. FNX expects to extract bulk samples during the last half of 2007.

## **Exploration**

FNX's exploration focus during the first quarter of 2007 was the Levack Mine Complex where efforts were geared to adding to the existing resource base and discovering new deposits. During the first quarter the Company announced the discovery of the Main Depths Deposit, a contact nickel deposit, situated down-dip of the historically-mined Levack Main orebody.

Exploration drilling continued on the Levack Footwall Deposit, especially on targets designed to expand the down-dip portion of the deposit and the up-dip extents of the Levack Footwall Deposit and the Rob's Deposit, all of which are still open in a number of directions.

## **Other**

On April 20, 2007, Sherritt International Corporation ("**Sherritt**") and Dynatec jointly announced a transaction ("**the Transaction**"), whereby, under a Plan of Arrangement, Sherritt will acquire all of the issued and outstanding shares of Dynatec Corporation ("**Dynatec**"). Concurrent with the Transaction, Dynatec and Sherritt have entered into an agreement with FNX, whereby FNX has been granted the right, subject to the closing of the Transaction, to purchase Dynatec's Mining Services Division for cash at a price to be determined based upon independent valuations. FNX intends to exercise this right immediately upon closing of the Transaction, which is expected to occur by the middle of June, subject to regulatory, shareholder and court approvals.

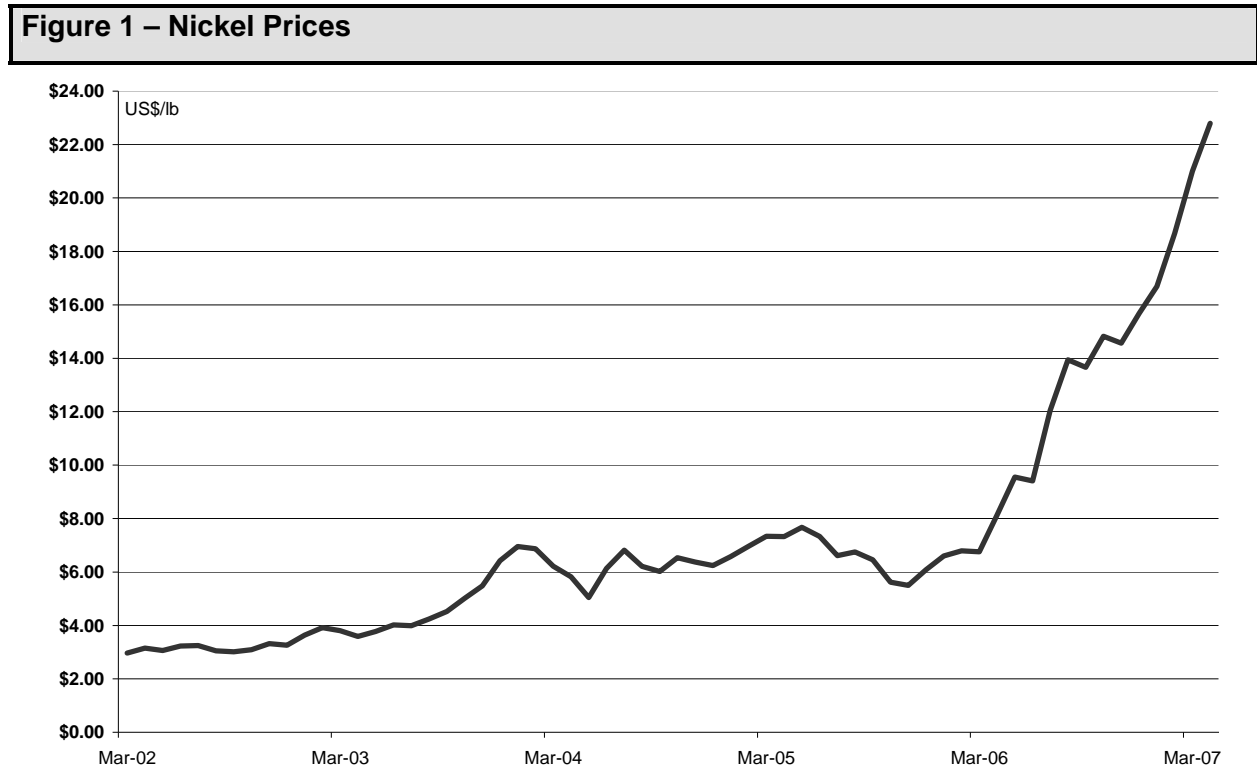
During the first quarter no lost time accidents or environmental incidents were reported by FNX employees; however, FNX's on-site contractors experienced two lost time accidents.

## Key Economic Trends and Sensitivities

The MD&A included in FNX's 2006 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 2006 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the price of nickel and, to a lesser extent, the price of copper and other metals (platinum, palladium, gold and cobalt) produced by the Company.

### Nickel

Nickel accounted for approximately 83% of the Company's mine operating revenues in the first quarter of 2007, compared to 73% in the fourth quarter of 2006 and 59% in the first quarter of 2006.



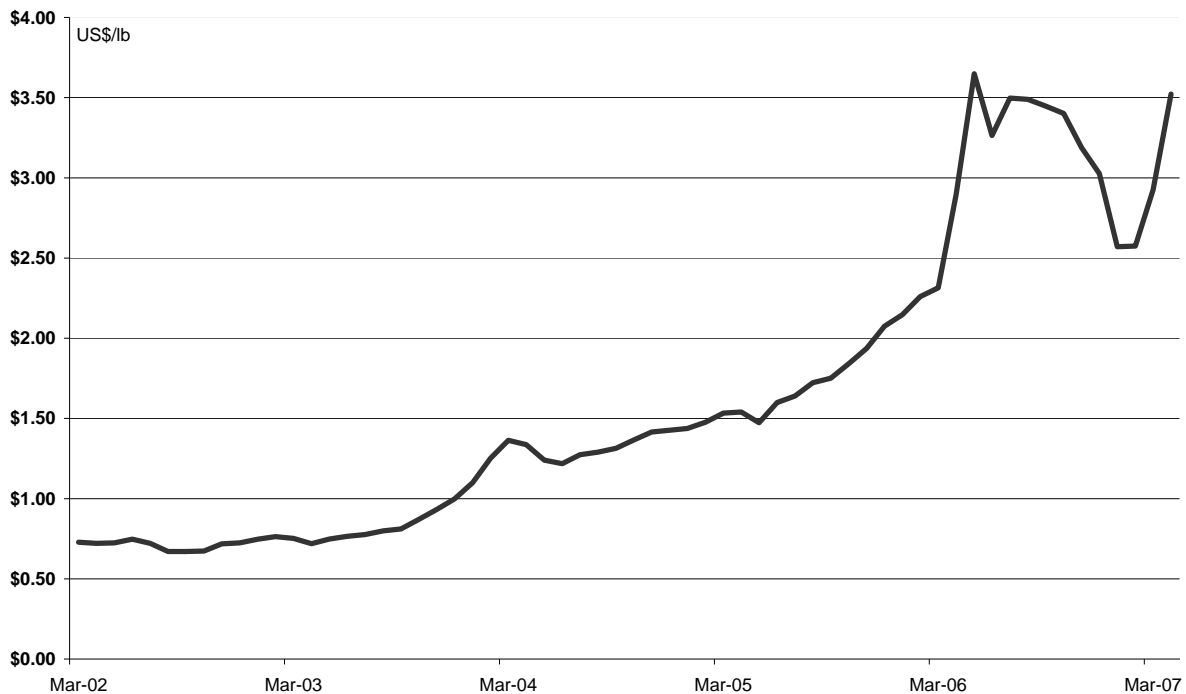
Source: LME monthly average cash mean per pound

The cash settlement price of nickel on the London Metal Exchange (“LME”) increased from US\$15.68 per pound on December 31, 2006 to US\$20.64 on March 31, 2007. The LME average cash settlement price averaged US\$18.79 per pound in the first quarter of 2007, compared to US\$15.02 in the fourth quarter of 2006 and US\$6.72 in the first quarter of 2006. The LME cash settlement price of nickel on May 1, 2007 was \$22.91 per pound. Management is of the view that the LME average cash settlement price for nickel will moderate somewhat in 2007; however, supply issues will continue to be the overriding factor and, as a result, nickel prices are expected to remain well above long-term averages. Table 2 at the end of this section illustrates FNX's sensitivity to nickel prices.

