



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter Ended September 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 nine month periods ended September 30, 2009, in comparison to the corresponding prior-year periods. This MD&A is prepared as at November 9, 2009, and is intended to supplement and complement the unaudited interim consolidated financial statements of FNX for the three and nine month periods ended September 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 \$900 million and more than 650 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 \$18.8 million for the third quarter of 2009, compared to \$61.9 million in the second quarter of 2009 and \$76.4 million in the third quarter of 2008. Losses in the third quarter were \$58.5 million, equal to \$0.65 per share, compared to net earnings of \$12.5 million, equal to \$0.14 per share, in the second quarter of 2009 and a loss of \$26.5 million, equal to \$0.31 per share, in the third quarter of 2008. Year to date revenues totaled \$129.6 million in 2009, compared to \$329.3 million in 2008. The year to date loss was \$72.2 million in 2009, equal to \$0.83 per share, which includes the first quarter’s \$31.2 million non-cash dilution loss resulting from Gold Wheaton Gold Corp.’s (“**Gold Wheaton**”) common share issuance in the first quarter of 2009 and the \$57.9 million of non-cash investment impairment losses as a result of an “other-than-temporary” decline in value recognized in the third quarter of 2009, compared to year to date net earnings of \$8.9 million, equal to \$0.10 per share, in 2008.

Cash inflow from operating activities during the third quarter of 2009 was \$8.2 million, or \$0.09 per share, compared to \$18.0 million, or \$0.21 per share, in the second quarter of 2009 and net outflows of \$0.1 million, or \$nil per share, during the third quarter of 2008. Cash balances and working capital were \$258.2 million and \$256.3 million, respectively, at September 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 September 9, 2009, the Company issued 14,950,000 Units in a bought deal equity financing with a syndicate of underwriters. Each Unit consisted of one common share and one-half of one common share purchase warrant, at a price of \$9.65 per Unit for aggregate gross proceeds to FNX of \$144.3 million to be used to take advantage of any future business opportunities and for general corporate purposes. The Company recorded \$5.6 million of transaction costs, net of tax, related to the issuance.

Vale Inco Limited (“**Vale Inco**”) began an eight week production and processing shutdown on June 1, 2009. FNX delivered ore to the Clarabelle Mill until the end of May, at which time the Company began stockpiling all ore mined for future processing. 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.



On August 12, 2009, FNX concluded an agreement with Xstrata Nickel, a business unit of Xstrata Canada Corporation (“**Xstrata Nickel**”), to process ore at their Strathcona Mill in Sudbury, Ontario. FNX shipped 155,852 tons of ore to Xstrata Nickel, of which 107,876 tons were processed in October 2009 with the balance expected to be processed during the remainder of the fourth quarter. The final terms of the Xstrata Nickel processing agreement will remain confidential.

On September 23, 2009, the Company announced that despite the ongoing strike, Vale Inco had requested the recommencement of ore shipments to the Clarabelle Mill under the terms of the existing Off-Take Agreement. Accordingly, the Company ceased shipping to Xstrata Nickel and resumed shipping ore produced in September to Vale Inco in late September 2009, and expects to continue shipping to Vale Inco in the fourth quarter of 2009. In the third quarter of 2009, only 9,302 tons of ore were shipped to Vale Inco, all of which were shipped in September, comprising the total third quarter mining revenues. As a result of the low number of tons shipped in the quarter and the significant positive provisional price adjustment, many key performance indicators are skewed, resulting in a high degree of difficulty in comparing figures period over period. It is anticipated at this time that the 176,194 tons of ore included in inventory at September 30, 2009 will be processed and, therefore, included in revenue in the fourth quarter in addition to FNX’s planned fourth quarter production.

As evidenced by the December 2008 reduction in its Mining segment workforce of approximately 45%, the suspension of production from the nickel contact deposits at the Levack Complex, 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, and the successful negotiation to process ore with a second custom processor, 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 external economic and production challenges.

Mining Operations

Production

During the third quarter, only 9,302 tons of copper ore were shipped and sold to Vale Inco. In addition, 176,194 tons of ore remained in in-process inventory as at September 30, 2009, of which 107,876 were processed by Xstrata Nickel in October 2009, 20,342 tons were shipped to Vale Inco in October and the remaining 47,976 tons are scheduled to be processed by Xstrata Nickel in late November. In-process inventory levels are expected to return to historical levels by the end of the fourth quarter of 2009. In the second quarter of 2009, 192,023 tons of ore were shipped, comprised of 162,408 tons of copper ore and 29,615 tons of nickel ore, and in the third quarter of 2008, 346,987 tons of ore were shipped, comprised of 159,419 tons of nickel ore and 187,568 tons of copper ore.

