



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Ended June 30, 2007

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This management's discussion and analysis of the financial condition and results of operations ("**MD&A**") of FNX Mining Company Inc. ("**FNX**" or the "**Company**") was prepared to enable a reader to assess material changes in the financial condition and results of operations of FNX as at and for the three and six month periods ended June 30, 2007, in comparison to the corresponding prior-year periods. This MD&A is prepared as at July 31, 2007 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, 2007 and 2006, which are prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). This MD&A should also be read in conjunction with both the audited annual consolidated financial statements and annual MD&A included in the 2006 Annual Report and the most recent Annual Information Form ("**AIF**") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward looking statements based on management's current expectations (please see "Cautionary Note Regarding Forward Looking Statements" below). All references to dollars herein are in Canadian dollars unless otherwise specified.



Executive Summary

Operations

FNX continues to realize strong growth in operating results at its 100% owned Sudbury, Ontario mining operations, reporting record operating and financial results during the second quarter and year to date 2007. During the second quarter and first half of 2007, the Company reported higher net earnings, earnings per share and cash flow from operating activities and produced more tons of ore and pounds of nickel than in any previous comparable period.

The Company's year to date record earnings were a result of increased nickel production associated with the commencement of commercial production from the Levack nickel deposits effective January 1, 2007. As the Levack and McCreedy properties are adjacent to each other and the operations overlap, the combined operations are considered to be one mining operation entitled the Levack Complex.

The operational focus in the second quarter was to maximize earnings at the Levack Complex by preferentially mining higher margin nickel ore. The Company shipped and sold 233,689 tons of ore from the Levack Complex resulting in the sale of 3.1 million pounds of nickel, 2.4 million pounds of copper and 5,282 ounces of total precious metals during the second quarter of 2007. FNX realized revenues of US\$18.54 per pound of nickel sold and had cash operating costs, net of by-product credits, of US\$2.58 per pound of nickel sold. The revenue per ton of ore sold was \$339 at a cash cost of \$104 per ton resulting in a cash operating margin per ton of ore sold of \$235. Nickel sales, along with significant by-product revenues from copper, platinum, palladium, gold and cobalt resulted in operating revenues of \$79.2 million. Mine cash operating costs for the quarter totaled \$24.3 million, providing a cash operating margin of \$54.9 million.

During the second quarter net earnings were a record \$35.0 million, equal to \$0.42 per share, compared to net earnings of \$30.2 million, or \$0.36 per share, and \$25.3 million, or \$0.30 per share, during the first quarter of 2007 and second quarter of 2006, respectively. Year to date net earnings were a record \$65.2 million, equal to \$0.78 per share, compared to net earnings of \$28.5 million, or \$0.34 per share, during the first half of 2006.

Operating earnings were negatively impacted by the significant appreciation of the Canadian dollar relative to the US dollar during the second quarter of 2007. The Company's account receivable from metal sales to CVRD Inco Limited ("**CVRD Inco**") is denominated in US dollars and, with the decline in the foreign exchange rate from \$1.15/US\$ at March 31, 2007 to \$1.07/US\$ at June 30, 2007, resulted in the \$8.6 million foreign exchange loss reported in other expenses.

Cash flow from operating activities was \$52.4 million in the second quarter of 2007, or \$0.62 per share, compared to \$14.8 million, or \$0.18 per share during the second quarter of 2006. Cash balances and working capital were \$109.9 million and \$116.2 million, respectively, at June 30, 2007, compared to \$115.1 million and \$131.6 million, respectively, at December 31, 2006 and the Company continues to remain debt free.

Exploration

During the quarter, the Company announced a fourfold increase in its National Instrument 43-101 compliant mineral resource base to 42.7 million tons of measured and indicated and 35.1 million tons of inferred (See May 28, 2007 news release). The increase resulted from a re-



evaluation of historic mineralization using a lower 0.5% combined nickel and copper cutoff grade. The lower cutoff grade was a recognition that in the current robust commodity price environment the Company's lower grade deposits can contribute to its profitable operations. A significant portion of the Company's new resources lie close to or within existing infrastructure and can be quickly and inexpensively brought into production. The increased resource base should result in a more aggressive growth plan being developed later in 2007 and support longer mine life.

The Levack Complex was the focus of most of FNX's exploration activities during the second quarter. Diamond drilling continued to test, delineate and expand the Levack Footwall Deposit ("LFD") and Rob's Deposit sulphide mineralized system. An update on the LFD was provided in a news release dated May 29, 2007.

Other

On June 14, 2007, Sherritt International Corporation ("**Sherritt**") and Dynatec Corporation ("**Dynatec**") completed a Plan of Arrangement (the "**Sherritt-Dynatec Arrangement**") whereby Sherritt acquired all of the issued and outstanding shares of Dynatec. Under terms of the Arrangement, Dynatec and Sherritt amalgamated (and were continued under the name Sherritt), and shareholders received for each of their Dynatec shares 0.19 of a Sherritt common share and approximately 0.0635 of a common share of FNX that was owned by Dynatec. Accordingly, on June 14, 2007, FNX's 7,716,594 Dynatec shares were disposed of, 1,466,153 common shares of Sherritt were acquired, and 490,004 common shares of FNX were acquired and immediately cancelled. A gain in the amount of \$11.5 million has been recognized during the quarter on the disposition of the Dynatec shares. In July 2007, the Company sold its 1,466,153 Sherritt shares at \$17.40 per share for net proceeds of \$25.5 million.

On April 30, 2007, the Company sold its interest in its four Quebec based copper-nickel Aurora Properties to Fieldex Exploration Inc. ("**Fieldex**") in exchange for 6.5 million common shares of Fieldex and a 2% net smelter royalty. A gain in the amount of \$2.4 million has been recognized on the sale during the quarter.