## Copper

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 9% of revenues in the first quarter of 2007, a decrease of 5% and 12% over the fourth and first quarter of 2006, respectively, due to lower copper prices and higher nickel volumes associated with the commencement of commercial production at the Levack Mine in January, 2007.

**Figure 2 - Copper Prices**



Source: LME monthly average cash mean per pound

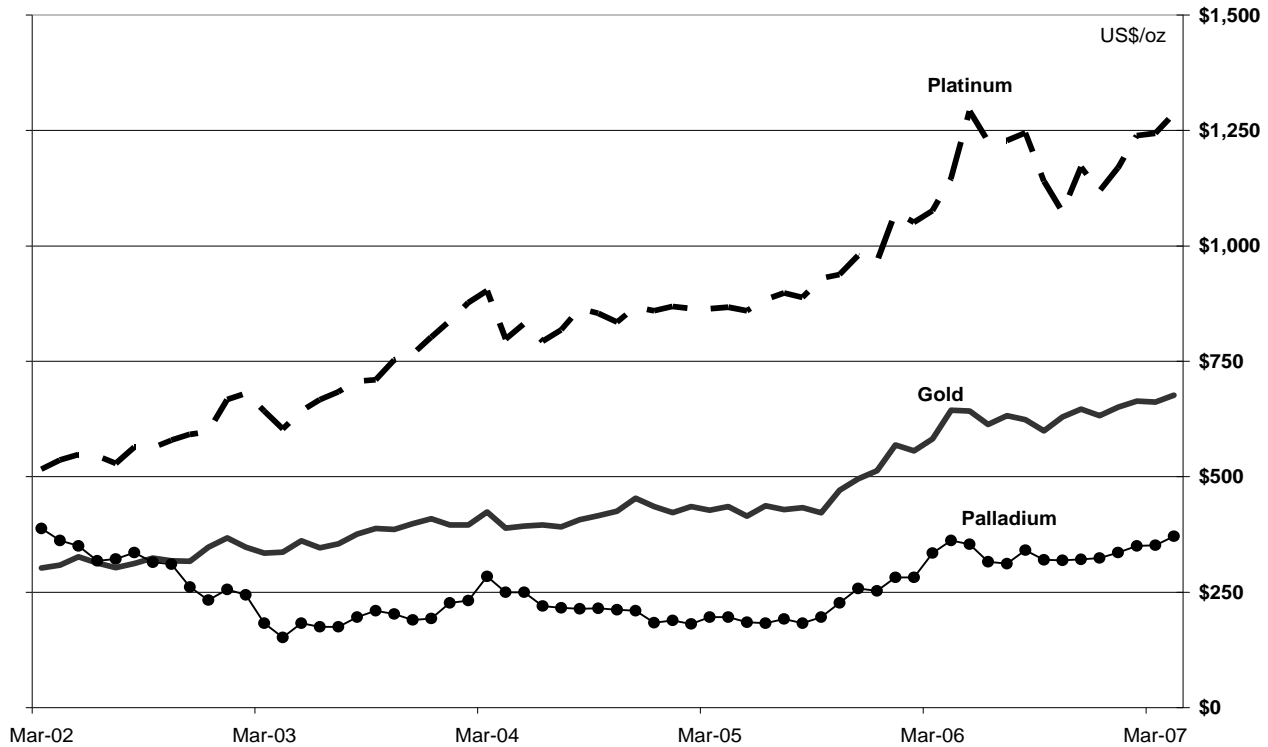
The LME cash settlement price of copper continued to moderate during in the first quarter of 2007 and averaged US\$2.69 per pound, compared to US\$3.21 per pound in the fourth quarter of 2006 and US\$2.24 per pound in the first quarter of 2006. Although the LME cash settlement price for copper has softened during the first quarter of 2007, management is of the view that the LME average cash settlement price for copper will remain strong relative to historic prices but volatile. Since March 31, 2007, the LME cash settlement price of copper has rebounded and on May 1, 2007 was US\$3.59 per pound. Table 2 illustrates FNX's sensitivity to copper prices.

## Precious and other metals

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt which contributed a combined 8% to FNX's revenues during the first quarter of 2007 compared to 13% during the fourth quarter of 2006 and 20% during the first quarter of 2006. 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. Although production levels in 2007 are forecast to be similar to 2006, the contribution as a percentage of total revenue from the

sale of platinum, palladium and gold (“TPM”) to FNX’s revenues is expected to decrease in 2007, compared to 2006, due to the increase in nickel production from the commencement of commercial production at the Levack Mine.

**Figure 3 - TPM Prices**



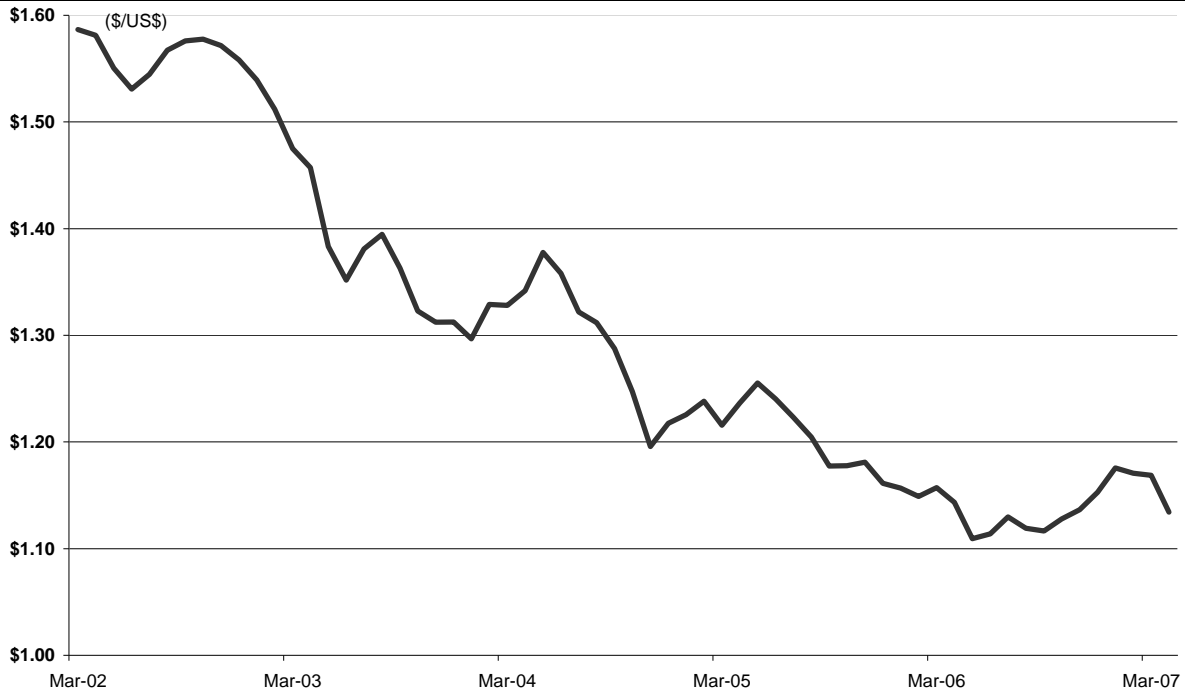
Source: *metalbulletin.com* monthly average price per ounce

The price of platinum increased from US\$1,118 per ounce at December 31, 2006 to US\$1,244 per ounce at March 31, 2007. The price of palladium increased from US\$324 per ounce at December 31, 2006 to US\$352 at March 31, 2007. The price of gold increased from US\$632 per ounce on December 31, 2006 to US\$662 per ounce on March 31, 2007. The price of cobalt has increased from US\$23.64 pound on December 31, 2006 to US\$29.16 per pound on March 31, 2007.

