



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Ended June 30, 2009

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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 and six month periods ended June 30, 2009, in comparison to the corresponding prior-year periods. This MD&A is prepared as at August 11, 2009, and is intended to supplement and complement the unaudited interim consolidated financial statements of FNX for the three and six month periods ended June 30, 2009 and 2008, 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 consolidated financial statements and MD&A for the years ended December 31, 2008 and 2007 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.



Company Overview

FNX Mining Company Inc. ("**FNX**" or the "**Company**") is an Ontario-based company operating in Canada and the United States with consolidated assets of over \$800 million and more than 600 employees functioning within two operating segments: the Mining segment and the DMC segment ("**DMC**"). The Mining segment produces, develops and explores for copper, nickel, cobalt, platinum, palladium and gold in Canada's prolific Sudbury mining district. The DMC segment operates in both Canada and the United States providing services in contract mining, mine shaft sinking, lateral mine development, mine construction, civil underground construction, raise boring and Alimak raising.

Executive Summary

Consolidated Financial Results

Revenues totaled \$61.9 million for the second quarter of 2009, compared to \$49.0 million in the first quarter of 2009 and \$112.2 million in the second quarter of 2008. Earnings in the second quarter were \$12.5 million, equal to \$0.14 per share, compared to a loss of \$26.2 million, equal to (\$0.31) per share, in the first quarter of 2009 and earnings of \$11.3 million, equal to \$0.13 per share, in the second quarter of 2008. Year to date revenues totaled \$110.8 million in 2009, compared to \$252.9 million in 2008. The 2009 year to date loss was \$13.7 million in 2009, equal to (\$0.16) per share, which includes the first quarter's \$31.2 million dilution loss resulting from Gold Wheaton Gold Corp.'s ("**Gold Wheaton**") common share issuance in the first quarter of 2009, compared to net earnings of \$35.4 million, equal to \$0.42 per share, in 2008.

Operating activity cash flow during the second quarter of 2009 was \$3.7 million and, after \$14.3 million of cash inflow from non-cash working capital, the cash inflow from operating activities was \$18.0 million, or \$0.21 per share, compared to net outflows of \$2.7 million, or \$0.03 per share, in the first quarter of 2009 and net inflows of \$13.5 million, or \$0.16 per share, during the second quarter of 2008. Cash balances and working capital were \$131.1 million and \$137.7 million, respectively, at June 30, 2009, compared to \$129.6 million and \$130.1 million, respectively, at December 31, 2008. FNX remained debt free.

Significant Events and Transactions

On April 16, 2009, Vale Inco Limited ("**Vale Inco**") announced that it would extend its planned three week scheduled maintenance shutdown in May by an additional eight weeks to July 27, 2009. FNX continued to deliver ore to the custom mill until the end of May, at which time the Company began stockpiling all ore mined for future processing. In addition, the collective agreement for much of Vale Inco's unionized labour force in Sudbury expired on May 31, 2009. Vale Inco and its union negotiated an extension of the then current contract until July 12, 2009; however, the two parties were unable to reach an agreement and the union labour force declared a strike effective July 13, 2009. FNX continues to mine and stockpile its ore.

The Company has concluded an agreement with Xstrata Nickel, a business unit of Xstrata Canada Corporation ("**Xstrata Nickel**") to process up to 150,000 tonnes of FNX's stockpiled ore at their Strathcona Mill in Sudbury, Ontario. The final terms of the Xstrata Nickel processing agreement will remain confidential. If Vale Inco's facilities continue to be shut down for an extended period, the Company intends to continue to mine as planned and to stockpile ore through at least the rest of 2009. The stockpiled ore will be processed at either Vale Inco's facilities when their operations resume or possibly at the Strathcona Mill, if the Xstrata Nickel



processing agreement is extended. FNX has a strong cash position and has sufficient working capital to continue to mine and stockpile its production into 2010 if required.

On April 28, 2009, the Company sold, on a private placement basis, 2,173,914 flow-through common shares of the Company at a price of \$6.90 per share for gross proceeds of \$15.0 million. The proceeds will be used for Canadian Exploration Expenses ("CEE") related to the exploration of the Company's properties located in Ontario, Canada. In the second quarter of 2009, the Company incurred \$0.6 million of CEE that will be renounced, effective December 31, 2009 pursuant to the flow-through common share issuance, leaving a balance of \$14.4 million to be spent throughout the balance of 2009 and 2010, but in any event by December 31, 2010.

In response to the decline in base metal prices in 2008 and the world-wide recession, FNX implemented a strategy for 2009 comprised of carefully controlling spending to preserve cash and maintain a strong balance sheet while advancing development on the high-grade copper-nickel-precious metal LFD. Work to advance the development of the LFD remains FNX's main focus as it represents a significant portion of the future of the Company. Operating and financial results during the first two quarters of 2009 confirm that spending is at or below budget, the cash balance remains strong and development of the LFD is on schedule.

In December of 2008, the Company reduced its Mining segment workforce by approximately 45% through layoffs and terminations, extended the suspension of nickel contact ore production from the Levack Mine, and suspended nickel contact ore production at the adjacent McCreedy West Mine. These deposits do not produce recoverable precious metals and are not part of the agreement with Gold Wheaton and, therefore, will not affect FNX's precious metal production. Ore continues to be mined from the Rob's Deposit, considered to be the up-dip extension of the LFD, the 700 and PM Deposits at the Levack Complex and the 2000 Deposit at the Podolsky Mine.

During the balance of 2009, the Company will continue to assess its plans in light of challenges and changes in the global commodity markets in general and in the Sudbury mining district in particular and make decisions consistent with its strategy for 2009. At June 30, 2009, the Company had \$131.1 million of cash and no debt, which allows FNX to continue to invest in the development of its highest grade orebody, the LFD. In addition, as evidenced by the suspension of production from the nickel contact deposits at the Levack Complex in December 2008 and the subsequent mining of residual nickel contact ore from previously active stopes at McCreedy West only where the grade, cost and increased price results in profitable production, FNX continues to demonstrate that it is able to increase, decrease or suspend its production levels quickly and economically. The Company believes it is uniquely placed to weather the current economic downturn and the disruption in production due to the Vale Inco shutdown and is well positioned for success in the future.

Mining Operations

Production

During the second quarter, a total of 192,023 tons of ore were shipped, comprised of 162,408 tons of copper ore and 29,615 tons of nickel ore. In addition, 45,168 tons of copper ore from McCreedy West and Podolsky were stockpiled to be processed at a later date. As at August 11, 2009, the stockpiled in-process inventory totaled 122,702 tons. In the first quarter of 2009, 105,044 tons of ore were shipped, comprised of 100,629 tons of copper ore and 4,415 tons of nickel ore, and in the second quarter of 2008, 352,765 tons of ore were shipped, comprised of



220,579 tons of nickel ore and 132,186 tons of copper ore. Payable copper was 7.9 million pounds, payable nickel was 1.5 million pounds and total payable platinum, palladium and gold was 16,532 ounces in the second quarter of 2009, compared to 9.7 million pounds of payable copper, 1.2 million pounds of payable nickel and 7,415 ounces of payable platinum, palladium and gold in the first quarter of 2009, and 7.3 million pounds of payable copper, 3.5 million pounds of payable nickel and 11,582 ounces of payable platinum, palladium and gold for the quarter ending June 30, 2008. The decrease in payable copper is a result of less copper ore sold due to the stockpiling of in-process inventory in the month of June during the Vale Inco shut down. The decrease in payable nickel year over year is as a result of the cessation of mining nickel contact ores at the end of 2008.

In the second quarter of 2009, precious metal sales to Gold Wheaton totaled 10,592 gold equivalent ounces, compared to 5,218 gold equivalent ounces in the first quarter of 2009 and nil in the second quarter of 2008 as the Gold Wheaton transaction closed on July 15, 2008.

The average metal prices received during the second quarter were US\$7.55 per pound of nickel, US\$2.51 per pound of copper, and US\$931, US\$1,292 and US\$279 per ounce of gold, platinum and palladium, respectively. Copper and nickel prices were significantly higher in the same period last year, averaging US\$9.21 per pound of nickel and US\$3.70 per pound of copper as metal prices reached record highs in 2008. Provisional price adjustments in the second quarter of 2009 increased revenues by \$13.6 million and by \$8.5 million in the first quarter of 2009 while the decline in metal prices in the second quarter of 2008 decreased revenues by \$5.8 million.

FNX is a diversified metal producer with significant revenue contributions from copper, nickel and precious metals. The relative contribution of nickel to other metals has gone from 43%:57% in the second quarter of 2008, to 20%:80% in the first quarter of 2009 and to 27%:73% in the second quarter of 2009 (see Table 10). The increase in nickel revenues in the second quarter of 2009 compared to the first quarter is due to both the recent increase in the price of nickel and an increase in the quantity of nickel produced as a result of mining residual nickel contact ore from previously active stopes at McCreedy West processed in the second quarter of 2009. Copper production remains relatively high and gold, platinum and palladium account for an increasing percentage of revenue as well.

The average minesite revenue per ton of ore in the second quarter was positively impacted by provisional price adjustments of \$71 per ton and resulted in net minesite revenue per ton of \$274, compared to \$366 in the first quarter of 2009 and \$213 in the second quarter of 2008. The average cash operating cost per ton was \$148, compared to \$218 in the first quarter of 2009 and \$145 in the second quarter of 2008, and is comprised of minesite costs and processing costs at the custom processor, which vary significantly from deposit to deposit depending upon the mining scale and method and the metal content of the ore. The minesite margin during the second quarter was \$126 per ton, compared to \$148 in the first three months of 2009 and \$68 in the second quarter of 2008. Guidance for the average total production costs for the remainder of 2009 remains at \$146 per ton of ore shipped with mining costs and processing costs for the rest of the year expected to be roughly equal.

Capital Expenditures and Development/Advanced Exploration

Capital expenditures totaled \$14.6 million during the quarter and included \$8.6 million of development at the LFD, \$3.4 million of development at Podolsky, \$1.8 million of development at the Levack Complex and \$0.8 million on other exploration properties.



The primary development focus for FNX continues to be the LFD, with concentration on LFD ramp development and rehabilitation of the No. 2 shaft. The advance of the access decline ramp to the LFD remains on schedule. During the second quarter the ramp face advanced 190 vertical feet to the 3500 Level. This included a lateral advance of 1,199 feet during the second quarter, bringing the total lateral advance for the first six months of 2009 at the LFD to 2,296 feet and 371 vertical feet. Three ore accesses were excavated to at least 40 feet off the ramp at the 3390, 3450 and 3510 Levels and an access heading to the fresh air raise was commenced. Extension of a ventilation and secondary egress raise was completed to the 3220 Level during the quarter. Three underground diamond drill rigs were active through second quarter supporting optimal access ramp planning and targeting sub-level access locations. All three drills will remain active during the third quarter. Several accesses will be driven through the ore horizon in the third quarter of 2009 and development ore is scheduled to be brought to surface from these accesses in the later part of the year.

Reconditioning of the Levack No. 2 Shaft below the 2900 Level continued to progress during the second quarter, but was limited by water inflow management issues. Shaft reconditioning progressed by 175 vertical ft and should reach the target depth at the 3600 Level in the third quarter of 2009. The current timeline for the utilization of the 3600 Level to further develop the LFD remains the fourth quarter of 2009.