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

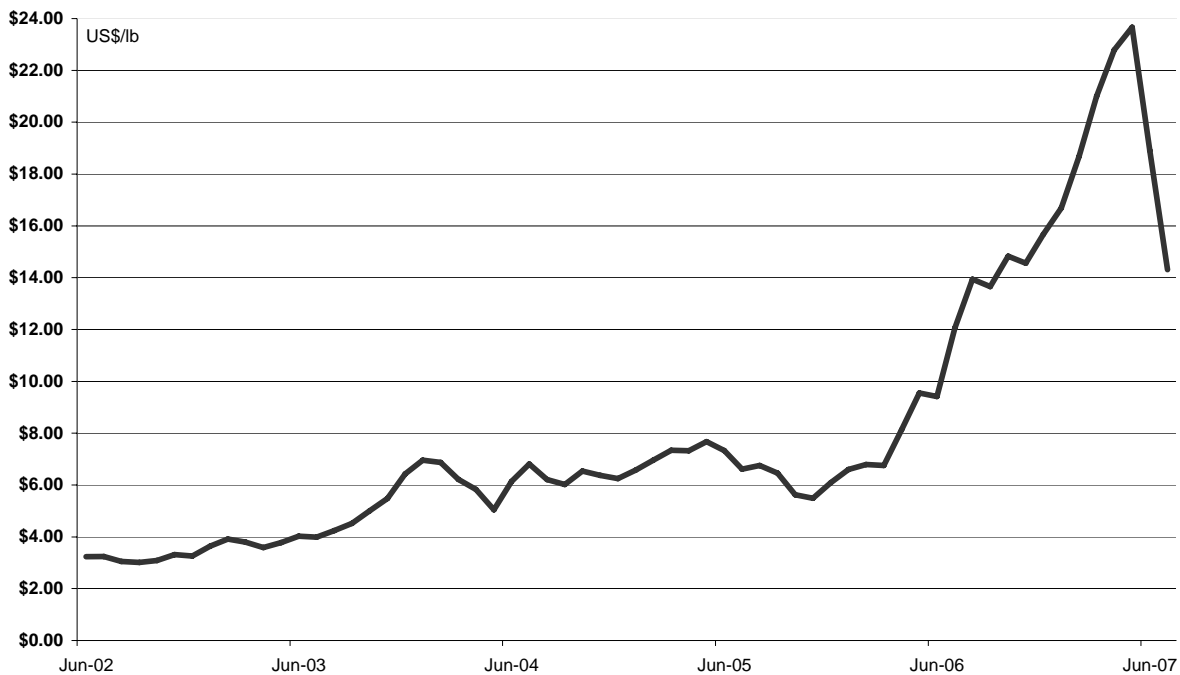
Key Economic Trends and Sensitivities

The MD&A included in FNX's 2006 Annual Report contained a discussion of the key economic trends that affect the Company and how they impact FNX's financial statements. This interim MD&A provides an update to reflect any significant changes in those trends since the preparation of the 2006 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the price of nickel and, to a lesser extent, the price of copper and other metals (platinum, palladium, gold and cobalt) produced by the Company.

Nickel

Nickel accounted for approximately 80% of the Company's mine operating revenues in the second quarter of 2007, a slight decrease from 83% in the first quarter of 2007 and an increase from 57% in the second quarter of 2006. The cash settlement price of nickel on the London Metal Exchange ("**LME**") peaked at US\$22.88 on June 1, 2007 and averaged US\$21.79 per pound in the second quarter of 2007. The LME cash settlement price of nickel declined to US\$16.26 on June 30, 2007 and was US\$14.31 per pound on July 31, 2007. Year to date, the LME cash settlement price of nickel averaged US\$20.29 per pound compared to US\$7.87 per pound in 2006. Management is of the view that the LME cash settlement price for nickel will moderate in 2007 with continued volatility, however, remain strong relative to historic long-term average prices. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to nickel prices.

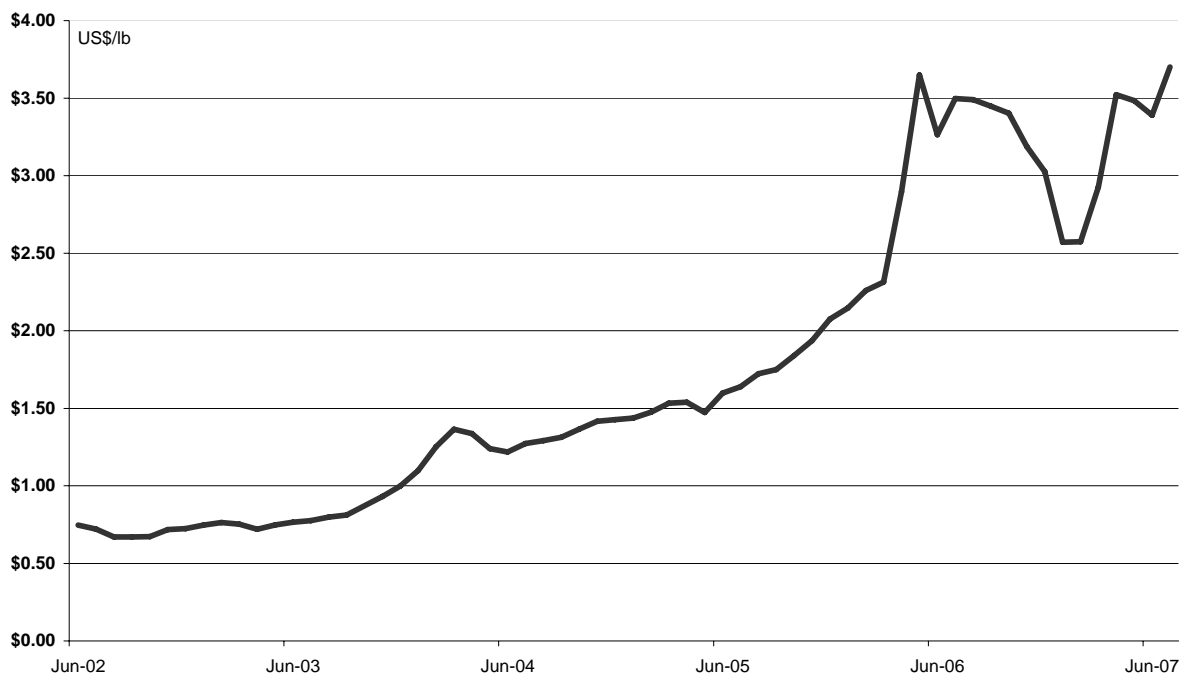
Figure 1 – Nickel Prices



Copper

Copper, which is included in revenue but is considered to be a by-product for purposes of calculating the cash operating cost per pound of nickel, accounted for 13% of revenues in the second quarter of 2007, an increase of 4% over the first quarter of 2007, due to higher copper prices, and a decrease of 14% over the second quarter of 2006 due to higher nickel production associated with the commencement of commercial production from Levack in January 2007. The average price of copper has risen significantly during the first half of 2007 from US\$2.85 on January 1, 2007 to US\$3.70 per pound at June 30, 2007. Table 2 illustrates FNX's sensitivity to copper prices.

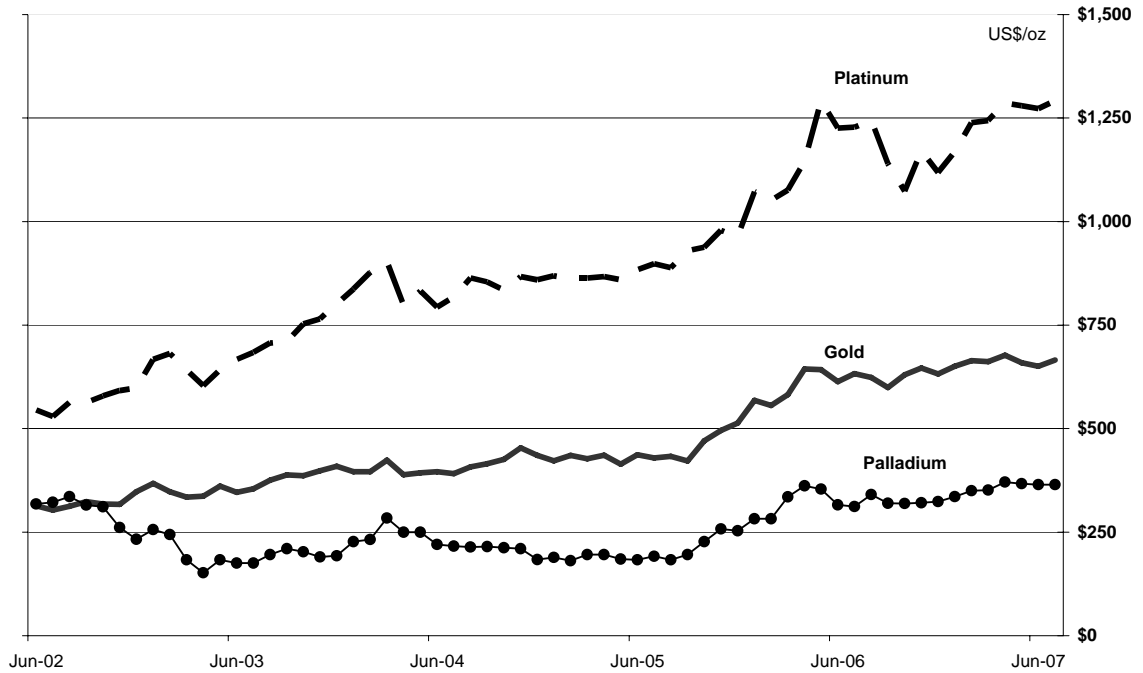
Figure 2 - Copper Prices



Precious and other metals

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt which contributed a combined 7% to FNX's revenues during the second quarter of 2007 compared to 8% during the first quarter of 2007 and 16% during the second quarter of 2006. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and by the unit price of each metal. The contribution from the sale of platinum, palladium and gold ("TPM") as a percentage of total revenue to FNX's revenue is expected to decrease in 2007, compared to 2006, due to the increase in nickel ore production resulting from the commencement of commercial production at Levack.