### Foreign exchange

FNX reports its financial results in Canadian dollars. While the Company’s minesite operating costs and most exploration and administration costs are in Canadian dollars, 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 2007 was \$1.17/US\$, compared to \$1.14/US\$ in the fourth quarter of 2006. Subsequent to the first quarter of 2007, the Canadian dollar has experienced a rapid appreciation relative to the US dollar and the exchange rate was \$1.11/US\$ on May 1, 2007. Should the current exchange rate remain the same, it is anticipated that the Company will have a foreign exchange loss in the second quarter of 2007 on its US dollar receivable and revenues will be negatively impacted by the higher Canadian dollar. Table 2 below illustrates FNX’s sensitivity to \$/US\$ exchange rates.

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



Source: Bank of Canada's monthly average close.

### Summary

The following table summarizes average commodity prices and average Canadian-US dollar exchange rates.

Table 1 – Commodity Prices	Three months ended March 31					May 1 2007
	2004	2005	2006	2007	2006	
Ni (US\$/lb)	6.28	6.68	11.00	18.79	6.72	22.91
Cu (US\$/lb)	1.30	1.67	3.05	2.69	2.24	3.59
Co(US\$/lb)	22.76	14.55	15.32	25.81	12.40	28.75
Pt (US\$/oz)	846	897	1,142	1,191	1,037	1,285
Pd (US\$/oz)	230	202	320	343	291	368
Au (US\$/oz)	408	445	604	650	554	674
\$/US\$	1.30	1.21	1.13	1.17	1.15	1.11

Notes: 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. The following table illustrates the sensitivity of certain items, on an annualized basis, to changes in key metal prices and foreign exchange rates based on the Company’s budgeted 2007 results.

<b>Table 2 - Sensitivity</b>	<b>Change in Price</b>	<b>Effect on Net Earnings</b>	<b>Effect on EPS</b>	<b>Effect on Cash Flow from Operating Activities</b>
Nickel	US\$1.00 / lb	\$9.0 million	\$0.11	\$14.6 million
Copper	US\$0.25 / lb	\$1.9 million	\$0.02	\$3.1 million
\$/US\$	10% movement	\$12.7 million	\$0.15	\$20.5 million



## Financial Results

### Overview

The following table presents a summary of FNX's Consolidated Statements of Operations and other cash flow data for the quarters ended March 31, 2007 and 2006.

Table 3 – Financial Overview	Three Months Ended March 31		
	2007	2006	Change
	\$000s	\$000s	\$000s
Mine operating revenues	80,473	26,799	53,674
Mine operating expenses <sup>(1)</sup>	(24,555)	(15,988)	(8,567)
Margin	55,918	10,811	45,107
Mine depreciation and amortization	(4,879)	(3,149)	(1,730)
Mining, net	51,039	7,662	43,377
Administration	(2,293)	(2,914)	621
Capital taxes	(450)	(322)	(128)
Depreciation	(97)	(12)	(85)
Stock-based compensation	(888)	(602)	(286)
Taxes	(18,387)	(2,056)	(16,331)
Other (expenses) income	1,267	1,437	(170)
Net earnings	30,191	3,193	26,998
Basic and diluted earnings per share	\$0.36	\$0.04	\$0.32
Cash flow from operating activities	36,426	7,388	29,038
Basic and diluted cash flow per share <sup>(2)</sup>	\$0.43	\$0.09	\$0.34

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

(2) Cash flow per share is a non-GAAP performance measures (see Non-GAAP Performance Measures below).

### Metal Production and Sales

Pursuant to an agreement with CVRD Inco, FNX ships all of its ore to CVRD Inco's Clarabelle Mill for processing. The number of tons of ore sold has been increasing steadily and reached 205,854 tons in the first quarter of 2007, a 40% increase over the first quarter of 2006 and a 31% increase over the fourth quarter of 2006, as a result of the commencement of commercial production from the Levack nickel deposits. In 2007, McCreedy West is budgeted to produce a total of 635,000 tons of ore consisting of 293,400 tons from its nickel contact deposits and 341,600 tons from its copper-precious metal deposits. In addition, the newly rehabilitated Levack Mine achieved commercial production effective January 1, 2007, and is budgeted to produce 265,000 tons of nickel ore during 2007.

In the first quarter of 2007, the Company began rehabilitation of the ore handling facilities on the McCreedy West side of the Levack Complex that will enable the Company to transport McCreedy West nickel ore along the 1600 Level to the Levack side where it will be crushed and hoisted to surface via the rehabilitated No. 2 Shaft. Once completed, the handling of McCreedy West nickel ore through the Levack Mine is expected to be cost effective and allow an increase in the amount of McCreedy West copper-precious metal ore to be mined and brought to surface via the existing McCreedy West ramp.

The following table presents a summary of FNX's production and sales information for the three months ended March 31, 2007 and 2006.

<b>Table 4 – Production and Sales Summary</b>	<b>Three months ended March 31</b>		
	<b>2007</b>	2006	Change
Ore sold (tons)			
Nickel ore	<b>133,630</b>	78,774	54,856
Copper ore	<b>72,224</b>	68,614	3,610
Total ore sold	<b>205,854</b>	147,388	58,466
Grade of ore sold			
Nickel ore (%Ni)	<b>1.2</b>	1.6	(0.4)
Copper ore (%Cu)	<b>1.3</b>	1.6	(0.3)
Payable metal sold			
Nickel (000s lbs)	<b>2,628</b>	1,894	734
Copper (000s lbs)	<b>2,261</b>	2,075	186
TPM (ozs)	<b>5,961</b>	6,960	(999)
Cobalt (000s lbs)	<b>33.7</b>	21.9	11.8
Metal sales revenue			
Average Ni price (US\$/lb)	<b>21.65</b>	7.22	14.43
Average Cu price (US\$/lb)	<b>2.67</b>	2.32	0.35
\$/US\$ exchange rate	<b>1.17</b>	1.15	0.02
Total revenue (\$000s)	<b>80,473</b>	26,799	53,674
Revenue (\$/ton of ore sold)	<b>391</b>	182	209
Cash cost			
Mining (\$000s)	<b>24,555</b>	15,988	(8,567)
Cash cost (\$/ton of ore sold)	<b>119</b>	108	(11)
Cash cost (US\$/lb of Ni sold)	<b>3.46</b>	2.28	(1.18)

- Notes:
1. Tons of ore, grade and payable metal sold relate to ore that was mined from the Levack Complex, was shipped to CVRD Inco and was, accordingly, recognized in revenue during the three month periods ended March 31, 2007 and 2006, respectively.
  2. 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.
  3. Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Zone.
  4. TPM represents total precious metal - platinum, palladium and gold.