Development and capital work at the Levack Complex was predominantly focused on drifting in the PM Deposit at McCreedy West during the second quarter of 2009 for a total drift completion of 1,234 feet.

Development at the Podolsky Mine during the quarter continued to focus on advancing the main access ramp and completing related lateral development. Total advancement for the quarter was 1,543 feet, including lateral work on the 2300 and 2375 Levels plus access ramp development up to the 2225 Level. The main access ramp is projected to be completely connected internally later in 2009. Other development at Podolsky included work on the backfill plant and on the new exhaust ventilation raise.

Exploration

Exploration activities in the second quarter continued to focus on the upper areas of the LFD to provide geological data to assist with the definition of footwall mineralization to determine where and when it is best to access the LFD.

FNX has budgeted \$6.2 million of the \$15.0 million of flow-through funds received in April for 2009, with the balance to be incurred in 2010. Exploration programs commenced in June with the focus in 2009 to consist of drill and geophysical programs at Victoria, Falconbridge Footwall, Kirkwood, Nickel Lake and Foy-Offset.

Exploration diamond drilling was initiated at Victoria in the second quarter, while geophysical surveys were performed at Victoria, the Falconbridge Footwall and Podolsky.

DMC Mining Services

Revenues from DMC totaled \$11.7 million for the three months ended June 30, 2009, compared to \$13.5 million in the first three months of 2009 and \$37.0 million in the three months ended June 30, 2008. Year to date revenues were \$25.1 million in 2009, compared to \$86.4 million in



2008. Contracting operating costs for the second quarter of 2009 totaled \$11.3 million, compared to \$13.3 million in the first quarter of 2009 and \$35.2 million in the comparable period in 2008. For the six month period ended June 30, 2009, contracting operating costs were \$24.5 million compared to \$82.2 million for the same period in 2008. The operating margin for the second quarter of 2009 was \$0.4 million, compared to \$0.2 million in the first quarter of 2009 and \$1.8 million in the second quarter of 2008. Year to date, the operating margin was \$0.6 million, compared to \$4.2 million in 2008. The loss for the quarter was \$1.3 million, compared to a loss of \$1.0 million in the first quarter of 2009 and a loss of \$1.6 million in the second quarter of 2008. Operating cash flow for the period was an outflow of \$0.3 million, a decrease of \$0.9 million from the first quarter of 2009 and, after changes in non-cash working capital items, net cash flow from operating activities was a net inflow of \$7.5 million in the second quarter of 2009. The overall business climate in mining contracting in the United States remains positive, particularly in the gold sector, while the Canadian side has shown slightly increased signs of activity, but remains very competitive. It is anticipated that the volumes of work will increase going forward.

Other

During the second quarter of 2009, the Canadian dollar appreciated in value relative to the US dollar and resulted in foreign exchange losses of \$2.9 million in the quarter, which are included in other expenses on the statements of operations.

FNX accounts for its investment in Gold Wheaton using the equity method and is, therefore, required to include in earnings FNX's share of Gold Wheaton's income or loss for the period and the Company's investment therein is adjusted by an equivalent amount. For the quarter ended June 30, 2009, FNX's 25.6% share of the earnings of its equity investee, Gold Wheaton, was \$nil, compared to a loss of \$0.2 million in the first quarter of 2009.

As a result of an equity issuance by Gold Wheaton on March 5, 2009, in which FNX did not participate, FNX's interest in Gold Wheaton declined from 38.1% at December 31, 2008 to 25.6% at March 31, 2009. The 12.5% dilution in FNX's ownership position in Gold Wheaton resulted in a non-tax deductible dilution loss of \$31.2 million in the first quarter of 2009. The dilution loss was based on the change in ownership and the change in net book value of Gold Wheaton and is neither a cash item to FNX nor a reflection of any change in the fair value of the Company's 360 million share investment in Gold Wheaton.

On April 2, 2009, 1,672,000 common share purchase options were granted to directors, officers and employees of the Company in accordance with the Company's Stock Option Plan, representing 2% of the then issued and outstanding shares of the Company. In addition, 240,000 deferred share units were issued on April 2, 2009 to certain officers of the Company.

Mining segment personnel and all onsite contractors experienced one lost time injury in the second quarter of 2009, compared to three in the second quarter of 2008, and DMC incurred zero lost time injuries, compared to two in the second quarter of 2008. There were no reportable environmental incidents during the second quarter of 2009.

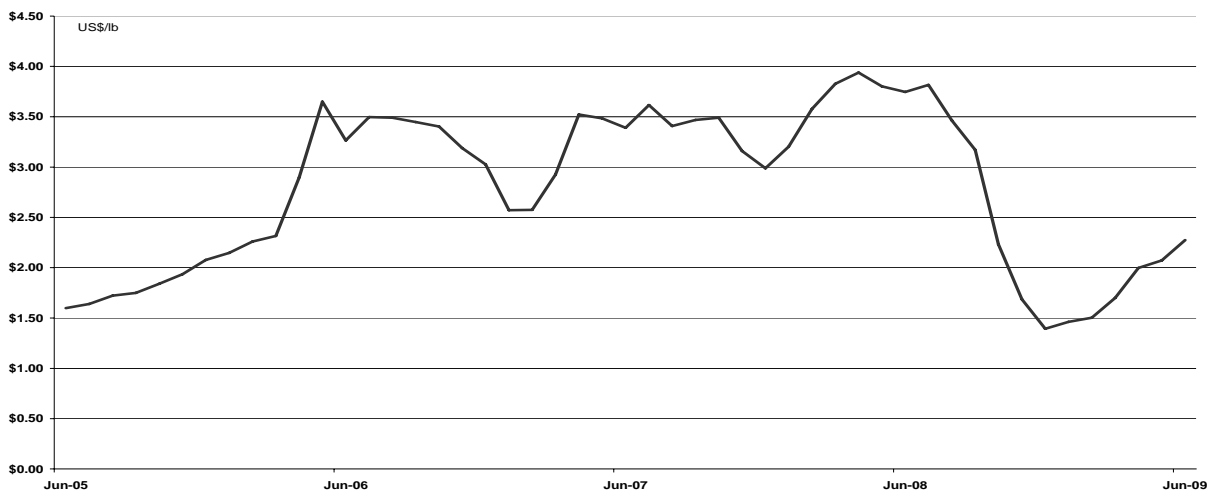
Key Economic Trends and Sensitivities

The MD&A included in FNX's 2008 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 2008 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the price of copper and nickel and, to a lesser extent, the price of other metals (platinum, palladium, gold and cobalt) produced by the Company.

Metal Prices

FNX is a commodity-diversified metal mining company. Copper accounted for approximately 46% of the Company's mine operating revenues in the second quarter of 2009, compared to 62% in the first quarter of 2009 and 36% in the second quarter of 2008. Nickel accounted for approximately 27% of the Company's mine operating revenues in the second quarter of 2009, compared to 20% in the first quarter of 2009 and 43% in the second quarter of 2008. The percentage contribution of the various commodities is influenced by both the quantity and the price of each metal produced. FNX is a diversified metal producer with significant revenue contributions from copper, nickel and precious metals.

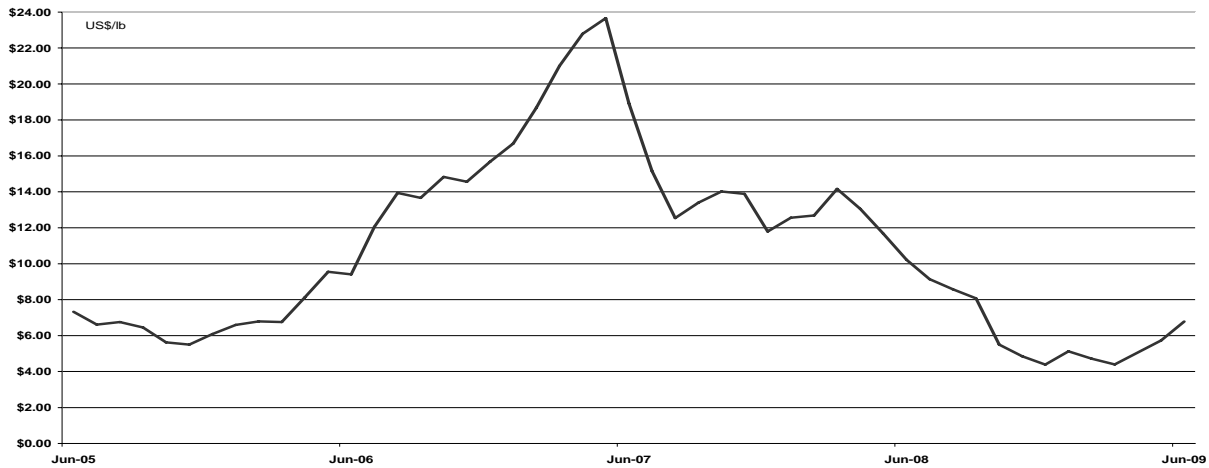
Figure 1 - Copper Prices



Source: LME monthly average cash mean per lb

The London Metal Exchange (“**LME**”) cash settlement price of copper was US\$2.31 per pound on June 30, 2009 and averaged US\$2.11 per pound the second quarter of 2009, compared to US\$1.55 per pound in the first quarter of 2009 and US\$3.83 per pound in the second quarter of 2008. Management is of the view that the LME cash settlement price for copper in 2009 will remain lower than in recent years, but may experience significant periodic volatility. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to copper prices.

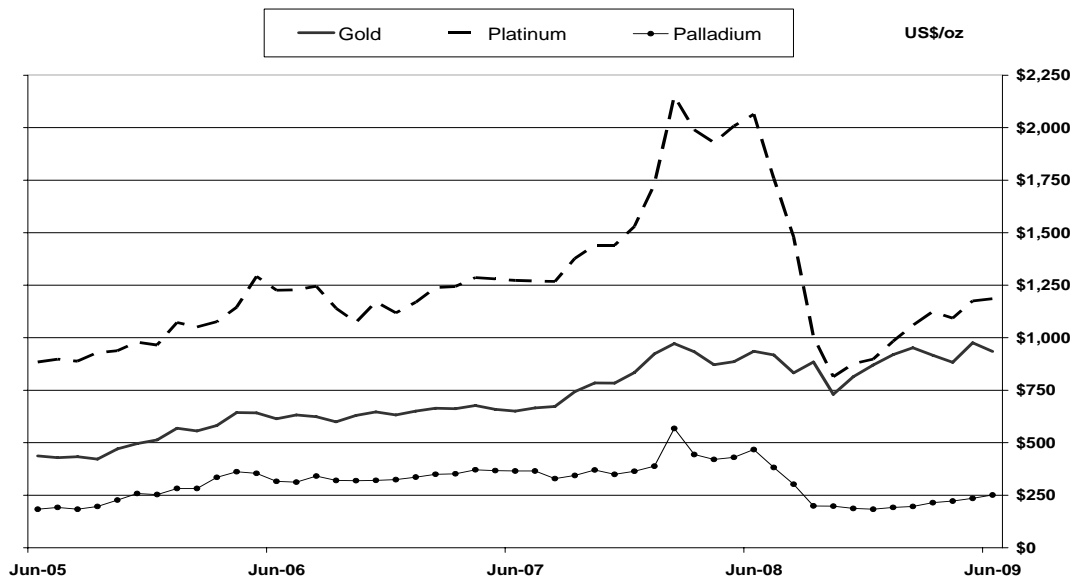
Figure 2 – Nickel Prices



Source: LME monthly average cash mean per lb

The average price per pound of nickel on the LME has remained relatively constant since December 31, 2008, averaging US\$5.86 in the second quarter of 2009, compared to US\$4.75 per pound in the first quarter of 2009, but has decreased significantly from the US\$11.64 per pound average in the second quarter of 2008. The LME cash buyer monthly closing price in Figure 2 illustrates the improving price environment when comparing the June 30, 2009 closing price of US\$7.26 to the closing price on March 31, 2009 of US\$4.27. Management is of the view that the LME cash settlement price for nickel in 2009 will remain lower than in recent years, but may experience significant periodic volatility. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX’s sensitivity to nickel prices.