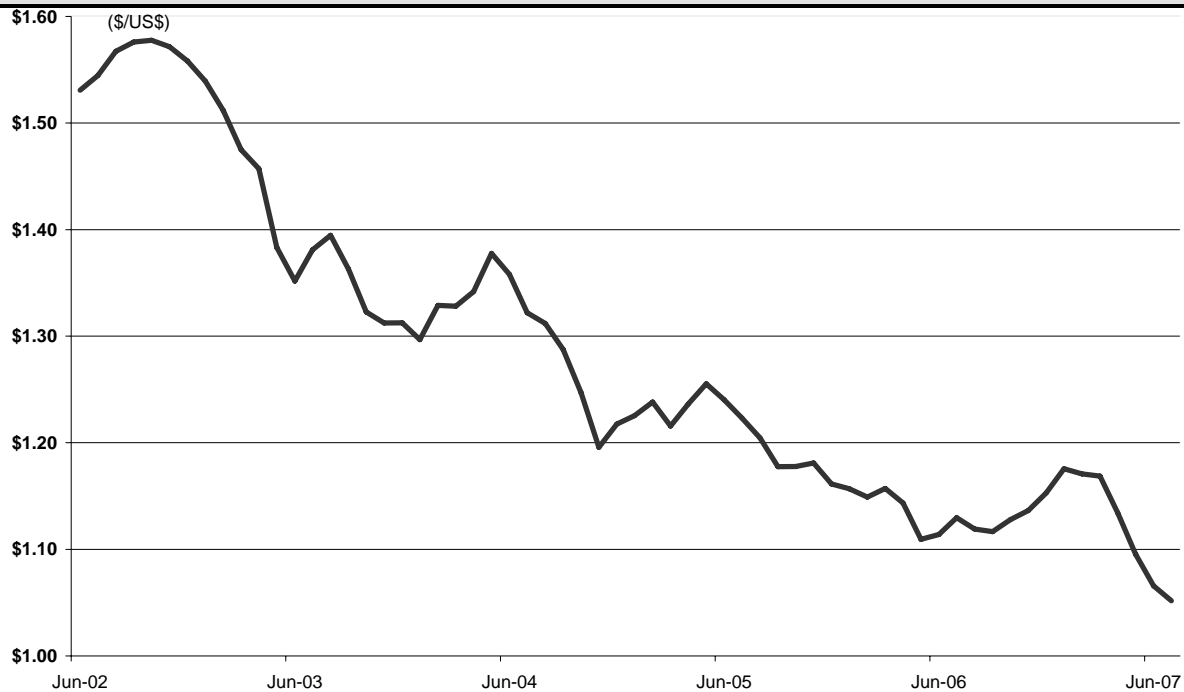
Figure 3 – Precious and other metals



Foreign exchange

FNX reports its financial results in Canadian dollars. While the Company's minesite operating costs and most exploration and administration costs are in Canadian dollars, revenues from metal sales and concentrating, smelting and refining costs are in US dollars. The appreciation of the Canadian dollar relative to the US dollar continued during the quarter as the average rate for the second quarter of 2007 was \$1.10/US\$, compared to \$1.17/US\$ in the first quarter of 2007. The Canadian dollar has continued to experience steady appreciation relative to the US dollar and the exchange rate was \$1.07/US\$ on July 31, 2007. The Company's US dollar accounts receivable and revenues were negatively impacted by the higher Canadian dollar in the second quarter of 2007. Table 2 below illustrates FNX's sensitivity to \$/US\$ exchange rates.

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



Source: Bank of Canada's monthly average close.

Summary

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

Table 1 – Commodity Prices				Three months ended June 30		Six months ended June 30		July 31
	2004	2005	2006	2007	2006	2007	2006	2007
Ni (US\$/lb)	6.28	6.68	11.00	21.79	9.03	20.29	7.87	14.31
Cu (US\$/lb)	1.30	1.67	3.05	3.47	3.27	3.08	2.76	3.70
Co(US\$/lb)	22.76	14.55	15.32	28.09	14.41	26.95	13.40	27.50
Pt (US\$/oz)	846	897	1,142	1,281	1,185	1,236	1,111	1,292
Pd (US\$/oz)	230	202	320	369	346	356	318	365
Au (US\$/oz)	408	445	604	667	627	659	591	666
\$/US\$	1.30	1.21	1.13	1.10	1.12	1.14	1.14	1.07

Notes: 1. Commodity prices are based on monthly averages as published on metalbulletin.com.
 2. Foreign exchange rates as published by the Bank of Canada.

Sensitivity Analysis

Net earnings, earnings per share (“EPS”) and cash flow from operating activities are affected by external factors including fluctuations in metal prices and changes in exchange rates between the Canadian and US dollars. The following table illustrates the sensitivity of certain items, on



an annualized basis, to changes in key metal prices and foreign exchange rates based on the Company's budgeted 2007 results.

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

Financial Results

Overview

The following table presents a summary of FNX's Consolidated Statements of Operations and other cash flow data for the periods ended June 30, 2007 and 2006.

Table 3 – Financial Overview	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Mine operating revenues	79,187	39,981	39,206	159,660	66,780	92,880
Mine operating expenses ⁽¹⁾	(24,304)	(15,930)	(8,374)	(48,859)	(31,919)	(16,940)
Margin	54,883	24,051	30,832	110,801	34,861	75,940
Mine depreciation and amortization	(5,951)	(2,878)	(3,073)	(10,830)	(6,027)	(4,803)
Mining, net	48,932	21,173	27,759	99,971	28,834	71,137
Administration	(2,177)	(2,362)	185	(4,470)	(5,275)	805
Capital taxes	(272)	(253)	(19)	(722)	(575)	(147)
Depreciation	(110)	(39)	(71)	(207)	(51)	(156)
Stock-based compensation	(690)	(531)	(159)	(1,578)	(1,133)	(445)
Income and resource taxes	(16,802)	6,481	(23,283)	(35,189)	4,425	(39,614)
Other (expenses) income	6,110	875	5,235	7,377	2,312	5,065
Net earnings	34,991	25,344	9,647	65,182	28,537	36,645
Basic earnings per share	\$0.42	\$0.30	\$0.12	\$0.78	\$0.34	\$0.44
Diluted earnings per share	\$0.41	\$0.30	\$0.11	\$0.76	\$0.34	\$0.42
Cash flow from operating activities	52,353	14,801	37,552	88,779	22,310	66,469
Basic cash flow per share ⁽²⁾	\$0.62	\$0.18	\$0.44	\$1.06	\$0.27	\$0.79
Diluted cash flow per share ⁽²⁾	\$0.61	\$0.18	\$0.43	\$1.04	\$0.27	\$0.77

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

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

Metal Production and Sales

Pursuant to an agreement with CVRD Inco, FNX ships all of its ore to CVRD Inco's Clarabelle Mill for processing. The number of tons of ore sold has been increasing steadily and reached



233,689 tons in the second quarter of 2007, a 52% increase over the second quarter of 2006 and a 14% increase over the first quarter of 2007, as a result of the commencement of commercial production from the Levack nickel deposits. In 2007, the Levack Complex is budgeted to produce a total of 900,000 tons of ore.