Payable copper was 0.4 million pounds, payable nickel was less than 0.1 million pounds and total payable platinum, palladium and gold was 997 ounces in the third quarter of 2009, compared to 7.9 million pounds of payable copper, 1.5 million pounds of payable nickel and 16,532 ounces of payable platinum, palladium and gold in the second quarter of 2009, and 9.6 million pounds of payable copper, 3.1 million pounds of payable nickel and 16,379 ounces of payable platinum, palladium and gold for the quarter ended September 30, 2008. The decrease in all payable metals is as a result of the cessation of shipping and the commencement of stockpiling at the end of May 2009 as a result of the Vale Inco shut down and subsequent strike.



In the third quarter of 2009, precious metal sales to Gold Wheaton totaled 937 gold equivalent ounces, compared to 10,592 gold equivalent ounces in the second quarter of 2009 and 10,804 in the third quarter of 2008.

The average metal prices received during the third quarter were US\$4.99 per pound of copper, US\$26.68 per pound of nickel, and US\$1,029, US\$3,314 and US\$1,422 per ounce of gold, platinum and palladium, respectively. Average prices received in the third quarter were disproportionately magnified due to the significant positive provisional price adjustment relative to the low number of tons shipped and resultant low number of units of metal sold. Provisional price adjustments increased revenues by \$3.3 million in the third quarter of 2009 and \$25.4 million for the year to date, while the decline in metal prices in the third quarter of 2008 decreased revenues by \$21.3 million.

FNX is a diversified metal producer with significant revenue contributions from copper, nickel and precious metals. The decrease in nickel revenues in 2009 relative to 2008 is a result of shipping only copper ore in the third quarter of 2009, resulting in lower nickel quantities and grades than if nickel ores, which have higher nickel grades and quantities, had been shipped. The decrease is also due to the record high nickel prices in 2008. Copper production remains relatively high and gold, platinum and palladium account for an increasing percentage of revenue compared to prior years.

The average minesite revenue per ton of ore in the third quarter was positively impacted by provisional price adjustments of \$357 per ton and resulted in net minesite revenue per ton of \$575, compared to \$274 in the second quarter of 2009 and \$159 in the third quarter of 2008. The average cash operating cost per ton was \$241, compared to \$148 in the second quarter of 2009 and \$139 in the third 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 third quarter was \$334 per ton, compared to \$126 in the second quarter of 2009 and \$8 in the third quarter of 2008. Due to the relatively low tonnage of ore sold in the third quarter of 2009, the revenue, cost and margin per ton of ore sold is not representative of ongoing amounts per ton. 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 expected to be roughly equal.

Capital Expenditures and Development/Advanced Exploration

Capital expenditures totaled \$16.2 million during the quarter, including \$8.8 million of development at the LFD, \$2.9 million of development at Podolsky, \$1.2 million of development at the Levack Complex, \$3.1 million on other exploration properties and \$0.2 million on corporate and DMC. During the quarter, 3,335 tons of LFD development ore extracted from the 4000 Level exploration crosscut accessed from Xstrata Nickel's Craig Mine in 2008 was shipped to the Strathcona Mill for processing. The estimated net recoverable amount of \$2.1 million was credited to LFD development costs with an equal amount included in in-process inventory at September 30, 2009. Year to date, capital expenditures total \$43.9 million and include \$26.6 million of development at the LFD, \$9.5 million at Podolsky, \$3.7 million at the Levack Complex, \$4.0 million on other exploration properties and \$0.1 million for corporate and DMC.

The primary development focus for FNX continues to be the LFD. The concentration on LFD development will limit the pre-operating tons produced in 2009, but will provide more accesses at depth where higher grade ore is available by the middle of 2010. As a result of the changing



tenor of the ore, which improves with depth, the decision has been made to focus on advancing the development depth as rapidly as possible to allow access to ore deeper in the LFD in 2010. Other work completed in the third quarter of 2009 included the replacement of guides in the cage compartment as work continues on rehabilitation of the No. 2 Shaft to achieve commercial production at the LFD in mid to late 2010.

The key development focus is the access ramp which will provide long-term access to the LFD. The access ramp progressed from the 3500 Level and approached the 3700 Level, representing approximately 1,000 feet of new development. This advance leaves roughly 1,700 feet of additional advancement required in order to reach the existing 4000 Level crosscut from Xstrata Nickel's Craig Mine. Development also occurred on the 3180 and 3450 Levels. Current development of the access ramp has provided drill platforms for close-spaced definition drilling to support mine planning and resource estimates. An access drift at the 3450 level was driven to the bottom of a planned fresh ore raise and the raise development will be started in October. Work is currently underway to increase the trucking capacity on the access ramp.

Development and capital work at the Levack Complex was predominantly comprised of drifting at McCreedy West to support current and future production.