Figure 3 – Precious Metal Prices

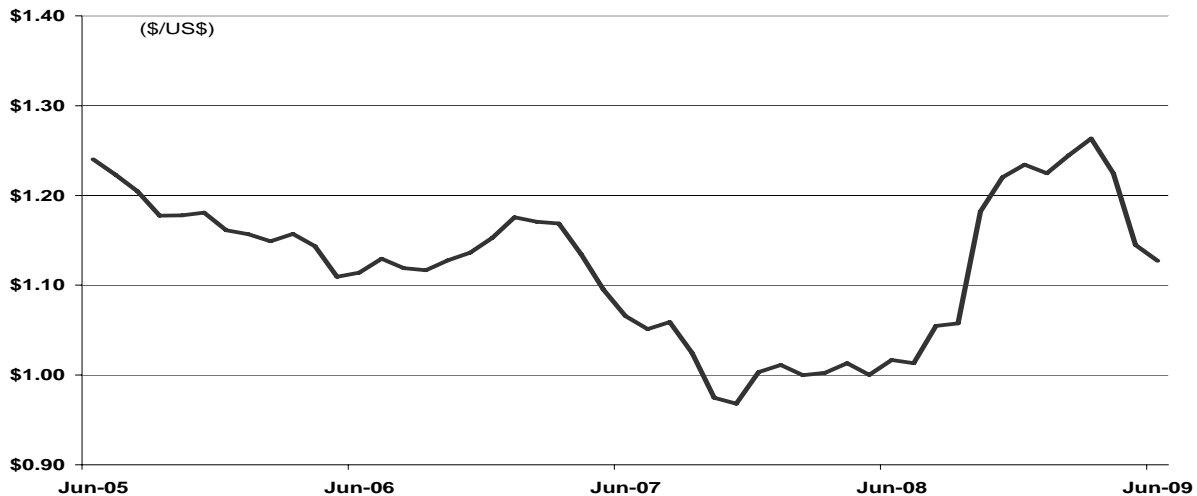


Source: metalbulletin.com monthly average price per oz

The balance of FNX’s revenues comes from the production of platinum, palladium, gold and cobalt which contributed a combined 27% to FNX’s revenues during the second quarter of 2009 compared to 18% and 21% during the first quarter of 2009 and the second quarter of 2008, respectively. As at August 11, 2009 the prices of platinum, palladium and gold were US\$1,253, US\$273 and US\$943 per ounce, respectively.

The average prices for platinum, palladium and gold have shown continued volatility during the second quarter of 2009, and while both platinum and palladium prices are relatively low when compared to the past several years, the price of gold continues to be near record highs.

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



Source: Bank of Canada’s monthly average close

FNX reports its financial results in Canadian dollars. While the Company’s minesite operating costs and most exploration and administration costs are in Canadian dollars, revenues from metal sales and concentrating, smelting and refining costs are in US dollars. The Canadian dollar appreciated relative to the US dollar during the quarter as the closing rate on June 30, 2009 was \$1.16/US\$ and the average rate for the second quarter of 2009 was \$1.17/US\$, compared to \$1.26/US\$ and \$1.24/US\$ respectively in the first quarter of 2009. Table 1 below illustrates FNX’s sensitivity to \$/US\$ exchange rates.

Summary

The following table summarizes average commodity prices and average Canadian/US dollar exchange rates over the last four years and the spot prices and exchange rates on June 30, 2009 and August 11, 2009.

Table 1 – Commodity Prices					June 30	Aug 11
	2005	2006	2007	2008	2009	2009
Nickel (US\$/lb)	6.68	11.00	16.88	13.04	7.26	9.15
Copper (US\$/lb)	1.67	3.05	3.22	3.15	2.31	2.78
Cobalt (US\$/lb)	14.55	15.32	28.28	36.02	13.68	17.75
Platinum (US\$/oz)	897	1,142	1,303	1,580	1,196	1,253
Palladium (US\$/oz)	202	320	355	353	251	273
Gold (US\$/oz)	445	604	697	872	934	943
Foreign exchange \$/US\$	1.21	1.13	1.07	1.07	1.16	1.10

⁽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 for the Company are affected by external factors including fluctuations in metal prices and changes in exchange rates between the Canadian and US dollars. Table 2 illustrates the sensitivity of certain items, on an annualized basis, of the Company’s forecast 2009 results to changes in key metal prices and foreign exchange rates.

Table 2 – Sensitivity	Change in Price	Effect on Net Earnings	Effect on EPS	Effect on Cash Flow from Operating Activities
Nickel	US\$1.00 / lb	\$2.5 million	\$0.03	\$4.2 million
Copper	US\$0.25 / lb	\$6.1 million	\$0.07	\$10.1 million
\$/US\$	\$0.10 movement	\$2.2 million	\$0.03	\$3.7 million

Mining Production and Sales

Pursuant to an agreement with Vale Inco, FNX is to ship and sell all of the ore it produces to Vale Inco in Sudbury, Ontario for processing. The number of tons of ore sold was 192,023 tons in the second quarter of 2009, a 46% decrease over the second quarter of 2008 and an 83% increase over the first quarter of 2009, in part as a result of the sale of 74,554 tons of in-process inventory stockpiled at the end of the first quarter of 2009, partially offset by the build up of 45,168 tons of in-process inventory in June 2009.

In December of 2008, the Company reduced its Mining segment workforce by approximately 45% through layoffs and terminations, extended the suspension of nickel contact ore production from the Levack Mine, and suspended nickel contact ore production at the adjacent McCreedy West Mine. These deposits do not produce recoverable precious metals and are not part of the agreement with Gold Wheaton and, therefore, will not affect FNX’s precious metal production. Ore continues to be mined from the Rob’s Deposit, considered to be the up-dip extension of the LFD, the 700 and PM Deposits at the Levack Complex and the 2000 Deposit at the Podolsky



Mine. In addition, mining and processing of residual nickel contact ore from previously active stopes at McCreedy West was undertaken in the quarter.

FNX's 2009 budget is based on preserving the Company's strong balance sheet through, among other items, focusing production on mining ore from deposits that can generate sufficient cash flow at budgeted commodity prices to be economically viable. The Company's production forecast for 2009 remains at 678,682 tons of shipped ore from its Sudbury Operations yielding 35.2 million pounds of payable copper, 3.7 million pounds of payable nickel and 58,000 ounces of payable platinum, palladium and gold. Annual production will consist of 372,049 tons from the Podolsky Mine, 279,633 tons from the McCreedy West PM and 700 Deposits and 27,000 tons of transitional ore from the up-dip extension of the LFD, known as the Rob's Deposit. Current plans also call for approximately 10,000 tons of pre-production development ore from near the top of the LFD in late 2009. Pre-production revenues from the LFD in 2009 will be credited against capital development costs and any LFD payable metals are not included in the above forecast numbers.

On April 16, 2009, Vale Inco announced that it would extend its planned three week scheduled maintenance shutdown in May by an additional eight weeks to July 27, 2009. FNX continued to deliver ore to the custom mill until the end of May, at which time the Company began stockpiling all ore mined for future processing. In addition, the collective agreement for much of Vale Inco's unionized labour force in Sudbury expired on May 31, 2009. Vale Inco and its union negotiated an extension of the then current contract until July 12, 2009; however, the two parties were unable to reach an agreement and the union labour force declared a strike as of midnight that night. FNX continues to mine and stockpile its ore.

The Company has concluded an agreement with Xstrata Nickel to process up to 150,000 tonnes of FNX's stockpiled ore at their Strathcona Mill in Sudbury, Ontario. The final terms of the Xstrata Nickel processing agreement will remain confidential. If Vale Inco's facilities continue to be shut down for an extended period, the Company intends to continue to mine as planned and to stockpile ore through at least the rest of 2009. The stockpiled ore will be processed at either Vale Inco's facilities when their operations resume or possibly at the Strathcona Mill, if the Xstrata Nickel processing agreement is extended. FNX has a strong cash position and has sufficient working capital to continue to mine and stockpile its production into 2010 if required.

Operating plans for each of the mine sites will be reviewed and updated on an ongoing basis to ensure the continuing economic viability of the Company's deposits. Work to advance the development of the LFD continues as the high-grade copper-nickel-precious metals deposit continues to be FNX's main focus and represents a significant portion of the future of the Company. FNX has a strong cash position and, regardless of any short-term production interruptions, is well funded to continue the planned development of the LFD for initial production in 2010.

Interim processing costs terms and interim payable metals terms, based on preliminary metallurgical testing, have been established with Vale Inco for the Levack and Podolsky Mines. Metallurgical testing has been and will continue to be conducted in order to determine final payable metals terms and processing cost terms for both mines. Management anticipates this to be completed during late 2009. Once final payable metals and processing costs terms are determined, they may be applied to ore shipped from Levack in prior periods. The Company cannot, at this time, determine the amount, if any, of such adjustment. Depending on the outcome of the final payable metals and costs terms there may be a material increase or decrease in payable metals and/or processing costs to be recorded.



Metal Sales

Nickel sales of 1.5 million pounds in the second quarter of 2009 were 0.3 million pounds higher than the first quarter of 2009 as a result of mining residual nickel contact ore from previously active stopes at McCreedy West's Inter Main Deposit processed in the second quarter of 2009, but 2.0 million pounds lower than the second quarter of 2008, as a result of the suspension of production of Levack nickel contact ores. The Company may selectively mine contact nickel ore where it is cash flow positive and economically viable. Copper sales in the second quarter of 2009 were 7.9 million pounds, 19% lower than the first quarter of 2009 but 8% higher than in the second quarter of 2008. The increase in copper production for the comparable year over year period is a result of production from the Podolsky Mine. Precious metals sales totaled 16,532 ounces during the second quarter of 2009, up from 7,415 ounces in the first quarter of 2009 and from the 11,582 ounces during the second quarter of 2008. The increase in copper and precious metals is as a result of the focus placed on mining copper-precious metal ores rather than nickel ores.

The stockpiled batch test from the first quarter of 2009 was processed in early April. As a result of Vale Inco's shutdown, 45,168 tons of copper ore were stockpiled at the end of June and 122,702 tons at August 11, 2009.

