



**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2007**

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



<b>Consolidated Balance Sheets</b> (in thousands of Canadian dollars)	As at	
	March 31 2007 (Unaudited)	December 31 2006
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	108,039	115,117
Accounts receivable	77,873	52,082
In-process inventory	395	960
Prepaid and other assets	849	259
	<b>187,156</b>	168,418
<b>Investments</b> (note 4)	<b>64,755</b>	30,380
<b>Property, plant and equipment</b> (note 5)	<b>664,738</b>	625,683
<b>Reclamation and other deposits</b> (note 6)	<b>6,099</b>	6,099
	<b>922,748</b>	830,580
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	49,181	29,580
Deferred payment obligation	7,307	7,244
	<b>56,488</b>	36,824
<b>Mine closure and site restoration</b>	<b>2,670</b>	2,631
<b>Future income and resource taxes</b>	<b>177,479</b>	165,136
	<b>180,149</b>	167,767
	<b>236,637</b>	204,591
<b>Shareholders' equity</b>		
Share capital (note 7)	561,891	560,266
Contributed surplus – stock-based compensation (note 8)	7,863	7,710
Retained earnings	88,204	58,013
Accumulated other comprehensive income (note 3)	28,153	-
	<b>686,111</b>	625,989
	<b>922,748</b>	830,580

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



## Consolidated Statements of Operations

(in thousands of Canadian dollars  
except earnings per share)

(Unaudited)

Three months ended

March 31

2007 2006

	\$	\$
<b>Mine operating revenues</b>	<b>80,473</b>	26,799
<b>Mine operating expenses</b>		
Mining, excluding depreciation and amortization	24,555	15,988
Depreciation and amortization	4,879	3,149
	<b>29,434</b>	19,137
	<b>51,039</b>	7,662
<b>Expenses</b>		
Administration	2,293	2,914
Capital taxes	450	322
Depreciation	97	12
Stock-based compensation (note 8)	888	602
Other expenses (income) (note 9)	(1,267)	(1,437)
	<b>2,461</b>	2,413
<b>Earnings before taxes and non-controlling interest</b>	<b>48,578</b>	5,249
<b>Income and resource taxes</b>	<b>(18,387)</b>	(2,056)
<b>Net earnings for the period</b>	<b>30,191</b>	3,193
<b>Basic earnings per share</b> (note 7(b))	<b>0.36</b>	0.04
<b>Diluted earnings per share</b> (note 7(b))	<b>0.36</b>	0.04

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



## Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars  
except earnings per share)

(Unaudited)

Three months ended  
March 31, 2007

	\$
<b>Net earnings</b>	<b>30,191</b>
<b>Other comprehensive income, net of tax</b>	
Unrealized gains on available for sale investments	11,646
<b>Comprehensive income (note 2)</b>	<b>41,837</b>

## Consolidated Statements of Retained Earnings (Deficit)

(in thousands of Canadian dollars)

(Unaudited)

Three months ended  
March 31  
2007      2006

	\$	\$
<b>Retained earnings (deficit) – beginning of period</b>	<b>58,013</b>	(10,667)
<b>Net earnings for the period</b>	<b>30,191</b>	3,193
<b>Retained earnings (deficit) – end of period</b>	<b>88,204</b>	(7,474)

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



## Consolidated Statements of Cash Flow

(in thousands of Canadian dollars)  
(Unaudited)

Three months ended

March 31

2007 2006

	\$	\$
<b>Operating activities</b>		
Net earnings for the period	30,191	3,193
Non-cash items		
Mine depreciation and amortization	4,840	3,149
Depreciation	97	12
Stock-based compensation	888	602
Mine closure and site restoration	39	17
Future income and resource taxes	6,515	2,056
Interest on deferred payment obligation	63	126
Other	-	27
	<b>42,633</b>	9,182
Net change in non-cash working capital (note 10)	<b>(6,207)</b>	(1,794)
	<b>36,426</b>	7,388
<b>Financing activities</b>		
Common shares issued (note 7)	1,189	592
<b>Investing activities</b>		
Investments	-	(996)
Property, plant and equipment	(44,693)	(15,931)
Reclamation deposits	-	(410)
	<b>(44,693)</b>	(17,337)
<b>Change in cash and cash equivalents for the period</b>	<b>(7,078)</b>	(9,357)
<b>Cash and cash equivalents – beginning of period</b>	<b>115,117</b>	152,460
<b>Cash and cash equivalents – end of period</b>	<b>108,039</b>	143,103