Development at Podolsky during the quarter continued to focus on advancing the main access ramp above the 2225 Level and completing related lateral development work on the 2225 and 2000 Levels. The main access ramp remains on schedule for internal connection late in 2009, which will support access on all levels for future production. Capital work was also completed on the backfill plant and system during the third quarter of 2009.

Exploration

Exploration activities in the third quarter included continued diamond drilling on the LFD, as well as drilling on both the Podolsky and Victoria properties. Geophysical surveys were conducted on the Falconbridge Joint Venture properties and at Victoria.

Four drills were engaged in detailed definition of the LFD between the 3050 and the 3650 Levels. Two underground drills were active during the third quarter at Podolsky. A compilation and re-interpretation of the 2000 Deposit is underway, targeted for completion at the end of 2009 in order to be used in the year end reserve and resource estimates. Also at Podolsky, surface drilling was initiated in early July and was focused on four different targets, including deepening a hole below the 2000 Deposit, two footwall targets located to the west of the Whistle Pit to test a Sudbury Breccia unit and a geophysical target located east of the Whistle Offset Dyke.

The initial focus of flow-through activity was at the Victoria property, where three surface drill-rigs were testing the Worthington Offset Dyke structure. The Worthington Offset Dyke is displaced by faulting and contains numerous geophysical targets. During the third quarter, an additional two surface drill rigs were mobilized onto the Victoria property to accelerate the testing of the multiple targets.

FNX has budgeted to incur in 2009 \$6.2 million of the \$15.0 million of flow-through funds received in April, 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 the Victoria, Falconbridge Footwall, Kirkwood and Foy properties.



DMC Mining Services

Revenues from DMC totaled \$14.2 million for the three months ended September 30, 2009, compared to \$11.7 million in the second quarter of 2009 and \$25.2 million in the three months ended September 30, 2008. Year to date revenues were \$39.3 million in 2009, compared to \$111.6 million in 2008. Contracting operating costs for the third quarter of 2009 totaled \$12.5 million, compared to \$11.3 million in the second quarter of 2009 and \$25.1 million in the comparable period in 2008. For the nine month period ended September 30, 2009, contracting operating costs were \$37.1 million, compared to \$107.3 million for the same period in 2008. Operating revenues and expenses were significantly lower in 2009 compared to 2008 as a result of the loss of a large client at the end of September 2008. The operating margin for the third quarter of 2009 was \$1.7 million, compared to \$0.4 million in the second quarter of 2009 and \$0.2 million in the third quarter of 2008. Year to date, the operating margin was \$2.2 million, compared to \$4.4 million in 2008. The loss for the quarter was \$0.3 million, compared to a loss of \$1.3 million in the second quarter of 2009 and a loss of \$9.6 million in the third quarter of 2008. Operating cash flow for the period was an inflow of \$1.0 million, an increase of \$0.7 million from the second quarter of 2009 and, after changes in non-cash working capital items, net cash flow from operating activities was a net outflow of \$2.5 million in the third 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 since the economic downturn in the latter part of 2008 which resulted in less activity in the mining services industry in 2009. It is anticipated that the volumes of work will increase going forward.

Other

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 September 30, 2009, FNX's 25.6% share of the earnings of its equity investee, Gold Wheaton, was a loss of \$0.5 million, compared to a loss of \$nil in the second quarter of 2009 and a loss of \$1.0 million in the third quarter of 2008.

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 was 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 evaluates its equity investment for evidence of impairment pursuant to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3051, *Investments*. Under the required impairment tests, it was determined that an "other-than-temporary" impairment exists with respect to FNX's investment in Gold Wheaton as at September 30, 2009. While management believes in the long-term investment value of Gold Wheaton, accounting rules required that the investment be written down to its fair value, determined to be the market value, at the Balance Sheet date, with a total impairment loss of \$53.0 million being recognized in the Statement of Operations.



FNX evaluates its available-for-sale investments for evidence of impairment pursuant to CICA 3855, *Financial Instruments – Recognition and Measurement*. Under the required impairment tests, it was determined that an “other-than-temporary” impairment exists with respect to certain of FNX’s junior mining company investments as at September 30, 2009. As a result, these investments were written down to their fair values, being the market value, at the Balance Sheet date, with total impairment losses of \$4.9 million being recognized in the Statement of Operations.

On April 28, 2009, FNX 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 third quarter of 2009, the Company incurred \$2.9 million of CEE, and \$3.5 million year to date, that will be renounced, effective December 31, 2009 pursuant to the flow-through common share issuance, leaving a balance of \$11.5 million to be spent throughout the balance of 2009 and 2010, but in any event by December 31, 2010.

During the third quarter of 2009, the Canadian dollar appreciated in value relative to the US dollar and resulted in foreign exchange losses of \$2.5 million in the quarter, which are included in other expenses on the Statements of Operations. Year to date, the Canadian dollar appreciated in value relative to the US dollar and resulted in foreign exchange losses of \$2.8 million.