Metal sales in 2009 are expected to be lower than in 2008 as a result of the suspension of production of Levack nickel contact ore and the planned reduction in tons of PM ore at McCreedy West.

Financial Results

Overview

The following table presents a summary of FNX's Consolidated Statements of Operations and other cash flow data for the three and six months ended June 30, 2009 and 2008.

Table 3 – Financial Overview	2009			2008	
Three Months Ended June 30	Mining	DMC	Total	Total	Change
	\$000s	\$000s	\$000s	\$000s	\$000s
Revenues	50,196	11,673	61,869	112,200	(50,331)
Expenses ⁽¹⁾	(28,533)	(11,269)	(39,802)	(86,281)	46,479
Margin	21,663	404	22,067	25,919	(3,852)
Depreciation and amortization	(1,734)	(1,123)	(2,857)	(14,826)	11,969
Mining operations and services, net	19,929	(719)	19,210	11,093	8,117
Administration	(1,502)	-	(1,502)	(4,341)	2,839
Capital taxes	-	-	-	1,803	(1,803)
Depreciation	(215)	-	(215)	(198)	(17)
Stock-based compensation	(2,385)	(168)	(2,553)	(1,389)	(1,164)
Taxes	(2,665)	(355)	(3,020)	(3,644)	624
Share of income (loss) of equity investee	2	-	2	-	2
Other (expenses) income	559	(28)	531	8,017	(7,486)
Net earnings (loss)	13,723	(1,270)	12,453	11,341	1,112
Basic earnings (loss) per share	\$0.16	(\$0.02)	\$0.14	\$0.13	\$0.01
Diluted earnings (loss) per share	\$0.16	(\$0.02)	\$0.14	\$0.13	\$0.01
Cash flow from operating activities			18,076	13,531	4,545
Cash flow per share from operating activities ⁽²⁾			\$0.21	\$0.16	\$0.05
Diluted cash flow per share from operating activities ⁽²⁾			\$0.21	\$0.16	\$0.05
	2009			2008	
Six Months Ended June 30	Mining	DMC	Total	Total	Change
	\$000s	\$000s	\$000s	\$000s	\$000s
Revenues	85,681	25,141	110,822	252,916	(142,094)
Expenses ⁽¹⁾	(51,439)	(24,542)	(75,981)	(178,497)	102,516
Margin	34,242	599	34,841	74,419	(39,578)
Depreciation and amortization	(4,766)	(2,342)	(7,108)	(25,716)	18,608
Mining operations and services, net	29,476	(1,743)	27,733	48,703	(20,970)
Administration	(4,469)	-	(4,469)	(7,016)	2,547
Capital taxes	-	-	-	1,803	(1,803)
Depreciation	(449)	-	(449)	(418)	(31)
Stock-based compensation	(3,535)	(371)	(3,906)	(2,563)	(1,343)
Taxes	(4,864)	(355)	(5,219)	(15,944)	10,725
Dilution Loss	(31,238)	-	(31,238)	-	(31,238)
Share of income (loss) of equity investee	(228)	-	(228)	-	(228)
Other (expenses) income	3,842	236	4,078	10,839	(6,761)
Net earnings (loss)	(11,465)	(2,233)	(13,698)	35,404	(49,102)
Basic earnings (loss) per share	(\$0.13)	(\$0.03)	(\$0.16)	\$0.42	(\$0.58)
Diluted earnings (loss) per share	(\$0.13)	(\$0.03)	(\$0.16)	\$0.42	(\$0.58)
Cash flow from operating activities			15,403	69,327	(53,924)
Cash flow per share from operating activities ⁽²⁾			\$0.18	\$0.82	(\$0.64)
Diluted cash flow per share from operating activities ⁽²⁾			\$0.18	\$0.81	(\$0.63)

(1) Operating expenses exclude depreciation and amortization.

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

Mining Segment

The following table presents a summary of FNX's production and sales information for the three and six months ended June 30, 2009 and 2008.

Table 4 – Mining Segment Production and Sales Summary	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Change	2009	2008	Change
Ore sold (tons)						
Nickel ore	29,615	220,579	(190,964)	34,030	419,633	(385,603)
Copper ore	162,408	132,186	30,222	263,037	218,031	45,006
Total ore sold	192,023	352,765	(160,742)	297,067	637,664	(340,597)
Grade of ore sold						
Nickel ore (%Ni)	2.0	1.1	0.9	2.0	1.2	0.8
Copper ore (%Cu)	2.5	2.9	(0.4)	3.8	3.4	0.4
Payable metal sold						
Nickel (000s lbs)	1,545	3,491	(1,946)	2,722	6,983	(4,261)
Copper (000s lbs)	7,857	7,262	595	17,575	14,154	3,421
Gold (ozs)	3,195	1,793	1,402	3,532	2,660	872
Platinum (ozs)	5,926	4,294	1,632	8,705	7,040	1,665
Palladium (ozs)	7,411	5,495	1,916	11,710	9,154	2,556
Cobalt (000s lbs)	7.6	54.0	(46.4)	9.3	108.6	(99.3)
Metal sales revenue						
Average Ni price (US\$/lb)	7.55	9.21	(1.66)	6.45	11.82	(5.37)
Average Cu price (US\$/lb)	2.51	3.70	(1.19)	2.10	3.77	(1.67)
\$/US\$ exchange rate	1.17	1.01	0.16	1.21	1.01	0.20
Total mining revenue (\$000s)	50,196	75,192	(24,996)	85,681	166,515	(80,834)
Minesite revenue (\$/ton of ore sold) ⁽²⁾	274	213	61	306	261	45
Cash operating cost of metals sold						
Cash operating cost (\$000s)	28,533	51,066	22,533	51,439	96,298	44,859
Cash operating cost (\$/ton of ore sold)	148	145	(3)	173	151	(22)

(1) Minesite revenue per ton and cash operating costs per ton are non-GAAP performance measures (see Non-GAAP Performance Measures below).

(2) Minesite revenue per ton excludes the impact of Gold Wheaton.



The following tables present a summary of the production and sales information at the Levack Complex and Podolsky for the three and six months ended June 30, 2009 and 2008.

Table 5 – Production and Sales Summary (Levack Complex)	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Change	2009	2008	Change
Ore sold (tons)						
Nickel ore	29,615	220,579	(190,964)	34,030	419,633	(385,603)
Copper ore	98,379	77,291	21,088	106,659	139,024	(32,365)
Total ore sold	127,994	297,870	(169,876)	140,689	558,657	(417,968)
Grade of ore sold						
Nickel ore (%Ni)	2.0	1.1	0.9	2.0	1.2	0.8
Copper ore (%Cu)	1.3	1.2	0.1	1.3	1.2	0.1
Payable metal sold						
Nickel (000s lbs)	1,239	3,114	(1,875)	1,617	6,265	(4,648)
Copper (000s lbs)	2,429	2,417	12	2,795	4,674	(1,879)
Gold (ozs)	1,280	795	485	1,709	1,441	268
Platinum (ozs)	2,979	2,034	945	4,187	3,641	546
Palladium (ozs)	4,522	3,404	1,118	6,377	5,697	680
Cobalt (000s lbs)	7.6	50.9	(43.3)	9.3	103.8	(94.5)
Minesite revenue and margin ⁽²⁾						
Minesite revenue (\$/ton)	195	157	38	233	201	32
Minesite margin (\$/ton)	60	25	35	88	65	23

Table 6 – Production and Sales Summary (Podolsky)	Three Months Ended June 30			Six Months Ended June 30		
	2009	2008	Change	2009	2008	Change
Ore sold (tons)						
Copper ore	64,029	54,895	9,134	156,378	79,007	77,371
Grade of ore sold						
Copper ore (%Cu)	4.5	5.4	(0.9)	5.6	7.3	(1.7)
Payable metal sold						
Nickel (000s lbs)	306	377	(72)	1,105	718	387
Copper (000s lbs)	5,428	4,845	583	14,780	9,480	5,300
Gold (ozs)	1,915	998	917	1,823	1,219	604
Platinum (ozs)	2,947	2,260	687	4,518	3,399	1,119
Palladium (ozs)	2,889	2,091	798	5,333	3,457	1,876
Cobalt (000s lbs)	-	3.1	(3.1)	-	4.8	(4.8)
Minesite revenue and margin ⁽²⁾						
Minesite revenue (\$/ton)	431	519	(88)	372	687	(315)
Minesite margin (\$/ton)	256	307	(51)	174	430	(256)

(1) Minesite revenue per ton and minesite margin per ton are non-GAAP performance measures (see Non-GAAP Performance Measures below).

(2) Minesite revenue per ton and minesite margin per ton excludes the impact of Gold Wheaton.

Metal Sales Revenue

Revenue is recognized at the time ore is delivered to and accepted by the third-party processor, which is also the time that title transfers. Metal quantities are based on assays and, when final assays are not yet available at period end, on estimated grades. 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 generally the second month following shipment. Any variance in the price of the metals sold is adjusted in subsequent periods. The use of provisional pricing can lead to higher volatility in quarterly revenues. The nickel and copper contained in the ore that FNX sells to a third-party processor 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. Assuming stable foreign exchange rates, the Company will realize higher metal prices than the average metal price in the period in a rising metal price environment, while the converse is true in a declining metal price environment. During 2008, metal prices trended downwards, precipitously in the fourth quarter, and FNX realized lower metal prices than the market metal prices. As metal prices have increased in the first two quarters of 2009, FNX realized higher metal prices than market metal prices. Monthly cash payments received from the custom processor are, however, based on settled metal prices and quantities and are not adjusted after payment.

Table 7 – Average Metal Prices	Three Months Ended June 30				Six Months Ended June 30			
	2009		2008		2009		2008	
	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price
Nickel (US\$/lb)	7.55	5.86	9.21	11.64	6.45	5.30	11.82	12.39
Copper (US\$/lb)	2.51	2.11	3.70	3.83	2.10	1.83	3.77	3.68
Cobalt (US\$/lb)	19.55	14.44	40.80	45.83	30.73	13.87	48.22	46.09
Platinum (US\$/oz)	1,292	1,173	2,041	2,028	1,481	1,099	2,308	1,953
Palladium (US\$/oz)	279	234	453	444	279	217	524	444
Gold (US\$/oz)	931	922	862	896	1,000	915	911	911
\$/US\$	1.17	1.17	1.01	1.01	1.21	1.17	1.01	1.01

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

Revenues were positively impacted by the increasing metal prices from the time of shipment to the time of settlement. The net adjustment to revenues as a result of provisional pricing for ore shipments from prior periods that had not been settled was \$13.6 million in the second quarter of 2009, compared to \$8.5 million in the first quarter of 2009 and a negative \$5.8 million in the second quarter of 2008.

Minesite operating revenues, including the aforementioned provisional price adjustments of \$13.6 million, totaled \$52.6 million in the second quarter of 2009, approximately 37% higher than in the first quarter of 2009, but 30% lower than in the second quarter of 2008. Revenues were lower in the second quarter of 2009 compared to 2008 as a result of both lower metal



prices in 2009 relative to 2008 and lower tonnages shipped due to the suspension of mining at certain of the Company's deposits.

The 6% quarter over quarter appreciation in the value of the Canadian dollar relative to the US dollar in the second quarter of 2009 resulted in lower revenue in Canadian dollars than would otherwise have been realized and also resulted in a foreign exchange loss for the period.