The following table presents a summary of FNX's metal production and sales information for the periods ended June 30, 2007 and 2006.

Table 4 – Production and Sales Summary	Three Months Ended June 30			Six Months Ended June 30		
	2007	2006	Change	2007	2006	Change
Ore sold (tons)						
Nickel ore	159,195	79,018	80,177	292,825	157,792	135,033
Copper ore	74,494	75,072	(578)	146,718	143,686	3,032
Total ore sold	233,689	154,090	79,599	439,543	301,478	138,065
Grade of ore sold						
Nickel ore (%Ni)	1.3	1.5	(0.2)	1.3	1.5	(0.2)
Copper ore (%Cu)	1.5	1.8	(0.3)	1.4	1.7	(0.3)
Payable metal sold						
Nickel (000s lbs)	3,104	1,965	1,139	5,732	3,859	1,873
Copper (000s lbs)	2,426	2,594	(168)	4,688	4,669	19
TPM (ozs)	5,282	7,331	(2,049)	11,243	14,291	(3,048)
Cobalt (000s lbs)	38.3	20.6	17.7	72.0	42.5	29.5
Metal sales revenue						
Average Ni price (US\$/lb)	18.54	10.37	8.17	19.96	8.82	11.14
Average Cu price (US\$/lb)	3.73	3.76	(0.03)	3.22	3.12	0.10
\$/US\$ exchange rate	1.10	1.12	(0.02)	1.14	1.14	0.00
Total revenue (\$000s)	79,187	39,981	39,206	159,660	66,780	92,880
Revenue (\$/ton of ore sold)	339	259	80	363	222	141
Cash cost						
Mining (\$000s)	24,304	15,930	8,374	48,859	31,919	16,940
Cash cost (\$/ton of ore sold)	104	103	1	111	106	5
Cash cost (US\$/lb of Ni sold)	2.58	(0.57)	3.15	2.99	0.85	2.14

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

Metal sales

Ore sold in the second quarter of 2007 totaled 233,689 tons, compared to 205,854 tons sold in the first quarter of 2007 and 154,090 tons sold in the second quarter of 2006, representing increases of 14% and 52%, respectively. Nickel sales of 3.1 million pounds in the second

quarter of 2007 were 476,000 pounds higher than the first quarter of 2007 and 1.1 million pounds higher than the second quarter of 2006, as a result of the commencement of commercial production from the Levack nickel deposits in January 2007. Copper sales in the second quarter of 2007 of 2.4 million pounds was an increase of 165,000 pounds over the first quarter of 2007 and 168,000 pounds less than in the same period in 2006. Precious metals sales totaled 5,282 ounces during the second quarter of 2007, down from 5,961 in the first quarter of 2007 and 11,243 year to date representing a 21% decrease from 14,291 ounces produced during the first six months of 2006. This decline resulted from lower precious metal grades in the PM Deposit as a result of mine sequencing and sill development for stoping blocks, and a decision to mine less tons from the PM Deposit than planned in the quarter to allow for mining of additional higher margin nickel ores. Overall nickel grades were lower year over year (1.3% compared to 1.5%) due to mine sequencing related to start-up of production from the Levack mine.

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

Metal sales revenue

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

Table 5 – Metal Prices	Three Months Ended June 30				Six Months Ended June 30			
	2007		2006		2007		2006	
	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price
Nickel (US\$/lb)	18.54	21.79	10.37	9.03	19.96	20.29	8.82	7.87
Copper (US\$/lb)	3.73	3.47	3.76	3.27	3.22	3.08	3.12	2.76
Palladium (US\$/oz)	405	369	337	346	399	356	346	318
Platinum (US\$/oz)	1,416	1,281	1,399	1,185	1,476	1,236	1,264	1,111
Gold (US\$/oz)	662	667	661	627	713	659	612	591
Cobalt (US\$/lb)	25.91	28.09	16.17	14.41	28.45	26.95	14.38	13.40
\$/US\$	1.10	1.10	1.12	1.12	1.14	1.14	1.14	1.14

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



Operating revenues, including the aforementioned provisional price adjustments, totaled \$79.2 million in the second quarter of 2007, approximately the same as the first quarter of 2007 and 98% higher than in the second quarter of 2006. Year to date revenues totaled \$159.7 million, compared to \$66.8 million in 2006, an increase of 139%. Revenues are higher in the second quarter and year to date 2007, compared to 2006, as a result of the commencement of commercial production from the Levack nickel deposits in January 2007 and higher metal prices in general and higher nickel prices in particular.

FNX realized US\$3.25 per pound of nickel less than the LME average price of US\$21.79 per pound for the second quarter of 2007 as a result of metal sales that were provisionally priced in prior periods. While the average price of copper in the second quarter of 2007 was higher than in the first quarter, which resulted in positive provisional price adjustments, the significant decline in nickel prices, particularly in June 2007, resulted in an overall net \$0.8 million negative provisional price adjustment in the quarter. Year to date, FNX realized US\$0.33 per pound of nickel less than the LME average price of US\$20.29 per pound, compared to US\$0.95 per pound higher in the prior year.

The 7% quarter over quarter appreciation in the value of the Canadian dollar relative to the US dollar in the second quarter of 2007 resulted in lower revenue in Canadian dollars than would otherwise have been realized and negatively impacted the account receivable from CVRD Inco.

The following table shows the increase (decrease) in FNX's nickel sales revenue (in Canadian dollars) as a result of an increase (decrease) in the quantity of nickel sold and the price of nickel earned.

Table 6 – Net Change in Sales Revenue	Q2-2007 compared to Q2-2006	YTD-2007 compared to YTD-2006	Q2-2007 compared to Q1-2007
	\$000s	\$000s	\$000s
\$ Change due to quantity	13,220	19,340	12,068
\$ Change due to price	27,654	72,360	(15,005)
Net change in nickel sales revenue	40,874	91,700	(2,937)
<i>Change in quantity sold (000s lbs)</i>	<i>1,139</i>	<i>1,873</i>	<i>476</i>
<i>Change in revenue (US\$/lb)</i>	<i>8.17</i>	<i>11.14</i>	<i>(3.11)</i>

Mining cost of sales

Mine operating expenses, excluding mine depreciation and amortization costs (“**cash operating costs**”), were \$24.3 million in the second quarter of 2007, \$0.3 million lower than the first quarter of 2007, and \$8.4 million higher than the second quarter of 2006. Cash operating costs are expected to trend higher in 2007 due to higher tonnages mined and ore sold this year as a result of the commencement and ramp-up of production from the Levack nickel deposits.

Cash operating cost per pound of nickel

FNX's cash operating cost per pound of nickel sold, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was US\$2.58 for the quarter, US\$0.88 per pound lower than in the first quarter of 2007 and US\$3.15 higher than in the

second quarter of 2006. The year to date cash operating cost was US\$2.99 per pound, compared to US\$0.82 per pound during the comparable 2006 period. The year over year increase in cash operating cost per pound of nickel, net of by-products, resulted from increasing nickel production from the Levack nickel deposits and the lesser proportion of by-product revenues to operating costs with both the McCreedy West and Levack mines in operation at the Levack Complex. In 2007, cash costs have decreased quarter over quarter as a result of economies of scale and efficiencies associated with the ramp-up of production from the Levack nickel deposits.