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

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2007 and 2006  
(in thousands of Canadian dollars except where otherwise noted)  
(Unaudited)

### 1. Nature of operations

FNX Mining Company Inc. ("**FNX**" or the "**Company**") is a Canadian company active in the mineral resource business which includes the acquisition, exploration, development and mining of mineral properties. FNX's mineral properties are primarily located in the Sudbury mining district of Canada from which the Company currently produces and sells nickel, copper, platinum, palladium, gold and cobalt, with nickel being the most significant for the Company to March 31, 2007. The Company, through a wholly owned subsidiary, Aurora Platinum Corp. ("**Aurora**"), also holds base and precious metal exploration properties in various locations in Ontario and Quebec.

### 2. Accounting policies and basis of presentation

The unaudited interim consolidated financial statements of FNX have been prepared in accordance with accounting principles generally accepted in Canada using the same accounting policies as those disclosed in note 2 to FNX's audited consolidated financial statements for the year ended December 31, 2006, except as noted below. Generally accepted accounting principles for interim consolidated financial statements do not conform in all respects to the disclosures required for annual consolidated financial statements and, accordingly, these unaudited interim consolidated financial statements should be read in conjunction with FNX's audited consolidated financial statements and accompanying notes. In the opinion of management, all adjustments considered necessary for the fair presentation of results for the periods presented have been reflected in these unaudited interim consolidated financial statements. These adjustments consist only of normal recurring adjustments.

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("**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**") (see note 3).

Effective January 1, 2007, the Company prospectively adopted the 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 the 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 the 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.

### 3. Accumulated other comprehensive income

	<b>March 31 2007</b>
	<u>\$</u>
Accumulated OCI at the beginning of period	-
Adjustment at beginning of period due to change in accounting for assets available for sale <sup>1</sup>	<u>16,507</u>
	<b>16,507</b>
OCI for the period:	
Changes in fair value of assets available for sale <sup>2</sup>	<u>11,646</u>
	<u><b>28,153</b></u>

<sup>1</sup> Tax impact of \$3,648

<sup>2</sup> Tax impact of \$2,574

### 4. Investments

	<b>March 31 2007</b>		December 31 2006	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
	# 000s	\$	# 000s	\$
Dynatec Corporation.	7,717	25,774	7,717	10,032
Lake Shore Gold Corp.	13,300	26,999	13,300	14,630
Superior Diamonds Inc.	6,860	4,185	6,860	3,070
INV <sup>1</sup> (common shares)	3,150	5,607	3,150	1,956
INV (common share purchase warrants)	2,348	<u>2,190</u>	2,348	<u>692</u>
		<u><b>64,755</b></u>		<u><b>30,380</b></u>

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

As described in note 2, 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”).

## 5. Property, plant and equipment

	March 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
Levack Complex			
Property and development	192,986	25,031	167,955
Plant and equipment	56,898	7,807	49,091
	<u>249,884</u>	<u>32,838</u>	<u>217,046</u>
Exploration	446,649	-	446,649
Corporate	1,586	543	1,043
	<u>698,119</u>	<u>33,381</u>	<u>664,738</u>
	December 31, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
McCreedy West			
Property and development	69,244	21,572	47,672
Plant and equipment	19,748	7,050	12,698
	<u>88,992</u>	<u>28,622</u>	<u>60,370</u>
Property under development			
Levack	136,998	-	136,998
Exploration	427,384	-	427,384
Corporate	1,376	445	931
	<u>654,750</u>	<u>29,067</u>	<u>625,683</u>

### (a) Levack Complex

The Levack Complex 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. In 2006, mining revenues and expenses are only from the McCreedy West property.

FNX holds a 100% interest in the Levack Complex.