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

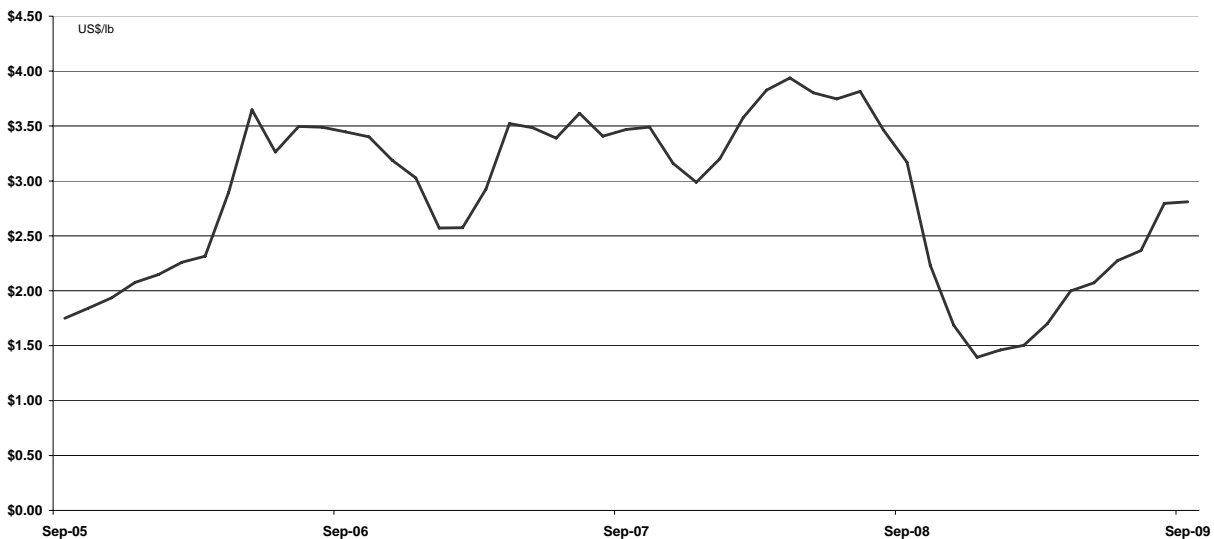
Key Economic Trends and Sensitivities

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 49% of the Company's mine operating revenues in the third quarter of 2009, compared to 46% in the second quarter of 2009 and 51% in the third quarter of 2008. Nickel accounted for approximately 24% of the Company's mine operating revenues in the third quarter of 2009, compared to 27% in the second quarter of 2009 and 40% in the third 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

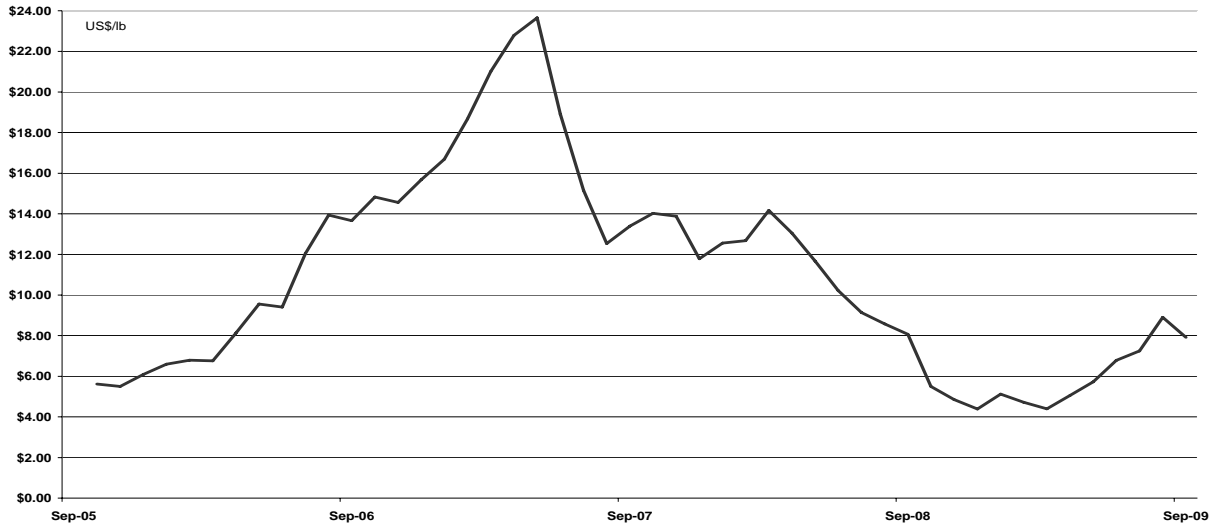


Source: LME monthly average cash mean per lb

The average price per pound of copper on the London Metal Exchange (“LME”) has increased steadily since March 31, 2009, averaging US\$2.66 in the third quarter of 2009, compared to US\$2.11 per pound in the second quarter of 2009, but has decreased from the US\$3.48 per pound average in the third quarter of 2008. The cash settlement price of copper was US\$2.78 per pound on September 30, 2009, compared to closing prices of \$2.31 at June 30, 2009 and \$1.83 at March 31, 2009, illustrating the improving price environment in 2009. Management is of the view that the LME cash settlement price for copper in 2009 will remain range bound, 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.