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

Table 7 – Cash Operating Cost Per Pound of Nickel Sold	Three months ended June 30, 2007			Three months ended June 30, 2006		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	24,304	22,127	7.13	15,930	14,195	7.22
By-product credits:						
Copper	(9,947)	(9,056)	(2.92)	(10,879)	(9,694)	(4.93)
Other ⁽²⁾	(5,568)	(5,069)	(1.63)	(6,304)	(5,618)	(2.86)
Cash operating costs	8,789	8,002	2.58	(1,253)	(1,117)	(0.57)
Nickel sold (000s lbs)		3,104			1,965	

Table 7 – Cash Operating Cost Per Pound of Nickel Sold	Six months ended June 30, 2007			Six months ended June 30, 2006		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	48,859	43,044	7.51	31,919	28,041	7.27
By-product credits:						
Copper	(17,021)	(14,995)	(2.62)	(16,440)	(14,443)	(3.74)
Other ⁽²⁾	(12,358)	(10,887)	(1.90)	(11,759)	(10,330)	(2.68)
Cash operating costs	19,480	17,162	2.99	3,720	3,268	0.85
Nickel sold (000s lbs)		5,732			3,859	

(1) Operating expenses exclude mine depreciation and amortization.

(2) Platinum, palladium, gold and cobalt.

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

Cash operating margin per ton of ore sold

Cash operating margin per ton of ore sold, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was \$235 per ton in the second quarter of 2007, compared to \$272 per ton in the first quarter of 2007 and \$156 per ton in the second quarter of 2006. Higher nickel prices and quantity of ore mined and sold were the main factors contributing to the higher margin in 2007.



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

Table 8 – Cash Margin Per Ton	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
	\$/ton	\$/ton	\$/ton	\$/ton
Mine operating revenue	339	259	363	222
Mine operating expenses ⁽²⁾	(104)	(103)	(111)	(106)
Cash operating margin per ton of ore sold	235	156	252	116

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

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

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

Mine depreciation and amortization

Mine depreciation and amortization expense was \$6.0 million in the second quarter of 2007, an increase from \$4.9 million in the first quarter of 2007 and \$2.9 million in the second quarter of 2006, primarily due to higher volumes of ore produced and sold. Mine depreciation and amortization expense is expected to be higher in 2007, compared to 2006, as a result of additional amortization resulting from production at the Levack Complex due to the commencement of commercial production from the Levack nickel deposits on January 1, 2007.

Health, safety, and environment

Health and safety

The development and implementation of FNX’s Safety, Health and Environmental Management System (SHEMS) continued in the second quarter of 2007. Training for all personnel commenced the week of July 9th and will be ongoing for the remainder of 2007.

During the second quarter, no lost time accidents were reported by FNX employees; however, FNX’s on-site contractors experienced one lost time accident.

Environment

During the quarter, the primary crusher at McCreedy West Mine was enclosed in a building. A sound audit was conducted confirming that noise from the mine site was below the required decibel readings for both day and night time operations. At Podolsky, the large water treatment plant was commissioned in the quarter and over 3.5 million litres of water were treated and discharged in June through the plant. The plant is operating to performance objectives, although modifications are planned to improve the treatment of ammonia.



Both Podolsky and Levack have begun updating their respective Closure Plans and expect to submit the revised documents to the regulatory authorities by the end of 2007.

Other Items in the Statements of Operations

Administration

Administration expenses were \$2.2 million and \$4.5 million in the second quarter and year to date 2007, respectively, compared to \$2.4 million and \$5.3 million in 2006. Administration expenses in 2007 are in line with budget.

Depreciation

Depreciation expense for the Toronto head office and Sudbury exploration office equipment, furniture and fixtures was not significant and is not budgeted to be significant in 2007.

Stock-based compensation

Stock-based compensation expense was \$0.7 million in the second quarter of 2007, compared to \$0.9 million in the first quarter of 2007 and \$0.5 million in the second quarter of 2006. In the second quarter of 2007, options to purchase 113,000 common shares were granted, 206,000 options were exercised and 44,000 options were forfeited, compared to 96,000 granted, 283,000 exercised and 6,000 cancelled in the first quarter of 2007. Stock-based compensation expense is based upon the Black-Scholes option pricing model and, as FNX's average share price was higher in 2007 than 2006, the stock-based compensation expense for new options granted in the period is higher.

Other expenses (income)

Other expenses (income) resulted in net income of \$6.1 million in the second quarter of 2007, compared to net income of \$1.3 million in the first quarter of 2007 and \$0.9 million during second quarter of 2006. Other income was higher during the second quarter of 2007, primarily as a result of the recognition of an \$11.5 million gain on the disposition of Dynatec shares resulting from the Sherritt-Dynatec Arrangement, a \$2.4 million gain on the sale of Aurora's Quebec properties to Fieldex, \$1.0 million of interest income and a \$0.9 million mark-to-market gain on investments in warrants, less a \$1.1 million write-down on certain non-core, mineral exploration Aurora Properties and a foreign exchange loss of \$8.6 million resulting from the rise in the Canadian dollar relative to the US dollar. As at June 30, 2007, the Company had \$109.9 million of cash and cash equivalents on hand and FNX will continue to earn interest income from conservative deposits with a major Canadian bank in 2007.

Year to date other income was \$7.4 million, compared to \$2.3 million in 2006.

Provision for income and resource taxes and provincial capital taxes

The second quarter of 2007 included a provision for income taxes of \$16.8 million, compared to a \$6.5 million net recovery in the second quarter of 2006. While FNX's significant capital expenditures program in 2007 continues to add to the total amount of tax deductions available to the Company, Canadian income tax rules restrict the amount of such deductions permitted in any particular taxation year. Accordingly, the Company has included in the \$35.2 million provision for taxes for the six months ended June 30, 2007, an \$11.8 million accrual for the

estimated amount of current income taxes due for 2007 to date. The Company's income tax rate should continue to be approximately 38% in 2007. In June 2006, the Government of Canada enacted legislation reducing corporate tax rates over a period of several years. During the second quarter of 2006, FNX recorded a future income tax recovery of \$13.8 million to reflect the positive impact of these tax rate reductions on transactions in prior years for which future taxes will be paid. Quarterly pre-tax earnings attracted income and resource taxes at an effective rate of 38%, or \$7.3 million, and when combined with the aforementioned future income tax liability adjustment resulted in a net \$6.5 million tax recovery.

Many provincial jurisdictions, including the Province of Ontario, charge a tax based on a corporation's taxable capital. This expense, however, is deductible in the determination of taxable income and the Company separately discloses it in the statement of operations. FNX charged to earnings \$0.3 million and \$0.7 million in provincial capital tax expense during the second quarter and year to date 2007, respectively, consistent with 2006 expenditures. The Province of Ontario's 2007 budget has proposed to eliminate capital taxes in Ontario by 2011.

Hedging

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

EBITDA

Earnings before interest income and expense, income and capital taxes, stock-based compensation and depreciation and amortization ("**EBITDA**"), a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was \$57.8 million in the second quarter of 2007, compared to \$53.8 million in the first quarter of 2007 and \$21.3 million in the second quarter of 2006. EBITDA is expected to be higher in 2007 due to higher metal prices and higher quantities of ore mined and sold.

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

Table 9 - EBITDA	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
	\$000s	\$000s	\$000s	\$000s
Mine operating revenue	79,187	39,981	159,660	66,780
Mine operating expenses ⁽¹⁾	(24,304)	(15,930)	(48,859)	(31,919)
Cash operating margin	54,883	24,051	110,801	34,861
Administration	(2,177)	(2,362)	(4,470)	(5,276)
Other (expenses) income ⁽²⁾	5,130	(421)	5,265	(313)
EBITDA	57,836	21,268	111,596	29,272

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

⁽²⁾ Excludes interest income and interest expense.