*Metal sales*

Ore sold in the first quarter of 2007 totaled 205,854 tons, compared to 157,741 tons sold in the fourth quarter of 2006 and 147,388 tons sold in the first quarter of 2006, representing increases of 31% and 40%, respectively. Nickel sales of 2.6 million pounds in the first quarter of 2007 were 662,000 pounds higher than the fourth quarter of 2006 and 734,000 pounds higher than the first quarter of 2006, as a result of the commencement of commercial production at the Levack mine in January 2007. Copper sales in the first quarter of 2007 of 2.3 million pounds was consistent with the fourth quarter of 2006 and 186,000 pounds more than in the same period in 2006 as a result of ramping up production at McCreedy West in 2006. Precious metals sales totaled 5,961 ounces during the first quarter of 2007, down from 8,007 in the fourth quarter of 2006 and 6,959 ounces during the same period in 2006.

Metal sales in 2007 are expected to be higher than 2006 as a result of the commencement of production from the Levack nickel deposits.

*Metal sales revenue*

Revenue is recognized at the time ore is shipped to CVRD 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 high volatility in quarterly revenues. The nickel and copper contained in the ore that FNX sells to CVRD 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. Metal prices generally rose throughout the first quarter of 2007, and were significantly higher than in the first quarter of 2006.

	<b>Table 5 – Realized Prices</b>			
	<b>Three Months Ended March 31</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Average Price</b>	<b>Market Price</b>	<b>Average Price</b>	<b>Market Price</b>
Nickel (US\$/lb)	<b>21.65</b>	<b>18.78</b>	<b>7.22</b>	<b>6.72</b>
Copper (US\$/lb)	<b>2.67</b>	<b>2.69</b>	<b>2.32</b>	<b>2.24</b>
Palladium (US\$/oz)	<b>395</b>	<b>343</b>	<b>355</b>	<b>291</b>
Platinum (US\$/oz)	<b>1,530</b>	<b>1,191</b>	<b>1,126</b>	<b>1,037</b>
Gold (US\$/oz)	<b>771</b>	<b>650</b>	<b>560</b>	<b>554</b>
Cobalt (US\$/oz)	<b>31.34</b>	<b>25.81</b>	<b>12.70</b>	<b>12.40</b>
<b>\$/US\$</b>	<b>1.17</b>	<b>1.17</b>	<b>1.15</b>	<b>1.15</b>

- Notes: 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 per the Bank of Canada.



Operating revenues, including the aforementioned provisional price adjustments, totaled a record \$80.5 million in the first quarter of 2007, approximately 60% higher than in the fourth quarter of 2006 and 200% higher than in the first quarter of 2006. Revenues are higher in the first quarter of 2007, compared to 2006, as a result of the commencement of commercial production from the Levack nickel deposits in January 2007 and higher metal prices in general and higher nickel prices in particular.

FNX realized US\$2.87 per pound of nickel more than the LME average price for the first quarter of 2007 as a result of \$12.3 million of additional revenue related to metal sales that were provisionally priced in prior periods. In the first and fourth quarters of 2006 FNX realized US\$0.50 and US\$1.30, respectively, per pound of nickel more than the LME average price as a result of \$1.9 million and \$2.6 million, respectively, of additional revenue related to metal sales that were provisionally priced in prior periods

The 3% quarter over quarter depreciation in the value of the Canadian dollar relative to the US dollar in the first quarter of 2007 resulted in higher revenue in Canadian dollars than would otherwise have been realized. As the Canadian dollar has appreciated rapidly in April 2007, it is anticipated that this situation will reverse during the second quarter.

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 fourth quarter and year of 2006 to previous periods.

<b>Table 6 – Net Change in Sales Revenue</b>	<b>Q1-2007 compared to Q1-2006</b>	<b>Q1-2007 compared to Q4-2006</b>
	\$000s	\$000s
Increase (decrease) in nickel sold:		
<i>Number of pounds sold (000s lbs)</i>	734	662
Change in revenue due to quantity	6,120	12,329
<i>Price per pound sold (US\$/lb)</i> <sup>(1)</sup>	14.43	5.33
Change in revenue due to price	44,706	17,670
Net change in nickel sales revenue	50,826	29,999

<sup>(1)</sup> The price of nickel is quoted in US dollars. FNX, however, reports revenue in Canadian dollars. As a result of the approximately 2% depreciation in the Canadian dollar compared to the US dollar from the first quarter of 2006 to the first quarter of 2007, the increase in the price per pound of nickel in Canadian dollar terms has been larger than the increase in US dollar terms. The effect of changes in the Canadian dollar-US dollar exchange rate realized by FNX has not been separately identified in the table above.

### *Mining cost of sales*

Mine operating expenses, excluding mine depreciation and amortization costs (“cash operating costs”), were \$24.6 million in the first quarter of 2007, \$7.4 million higher than the fourth quarter of 2006, and \$8.6 million higher than the first quarter of 2006. Cash operating costs are expected to be higher in 2007 due to higher tonnages mined and ore sold this year due to the commencement and ramp-up of production at Levack.

### *Cash operating cost per pound of nickel*

FNX's cash operating cost per pound of nickel sold, a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was US\$3.46 for the quarter,

US\$1.88 per pound higher than in the fourth quarter of 2006 and US\$1.18 higher than in the first quarter of 2006. The cash operating cost per pound increased in the first quarter due to lower by-product credits, particularly copper (9% of revenue compared to 20% in the first quarter of 2006), this year and due to higher per ton costs as a result of the commencement and ramp-up of production from the Levack nickel deposits.

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

<b>Table 7 – Cost Per Pound</b>	<b>Three months ended March 31, 2007</b>			<b>Three months ended March 31, 2006</b>		
	<b>C\$000s</b>	<b>US\$000s</b>	<b>US\$/lb</b>	<b>C\$000s</b>	<b>US\$000s</b>	<b>US\$/lb</b>
Operating expenses <sup>(1)</sup>	<b>24,555</b>	<b>20,957</b>	<b>7.97</b>	15,988	13,851	7.31
By-product credits:						
Copper	<b>(7,074)</b>	<b>(6,037)</b>	<b>(2.30)</b>	(5,560)	(4,817)	(2.54)
Other <sup>(2)</sup>	<b>(6,790)</b>	<b>(5,795)</b>	<b>(2.21)</b>	(5,454)	(4,725)	(2.49)
Cash operating costs	<b>10,691</b>	<b>9,125</b>	<b>3.46</b>	4,974	4,309	2.28
Nickel sold (000s lbs)		<b>2,628</b>			1,894	

(1) Operating expenses exclude mine depreciation and amortization.

(2) Platinum, palladium, gold and cobalt.

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

#### *Cash operating margin per ton of ore sold*

Cash operating margin per ton of ore sold, a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was \$272 per ton in the first quarter of 2007, compared to \$209 per ton in the fourth quarter of 2006 and \$74 per ton in the first quarter of 2006. Higher nickel prices and quantity of ore mined and sold were the main factors contributing to the higher margin in 2007.

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

<b>Table 8 – Cash Margin Per Ton</b>	<b>Three months ended March 31</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$/ton</b>	<b>\$/ton</b>
Mine operating revenue	<b>391</b>	182
Mine operating expenses <sup>(2)</sup>	<b>(119)</b>	(108)
Cash operating margin per ton of ore sold	<b>272</b>	74

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

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

With metal prices continuing to be volatile, grades forecast to remain stable and increasing tonnages of ore mined and sold from the Levack Complex in 2007, FNX anticipates that the cash operating margin per ton of ore sold will continue to fluctuate; however, the Company continues to target \$120 per ton of cash operating costs as a benchmark.