The following tables show the increase (decrease) in FNX's copper and nickel sales revenue in Canadian dollars as a result of an increase (decrease) in the quantity of the respective metals sold and the realized price of each of the metals by comparing the second quarter of 2009 to the second quarter of 2008 and first quarter of 2009, respectively.

Table 8 – Net Change in Copper Sales Revenue	Q2-2009 compared to Q2-2008	Q2-2009 compared to Q1-2009
	\$000s	\$000s
\$ Change due to quantity	2,227	(4,189)
\$ Change due to price	(6,207)	5,577
Net change in copper sales revenue	(3,980)	1,388
<i>Change in quantity sold (000s lbs)</i>	595	(1,862)
<i>Change in revenue (US\$/lb)</i>	(1.19)	0.73

Table 9 – Net Change in Nickel Sales Revenue	Q2-2009 compared to Q2-2008	Q2-2009 compared to Q1-2009
	\$000s	\$000s
\$ Change due to quantity	(18,132)	2,269
\$ Change due to price	(680)	4,171
Net change in nickel sales revenue	(18,812)	6,440
<i>Change in quantity sold (000s lbs)</i>	(1,946)	367
<i>Change in revenue (US\$/lb)</i>	2.55	1.97

The following table shows the composition of nickel and all other metal revenues from the Mining segment and the changes therein.

Table 10 – Composition of Sales Revenue	2009	2008	Change
Three months ended June 30			
	\$000s	\$000s	\$000s
Nickel	13,707	32,519	(18,812)
Copper	23,253	27,233	(3,980)
Other	13,236	15,440	(2,204)
	50,196	75,192	(24,996)
Six months ended June 30			
	\$000s	\$000s	\$000s
Nickel	20,974	83,183	(62,209)
Copper	45,118	53,881	(8,763)
Other	19,589	29,451	(9,862)
	85,681	166,515	(80,834)

The average metal prices received during the second quarter were US\$7.55 per pound of nickel, US\$2.51 per pound of copper. Copper and nickel prices were significantly higher in the same period last year, at US\$9.21 per pound of nickel and US\$3.70 per pound of copper.

The relative contribution of nickel to other metals has gone from 43%:57% in the second quarter of 2008, to 20%:80% in the first quarter of 2009 and to 27%:73% in the second quarter of 2009 (see Table 10). The increase in nickel revenues in the second quarter of 2009 compared to the first quarter is due to both the recent increase in the price of nickel and an increase in the quantity of nickel produced as a result of mining residual nickel contact ore from previously active stopes at McCreedy West. Copper production remains relatively high and gold, platinum and palladium account for an increasing percentage of revenue as well.

The following table shows the composition of precious metal sales to Gold Wheaton and Vale Inco for the second quarter of 2009.

Table 11 – Precious Metal Sales Three months ended June 30, 2009	Sold to Gold Wheaton	Sold to Vale Inco	Total
	\$000s	\$000s	\$000s
Gold	2,439	529	2,968
Platinum	7,376	93	7,469
Palladium	1,884	157	2,041
	11,699	779	12,478
Six months ended June 30, 2009	Sold to Gold Wheaton	Sold to Vale Inco	Total
	\$000s	\$000s	\$000s
Gold	3,298	(46)	3,252
Platinum	13,023	(1,062)	11,961
Palladium	3,101	(85)	3,016
	19,422	(1,193)	18,229

The revenue from the gold equivalent ounces sold to Gold Wheaton has two components from an accounting perspective: (i) the cash amounts due to Gold Wheaton by FNX are based upon the price of gold above US\$400 per ounce, which amount is deducted from revenue; and, (ii) the deferred revenue balance being amortized into mining revenue on the Statement of Operations. The amortization is based on the proportion of gold equivalent ounces sold to Gold Wheaton to the total gold equivalent ounces in the life of mine plans for the Gold Wheaton deposits. Minesite revenue for the second quarter of 2009 totaled \$52.6 million. The cash component above US\$400 per ounce that is to Gold Wheaton's account totaled \$6.7 million, while the amount amortized into revenue from deferred revenue totaled \$4.3 million, resulting in mining revenue of \$50.2 million as per the Statement of Operations. For year to date 2009, minesite revenue for the quarter totaled \$91.0 million. The cash component totaled \$11.8 million, while the amount amortized into revenue from deferred revenue totaled \$6.5 million, resulting in mining revenue of \$85.7 million as per the Statement of Operations.

Mining Cost of Sales

Mine operating expenses, excluding mine depreciation and amortization costs, ("cash operating costs") were \$28.5 million in the second quarter of 2009, \$5.6 million higher than in the first quarter of 2009, and \$22.5 million lower than the second quarter of 2008. Total cash operating costs are expected to be lower in 2009 due to lower tonnages of ore mined and sold this year.



Minesite Margin Per Ton of Ore Sold

While the cash operating cost per pound of nickel sold is an important industry benchmark, the decreasing significance of nickel to FNX's overall operating results has led the Company to no longer provide guidance with respect to the cash operating cost per pound of nickel. FNX considers the minesite revenue per ton of ore sold, the cash operating cost per ton of ore sold and the minesite margin per ton of ore sold (which excludes the impact of Gold Wheaton), all non-GAAP performance measures (see discussion under Non-GAAP Performance Measures below), to be more relevant benchmarks in evaluating revenues, costs and profitability for the Company's operating mines.

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

Table 12 – Minesite Margin Per Ton ⁽¹⁾	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
	\$/ton	\$/ton	\$/ton	\$/ton
Minesite revenue	274	213	306	261
Minesite expenses ⁽²⁾	(148)	(145)	(173)	(151)
Minesite margin per ton of ore sold	126	68	133	110

⁽¹⁾ Components of the minesite margin per ton of ore sold are calculated by dividing each of minesite revenue (which is before adjusting for the Gold Wheaton revenue impact) and mine operating expenses as per the Statements of Operations, by tons of ore sold.

⁽²⁾ Minesite expenses exclude mine depreciation and amortization.

The average mining revenue per ton of ore sold in the second quarter of 2009 was positively impacted by provisional price adjustments of \$71 per ton and resulted in minesite revenue per ton of \$274, compared to minesite revenue of \$366 in the first quarter of 2009 and \$213 in the second quarter of 2008. The decrease in minesite revenue per ton in the second quarter of 2009 compared to the first quarter of 2009 is due to lower quantities of copper sold as a result of lower grade ore and a lower provisional price increase per ton as a result of higher tonnage sold in the quarter. The average mine operating cost per ton was \$148, compared to \$218 in the first quarter of 2009 and \$145 in the second quarter of 2008, and is comprised of minesite costs and processing costs at the third-party processor, which vary significantly from deposit to deposit depending upon the mining scale and method and the metal content of the ore. The minesite cash operating costs in the second quarter were lower than the first quarter mainly due to the higher tonnage shipped relative to the first quarter. The minesite margin per ton of ore sold was \$126 in the second quarter of 2009, compared to \$148 in the first quarter of 2009 and \$68 in the second quarter of 2008. On a year over year basis, the minesite margin per ton of ore sold increased \$58 per ton.

Mine operating expenses per ton were lower in the second quarter of 2009 relative to the first quarter of 2009 as a result of lower tonnages shipped in the first quarter. In addition, due to the high grade nature of the Podolsky copper ores, the processing cost per ton of ore will be higher than those at the Levack Complex. While FNX anticipates that the minesite margin per ton of ore sold will continue to fluctuate, combined mining operations' production costs for the balance of 2009 is budgeted to average \$146 per ton of ore shipped with mining costs and processing costs expected to be roughly equal.



Mine Depreciation and Amortization

Mine depreciation and amortization expense was \$1.7 million in the second quarter of 2009, \$10.8 million lower than during the second quarter of 2008, and \$4.8 million for the year to date. Reserve and resource estimates are re-evaluated annually at the end of each fiscal year and in December 2008 resulted in a reduction of the total tonnages to be used in the determination of the depreciation and amortization base for the 2009 fiscal year. Mine depreciation and amortization expense is anticipated to be lower in 2009 compared to 2008 as a result of reduced production levels and the asset impairments that took place in December of 2008 which resulted in lower asset values.

DMC Segment

Revenues from the DMC segment for the three months ended June 30, 2009 totaled \$11.7 million, compared to \$13.5 million in the first three months of 2009 and \$37.0 million in the second quarter of 2008. For the six month period ended June 30, 2009, revenues were \$25.1 million, compared to \$86.4 million in the same period of 2008. Contracting operating costs for the second quarter of 2009 totaled \$11.3 million, compared to \$13.3 million in the first quarter of 2009 and \$35.2 million in the comparable period in 2008. For the six month period ended June 30, 2009, contracting operating costs were \$24.5 million compared to \$82.2 million for the same period in 2008. Depreciation and amortization expenses totaled \$1.1 million in the second quarter of 2009, compared to \$1.2 million in the first quarter of 2009 and \$2.3 million in the second quarter of 2008. For the six month period ended June 30, 2009, depreciation and amortization expenses were \$2.3 million compared to \$4.6 million in the same period of 2008.

Cash operating margin, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), calculated as the operating revenues of the DMC segment less operating costs excluding depreciation and amortization, was \$0.4 million during the second quarter of 2009, compared to \$0.2 million in the first quarter of 2009 and \$1.8 million in the second quarter of 2008. Overall, the DMC segment incurred a loss of \$1.3 million in the second quarter of 2009, compared to a loss of \$1.0 million in the first quarter of 2009 and \$1.6 million in the second quarter of 2008. Year to date, DMC incurred a loss of \$2.2 million, compared to \$2.3 million for the same period in 2008. As at June 30, 2009, DMC had a backlog of work to be completed of approximately \$36.9 million, the majority of which is to be earned in the United States, with \$25.6 million to be earned in 2009. As part of the normal course of business, DMC regularly sources new clients and new contracts to replace expiring contracts and management continues to pursue new opportunities on an ongoing basis.

DMC made significant changes to the structure of the organization late in the fourth quarter of 2008 to ensure that operating costs of the organization were appropriate for the volume of business expected in 2009. These changes have been effective in containing costs and should allow DMC to break even on a cash flow basis going forward with the work backlog that is now in place.

Health, Safety, Environment and Community

Health and Safety

The health and safety of employees, contractors and visitors are held as a core value of FNX. A major focus is placed on the development and implementation of strategies and standards designed to minimize occupational health and safety risks and continually improve performance.



In the second quarter of 2009, FNX continued the implementation of Safety, Health and Environment Management systems, modeled on both the ISO 14001 Environmental and OHSAS 18001 Occupational Health and Safety Management Systems international standards at all three mine sites.

Employees and contractors in the Mining segment experienced one Lost Time Injury (“**LTI**”) and five Medical Aid Injuries (“**MAI**”) during the quarter. The Lost Time Injury Frequency Rate (“**LTIFR**”) for the quarter was 0.9 and the Total Medical Injury Frequency Rate (“**TMIFR**”) was 5.2, compared to 1.1 and 8.9 respectively for the second quarter of 2008. This compares to the average LTIFR and TMIFR for all Ontario mines for the second quarter of 2009 of 0.8 and 6.8 respectively and for the second quarter of 2008 of 0.7 and 6.7 respectively.