Financial Condition and Liquidity

Cash and cash flows

Cash flow from operating activities totaled \$52.4 million and \$88.8 million in the second quarter and year to date 2007, respectively, compared to \$14.8 million and \$22.3 million, respectively, in 2006. The cash flows were significantly higher in 2007 than 2006 due to higher realized metal prices, resulting in a higher cash operating margin, and greater quantities of ore mined and sold due to the commencement and ramp up of production from the Levack nickel deposits.

Financing activities resulted in net cash inflows of \$1.8 million and \$3.0 million in the second quarter of 2007 and year to date, respectively, from the issuance of 206,000 and 490,000 common shares, respectively, for stock options exercised under the Company's stock option plan. Financing activities are higher in 2007 compared to 2006 as a result of more stock options being exercised, which in turn is due to the appreciation of FNX's share price in 2007.

Investing activities resulted in net cash outflows of \$52.4 million and \$97.1 million for the second quarter of 2007 and year to date, respectively, compared to \$20.4 million and \$37.9 million in 2006. Exploration, development and equipment expenditures that were capitalized as property, plant and equipment totaled \$94.2 million for the year to date 2007 and are budgeted to total \$173 million for the year.

The net change in cash balances as a result of operating, financing and investing activities was a net cash inflow of \$1.8 million since March 31, 2007, compared to a net cash outflow of \$5.5 million during the comparative period in 2006. FNX remains debt free and the Company's cash position of \$109.9 million at June 30, 2007 is sufficient to meet all planned cash expenditures in 2007.

Working capital

Working capital decreased \$14.5 million during the second quarter of 2007 to \$116.2 million, due to a lower account receivable from CVRD Inco (due to the strengthening in the Canadian dollar and lower nickel prices), and is \$15.4 million lower year to date as a result of capital expenditures and an increase in accounts payable due to accrued current corporate income taxes.

Reclamation and other deposits

Reclamation deposits include various amounts with CVRD Inco and government agencies in the Province of Ontario in connection with the Levack Complex and Podolsky properties. Reclamation deposits are subject to change based upon changes in the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

In October 2005, a \$2.4 million deposit was advanced to Dynatec (now Sherritt) as a deposit for mining contractor services to be provided by Sherritt in connection with a Mining Services Agreement entered into on October 21, 2005. The deposit will ultimately be applied against Sherritt's invoice for December 2007.



Investments

Effective January 1, 2007, the Company prospectively adopted the CICA's recommendations pertaining to financial instruments, which establishes standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale. In accordance with the new standards, as of January 1, 2007, the Company has classified its investments in common shares as available for sale. Unrealized holding gains and losses related to available for sale investments are excluded from net income and included in other comprehensive income ("OCI") until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Warrants held by the Company are for long-term investment purposes; however, due to their nature they meet the definition of a derivative and are marked-to-market on a quarterly basis. Mark-to-market gains and losses relating to the warrants are included in net income in the period they occur. The Company estimates the fair value of its investment in common shares at the balance sheet date using quoted market prices for available for sale securities and a Black-Scholes option pricing model for private warrants held. Accordingly, investments with a book value of \$30.4 million were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50.5 million which resulted in a revaluation gain of \$16.5 million, net of tax. At June 30, 2007, the investments were measured at a fair value of \$61.6 million resulting in a revaluation loss of \$5.6 million and a gain of \$6.0 million, net of tax, in the three and six month periods then ended, recognized in accumulated OCI. Warrants with a book value of \$1.1 million were measured at a fair value of \$2.0 million which resulted in a revaluation gain of \$0.9 million, which is included in other expenses (income).

On June 14, 2007, Sherritt and Dynatec completed a Plan of Arrangement whereby Sherritt acquired all of the issued and outstanding shares of Dynatec. Under the terms of the Sherritt-Dynatec Arrangement, Dynatec and Sherritt amalgamated (and were continued under the name Sherritt), and the shareholders of Dynatec received 0.19 of a Sherritt common share and approximately 0.0635 of a common share of FNX that was owned by Dynatec for each of their Dynatec common shares. Accordingly, on June 14, 2007, FNX's 7,716,594 Dynatec shares were disposed of, 1,466,153 common shares of Sherritt were acquired, and 490,004 common shares of FNX were acquired and immediately cancelled. A gain in the amount of \$11.5 million has been recognized during the quarter on the disposition of the Dynatec shares. In July 2007, the Company sold its 1,466,153 Sherritt shares at \$17.40 per share for net proceeds of \$25.5 million.

On April 30, 2007, the Company sold its interest in its four Quebec based copper-nickel Aurora Properties to Fieldex in exchange for 6.5 million common shares of Fieldex and a 2% net smelter royalty, which can be purchased by Fieldex at any time for \$1.5 million (the "**Fieldex Transaction**"). A gain in the amount of \$2.4 million has been recognized on the sale during the quarter. Concurrent with the Fieldex Transaction, FNX and Fieldex entered into a Standstill Agreement for a period of one year, whereby FNX is prohibited from acquiring any additional Fieldex shares, making a proposal or extraordinary offer for Fieldex or disposing of its Fieldex shares without the consent of Fieldex. The Company also wrote-down certain other non-Sudbury Aurora Properties and \$1.1 million was charged to earnings during the quarter.

On May 18, 2007, International Nickel Ventures Corporation ("**INV**") closed a bought deal financing and a concurrent private placement raising funds at \$1.75 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common



share at a price of \$2.25 until November 18, 2008. FNX participated in the financing and acquired 1.612 million units (1.612 million common shares and 0.806 million warrants) for \$2.8 million. Based on INV's prospectus disclosure, INV used the Black-Scholes option pricing model to assign the warrants a value and, therefore, FNX's cost basis is equal to \$0.4 million or \$0.44 per warrant.

Property, plant and equipment

(i) Summary

Acquisition costs and expenditures on property, plant and equipment totaled approximately \$49.6 million during the second quarter of 2007 and \$94.2 million year to date. The cash expenditures consisted of exploration drilling, underground exploration/development, including raise development at Podolsky and underground access rehabilitation and underground development at Levack, and the purchase of certain mining equipment.

The following table shows the net increase (decrease) in property, plant and equipment expenditures for 2007 by property location.

Table 10 – PP&E Expenditures	Three months ended June 30, 2007	Six months ended June 30, 2007	Budget 2007 ⁽¹⁾
	\$000s	\$000s	\$000s
Levack Complex	21,527	41,205	83,800
Podolsky	9,767	20,410	44,800
Levack Footwall	9,758	17,511	39,800
Aurora Properties	(2,012)	(1,500)	3,200
Kirkwood	412	767	1,000
Victoria	8	10	100
	39,460	78,403	172,700
Corporate	90	202	300
	39,550	78,605	173,000

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

FNX has budgeted \$173.0 million of capital expenditures in 2007, of which \$123.6 million is to acquire equipment and further develop the Levack Complex (including \$39.8 million for exploration and development of the LFD) and will focus on installing ore handling infrastructure and development work to reach future production targets including an exploration drift from Xstrata Nickel's Craig Mine into the LFD. Capital expenditures at Podolsky in 2007 are budgeted at \$44.8 million and involve installation of ore handling infrastructure, completion of the 2450 and 1750 crosscuts, vent raises, bulk sampling, detailed drilling, construction of certain surface infrastructures including a surface crusher and sampling tower, and pre-production in the fourth quarter leading to a decision to commence commercial production. Capitalized exploration expenditures on the rest of FNX's properties, are budgeted at approximately \$4.8 million in 2007. Capital expenditures to June 30, 2007, are on budget.