### *Mine depreciation and amortization*

Mine depreciation and amortization expense was \$4.9 million in the first quarter of 2007, an increase from \$3.6 million in the fourth quarter of 2006 and \$3.1 million in the first quarter of 2006. Mine depreciation and amortization expense is expected to increase in 2007 as a result of additional amortization taken on the production at Levack.

## **Health, safety, and environment**

### *Health and safety*

During the quarter, FNX continued to develop and implement its safety, health and environment management system ("SHEMS"), compatible with the internationally recognized ISO 14001 Environmental and OHSAS 18001 Health and Safety Management Systems. The SHEMS provides an organized framework for developing best practices, managing compliance with regulatory requirements and striving towards continuous improvement. The SHEMS is on schedule to be fully implemented at the Levack Complex by the end of 2007 and at Podolsky in 2008.

### *Environment*

During the quarter a new mine equipment fuelling bay was constructed at McCreedy West. The fuelling bay operates as a covered drive through system with catchments to contain any leaks or spills. To further reduce noise from operating activities and minimize disturbances to local residents at Levack, the existing primary surface crusher is being enclosed within a building. Construction is expected to be completed in early May 2007. A more environmentally secure waste oil and lubricant handling facility is being constructed at Levack. A waste rock storage pad to contain runoff from potentially reactive rock has been designed for Podolsky. Any runoff that doesn't meet standards will be processed in the water treatment plant prior to release to the environment.

FNX's independent Environment Technical Advisory Committee, met during the quarter. They conducted a surface tour at Podolsky and the Levack Complex, reviewed environmental monitoring data and reports, assisted with government and community relations and reported their findings to senior FNX management noting no material issues.

## **Other Items in the Statements of Operations**

### *Administration*

Administration expense was \$2.3 million in the first quarter of 2007, compared to \$2.9 million and \$2.0 million during in the first and fourth quarter of 2006, respectively. Administration expense to date is as budgeted.

### *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 2007.



### *Stock-based compensation*

Stock-based compensation expense was \$0.9 million in the first quarter of 2007, compared to \$0.6 million and \$0.8 million during in the first and fourth quarter of 2006, respectively. In the first quarter of 2007, options to purchase 96,000 common shares were granted, compared to 95,000 in the first quarter of 2006, and 283,000 options were exercised, compared to 159,000 in the first quarter of 2006, and 6,000 options were cancelled, compared to 50,000 in the first quarter of 2006. Stock-based compensation expense is based upon the Black-Scholes option pricing model and, as FNX's average share price was higher in 2007 than 2006, the stock-based compensation expense for new options granted in the period is, accordingly, higher.

### *Other expenses (income)*

Other expenses (income) resulted in net income of \$1.3 million in the first quarter of 2007, compared to net income of \$1.4 million and \$3.6 million during in the first and fourth quarter of 2006, respectively. Other income primarily consists of interest income on cash and cash equivalents of the Company. As at March 31, 2007, the Company had \$108.0 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 2007.

### *Provision for income and resource taxes and provincial capital taxes*

Record metal prices and production resulted in record operating results, the first quarter of 2007 included a provision for income taxes of \$18.4 million, compared to \$2.1 million in the first quarter of 2006. While FNX's significant capital expenditures program in 2007 continues to add to the total amount of tax deductions available to the Company, Canadian income tax rules restrict the amount of such deductions permitted in any particular taxation year. Accordingly, the Company has included in the \$18.4 provision for taxes, a \$11.8 million accrual for the estimated amount of current income taxes due for 2007 to date. The Company's income tax rate should continue to be approximately 37% in 2007.

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. FNX charged to earnings \$0.5 million in provincial capital tax expense in the first quarter of 2007, compared to \$0.3 million in the first quarter of 2006. Based on FNX's current capital tax structure, capital taxes are budgeted to be approximately the same in 2007. The Province of Ontario's 2007 budget has proposed to eliminate capital taxes in Ontario by 2011.

### *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 \$53.8



million in the first quarter of 2007, compared to \$33.4 million and \$7.8 million in the fourth and first quarter of 2006, respectively. EBITDA is expected to be higher in 2007 due to higher metal prices and higher quantities of ore mined and sold.

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

Table 9 - EBITDA	Three months ended March 31	
	2007	2006
	\$000s	\$000s
Mine operating revenue	80,473	26,799
Mine operating expenses <sup>(1)</sup>	(24,555)	(15,988)
Cash operating margin	55,918	10,811
Administration	(2,293)	(2,914)
Other (expenses) income <sup>(2)</sup>	135	(108)
<b>EBITDA</b>	<b>53,760</b>	<b>7,789</b>

<sup>(1)</sup> Mine operating expenses exclude mine depreciation and amortization.

<sup>(2)</sup> Excludes interest income and interest expense.

## Financial Condition and Liquidity

### *Cash and cash flows*

Cash flow from operating activities totaled \$36.4 million in the first quarter of 2007, compared to \$7.4 million and \$32.2 million during in the first and fourth quarter of 2006, respectively. The cash flows were significantly higher in 2007 due to greater quantities of ore mined and sold as a result of Levack commencing commercial production and significantly higher realized metal prices, both of which contributed to a higher cash operating margin.

Financing activities resulted in net cash inflows of \$1.2 million in the first quarter of 2007, compared to \$0.6 million and \$0.1 million during the first and fourth quarter of 2006, respectively, from the issuance of 283,000, 159,000 and 16,000 common shares, respectively, for stock options exercised under the Company's stock option plan.

Investing activities for the first quarter of 2007, resulted in a net cash outflow of \$44.7 million, compared to a net cash outflow of \$17.3 million and \$50.0 million during the first and fourth quarter of 2006, respectively. Exploration, development and equipment expenditures are budgeted to be \$173.0 million in 2007 and were on budget at the end of the first quarter.

The net change in cash balances as a result of operating, financing and investing activities was a net cash outflow of \$7.1 million since December 31, 2006, compared to a net cash outflow of \$9.4 million during the first quarter of 2006. FNX remains debt free. The Company expects that its \$108.0 million of cash on hand at March 31, 2007, combined with expected 2007 cash flow from operating activities, will be sufficient to meet all planned cash expenditures in 2007 (see "the Transaction" below).



### *Working capital*

Working capital decreased \$0.9 million during the first quarter of 2007 to \$130.7 million, primarily due to the increase in accounts receivable and high levels of cash expenditures on capital assets.

### *Reclamation and other deposits*

Reclamation deposits remained unchanged from the fourth quarter of 2006 at \$3.7 million and include various amounts with CVRD Inco and government agencies in the Province of Ontario in connection with Podolsky and the Levack Complex. 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.

In October 2005, a \$2.4 million deposit was advanced to Dynatec as a deposit for mining contractor services to be provided by Dynatec in connection with the Mining Services Agreement entered into on October 21, 2005. The deposit will ultimately be applied against Dynatec's final invoice for mine contractor services to FNX, which will be no later than December 2007 (see "the Transaction" described below).

### *Investments*

FNX continues to hold 7,716,594 common shares of Dynatec, 13,300,000 common shares of Lake Shore Gold Corp., and 6,860,715 common shares of Superior Diamonds Inc. During 2006 FNX increased its common share ownership interest in International Nickel Ventures Corporation ("**INV**") by 830,000 shares to hold 3,150,230 common shares and 2,347,886 share purchase warrants. All of the above investments are publicly traded corporations and FNX holds less than a 20% ownership interest in each.