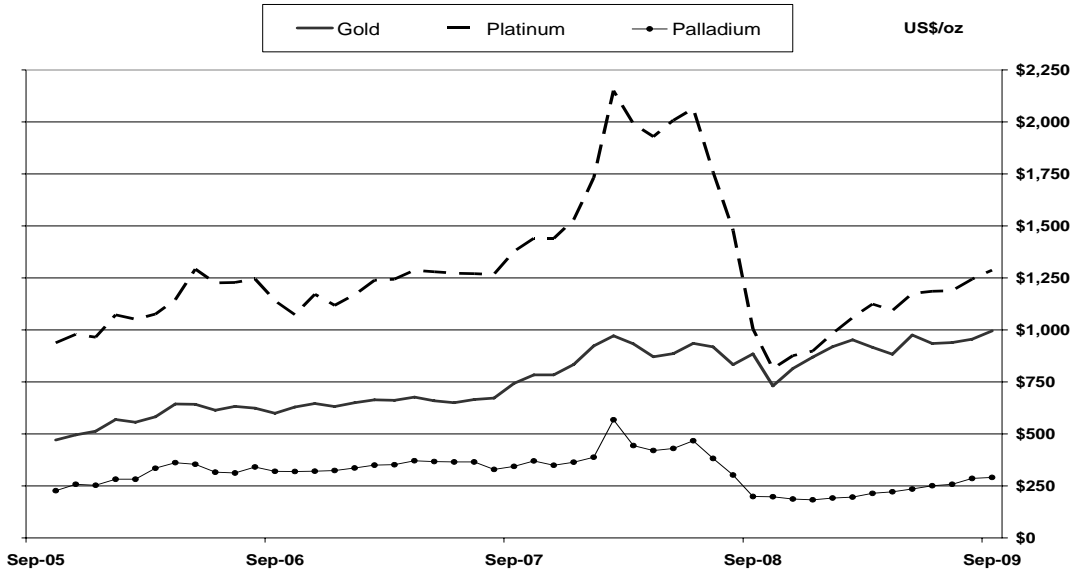
Figure 2 – Nickel Prices



Source: LME monthly average cash mean per lb

The average price per pound of nickel on the LME has increased steadily since March 31, 2009, averaging US\$8.03 in the third quarter of 2009, compared to US\$5.86 per pound in the second quarter of 2009, but has decreased slightly from the US\$8.60 per pound average in the third quarter of 2008. Despite some minor price volatility within the quarter, the LME cash buyer monthly closing price of US\$7.86 on September 30, 2009 marks an increase over the closing price on June 30, 2009 of US\$7.26, illustrating the overall upward trend of nickel prices in 2009. Management is of the view that the LME cash settlement price for nickel in 2009 will remain range bound, 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.