Employees in the DMC segment experienced zero LTIs and one MAI during the period. The LTIFR for the quarter was zero and the TMIFR was 1.8, compared to 0.9 and 1.8, respectively for the second quarter of 2008. This compares to the average LTIFR and TMIFR for Ontario mine contractors for the second quarter of 2009 of 0.7 and 3.3, respectively and for the second quarter of 2008 of 0.4 and 4.7, respectively.

The LTIFR and TMIFR for the quarter for the combined Mining and DMC segments, including contractors, were 0.6 and 4.0, respectively, compared to 1.0 and 5.7, respectively, for the second quarter of 2008.

As at June 30, 2009, the mining operations had 356 direct employees and 29 employees of contractors, compared to 405 and 34, respectively, at December 31, 2008. As at June 30, 2009, the DMC segment had 220 direct employees and 4 contractors, including 72 in Canada and 152 in the US, compared to 271 employees as at December 31, 2008, including 169 in Canada and 102 in the US.

Environment

There were no reportable environmental incidents in the second quarter of 2009 and none year to date.

In an effort to further enhance its environmental management system, FNX engaged a consultant to conduct an independent compliance audit at all three minesites during the third and fourth quarters of 2008. The audit findings indicated that there were no high priority items to address but there were several medium and low level items. All of the audit findings have been addressed at McCreedy West and Levack Mines, and the Podolsky Mine has fully addressed 76% of findings and is actively working on the remainder, which are expected to be completed in the third quarter of 2009.

Community

FNX is committed to working in partnership with our local communities and First Nations in a manner which fosters active participation and mutual respect. FNX’s employees live and work in the communities in which FNX operates. The Company regularly consults with communities proximal to the Company’s operations to advise them of plans and answer any questions they may have about current and future activities. For procurement of services and supplies, FNX’s purchasing policy is directed, wherever practical, to look locally for solution providers.



A public meeting was held in Capreol, Ontario in April of 2009 to bring the community up to date on activities at the Podolsky Mine. There were approximately 40 community members including representatives from the Wahnapiatae First Nation and FNX staff in attendance.

FNX also supports certain selected charities and sponsorships, both at the local community level and within Ontario.

Other Items in the Statements of Operations

Administration

Administration expenses were \$1.5 million in the second quarter of 2009, compared to \$3.0 million and \$4.3 million in the first quarter of 2009 and the second quarter of 2008, respectively. Year to date, administration expenses were \$4.5 million, compared to \$7.0 million in 2008.

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 2009.

Stock-based Compensation

Stock-based compensation expense was \$2.6 million in the second quarter of 2009, compared to \$1.4 million and \$1.4 million during the first quarter of 2009 and second quarter of 2008, respectively. The increase is mainly due to the issuance of stock options in April of 2009, as well as a higher Deferred Share Unit ("DSU") expense as a result of the recent increase in the Company's share price.

In the second quarter of 2009, 1,672,000 options to purchase common shares were granted to directors, officers and employees, compared to 720,000 granted in the second quarter of 2008, 12,500 options were exercised, compared to 120,000 in the second quarter of 2008, and 27,334 options were cancelled, compared to 50,000 in the second quarter of 2008. Stock-based compensation expense is based upon the Black-Scholes option pricing model.

Other Expenses (Income)

Other expenses (income) resulted in a net income of \$0.5 million in the second quarter of 2009, compared to a net income of \$3.5 million and \$8.0 million during the first quarter of 2009 and the second quarter of 2008, respectively. Year to date, other expenses (income) resulted in a net income of \$4.1 million, compared to a net income of \$10.8 million in the comparable period in 2008. Year to date other income primarily consists of \$3.7 million of accretion and mark-to-market gain on the Gold Wheaton derivative note receivable and \$0.4 million of interest income on cash and cash equivalents of the Company. As at June 30, 2009, the Company had \$131.1 million of cash and cash equivalents on hand and will continue to earn interest income in 2009 from conservative deposits with a major Canadian bank.

Provision for Income and Resource Taxes and Provincial Capital Taxes

Income and resource tax expense was recorded at a rate of 23% on earnings excluding the dilution loss, compared to 32% in 2008. For the six months ended June 30, 2009, the current portion was an expense of \$7.5 million and the future income tax recovery was \$2.3 million. The

future income tax liability was reduced to \$56.8 million at June 30, 2009 as a result of the utilization of ITC's on exploration properties in the quarter.

Many provincial jurisdictions charge a tax based on a corporation's taxable capital. The Province of Ontario passed legislation in the second quarter of 2008 that eliminated capital taxes for companies actively mining in Ontario retroactive to January 1, 2007 and, accordingly, during the second quarter of 2008 FNX recognized a reversal of \$1.8 million for provincial capital taxes previously paid or accrued in 2007.

Hedging

As a result of the Gold Wheaton transaction, 50% of the gold equivalent ounces of the precious metals contained in ore that FNX produces from certain deposits in Sudbury are effectively sold at a price of US\$400 per gold equivalent ounce (subject to a 1% annual inflationary adjustment commencing July 1, 2011) plus the applicable amortization of the deferred revenue balance. Other than the Gold Wheaton arrangements, 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 taxes and depreciation and amortization ("**EBITDA**") and adjusted for stock-based compensation and certain other items including unusual items ("**Adjusted EBITDA**"), are considered to be non-GAAP performance measures (please see discussion under Non-GAAP Performance Measures below). Adjusted EBITDA was \$17.8 million in the second quarter of 2009, compared to of \$12.4 million and \$31.6 million in the first quarter of 2009 and the second quarter of 2008, respectively. The following table presents the calculation of EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2009 and 2008.

Table 13 – EBITDA and Adjusted EBITDA	Three months ended		Six months ended	
	June 30		June 30	
	2009	2008	2009	2008
	\$000s	\$000s	\$000s	\$000s
Earnings (loss) before taxes and equity investee	15,471	14,985	(8,251)	51,348
Interest income	(132)	(181)	(416)	(491)
Interest expense	-	213	-	213
Depreciation and amortization	3,072	15,024	7,557	26,134
EBITDA	18,411	30,041	(1,110)	77,204
Adjustments:				
Stock-based compensation	2,553	1,389	3,906	2,563
(Gain) loss on sale of PP&E	(3)	-	(3)	(94)
Dilution loss	-	-	31,238	-
Mark-to-market and accretion of Gold Wheaton note	(3,004)	-	(3,692)	-
Mark-to-market of investments held-for-Trading	(120)	215	(117)	253
Miscellaneous	(72)	-	(72)	-
Adjusted EBITDA	17,765	31,645	30,150	79,926

Financial Condition and Liquidity

Cash and Cash Flows

Operating activity cash flow was \$3.7 million and, after \$14.3 million of cash inflow for non-cash working capital, net cash inflow from operating activities was \$18.0 million during the second quarter of 2009, or \$0.21 per share, compared to net inflows of \$13.5 million, or \$0.16 per share, during the second quarter of 2008. Year to date cash flow from operating activities was \$15.4 million, equal to \$0.16 per share, compared to \$69.3 million, equal to \$0.82 per share, in the first six months of 2008. Cash balances and working capital were \$131.1 million and \$137.7 million, respectively, at June 30, 2009, compared to \$129.6 million and \$130.1 million, respectively, at December 31, 2008. Operating cash flows were lower in 2009 due to lower metal prices and greater quantities of ore mined and sold in 2008.

Financing activities resulted in net cash inflows of \$14.3 million in the second quarter of 2009, compared to \$nil and \$20.7 million during the first quarter of 2009 and second quarter of 2008, respectively, from the issuance of 2.2 million flow-through common shares for gross proceeds of \$15.0 million. Year to date financing activities resulted in net cash inflows of \$14.3 million in the second quarter of 2009, compared to \$nil in the first quarter of 2009 and \$21.0 million in the second quarter of 2008.

Investing activities for the second quarter of 2009, resulted in a net cash outflow of \$14.7 million, compared to a net cash outflow of \$13.1 million and \$24.3 million during the first quarter of 2009 and the second quarter of 2008, respectively. Expenditures on property, plant and equipment comprised all of the investing activities in 2009, while in 2008, these expenditures were somewhat offset by \$21.4 million of proceeds on the disposal of 11.8 million shares of Lake Shore Gold Corp. Development, equipment and exploration expenditures are budgeted to be \$64 million in 2009 plus \$6.2 million of flow-through CEE. Capital expenditures are expected to be in line with budget for the year. The Company may consider increasing the capital expenditure budget in the fourth quarter of 2009 should economic conditions warrant such an increase.

The net change in cash balances as a result of operating, financing and investing activities was a net cash inflow of \$16.5 million in the second quarter of 2009, compared to a net cash outflow of \$15.0 million in the first quarter of 2009 and \$10.3 million during the second quarter of 2008. FNX remained debt free during the quarter.

Working Capital

Working capital increased \$0.5 million during the second quarter of 2009 to \$137.7 million, primarily due to the decrease in the current portion of the deferred revenue balance, and significant movements in many of the current asset and liability accounts.

While FNX does not receive provisional payments for the metal in the ore it sells, the account receivable at June 30, 2009 can be impacted by changes in metal prices and the foreign exchange rate until final settlement and payment in future periods. Management estimates that each US\$1.00 change in the price per pound of nickel or US\$0.25 change in the price per pound of copper would impact the June 30, 2009 trade accounts receivable from Vale Inco and Gold Wheaton and earnings before tax by approximately \$1.5 million and \$1.8 million, respectively. In addition, management estimates that each \$0.10 change in the value of the



Canadian/US dollar exchange rate would impact US dollar denominated financial instruments at June 30, 2009 and earnings before tax by approximately \$2.0 million.

The Company had \$131.1 million of cash and \$196.1 million carrying value of investments at June 30, 2009. The Company's liquid assets and cash flow generating capabilities from its existing and planned operating activities are expected to provide FNX with sufficient liquidity to manage its business affairs in 2009.

Reclamation and Other Deposits

Reclamation deposits remain unchanged from the first quarter of 2008 at \$6.5 million and include various amounts with Vale Inco and the Province of Ontario in connection with the Levack, McCreedy West and Podolsky properties. Reclamation deposits are subject to re-assessment based upon changes in the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

Investment in Gold Wheaton

On July 15, 2008, FNX and Gold Wheaton entered into an agreement whereby Gold Wheaton purchased 50% of the gold equivalent ounces of gold, platinum and palladium metal contained in ore mined and shipped from the Company's PM and 700 Deposits at the McCreedy West Mine, LFD, Rob's and 1900 Deposits at the Levack Mine, and 2000 and North Deposits at the Podolsky Mine, for \$400 million of upfront proceeds plus a cash payment equal to the lesser of (a) US\$400 per gold ounce equivalent (subject to a 1.0% annual inflationary adjustment commencing July 1, 2011) and (b) the then prevailing market price per ounce of gold. The gold equivalent ounces delivered to Gold Wheaton are calculated based on the gold, platinum and palladium prices prevailing at the time of delivery.

FNX produces more gold equivalent ounces than the 50% being sold to Gold Wheaton and will, therefore, continue to have full market exposure to these excess ounces.