Effective January 1, 2007, the Company prospectively adopted the CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale. In accordance with the new standards, as of January 1, 2007 the Company has classified its investments as available for sale. Accordingly, investments with a book value of \$30,380 were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50,535 which resulted in a revaluation gain of \$16,507 net of tax. As of March 31, 2007 the investments were measured at a fair value of \$64,755 which resulted in a revaluation gain of \$11,646, net of tax. The revaluation gains have been recognized in Accumulated Other Comprehensive Income ("**OCI**").

On April 20, 2007, Sherritt International Corporation ("**Sherritt**") and Dynatec jointly announced a transaction ("**the Transaction**"), whereby, under a Plan of Arrangement, Sherritt will acquire all of the issued and outstanding shares of Dynatec. Concurrent with the Transaction, Dynatec and Sherritt have entered into an agreement with FNX, whereby FNX has been granted the right, subject to the closing of the Transaction, to purchase Dynatec's Mining Services Division for cash at a price to be determined based upon independent valuations. FNX intends to exercise this right immediately upon closing of the Transaction, which is expected to occur by the middle of June, subject to regulatory, shareholder and court approvals.



The Transaction provides for the 20.5 million FNX shares currently held by Dynatec to be broadly distributed to Dynatec shareholders. FNX currently holds approximately 7.7 million Dynatec shares, which are expected to be exchanged for a combination of Sherritt and FNX shares in connection with the Transaction. It is FNX's intention to cancel all FNX shares received from the Transaction and to hold the received Sherritt shares for investment purposes.

On April 27, 2007, INV announced that it has entered into an agreement to sell, on a bought deal basis, 9,700,000 units ("**Units**") at a price of \$1.75 per Unit (the "**Offering**") for gross proceeds of \$16,975. Each Unit will consist of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant will entitle the holder to acquire one additional common share of INV, at a price of \$2.25, for a period of 18 months from the closing of the Offering.

Concurrent with the Offering, INV will complete a private placement (the "**Concurrent Private Placement**") with FNX on the same terms as the Offering to maintain its pro rata interest in INV of approximately 9.03%. Also, Teck Cominco Limited ("**Teck**") has the right (the "**Teck Right**") to purchase Units on the same terms as the Offering to maintain its pro rata interest in INV of approximately 6.38%. FNX has indicated its intention to purchase that portion of the Units, subject to the Teck Right, that Teck does not purchase.

The Offering, the Concurrent Private Placement and the Teck Right are subject to the approval of the Toronto Stock Exchange and all necessary regulatory approvals. Closing of the Offering and the Concurrent Private Placement is expected on or about May 18, 2007. As a result of the Offering, Concurrent Private Placement and Teck Right, the Company has committed to a further investment in INV ranging from \$1.8 million to \$3.6 million, depending upon the above circumstances.

### *Property, plant and equipment*

#### *(i) Summary*

Expenditures on property, plant and equipment totaled approximately \$44.7 million during the first quarter of 2007 compared to \$15.9 million and \$40.8 million in the first and fourth quarter of 2006. The cash expenditures consisted of exploration drilling, underground exploration development, including shaft sinking at Podolsky and shaft rehabilitation at Levack, and the purchase of certain mining equipment.

The following table shows the net increase in property, plant and equipment expenditures for 2006, and 2007 budgeted, by property location.

<b>Table 10 – PP&amp;E Expenditures</b>	<b>Three months ended March 31, 2007</b>	<b>Three months ended March 31, 2006</b>	<b>Budget 2007<sup>(1)</sup></b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
Levack Complex	<b>19,678</b>	6,803	83,800
Podolsky	<b>10,643</b>	5,091	44,800
Levack Footwall	<b>7,753</b>	3,198	39,800
Aurora Properties	<b>512</b>	543	3,200
Kirkwood	<b>355</b>	22	1,000
Victoria	<b>2</b>	9	100
	<b>38,943</b>	15,666	172,700
Corporate	<b>112</b>	265	300
	<b>39,055</b>	15,931	173,000

<sup>(1)</sup> The budget is for the entire 2007 year, represents gross expenditures and is not net of budgeted depreciation and amortization while the actual figures are net of depreciation and amortization.

In 2007, FNX budgeted \$173.0 million of capital expenditures, of which \$123.6 million is to acquire equipment and further develop the Levack Complex (including \$39.8 million for exploration and development of the Levack Footwall Deposit) and will focus on installing ore handling infrastructure and development work to reach future production targets including an exploration drift from Xstrata Nickel's Craig Mine into the Levack Footwall Deposit. Capital expenditures at Podolsky in 2007 are budgeted at \$44.8 million and involve installation of ore handling infrastructure, completion of the 2450 and 1750 crosscuts, vent raises, bulk sampling, detailed drilling, construction of certain surface infrastructures including a surface crusher and sampling tower, and pre-production in the fourth quarter leading to a decision to commence commercial production. Capitalized exploration expenditures on the rest of FNX's properties, are budgeted at approximately \$4.8 million in 2007. Capital expenditures to March 31, 2007 are on budget.

*(ii) Levack Complex*

FNX holds a 100% interest in the Levack Complex, which is located in the Sudbury Basin region of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack Mines. For financial reporting purposes, 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, CVRD 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.

During the quarter Xstrata Nickel, as part of a contract development agreement with FNX, collared an exploration access ramp to the Levack Footwall Deposit from the 4000 Level of their Craig Mine and began lateral development. By the end of the quarter development had advanced 460 feet

FNX's exploration focus during the first quarter of 2007 on the Levack Complex was aimed at adding to the existing resource base and discovering new deposits. During the first quarter, the Company announced the discovery of the Main Depths Deposit, a contact nickel deposit situated down-dip of the historically-mined Levack Main orebody. Highlights of the Main Depths

intersections include thicknesses of tens of feet ranging between 1.0% and 4.2% nickel hosted by Granite Breccia at the base of the Sudbury Igneous Complex. The top of the Main Depths deposit is at 1600 Level and it is open down-plunge and along strike. Borehole electromagnetic geophysical results to date are very positive and indicate that the Main Depths sulphide mineralization drilled to date occurs within a large, continuous conductive plate. The modelled plate has dimensions of 1,300 feet (400 metres) in the east-west strike direction and 800 feet (250 metres) in the north-south dip direction. The Main Depths environment is located near underground infrastructure and is within 600 feet of the Levack No. 7 Orebody, which is currently being developed and mined by the Company. The deposit's strategic location near existing mine infrastructure will greatly facilitate exploration and potential mining of this new deposit. Exploration drilling on this new discovery is continuing with two surface diamond drill rigs. The determination of the orientation and size of the Main Depths deposit, the extent of the mineralized pods and the nickel-sulphide content will require extensive additional drilling. FNX will continue to aggressively drill the Levack Main Depths sulphide mineralization from surface and from underground where feasible and explore for similar new nickel contact deposit within the favorable Levack geological environment.

Exploration drilling during the quarter at the McCreedy West property was focused on the PM Deposit and contact nickel target environments. At the PM Deposit, infill drilling in the northeast quadrant of the current mineral resource was completed from the 950 Level and was designed to upgrade the mineral resource classification in that part of the deposit. Additional drilling further west from the 950 Level tested targets up-dip from the current PM Deposit mineral resource. McCreedy West Contact nickel drilling was completed up-dip from the Inter Main Deposit from underground platforms and results are pending. Diamond drilling from a surface platform targeted down-dip potential extensions of the Inter Main. A diamond drill rig was mobilized on the 2000 Level at Xstrata Nickel's Craig Mine to begin testing targets in the boundary area down-dip of the Inter Main Deposit.