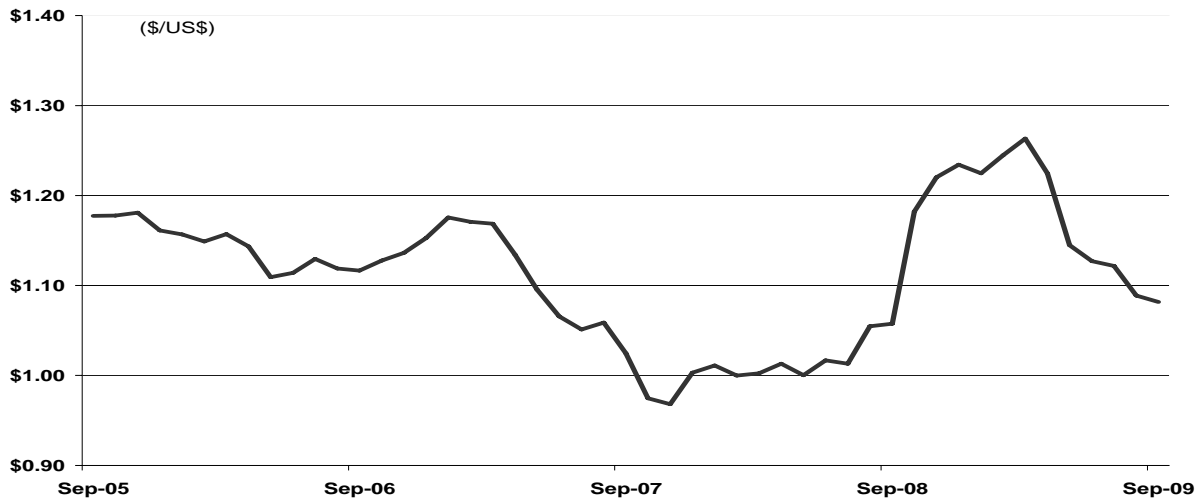
Figure 3 – Precious Metal Prices



Source: *metallbulletin.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 third quarter of 2009, compared to 27% and 9% during the second quarter of 2009 and the third quarter of 2008, respectively. The contribution of precious metals to FNX's overall revenue continues to increase with the increase in mining of copper ores, which generally contain more precious metals than nickel ores. The price of gold remains near historic highs, averaging US\$960 during the third quarter of 2009, compared to US\$922 in the second quarter of 2009 and US\$870 in the third quarter of 2008, respectively. The price of platinum averaged US\$1,232 during the third quarter of 2009, compared to US\$1,173 in the second quarter of 2009 and US\$1,544 in the third quarter of 2008. Similarly, the price of palladium averaged US\$272 in the third quarter of 2009, compared to US\$234 in the second quarter of 2009 and US\$331 in the third quarter of 2008. As at November 9, 2009, the prices of platinum, palladium and gold were US\$1,360, US\$332 and US\$1,107 per ounce, respectively.

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. Further, DMC's Canadian operations generate all revenues and expenses in Canadian dollars, while DMC's US counterpart generates all revenues and expenses in US dollars. The Canadian dollar appreciated relative to the US dollar during the quarter as the closing rate on September 30, 2009 was \$1.07/US\$ and the average rate for the third quarter of 2009 was \$1.10/US\$, compared to \$1.16/US\$ and \$1.17/US\$, respectively, in the second quarter of 2009 and \$1.06/US\$ and \$1.04/US\$ in the third quarter of 2008, respectively. Table 2, under Sensitivity Analysis, 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 September 30, 2009 and November 9, 2009.

| | 2005 | 2006 | 2007 | 2008 | Sept 30 2009 | Nov 9 2009 |
|--------------------------|-------|-------|-------|-------|-----------------|---------------|
| Copper (US\$/lb) | 1.67 | 3.05 | 3.22 | 3.15 | 2.78 | 2.98 |
| Nickel (US\$/lb) | 6.68 | 11.00 | 16.88 | 13.04 | 7.86 | 7.91 |
| Cobalt (US\$/lb) | 14.55 | 15.32 | 28.28 | 36.02 | 17.20 | 20.00 |
| Platinum (US\$/oz) | 897 | 1,142 | 1,303 | 1,580 | 1,287 | 1,360 |
| Palladium (US\$/oz) | 202 | 320 | 355 | 353 | 291 | 332 |
| Gold (US\$/oz) | 445 | 604 | 697 | 872 | 996 | 1,107 |
| Foreign exchange \$/US\$ | 1.21 | 1.13 | 1.07 | 1.07 | 1.07 | 1.06 |

⁽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 the exchange rate 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 |
|------------------------------|------------------------|-------------------------------|----------------------|--|
| Copper | US\$0.25 / lb | \$6.1 million | \$0.07 | \$10.1 million |
| Nickel | US\$1.00 / lb | \$2.5 million | \$0.03 | \$4.2 million |
| \$/US\$ | \$0.10 movement | \$2.2 million | \$0.03 | \$3.7 million |

Mining Production and Sales

Pursuant to the Off-Take agreement with Vale Inco, FNX is to ship and sell all of the ore it produces to Vale Inco in Sudbury, Ontario for processing. Vale Inco began an eight week production and processing shutdown on June 1, 2009. FNX continued to deliver ore to the Clarabelle Mill until the end of May, at which time the Company began stockpiling all ore mined for future processing. 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.

As a result of the ongoing Vale Inco unionized labour strike, the Company concluded an agreement with Xstrata Nickel on August 12, 2009 to process the Company’s stockpiled ore at its Strathcona Mill in Sudbury, Ontario. The final terms of the Xstrata Nickel processing agreement will remain confidential. FNX shipped 155,852 tons of ore to Xstrata Nickel, of which 107,876 tons were processed in October 2009 with the balance expected to be processed during the remainder of the fourth quarter.