As a result of an equity issuance by Gold Wheaton on March 5, 2009, in which FNX did not participate, FNX's interest in Gold Wheaton declined from 38.1% at December 31, 2008 to 25.6% at March 31, 2009. The 12.5% dilution in FNX's ownership position in Gold Wheaton resulted in a non-tax deductible dilution loss of \$31.2 million. The dilution loss was based on the change in ownership and the change in net book value of Gold Wheaton and is neither a cash item to FNX nor a reflection of any change in the fair value of the Company's 360 million share investment in Gold Wheaton.

FNX accounts for its investment in Gold Wheaton using the equity method and is, therefore, required to include in earnings FNX's share of Gold Wheaton's income or loss for the period, and the Company's investment therein is adjusted by an equivalent amount. For the quarter ended June 30, 2009, FNX's 25.6% share of the earnings of its equity investee, Gold Wheaton, was \$nil, compared to a loss of \$0.2 million in the first quarter of 2009.

The note receivable for \$50 million was renegotiated on December 8, 2008 and the due date of the note was extended to July 16, 2010. Due to the nature of the renegotiated note receivable, both a call and put option exist on the derivative which must be fair valued at each balance sheet date, with any changes thereto charged or credited to earnings. As a result of the above and an accretion amount that reflects the time value to July 16, 2010, the carrying value of the



note receivable at June 30, 2009 was \$38.8 million, an increase of \$3.0 million since March 31, 2009.

As at June 30, 2009, the market value of FNX's 360 million Gold Wheaton shares was approximately \$97.2 million.

Property, Plant and Equipment

(i) *Summary*

Expenditures on property, plant and equipment ("PP&E") totaled approximately \$14.7 million during the second quarter of 2009 compared to \$13.1 million during the first quarter of 2009 and \$45.7 million during the second quarter of 2008. The cash expenditures consisted of drilling and underground development at the LFD, drilling and underground development, including raise development, at Podolsky and the purchase of certain mining equipment. Table 14 shows the net PP&E expenditures for the three and six months ended June 30, 2009, by property location and the 2009 annual budget including flow-through funds.

Table 14 – PP&E Expenditures	Three months ended June 30, 2009	Six months ended June 30, 2009	Annual budget 2009 ⁽¹⁾
	\$000s	\$000s	\$000s
LFD	8,543	17,777	44,332
Podolsky Mine	3,412	6,602	14,684
Levack Complex	1,806	2,460	4,412
Victoria	719	764	2,463
Podolsky Nickel Ramp	1	38	-
Corporate	36	49	-
Other Properties	85	95	2,588
Kirkwood	-	-	1,362
DMC	61	(11)	500
	14,663	27,774	70,341

⁽¹⁾ Inclusive of flow-through budget amounts

The decline in global economies and the world-wide recession led to a precipitous decline in base metal prices in 2008 and, in particular, the last quarter of 2008. These events were considered to be triggering events for accounting purposes and, accordingly, FNX performed asset impairment tests at December 31, 2008 on its PP&E, resulting in significant write-downs at December 31, 2008. The LFD was not impaired and continues to be carried at its historic costs.

The 2009 approved capital, mine development and exploration budget totals \$64.2 million and consists of \$54.0 million for capital equipment, mine development and advanced exploration programs and \$10.2 million for general exploration and other. The expenditures are budgeted to be incurred as follows: \$44.3 million on the LFD; \$14.7 million at Podolsky; \$3.8 million at McCreedy West; \$0.6 million at Levack; \$0.2 million on other exploration properties; and, \$0.5 million in the DMC segment. The \$15.0 million of proceeds from the flow-through share issuance in April 2009 have been budgeted to be spent between June 2009 and September 2010, with 2009's planned CEE of \$6.2 million to be incurred as follows: \$2.4 million at Victoria, \$1.3 million at Kirkwood, \$1.2 million at the Falconbridge Footwall, \$0.8 million at Nickel Lake and \$0.5 million at Foy-Offset. Capital expenditures in 2009 are budgeted to total \$70.4 million in 2009.

(ii) *Levack Complex*

FNX holds a 100% interest in the Levack Complex, which is located in the Sudbury mining district of Ontario and is comprised of two adjacent mining operations, McCreedy West and Levack. For reporting purposes, the two adjacent properties are considered to be one operating segment as they are integrated from an operational perspective, produce similar ore and ship all production, including the precious metals sold to Gold Wheaton, to the same third-party processor.

Development and capital work at the Levack Complex was predominantly focused on drifting in the PM Deposit at McCreedy West during the second quarter of 2009 for a total drift completion of 1,234 feet.

(iii) *Podolsky*

FNX holds a 100% interest in Podolsky, which is located in the Sudbury mining district of Ontario.

Development at Podolsky during the quarter continued to focus on advancing the main access ramp and completing related lateral development. Total advancement for the quarter was 1,543 feet, including lateral work on the 2300 and 2375 Levels plus access ramp development up to the 2225 Level. The main access ramp is projected to be completely connected internally later in 2009. Other development at Podolsky included work on the backfill plant and on the new exhaust ventilation raise.

In 2009, exploration at Podolsky will focus predominantly on a new offset environment, drilling access to which during the first quarter was physically limited by the Post Creek. A temporary bridge will be installed over the Post Creek which will allow access to 2,500 additional feet of untested footwall proximal to the contact and along strike from the quartz diorite that was tested in 2008. Applications were submitted to the Ministry of Natural Resources and had been circulated to the Department of Fisheries and Oceans by the end of the second quarter; approval is expected early in the third quarter of 2009 to begin bridge construction.

(iv) *Property Under Development – LFD*

As at June 30, 2009, FNX held a 100% interest in the LFD (located on the Levack Complex property).

The primary development focus for FNX continues to be the LFD, with concentration on LFD ramp development and rehabilitation of the No. 2 shaft. The advance of the access decline ramp to the LFD remains on schedule. During the second quarter the ramp face advanced 190 vertical feet to the 3500 Level. This included a lateral advance of 1,199 feet during the second quarter, bringing the total lateral advance for the first six months of 2009 at the LFD to 2,296 feet and 371 vertical feet. Three ore accesses were excavated to at least 40 feet off the ramp at the 3390, 3450 and 3510 Levels and an access heading to the fresh air raise was commenced. Extension of a ventilation and secondary egress raise was completed to the 3220 Level during the quarter. Three underground diamond drill rigs were active through second quarter supporting optimal access ramp planning and targeting sub-level access locations. All three drills will remain active during the third quarter. Several accesses will be driven through the ore horizon in the third quarter of 2009 and development ore is scheduled to be brought to surface from these accesses in the later part of the year.

Reconditioning of the Levack No. 2 Shaft below the 2900 Level continued to progress during the second quarter, but was limited by water inflow management issues. Shaft reconditioning progressed by 175 vertical ft and should reach the target depth at the 3600 Level in the third quarter of 2009. The current timeline for the utilization of the 3600 Level to further develop the LFD remains the fourth quarter of 2009.

(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, less impairments booked at December 31, 2008. Mineral exploration properties are not amortized. FNX's mineral exploration properties at June 30, 2009, are all located in the Sudbury mining district and are shown in the following table.

Table 15 – Accumulated Costs of Exploration Properties	June 30 2009	December 31 2008
	\$000s	\$000s
LFD	-	362,301
Victoria	764	-
Podolsky Nickel Ramp	38	-
Foy-Offset	29	-
Falconbridge Footwall	44	-
Kirkwood	-	-
Other Properties	22	-
	897	362,301

(1) Accumulated net capital costs for LFD were transferred to property under development during the first quarter of 2009.

As at June 30, 2009, FNX held a 100% interest in the Podolsky Nickel Ramp (located on the Podolsky property), Kirkwood and Victoria mineral properties. FNX holds between a 30% and 100% interest in the mineral exploration properties included in the Other Properties.

The Falconbridge Footwall and Foy-Offset properties are subject to a joint venture agreement with Xstrata Nickel (the "**Falconbridge Joint Venture**"). As Xstrata Nickel elected not to participate in the 2008 exploration program, Xstrata Nickel's interest continued to be diluted, such that, as at December 31, 2008, the Company and Xstrata Nickel held 79% and 21% interests, respectively, in the Falconbridge Joint Venture. The Company is the operator of the Falconbridge Joint Venture.

With the closing of the flow-through share issuance, FNX raised \$15.0 million to be expended on CEE. In the quarter, \$1.0 million of the flow-through financing was expended on the compilation and utilization of various geophysical techniques on all FNX properties and the commencement of a diamond drill programme on the Victoria property.

The Company will renounce, effective December 31, 2009, all CEE resulting from exploration expenditures funded from the \$15.0 million flow-through issuance. It is expected that the amount of future income tax deductions renounced will result in a future income tax liability of approximately \$4.8 million, which will be charged to share capital on the actual date of renunciation. The Company incurred \$0.8 million of transaction costs associated with the issue which, net of \$2.0 million of future income tax, have been deducted from the share capital account.



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

Mine Closure and Site Restoration

FNX estimates the total future mine closure and site reclamation costs (also known as asset retirement obligations) associated with the Sudbury operations to be \$6.5 million, which is unchanged from 2008. Management anticipates that such obligations will substantially be settled at or near the closure of its mining operations.

Deferred Revenue

Pursuant to an agreement with Gold Wheaton, dated July 15, 2008, FNX sells to Gold Wheaton 50% of the gold equivalent ounces of the gold equivalent ounces contained in each shipment of crushed ore it produces from certain of its deposits and delivers to a third-party processor. Revenue is recognized at the time title passes to Gold Wheaton for Gold Wheaton's share of gold equivalent ounces which is immediately prior to delivery to and acceptance by the third-party processor, and is comprised of a fixed amount per gold equivalent ounce and the applicable amortization of deferred revenue balance per gold equivalent ounce which is based on the proportion of gold equivalent ounces sold to Gold Wheaton to the total gold equivalent ounces in the life of mine plans for the Gold Wheaton deposits.

Current and long-term deferred revenue balances for Gold Wheaton were allocated based on the estimated production of gold equivalent units in the next year expressed as a percentage of total expected production over the life of the deposits subject to the Gold Wheaton agreement.

Share Capital

During the second quarter of 2009, share capital increased to 87,063,190 common shares issued and outstanding as a result of the exercise of 12,500 options and the issuance of 2,173,914 flow-through shares. Year to date share capital has increased by \$15.1 million as a result of the aforementioned exercise of stock options and issuance of flow-through shares. During the second quarter of 2008, share capital increased by \$1.8 million as a result of the exercise of 120,000 stock options. Year to date 2008 share capital increased by \$2.3 million as a result of the exercise of 145,000 stock options. As at June 30, 2009, stock options to purchase 3.7 million common shares at a weighted average of \$13.65 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 of Directors or the Company. On April 2, 2009, the Company awarded 240,000 DSU to certain officers. Included in accrued liabilities at June 30, 2009, is \$2.6 million related to 320,146 DSU outstanding.

Post-Retirement Benefits

FNX does not currently have any post-retirement benefit plans for its employees, officers or directors. The Company does, however, match contributions made by employees and officers to their registered retirement savings plans to a maximum of the lesser of 6% of base salary and the maximum permitted by regulation.