**(b) Mineral exploration properties**

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

	<b>March 31 2007</b>	December 31 2006
	<b>\$</b>	<b>\$</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>	<b>427,384</b>

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

The Aurora Properties are located in the Sudbury Basin region, Timmins, northwestern Ontario and the Temiscamingue region of Quebec (see note 14(a)). All of the Aurora Properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them. The most material mineral properties that are included in the Aurora Properties are located in the Sudbury Basin region and are pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel ("**Xstrata Nickel**"). As at December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, in the Falconbridge Joint Venture and, as Xstrata Nickel is not participating in the 2007 exploration program, Xstrata Nickel's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between 50% and 100% interests in the remaining mineral exploration properties included in the Aurora Properties.

**(c) Corporate**

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

**6. Reclamation and other deposits**

	<b>March 31 2007</b>	December 31 2006
	<b>\$</b>	<b>\$</b>
Reclamation term deposits	<b>3,699</b>	3,699
Deposit with mine contractor	<b>2,400</b>	2,400
	<b>6,099</b>	<b>6,099</b>

Reclamation deposits include various amounts with government agencies in the Province of Ontario in connection with Podolsky and the Levack Complex.

Deposit with mine contractor relates to amounts advanced to Dynatec as a deposit on mining contractor services to be provided by Dynatec in connection with a Mining Services

Agreement entered into on October 21, 2005. The deposit will ultimately be applied against Dynatec's final invoice for mine contractor services to FNX, which will be no later than December 2007 (see note 14(b)).

## 7. Share capital and earnings per share

### (a) Common shares issued and outstanding

	2007		2006	
	Shares # 000s	Amount \$	Shares # 000s	Amount \$
Balance – beginning of year	83,736	560,266	83,530	558,947
Stock options exercised	283	1,189	159	592
From contributed surplus (note 9)	-	436	-	282
Balance – March 31	<u>84,019</u>	<u>561,891</u>	<u>83,689</u>	<u>559,821</u>

### (b) Earnings per share

	Three months ended March 31	
	2007	2006
<b>Net earnings available to shareholders (\$)</b>		
Basic and diluted	<u>30,191</u>	<u>3,193</u>
<b>Weighted average shares outstanding (#000s)</b>		
Basic	83,908	83,653
Effect of dilutive stock options	<u>1,123</u>	<u>714</u>
Diluted	<u>85,031</u>	<u>84,366</u>
Stock options excluded from dilution	<u>27</u>	<u>1,733</u>
<b>Earnings per share</b>		
Basic	<u>\$0.36</u>	<u>\$0.04</u>
Diluted	<u>\$0.36</u>	<u>\$0.04</u>

## 8. Contributed surplus - stock-based compensation

The following table summarizes information regarding FNX's contributed surplus - stock-based compensation as at and for the periods ended March 31:

	2007	2006
	\$	\$
Balance – beginning of year	7,710	5,677
Stock-based compensation	589	602
Transfer of exercised options to share capital	<u>(436)</u>	<u>(282)</u>
Balance – March 31	<u>7,863</u>	<u>5,970</u>

The following table summarizes information regarding FNX's stock-based compensation expense as at and for the periods ended March 31:

	Three months ended March 31	
	2007	2006
	\$	\$
Stock options	589	602
Deferred share units	299	-
Stock-based compensation	<u>888</u>	<u>602</u>

**(a) Stock option plan**

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

The Option Plan is for directors, officers, employees and certain individuals that provide ongoing services to FNX. Under the Option Plan, options are typically granted for a five year period and in such numbers as reflects the level of responsibility of the particular optionee and his or her contribution to the business and activities of FNX. Options granted under the Plan prior to 2004 vested at the discretion of the Board of Directors, while options granted in 2004 vest 50% after one year from the date of grant with the balance vesting after two years from the date of grant. Effective January 1, 2005, options granted under the Option Plan have a five year term and vest 33.3% on the anniversary date of each of the first three years following the grant date. Except in specified circumstances, options are not assignable and terminate upon the optionee ceasing to be employed by or associated with FNX. The terms of the Option Plan further provide that the price at which shares may be issued under the Option Plan cannot be less than the market price of the shares when the relevant options are granted.