On September 23, 2009, the Company announced that Vale Inco had requested the recommencement of ore shipments to the Clarabelle Mill under the terms of the existing Off-Take Agreement, despite the ongoing strike. Accordingly, the Company ceased shipping to Xstrata Nickel and resumed shipping September ore to Vale Inco in late September 2009, and will continue shipping to Vale Inco in the fourth quarter of 2009. Accordingly, only 9,302 tons of ore were shipped to Vale Inco in the third quarter of 2009; however, 155,852 tons and 20,342 tons of ore were stockpiled in inventory to be processed at Xstrata Nickel and Vale Inco, respectively, in the fourth quarter of 2009. As a result of the low tons shipped in the quarter and the significant provisional price adjustment, many key performance indicators are skewed, resulting in a higher degree of difficulty in comparing figures period over period.

In December of 2008, FNX 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 the Company’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.

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. As a result of the decision to advance development of the LFD access ramp, current plans do not anticipate any development ore from the LFD in 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.

Work to advance the development of the LFD continues as the high-grade copper-nickel-precious metals deposit remains FNX's main focus and represents a significant portion of the Company's future. 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 production in 2010.

Interim processing costs terms and interim payable metals terms, based on preliminary metallurgical testing, have been established by Vale Inco for the Levack and Podolsky Mines. Metallurgical testing has not proceeded as anticipated and will not be completed prior to the end of 2009 as previously expected. Once final payable metals and processing costs terms are determined, it is expected that 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

Copper sales in the third quarter of 2009 were 0.4 million pounds, 95% lower than the second quarter of 2009 and 96% lower than in the third quarter of 2008. Nickel sales of less than 0.1 million pounds in the third quarter of 2009 were 1.4 million pounds lower than the second quarter of 2009 and 3.0 million pounds lower than the third quarter of 2008. No nickel ores are currently being actively mined; however, the Company may selectively mine residual contact nickel ore from previously active stopes where it is cash flow positive and economically viable. Precious metals sales totaled 997 ounces during the third quarter of 2009, down from 16,532 ounces in the second quarter of 2009 and from the 16,379 ounces during the third quarter of 2008. The decrease in nickel, copper and precious metals production for the comparable year over year period is a result of stockpiling ore rather than shipping ore due to the ongoing Vale Inco unionized labour strike.

As a result of Vale Inco's shutdown, 176,194 tons of copper ore were stockpiled at the end of September, which will be processed by Xstrata Nickel and Vale Inco in the fourth quarter of 2009. The related revenue and processing costs will be recorded in the Statement of Operations in the fourth quarter of 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 nine months ended September 30, 2009 and 2008.

| Table 3 – Financial Overview | 2009 | | | 2008 | |
|--|---------------|---------------|---------------|---------------|---------------|
| Three Months Ended September 30 | Mining | DMC | Total | Total | Change |
| | \$000s | \$000s | \$000s | \$000s | \$000s |
| Revenues | 4,601 | 14,181 | 18,782 | 76,423 | (57,641) |
| Expenses ⁽¹⁾ | (2,245) | (12,536) | (14,781) | (73,352) | 58,571 |
| Margin | 2,356 | 1,645 | 4,001 | 3,071 | 930 |
| Depreciation and amortization | (583) | (1,124) | (1,707) | (16,233) | 14,526 |
| Mining operations and services, net | 1,773 | 521 | 2,294 | (13,162) | 15,456 |
| Administration | (2,580) | - | (2,580) | (4,896) | 2,316 |
| Depreciation | (202) | - | (202) | (206) | 4 |
| Stock-based compensation | (1,336) | (237) | (1,573) | (856) | (717) |
| Taxes | 2,186 | (721) | 1,465 | 7,814 | (6,349) |
| Investment impairment | (57,935) | - | (57,935) | (10,000) | (47,935) |
| Share of income (loss) of equity investee | (540) | - | (540) | (1,009) | 469 |
| Other (expenses) income | 414 | 156 | 570 | (4,227) | 4,797 |
| Net earnings (loss) | (58,220) | (281) | (58,501) | (26,542) | 31,959 |
| Basic earnings (loss) per share | (\$0.64) | (\$0.01) | (\$0.65) | (\$0.31) | (\$0.34) |
| Diluted earnings (loss) per share | (\$0.64) | (\$0.01) | (\$0.65) | (\$0.31) | (\$0.33) |
| Cash flow from operating activities | | | 8,240 | (127) | 8,367 |
| Cash flow per share from operating activities ⁽²⁾ | | | \$0.09 | - | \$0.09 |
| Diluted cash flow per share from operating activities ⁽²⁾ | | | \$0.09 | - | \$0.09 |
| | 2009 | | | 2008 | |
| Nine Months Ended September 30 | Mining | DMC | Total | Total | Change |
| | \$000s | \$000s | \$000s | \$000s | \$000s |
| Revenues | 90,282 | 39,322 | 129,604 | 329,339 | (199,735) |
| Expenses ⁽¹⁾ | (53,684) | (37,078) | (90,762) | (251,849) | 161,087 |
| Margin | 36,598 | 2,244 | 38,842 | 77,490 | (38,648) |
| Depreciation and amortization | (5,349) | (3,466) | (8,815) | (41,949) | 33,134 |
| Mining operations and services, net | 31,249 | (1,222) | 30,027 | 35,541 | (5,514) |
| Administration | (7,049) | - | (7,049) | (11,912) | 4,863 |
| Capital taxes | - | - | - | 1,803 | (1,803) |
| Depreciation | (651) | - | (651) | (624) | (27) |
| Stock-based compensation | (4,871) | (608) | (5,479) | (3,419) | (2,060) |
| Taxes | (2,678) | (1,076) | (3,754) | (8,130) | 4,376 |
| Dilution loss | (31,238) | - | (31,238) | - | (31,238) |
| Investment impairment | (57,935) | - | (57,935) | (10,000) | (47,935) |
| Share of income (loss) of equity investee | (768) | - | (768) | (1,009) | 241 |
| Other (expenses) income | 4,256 | 392 | 4,648 | 6,612 | (1,964) |
| Net earnings (loss) | (69,685) | (2,514) | (72,199) | 8,862 | (81,061) |
| Basic earnings (loss) per share | (\$0.80) | (\$0.03) | (\$0.83) | \$0.10 | (\$0.93) |
| Diluted earnings (loss) per share | (\$0.80) | (\$0.03) | (\$0.83) | \$0.10 | (\$0.93) |
| Cash flow from operating activities | | | 23,643 | 69,200 | (45,557) |
| Cash flow per share from operating activities ⁽²⁾ | | | \$0.27 | \$0.82 | (\$0.55) |
| Diluted cash flow per share from operating activities ⁽²⁾ | | | \$0.27 | \$0.81 | (\$0.54) |