*(iii) Property under development*

Upon reaching commercial production, effective January 1, 2007, the Levack Mine was reclassified from property under development to mining properties and in combination with McCreedy West, is reported as the Levack Complex.

*(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 active mineral exploration properties are located in the Sudbury mining district, and are comprised as follows:

<b>Table 11 – Accumulated Costs of Exploration Properties</b>	<b>March 31 2007</b>	<b>December 31 2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Levack Footwall	<b>238,761</b>	231,008
Podolsky	<b>102,970</b>	92,327
Aurora Properties	<b>96,646</b>	96,134
Victoria	<b>6,237</b>	6,235
Kirkwood	<b>2,035</b>	1,680
	<b>446,649</b>	427,384



As at March 31, 2007, FNX held a 100% interest in the Levack Footwall, Podolsky, Victoria and Kirkwood mineral properties, all of which are located in the Sudbury Basin region of Ontario.

On December 21, 2006, the Company reached an underground development and advanced exploration agreement for the Levack Footwall project with Xstrata Nickel whereby Xstrata Nickel will drive an exploration drift from its Craig Mine into FNX's adjoining Levack Footwall Deposit on the Levack Mine property. The access will provide optimal drill platforms, allow for geological mapping and sampling, facilitate geological and resource modeling and allow access to extract a bulk sample for metallurgical testing. Concurrent with the Craig Mine development, FNX has begun the development of a ramp from the Levack Mine 2650 Level to access the up-dip extent of the Levack Footwall Deposit.

With shaft sinking and rock handling systems completed at Podolsky emphasis has shifted towards lateral development from the shaft at the 2450 and 1750 Levels to the 2000 Zone mineralization. A waste pass raise has been completed from the 2450 to 1750 levels. The pilot hole was completed for the 8 foot diameter ventilation/escapeway raise from surface to the 1750 Level, and the raise has been reamed approximately 300 feet. During the first quarter of 2007, the office/dry complex was completed.

Exploration drilling continued on the Levack Footwall Deposit, especially on targets designed to expand the down dip portion of the deposit, where, in late 2006, the deepest borehole below the current Levack Footwall Deposit mineral envelope (FNX7057) indicated a favourable geological setting for continuation of the deposit. The borehole electro-magnetic (UTEM) geophysical survey completed in that hole yielded a significant off-hole conductive anomaly below, and to the west of, the hole. The current drilling designed to define down-dip extents of the Levack Footwall Deposit will continue. Drilling is also continuing on exploration of the up-dip extents of the Levack Footwall Deposit and the Rob's deposit, both of which are still open in a number of directions. Xstrata Nickel completed preparations on the Craig Mine 4025 Level for development of the Levack Footwall deposit access drift. The drift was collared and 460 feet of lateral development completed to the end of the Quarter. Access to the Levack Footwall Deposit with the 4025 Level access drift will provide important opportunities for the Company to initiate geological, diamond drilling, resource, metallurgical and mine planning assessment of the deposit. On the Levack Complex property side, logistical preparations are progressing well in advance of collaring an access ramp from the 2650 Level to the Rob's Footwall Deposit.

The Aurora Properties are located in the Sudbury Basin region, Timmins, north-western Ontario and the Temiscamingue region of Quebec. All of the Aurora Properties are at the exploration stage. The most material mineral properties that are included in the Aurora Properties are located in the Sudbury Basin region and are pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel. As at December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, (2005 – 70% and 30%) in the Falconbridge Joint Venture and, as Xstrata Nickel has elected not to participate in the 2007 exploration program, Xstrata Nickel's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture. The diamond drill program for 2007 on the Falconbridge Joint Venture property commenced in February, with one surface drill dedicated to the property.

FNX holds between 50% and 100% interests in the remaining mineral exploration properties included in the Aurora properties. A helicopter-borne electromagnetic survey was flown on the Cartier property on the North Range of the Sudbury Igneous Complex to augment a surface



geophysical program completed in the final quarter of 2006. Results from the contractor are pending. On February 16, 2007, the Company entered into an agreement with Fieldex Exploration Inc. (“**Fieldex**”) whereby Fieldex agreed to issue 6.5 million common shares to the Company (subject to the condition that if the market value of the 6.5 million shares at the time of closing is less than \$2.2 million, Fieldex will issue additional common shares so that the shares issued to the Company have an aggregate market value of \$2.2 million) in exchange for 100% of FNX’s interest in its Aurora Properties located in the Temiscamingue region of Quebec. The transaction closed on April 30, 2007.

An exploration program commenced on the Company’s Kirkwood property with the drilling of a number of short holes to investigate the potential for sulphide mineralization associated with the coincidence of a Quartz Diorite dike and a contact embayment structure. The Kirkwood diamond drill program is scheduled to continue until the end of May.

During the first quarter of 2007, FNX completed 75,124 feet of exploration diamond drilling in 50 holes, a decrease from the 92,034 feet drilled in 38 holes during the fourth quarter of 2006, reflecting an increase in underground drilling from Xstrata Nickel’s Craig Mine and a decrease in the drilling of longer surface holes. The following table details the drilling by property and has been adjusted to reflect the drilling of exploration holes only (definition drill holes are not reported).

Table 12 – Drilling	Three months ended March 31, 2007	
	# Holes	# Feet
Levack	15	39,177
McCreedy West – Exploration	23	20,665
Levack Footwall	4	6,270
Kirkwood	8	9,012
Podolsky	-	-
Aurora – Sudbury	-	-
Aurora – Non-Sudbury	-	-
	50	75,124

The bulk of the Company’s diamond drill footage continued to be concentrated on the Levack Footwall Deposit and its associated sulphide mineralized system, as well as on contact nickel targets on the Levack Mine property. Two underground diamond drill rigs remained in place from 2006 to test the Levack Footwall Deposit environment, one from the Craig Mine 3025 Level exploration drift, and the other from Levack’s 2650 Level. The other underground rig was mobilized on the 4300 Level of the Craig Mine to test the down-dip extensions of the Levack Footwall Deposit. Three surface diamond drill rigs were focused on drilling the new Main Depths contact nickel discovery. The Main Depths is located down-dip of the historically mined Levack Main Orebody. One surface drill continued to test transitional nickel-copper-platinum-palladium-gold targets in the vicinity of the Company’s 1300 and 1900 deposits.

*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 \$3.7 million, unchanged from 2006. 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 2007, share capital increased by \$1.6 million as a result of the exercise of 0.3 million stock options. During the first quarter of 2006, share capital increased by \$0.9 million as a result of the exercise of 0.2 million stock options. As at March 31, 2007, stock options to purchase 2.5 million common shares at a weighted average of \$10.13 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 \$1.0 million related to 40,639 DSUs.

### *Post-retirement benefits*

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

### **Related Party Transactions**

Under the terms of an agreement between FNX and INV, dated January 1, 2006, FNX has agreed to provide certain administrative services and facilities to INV as well as the non-exclusive services of certain personnel, all in consideration of a flat fee of \$10,000 per month. These services and facilities include commercially reasonable office facilities and communication equipment and the non-exclusive services of certain FNX personnel, including the Senior Vice President and Chief Financial Officer of FNX who is also the Vice President and Chief Financial Officer of INV, as well as accounting staff as required by the Vice President and Chief Financial Officer of INV and administrative staff as required by INV. The services provided by these personnel are limited to 20% of the time of each such individual per week on the basis of a 40 hour work week. In addition, the non-exclusive services of the former Vice President Business Development of FNX (who also served as the President and Chief Executive Officer of INV until February 5, 2007) and the Vice President of Investor Relations of FNX (who also serves as the Director of Investor Relations for INV) are provided to INV pursuant to the agreement in consideration of the reimbursement to FNX of an amount equal to the salary and benefits paid by FNX to each such officer, multiplied by the percentage of their respective time spent providing services to INV. The services provided by the Vice President of Investor Relations and Corporate Secretary of FNX are limited to 20% of the time of such individual per week on the basis of a 40 hour work week. No similar limitations applied to the services provided by the former Vice President Business Development of FNX. The agreement may be terminated by either party at any time upon the provision of 30 days written notice to the other party, at nominal cost. During the three months ended March 31, 2007, FNX invoiced INV approximately \$62,000 for services provided under the agreement.