The following table summarizes information regarding FNX's outstanding and exercisable stock options as at March 31, 2007:

Range of exercise prices per share	Outstanding		Exercisable		
	Shares	Weighted average months remaining	Weighted average exercise price per share	Shares	Weighted average exercise price per share
\$	# 000s	#	\$	# 000s	\$
5.04 to 6.85	639	14	6.43	639	6.43
7.40	266	36	7.40	233	7.40
8.15 to 12.99	803	30	9.60	536	8.91
13.00	228	45	13.00	68	13.00
13.17 to 13.83	262	46	13.56	58	13.73
14.01 to 18.01	192	53	15.57	8	14.85
18.05 to 24.05	90	59	20.29	-	-
	<u>2,479</u>		10.13	<u>1,542</u>	8.05

The following table summarizes information regarding FNX's stock options as at and for the periods ended March 31, 2007 and 2006:

	2007		2006	
	Shares # 000s	Weighted average exercise price per share \$	Shares # 000s	Weighted average exercise price per share \$
Balance – beginning of period	2,672	9.15	2,561	5.60
Granted	96	20.09	95	10.72
Exercised	(283)	4.19	(159)	4.99
Cancelled	(6)	12.36	(50)	7.65
Balance – end of period	<u>2,479</u>		<u>2,447</u>	

**(b) Deferred share units plan**

On March 16, 2005, as amended, the Board of Directors approved the implementation of a deferred share unit plan (the “**DSU Plan**”), effective July 1, 2005. The purpose of the DSU Plan is to promote a greater alignment of interests between shareholders and Directors and executive employees by linking a portion of Director compensation and executive employee bonuses to the future value of FNX’s common shares. The DSU Plan is only eligible to Directors and executive employees of FNX and is to allow Directors and executive employees the choice to receive, in increments of 25%, up to 100% of their director compensation or management bonus in the form of DSUs rather than by way of cash. Under the terms of the DSU Plan, the number of DSUs granted is based upon the fair market value of FNX’s common shares at that time. DSUs are only paid out upon the Director’s or executive employee’s death or resignation from the Board or the Company. Included in accrued liabilities is \$1,027 related to 40,639 DSUs.

**9. Other expenses (income)**

	Three months ended March 31	
	2007	2006
	\$	\$
Interest income	(1,195)	(1,455)
Management fees	(30)	(30)
Foreign exchange	(40)	(76)
Interest on deferred payment obligation	63	126
Miscellaneous	(65)	(2)
	<u>(1,267)</u>	<u>(1,437)</u>

## 10. Supplementary cash flow information

	Three months ended	
	March 31	
	2007	2006
	\$	\$
Net change in non-cash working capital		
Accounts receivables	(25,791)	(11,687)
In-process inventory	573	257
Prepays and other assets	(590)	84
Accounts payable and accrued liabilities	19,601	9,552
	<u>(6,207)</u>	<u>(1,794)</u>
Other information		
Interest paid	-	-
Income and resource taxes paid	-	-

## 11. 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 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 \$62 for services provided under the agreement.

## 12. Fair value of financial instruments

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

### 13. **Segmented information**

The Company operates in one geographic location, Sudbury, Ontario, Canada, and one segment, mineral exploration, development and mining. The Levack Complex, comprised of the McCreedy West and Levack properties, is not considered to be a separate segment.

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

### 14. **Subsequent event**

#### **(a) Fieldex**

On February 16, 2007, the Company entered into an agreement with Fieldex Exploration Inc. ("**Fieldex**") whereby Fieldex agreed to issue 6.5 million common shares to the Company (subject to the condition that if the market value of the 6.5 million shares at the time of closing is less than \$2,200, Fieldex will issue additional common shares so that the shares issued to the Company have an aggregate market value of \$2,200) in exchange for 100% of FNX's interest in its Aurora Properties located in the Temiscamingue region of Quebec. The transaction closed on April 30, 2007.

#### **(b) Mining services**

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.

#### **(c) INV private placement**

Pursuant to the April 27, 2007 financing announcement by INV, the Company has committed to a further investment in INV ranging from \$1.8 million to \$3.6 million, depending upon certain conditions of the offering.