Non-GAAP Performance Measures

Minesite revenue per ton of ore sold, cash operating cost, cash operating cost per ton of ore sold, minesite expenses per ton of ore sold, minesite margin per ton of ore sold, cash flow per share, cash operating margin for DMC, EBITDA and Adjusted 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 its 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 June 30, 2009, stock options to purchase 3.7 million common shares at a weighted average price of \$13.65 per share were outstanding. The number of stock options outstanding at June 30, 2009 represents 4.2% of the issued and outstanding common shares at that time. From July 1, 2009 to August 11, 2009, no stock options were granted, 16,666 were cancelled and none were exercised. As at August 11, 2009, the Corporation had 87.1 million common shares outstanding and stock options to purchase 3.6 million (or 4.2% of the issued and outstanding) common shares had been granted and were outstanding.

Adoption of New Accounting Standards

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

Changes in Accounting Policies

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

New Accounting Pronouncements

(i) Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011 and earlier adoption is permitted as of the beginning of a fiscal year. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations.

Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27 - Consolidated and Separate Financial Statements.

(ii) Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The Emerging issues committee (“**EIC**”) reached a consensus that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This accounting treatment was applied retrospectively without restatement of prior periods. This standard did not have an impact on the Company’s consolidated financial statements.

(iii) IFRS

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

IFRS is premised on a conceptual framework similar to Canadian GAAP, however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the actual cash flows generated by the Company, the adoption of IFRS will result in changes to the reported financial position and results of operations of the Company, the effects of which may be material.

The Company is currently engaged in the development of a comprehensive IFRS conversion plan to address matters including change in accounting policy, the restatement of comparative periods, organizational and internal controls, the modification of existing systems where necessary and the training and awareness of staff, in addition to other related business matters.



At this stage, the Company has completed first drafts of many of the required analyses assessing accounting policy decisions, and has begun to quantify the effects of these decisions. Training of staff is ongoing, but all senior financial staff have completed a minimum level of training with respect to IFRS in order to be prepared for the transition.

The Company expects the most significant effects of adopting IFRS to be the carrying values of property, plant and equipment, asset retirement obligations and stock-based compensation.

For the remainder of 2009, the Company will complete and finalize analyses related to accounting policies under IFRS, calculate all differences and document any new internal controls, or modify existing controls as necessary, for IFRS. In early 2010, the Company aims to have an opening balance sheet prepared for the 2010 year in both Canadian GAAP and IFRS in order to facilitate the disclosure of comparative IFRS statements in 2011.

Quarterly Metal Production and Sales Statistics

Table 16 – 2009 Statistics	Q1	Q2	Q3	Q4	Total
Ore sold (tons)					
Nickel ore	4,415	29,615			34,030
Copper ore	100,629	162,408			263,037
Total ore sold	105,044	192,023			297,067
Grade of ore sold					
Nickel ore (%Ni)	1.8	2.0			2.0
Copper ore (%Cu)	5.6	2.5			3.8
Payable metal sold					
Nickel (000s lbs)	1,177	1,545			2,722
Copper (000s lbs)	9,718	7,857			17,575
Gold (ozs)	337	3,195			3,532
Platinum (ozs)	2,779	5,926			8,705
Palladium (ozs)	4,299	7,411			11,710
Cobalt (000s lbs)	1.7	7.6			9.3
Metal sales revenue					
Average Ni price (US\$/lb)	5.00	7.55			6.45
Average Cu price (US\$/lb)	1.77	2.51			2.10
\$/US\$ exchange rate	1.24	1.17			1.21
Total mining revenue (\$000s)	35,485	50,196			85,681
Minesite revenue (\$/ton of ore sold) ⁽²⁾	366	274			306
Cash operating cost of metals sold					
Operating cost (\$000s)	22,906	28,533			51,439
Operating cost (\$/ton of ore sold)	218	148			173

(1) Minesite revenue per ton and cash operating costs per ton are non-GAAP performance measures (see Non-GAAP Performance Measures below).

(2) Minesite revenue per ton excludes the impact of Gold Wheaton.

Table 17 – 2008 Statistics	Q1	Q2	Q3	Q4	Total
Ore (tons)					
Nickel ore	199,054	220,579	159,419	103,629	682,681
Copper ore	85,845	132,186	187,568	167,707	573,306
Total ore sold	284,899	352,765	346,987	271,336	1,255,987
Grade of ore sold					
Nickel ore (%Ni)	1.3	1.1	1.2	1.5	1.2
Copper ore (%Cu)	4.2	2.6	3.0	5.3	3.7
Payable metal sold					
Nickel (000s lbs)	3,492	3,491	3,146	3,011	13,140
Copper (000s lbs)	6,892	7,262	9,558	11,501	35,213
Gold (ozs)	867	1,793	3,573	3,124	9,357
Platinum (ozs)	2,746	4,294	5,635	5,820	18,495
Palladium (ozs)	3,659	5,495	7,171	7,857	24,182
Cobalt (000s lbs)	54.6	54.0	37.6	19.8	166.0
Metal sales revenue					
Average Ni price (US\$/lb)	14.43	9.21	6.61	3.02	8.56
Average Cu price (US\$/lb)	3.84	3.70	2.93	0.66	2.53
\$/US\$ exchange rate	1.00	1.01	1.04	1.21	1.07
Total mining revenue (\$000s)	91,323	75,192	51,178	27,265	244,958
Minesite revenue (\$/ton of ore sold) ⁽²⁾	321	213	147	100	195
Cash operating cost of metals sold					
Operating cost (\$000s)	45,232	51,067	48,288	55,983	200,570
Operating cost (\$/ton of ore sold)	159	145	139	206	160

(1) Minesite revenue per ton and cash operating costs per ton are non-GAAP performance measures (see Non-GAAP Performance Measures below).

(2) Minesite revenue per ton excludes the impact of Gold Wheaton.

Table 18 - Consolidated Quarterly Statements of Operations					
2009	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Mining revenues	35,485	50,196			85,681
DMC revenues	13,468	11,673			25,141
	48,953	61,869			110,822
Mining expenses	22,906	28,533			51,439
DMC expenses	13,273	11,269			24,542
Depreciation and amortization	4,251	2,857			7,108
	40,430	42,659			83,089
	8,523	19,210			27,733
Administration	2,967	1,502			4,469
Stock-based compensation	1,353	2,553			3,906
Depreciation	234	215			449
Dilution loss	31,238	-			31,238
Other expenses (income)	(3,547)	(531)			(4,078)
	32,245	3,739			35,984
Earnings (loss) before tax and other	(23,722)	15,471			(8,251)
Income tax (expense) recovery	(2,199)	(3,020)			(5,219)
Share of loss of equity investee	(230)	2			(228)
Net earnings (loss)	(26,151)	12,453			(13,698)
Basic earnings (loss) per share	(0.31)	0.14			(0.16)
2008	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Mining revenues	91,323	75,192	51,178	27,265	244,958
DMC revenues	49,393	37,008	25,245	21,458	133,104
	140,716	112,200	76,423	48,723	378,062
Mining expenses	45,232	51,066	48,289	55,983	200,570
DMC expenses	46,984	35,215	25,063	21,769	129,031
Depreciation and amortization	10,890	14,826	16,233	14,202	56,151
	103,106	101,107	89,585	91,954	385,752
	37,610	11,093	(13,162)	(43,231)	(7,690)
Administration	2,675	4,341	4,896	2,436	14,348
Capital taxes	-	(1,803)	-	-	(1,803)
Stock-based compensation	1,174	1,389	856	637	4,056
Depreciation	220	198	206	229	853
Asset impairments	-	-	14,128	487,362	501,490
Other expenses (income)	(2,822)	(8,017)	99	(74)	(10,814)
	1,247	(3,892)	20,185	490,590	508,130
Earnings (loss) before tax and other	36,363	14,985	(33,347)	(533,821)	(515,820)
Income tax (expense) recovery	(12,300)	(3,644)	7,814	137,010	128,880
Share of loss of equity investee	-	-	(1,009)	(591)	(1,600)
Net earnings (loss)	24,063	11,341	(26,542)	(397,402)	(388,540)
Basic earnings (loss) per share	0.28	0.13	(0.31)	(4.68)	(4.59)

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and similar Canadian legislation, concerning the business, operations and financial performance and condition of FNX. These forward looking statements are based on current expectations and involve risks and uncertainties, referred to herein and/or in FNX's most recent Annual Information Form (“AIF”), filed with Canadian provincial securities regulatory authorities and available at www.sedar.com, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward looking statements. Forward-looking statements include, but are not limited to, statements regarding FNX's financial results and expectations for 2009, 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 (including processing costs) per pound of metals sold, costs per ton of ore, expenditures on property, plant and equipment, increases and decreases in production, mineral reserves and/or mineral 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. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled estimates”, “forecasts”, “intends”, “anticipates”, “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might”, “will” or “will be taken”, “occur”, or “be achieved”. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of FNX to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks associated with the mining industry in general relating to the exploration for, development and mining of mineral deposits and the commercial viability of such deposits; risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations; the results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with FNX's expectations; the uncertainty of mineral reserve and mineral resource estimates; FNX's ability to replace depleted mineral reserves; the reliance of FNX on commercial contracts; current global financial conditions; FNX's dependence on its key management, personnel and executives; hedging considerations; governmental regulation; environmental risks and liabilities and hazards associated with mining in general and with respect to the Properties; competition within the mining industry generally and for mining services contracts; foreign investments and operations; sufficiency of internal controls; FNX's dependence on good relations with employees; the costs of compliance with climate change initiatives; uninsured risks; conflicts of interest; First Nations consultations; joint ventures; reclamation funds and mine closure costs; the potential refund obligations of FNX under its agreement with Gold Wheaton; risks relating to possible variations in reserves, grade, planned mining dilution and ore loss, or recovery rates and changes in project parameters as plans continue to be refined; mining and development risks, including risks related to accidents, equipment breakdowns, labour disputes (including work stoppages and strikes) or other unanticipated difficulties with or interruptions in exploration and development; the potential for delays in exploration or development activities or the completion of feasibility studies; risks related to the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses; risks related to commodity price and foreign exchange rate fluctuations; FNX's reliance on Vale Inco for ore processing and that future payments for



provisional payable metal terms for such ore processing may differ from those made in the past; the uncertainty of profitability based upon the cyclical nature of the industry in which FNX operates; risks related to failure to obtain adequate financing on a timely basis and on acceptable terms or delays in obtaining governmental approvals or in the completion of development or construction activities; risks related to FNX's ability to successfully integrate acquisitions; risks related to adverse changes to FNX's credit rating; risks related to contests over title to FNX's properties, particularly title to undeveloped properties; political and regulatory risks associated with mining and exploration; and other risks and uncertainties related to FNX's prospects, properties and business strategy, as well as those factors discussed herein or referred to in the AIF.

Although management of FNX has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Many of such factors are beyond FNX's ability to control or predict. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. FNX does not undertake to update any forward-looking statements that are incorporated herein, except in accordance with applicable securities laws. Additional information, including quarterly and annual consolidated financial statements, AIF, Management Information Circular and other disclosure documents, may be obtained through the Internet by accessing the Canadian System for Electronic Document Analysis and Retrieval ("**SEDAR**") website at www.sedar.com.