### **Non-GAAP Performance Measures**

Cash operating margin per ton of ore sold, cash operating cost per pound of nickel sold, cash flow per share 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, 2007, stock options to purchase 2.5 million common shares at a weighted average price of \$10.13 per share were outstanding. The number of stock options outstanding at March 31, 2007 represents 3.0% of the issued and outstanding common shares at that time. The number of common shares issued and outstanding as at May 1, 2007 totaled 84.2 million. From April 1, 2007 to May 1, 2007, 51,000 stock options have been granted, 1,000 were cancelled and 188,000 have been exercised. As at May 1, 2007, the Corporation had 84.2 million common shares outstanding and stock options to purchase 2.3 million common shares had been granted and were outstanding.

### **Adoption of New Accounting Standards**

We monitor 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, 2007, the Company prospectively adopted CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. This change in accounting policy had the following effect on the consolidated financial statements for the three months ended March 31, 2007: investments with a book value of \$30,380 were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50,535 which resulted in a revaluation gain of \$16,507, net of tax. The revaluation gains have been recognized in Accumulated Other Comprehensive Income (“OCI”), where they will remain until the respective investment is disposed of (see note 3).

Effective January 1, 2007, the Company prospectively adopted CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting policy had no effect on the consolidated financial statements for the three months ended March 31, 2007.



Effective January 1, 2007, the Company prospectively adopted CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Company from sources other than the Corporation's share owners, and includes earnings of the Company, the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available for sale assets and effective cash flow hedging instruments. Other comprehensive income comprises revenues, expenses and gains and losses that are recognized in comprehensive income but are excluded from earnings for the period. Comprehensive income is disclosed in a separate statement in the consolidated financial statements.

Effective January 1, 2007, the Company prospectively adopted CICA recommendations regarding the presentation of equity and changes in equity. These recommendations require separate presentation of the components of equity, including retained earnings, accumulated other comprehensive income, contributed surplus, share capital and reserves, and the changes therein.

### **Internal Controls Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2007, 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 (unaudited)

<b>Table 13 – 2007 Statistics</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Ore (tons)					
Pre-production ore	-				-
Sold					
Nickel ore	133,630				133,630
Copper ore	72,224				72,224
<b>Total ore sold</b>	<b>205,854</b>				<b>205,854</b>
Grade of ore sold					
Nickel ore (%Ni)	1.2				1.2
Copper ore (%Cu)	1.3				1.3
Payable metal sold					
Nickel (000s lbs)	2,628				2,628
Copper (000s lbs)	2,261				2,261
TPM (ozs)	5,961				5,961
Cobalt (000s lbs)	34				34
Metal sales revenue					
Average Ni price (US\$/lb)	21.65				21.65
Average Cu price (US\$/lb)	2.67				2.67
\$/US\$ exchange rate	1.17				1.17
Total revenue (\$000s)	80,473				80,473
Revenue (\$/ton of ore sold)	391				391
Cash cost of metals sold					
Mining (\$000s)	24,555				24,555
Cash cost (\$/ton of ore sold)	119				119
Cash cost (US\$/lb of Ni sold)	3.46				3.46

- Notes:
1. Tons of ore, grade and payable metal sold relate to ore that was mined from the Levack Complex, was shipped to CVRD Inco and was, accordingly, recognized in revenue during the three month periods ended March 31, 2007 and 2006, respectively.
  2. 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.
  3. Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Zone.
  4. TPM represents total precious metal - platinum, palladium and gold.

## Quarterly Metal Production and Sales Statistics Continued (unaudited)

<b>Table 14 - 2006 Statistics</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
Ore (tons)					
Pre-production ore	-	-	-	6,978	6,978
Sold					
Nickel ore	78,774	79,018	75,248	76,736	309,776
Copper ore	68,614	75,072	90,058	81,005	314,749
<b>Total ore sold</b>	<b>147,388</b>	<b>154,090</b>	<b>165,306</b>	<b>157,741</b>	<b>624,525</b>
Grade of ore sold					
Nickel ore (%Ni)	1.6	1.5	1.8	1.7	1.6
Copper ore (%Cu)	1.6	1.8	1.4	1.5	1.6
Payable metal sold					
Nickel (000s lbs)	1,894	1,965	2,280	1,966	8,105
Copper (000s lbs)	2,075	2,594	2,640	2,272	9,581
TPM (ozs)	6,960	7,331	7,934	8,007	30,232
Cobalt (000s lbs)	21.9	20.6	21.3	19.3	83.1
Metal sales revenue					
Average Ni price (US\$/lb)	7.22	10.37	14.20	16.32	12.16
Average Cu price (US\$/lb)	2.32	3.76	3.60	2.81	3.18
\$/US\$ exchange rate	1.15	1.12	1.12	1.14	1.13
Total revenue (\$000s)	26,799	39,981	52,963	50,202	169,945
Revenue (\$/ton of ore sold)	182	259	320	318	272
Cash cost of metals sold					
Mining (\$000s)	15,988	15,930	16,520	17,132	65,569
Cash cost (\$/ton of ore sold)	108	103	100	109	105
Cash cost (US\$/lb of Ni sold)	2.28	(0.57)	(0.07)	1.58	0.77

- Notes:
1. Tons of ore, grade and payable metal sold relate to ore that was mined from the Levack Complex, was shipped to CVRD Inco and was, accordingly, recognized in revenue during the three month periods ended March 31, 2007 and 2006, respectively.
  2. 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.
  3. Copper grades reflect a blend of lower grade PM Deposit ore with higher grade ores from the 700 Zone.
  4. TPM represents total precious metal - platinum, palladium and gold.



## Summary of Selected Quarterly Financial Information

<b>Table 15</b>	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2007</b>					
Revenue	<b>80,473</b>				<b>80,473</b>
Net earnings	<b>30,191</b>				<b>30,191</b>
Basic EPS	<b>\$0.36</b>				<b>\$0.36</b>
Diluted EPS	<b>\$0.36</b>				<b>\$0.36</b>
<b>2006</b>					
Revenue	26,799	39,981	52,963	50,202	169,945
Net earnings	3,193	25,344	20,476	19,667	68,680
Basic EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.82
Diluted EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.81
<b>2005</b>					
Revenue	19,057	24,231	18,588	22,726	84,602
Net earnings (loss)	2,484	3,855	(2,218)	477	4,597
Basic EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08
Diluted EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08

The quarterly trend since 2005 has generally been towards increasing revenues (subject to metal price fluctuations) and net earnings as a result of higher levels of ore mined and the resultant metal sales.

### Cautionary Note Regarding Forward-Looking Statements

Certain statements in this document constitute “forward-looking statements” within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1943. These forward-looking statements are based on current expectations and involve risks and uncertainties, referred to above and/or in FNX’s AIF dated March 28, 2007 and filed with Canadian provincial securities regulatory authorities, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. Examples of such forward looking statements include statements regarding financial results and expectations for 2007, 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](http://www.fnxmining.com) or by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com).