(ii) Levack Complex

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

In the first quarter of 2007, the Company began rehabilitation of the ore handling facilities on the McCreedy West side of the Levack Complex that would enable the Company to transport McCreedy West nickel ore along the 1600 Level to the Levack shaft where it will be crushed and hoisted to surface via the rehabilitated No. 2 Shaft. As at June 30, 2007, development work on the McCreedy-Levack tram was nearing completion. Once operational, the tramway will lead to immediate improvement in operating efficiencies but it is not expected to have a material impact on production in 2007.

Exploration drilling during the quarter on the McCreedy West property continued to be focused on the PM Deposit and contact nickel target environments. At the PM Deposit, step-out drilling to the northwest of the current mineral resource was completed from the 950 Level. Very large step-outs to the east of the PM Deposit were drilled from the 1200 Level. McCreedy West contact nickel drilling was completed up-dip from the Inter Main Deposit and down-dip of the East Main Deposit from both the 950 and 1200 levels. Diamond drilling from Xstrata Nickel's Craig Mine 2000 level tested the boundary area, down-dip of the Inter Main Deposit.

(iii) Exploration properties

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

Table 11 – Accumulated Costs of Exploration Properties	June 30 2007	December 31 2006
	\$000s	\$000s
Levack Footwall	248,518	231,008
Podolsky	112,736	92,327
Aurora Properties	94,635	96,134
Victoria	6,245	6,235
Kirkwood	2,447	1,680
	464,581	427,384

FNX holds a 100% interest in the Kirkwood, Levack (including the Levack Footwall), McCreedy West, Podolsky and Victoria mineral properties, all of which are located in the Sudbury mining district, Ontario.

The Levack Footwall was the focus of most of the FNX exploration activity for the second quarter. Diamond drilling continued to test, delineate and expand the Levack Footwall and Rob's Deposit sulphide mineralized system. In-fill intersections in the centre of the known extents of

the deposit from new orientations has confirmed the width and grades of the Cu-Ni-Pt-Pd-Au rich veins. The most recent drill results have expanded the overall plunge-length of the LFD environment to 2,500 feet. Future exploration will focus on expanding the strike extent and depth of the deposit as well as provide additional in-fill drilling for resource modeling. An extensive drill program was also started to provide delineation of the mineral distribution within the Rob's Deposit in preparation for underground development in the LFD from existing Levack infrastructure.

Access to the LFD and Rob's Deposit environment continued on two fronts during the second quarter of 2007. The access crosscut being driven from Xstrata Nickel's Craig Mine to the LFD crossed the boundary into the Levack property during this quarter, advanced 486 feet in the quarter to 891 feet. In addition, the first remuck bay was cut 52 feet for a total development of 903 feet or 38% of the total planned development of 2,373 feet. At the 2650 Level access ramp being developed from the Levack Mine, the contractor advanced 536 feet during the second quarter and completed the first remuck bay for total development of 1,395 feet. Both the Craig Mine and 2650 Level mine access headings are expected to be completed by November 2007.

Development of the 1750 and 2450 Level crosscuts at the Podolsky Mine advanced on schedule and on budget during the quarter. Currently the 2450 Level crosscut is driving through high grade mineralization in the 2000 Deposit, and preparation work has commenced to collect bulk samples and establish underground drill stations for definition and exploration diamond drilling later in 2007.

The Aurora Properties are located in the Sudbury, Timmins and northwestern Ontario regions. All of the Aurora Properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them. The most material mineral properties that are included in the Aurora Properties are located in the Sudbury Basin region and pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel. As of December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, (2005 - 70% and 30%) in the Falconbridge Joint Venture and, as Xstrata Nickel has elected not to participate in the 2007 exploration program, Xstrata Nickel's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture. Exploration at the Falconbridge Footwall continued on two fronts during the second quarter of 2007 with exploration for footwall deposits associated with the historic nickel contact mineralization at the past producing Falconbridge Mine and also investigating the potential for new nickel contact mineralization in the underexplored western portion of the property.

As described above, on April 30, 2007, the Company sold its interest in its four Quebec based copper-nickel Aurora Properties to Fieldex. A gain in the amount of \$2.4 million has been recognized on the sale during the quarter. The Company also wrote-down certain other non-Sudbury Aurora Properties and \$1.1 million was charged to earnings during the quarter.

During the second quarter, FNX completed 111 diamond drill holes for a total of 138,496 feet (Table 12). Increases in both the number of boreholes and total footage drilled from the first quarter of 2007 is attributed to the ramp up of underground drill programmes from Xstrata Nickel's Craig Mine platforms to support drilling of both LFD environment and McCreedy West contact nickel targets. The following table details the diamond drilling by property for exploration purposes as pre-production holes are not reported.

Table 12 – Drilling	Three months ended June 30, 2007		Six months ended June 30, 2007	
	# Holes	# Feet	# Holes	# Feet
Levack	21	42,714	36	81,891
McCreedy West – Exploration	41	33,277	64	53,942
Levack Footwall	42	45,084	46	51,354
Kirkwood	5	7,106	13	16,118
Aurora – Sudbury	2	10,315	2	14,772
	111	138,496	161	218,077

The bulk of the Company's exploration diamond drill footage continued to be concentrated on the LFD and its associated sulphide mineralized system, and on Contact Ni targets in the vicinity of the Levack Main Depths Deposit. Xstrata Nickel, as part of a contract development agreement with FNX, advanced the exploration access ramp from the Craig Mine's 4000 Level to 851 feet. FNX also completed 359 feet of development in the access ramp from the Levack Mine 2650 Level. This development is designed to provide access to the up-dip extents of the LFD from the Levack Mine infrastructure. Two underground drill rigs continued to drill the LFD and Rob's Deposit environment from the 4300 and 3000 Levels at Craig Mine. The 4300 Level platform provided access to deeper extents of the LFD, whereas the 3000 Level platform was used extensively to test Rob's Deposit. One underground rig on the 2650 Level of Levack Mine was also drilling into Rob's Deposit and the up-dip extents of the LFD. Two surface rigs were focused on drilling the Main Depths Deposit environment. Two surface rigs also continued to test for potential new footwall Cu-Ni-PGE deposits on the Levack property.

Mine closure and site restoration

FNX estimates the total future mine closure and site reclamation costs (also known as asset retirement obligations) associated with the Sudbury operations to be \$3.7 million, unchanged from 2006. An update to the mine closure plans for both Podolsky & Levack Complex is scheduled to be completed by end of 2007. Management anticipates that future mine closure and site reclamation cost obligations will substantially be settled at or near the closure of its mining operations.

Share capital

Pursuant to the Sherritt-Dynatec Arrangement, on June 14, 2007, FNX cancelled 490,004 shares with an ascribed value of \$6.8 million and a fair value of \$16.9 million, with the difference, net of \$3.1 million of income taxes, included in contributed surplus.

Approximately 0.2 million stock options with an ascribed value of \$1.8 million were exercised in the quarter.

Year to date share capital has decreased by a net \$2.6 million as a result of the previously mentioned share cancellation and the exercise of 0.5 million stock options for \$3.0 million. As at June 30, 2007, stock options to purchase 2.3 million common shares at a weighted average of \$11.10 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 paid out in cash only upon the director's or executive employee's death or resignation from the Board or the Company. Included in accrued liabilities is \$1.1 million related to 41,473 DSUs.

Post-retirement benefits

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

Related Party Transactions

Under the terms of an agreement between FNX and INV, dated January 1, 2006, FNX has agreed to provide certain administrative services and facilities to INV as well as the non-exclusive services of certain personnel, all in consideration of a flat fee of \$10,000 per month. These services and facilities include commercially reasonable office facilities and communication equipment and the non-exclusive services of certain FNX personnel, including the Senior Vice President and Chief Financial Officer of FNX (who also served as the Vice President and Chief Financial Officer of INV until May 31, 2007), as well as accounting and administrative staff as required by INV. The services provided by these personnel are limited to 20% of the time of each such individual per week on the basis of a 40 hour work week. In addition, the non-exclusive services of the former Vice President Business Development of FNX (who also served as the President and Chief Executive Officer of INV until February 5, 2007) and the Vice President Investor Relations and Corporate Secretary of FNX (who also serves as the Director of Investor Relations for INV) are provided to INV pursuant to the agreement in consideration of the reimbursement to FNX of an amount equal to the salary and benefits paid by FNX to each such officer, multiplied by the percentage of their respective time spent providing services to INV. The services provided by the Vice President Investor Relations and Corporate Secretary of FNX are limited to 20% of the time of such individual per week on the basis of a 40 hour work week. No similar limitations applied to the services provided by the former Vice President Business Development of FNX. The agreement may be terminated by either party at any time upon the provision of 30 days written notice to the other party, at nominal cost. During the three and six months ended June 30, 2007, FNX invoiced INV \$60,000 and \$122,000 respectively, for services provided under the agreement.

On May 18, 2007, INV closed a bought deal financing and a concurrent private placement raising funds at \$1.75 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share at a price of \$2.25 until November 18, 2008. FNX participated in the financing and acquired 1.612 million units (1.612 million common shares and 0.806 million warrants) for \$2.8 million. Based on INV's prospectus disclosure, INV used the Black-Scholes option pricing model to assign the warrants a value and, therefore, FNX's cost basis is equal to \$0.4 million or \$0.44 per warrant.

Non-GAAP Performance Measures

Cash operating margin per ton of ore sold, cash operating cost per pound of nickel sold, cash flow per share and EBITDA are included in this MD&A because these statistics are key performance measures that management uses to monitor performance. Management uses



these statistics to assess how well the Company is performing compared to plan and to assess the overall effectiveness and efficiency of mining operations. Management believes that the inclusion of these statistics in the MD&A helps an investor to assess performance “through the eyes of management” and that certain investors use these statistics to assess the Company’s performance. These performance measures do not have a meaning within GAAP and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Outstanding Share Data

As at June 30, 2007, stock options to purchase 2.3 million common shares at a weighted average price of \$11.10 per share were outstanding. The number of stock options outstanding at June 30, 2007 represents 2.8% of the issued and outstanding common shares at that time. The number of common shares issued and outstanding as at July 31, 2007 totaled 83.8 million. From July 1, 2007 to July 31, 2007, no stock options have been granted or cancelled and 76,000 have been exercised. As at July 31, 2007, the Corporation had 83.8 million common shares outstanding and stock options to purchase 2.3 million common shares had been granted and were outstanding.

Adoption of New Accounting Standards

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

Changes in accounting policies

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. This change in accounting policy had the following effect on the consolidated financial statements for the six months ended June 30, 2007: investments with a book value of \$30.4 million were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50.5 million which resulted in a revaluation gain of \$16.5 million, net of tax. Warrants with a book value of \$1.1 million were measured at a fair value of \$2.0 million which resulted in a revaluation gain of \$0.9 million recognized in other expenses (income). The revaluation gains have been recognized in accumulated OCI.

Effective January 1, 2007, the Company prospectively adopted the CICA recommendations pertaining to hedges, which establish standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The purpose of hedge accounting is to ensure that gains, losses, revenues and expenses from effective hedging relationships are recorded in earnings in the same period. This change in accounting policy had no effect on the consolidated financial statements for the six months ended June 30, 2007.



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

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

The CICA has issued several new accounting standards including: Section 1535, Capital Disclosures, Section 3031, Inventories, Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. The Company will adopt these new standards effective January 1, 2008 and is currently assessing the impact of adoption on its consolidated financial statements.

Section 1535 specifies the requirements for the disclosure of information relating to objectives, policies and processes for managing capital.

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories.

Section 3862 and Section 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, and revise and enhance the disclosure requirements and carry forward unchanged the presentation requirements.

Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Quarterly Metal Production and Sales Statistics

Table 13 – 2007 Statistics	Q1	Q2	Q3	Q4	Total
Ore (tons)					
Sold					
Nickel ore	133,630	159,195			292,825
Copper ore	72,224	74,494			146,718
Total ore sold	205,854	233,689			439,543
Grade of ore sold					
Nickel ore (%Ni)	1.2	1.3			1.3
Copper ore (%Cu)	1.3	1.5			1.4
Payable metal sold					
Nickel (000s lbs)	2,628	3,104			5,732
Copper (000s lbs)	2,261	2,426			4,688
TPM (ozs)	5,961	5,282			11,243
Cobalt (000s lbs)	34	38			72
Metal sales revenue					
Average Ni price (US\$/lb)	21.65	18.54			19.96
Average Cu price (US\$/lb)	2.67	3.73			3.22
\$/US\$ exchange rate	1.17	1.10			1.14
Total revenue (\$000s)	80,473	79,187			159,660
Revenue (\$/ton of ore sold)	391	339			363
Cash cost of metals sold					
Mining (\$000s)	24,555	24,304			48,859
Cash cost (\$/ton of ore sold)	119	104			111
Cash cost (US\$/lb of Ni sold)	3.46	2.58			2.99

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

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

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



Summary of Selected Quarterly Financial Information

Table 15	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
2007					
Revenue	80,473	79,187			159,660
Net earnings	30,191	34,991			65,182
Basic EPS	\$0.36	\$0.42			\$0.78
Diluted EPS	\$0.36	\$0.41			\$0.76
2006					
Revenue	26,799	39,981	52,963	50,202	169,945
Net earnings	3,193	25,344	20,476	19,667	68,680
Basic EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.82
Diluted EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.81
2005					
Revenue	19,057	24,231	18,588	22,726	84,602
Net earnings (loss)	2,484	3,855	(2,218)	477	4,597
Basic EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08
Diluted EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08

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

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this document constitute "forward-looking statements" within the meaning of Section 27A of the US Securities Act of 1933 and Section 21E of the US Securities Exchange Act of 1943. These forward-looking statements are based on current expectations and involve risks and uncertainties, referred to above and/or in FNX's AIF dated March 28, 2007 and filed with Canadian provincial securities regulatory authorities, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward-looking statements. Examples of such forward looking statements include statements regarding financial results and expectations for 2007, including, but not limited to, interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production of ore and/or metals, metal prices, demand for metals, currency exchange rates, cash operating margins, cash operating cost per pound of nickel sold, costs per ton of ore, expenditures on property, plant and equipment, increases and decreases in production, reserves and/or resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions. Factors that could cause actual results, developments or events to differ materially from those anticipated include, among others, the factors described or referred to elsewhere herein and/or the AIF, and include unanticipated and/or unusual events. Many of such factors are beyond FNX's ability to control or predict. Actual results may differ materially from those anticipated. Readers of this MD&A are cautioned not to put undue reliance on forward-looking statements due to their inherent uncertainty. FNX disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new



information, future events or results or otherwise. These forward-looking statements should not be relied upon as representing management's views as of any date subsequent to the date of this MD&A.

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