(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 nine months ended September 30, 2009 and 2008.

| Table 4 – Mining Segment Production and Sales Summary | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|--|------------------------------------|----------------|------------------|-----------------------------------|----------------|------------------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Ore sold (tons) | | | | | | |
| Copper ore | 9,302 | 187,568 | (178,266) | 272,339 | 405,599 | (133,260) |
| Nickel ore | - | 159,419 | (159,419) | 34,030 | 579,052 | (545,022) |
| Total ore sold | 9,302 | 346,987 | (337,685) | 306,369 | 984,651 | (678,282) |
| Grade of ore sold | | | | | | |
| Copper ore (%Cu) | 2.8 | 3.0 | (0.2) | 3.8 | 3.1 | 0.7 |
| Nickel ore (%Ni) | - | 1.3 | (1.3) | 2.0 | 1.2 | 0.8 |
| Payable metal sold | | | | | | |
| Copper (000s lbs) | 419 | 9,558 | (9,139) | 17,994 | 23,712 | (5,718) |
| Nickel (000s lbs) | 38 | 3,146 | (3,109) | 2,759 | 10,129 | (7,370) |
| Gold (ozs) | 398 | 3,573 | (3,175) | 3,930 | 6,233 | (2,303) |
| Platinum (ozs) | 269 | 5,635 | (5,366) | 8,974 | 12,675 | (3,701) |
| Palladium (ozs) | 330 | 7,171 | (6,841) | 12,040 | 16,325 | (4,285) |
| Cobalt (000s lbs) | 0.1 | 42.3 | (42.2) | 9.5 | 146.2 | (136.7) |
| Metal sales revenue | | | | | | |
| Average Cu price (US\$/lb) | 4.99 | 2.93 | 2.06 | 2.17 | 3.43 | (1.26) |
| Average Ni price (US\$/lb) | 26.68 | 6.61 | 20.07 | 6.72 | 10.20 | (3.48) |
| \$/US\$ exchange rate | 1.10 | 1.04 | 0.06 | 1.17 | 1.02 | 0.15 |
| Total mining revenue (\$000s) | 4,601 | 51,178 | (46,577) | 90,282 | 217,693 | (127,410) |
| Minesite revenue (\$/ton of ore sold) ⁽²⁾ | 575 | 147 | 428 | 315 | 221 | 94 |
| Cash operating cost of metals sold | | | | | | |
| Cash operating cost (\$000s) | 2,245 | 48,289 | (46,044) | 53,684 | 144,587 | (90,903) |
| Cash operating cost (\$/ton of ore sold) | 241 | 139 | 102 | 175 | 147 | (28) |

(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 Mines for the three and nine months ended September 30, 2009 and 2008.

| Table 5 – Production and Sales Summary (Levack Complex) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|--|--|----------------|------------------|---|----------------|------------------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Ore sold (tons) | | | | | | |
| Copper ore | 2,488 | 105,353 | (102,864) | 34,030 | 244,377 | (210,347) |
| Nickel ore | - | 159,419 | (159,420) | 109,147 | 579,052 | (469,905) |
| Total ore sold | 2,488 | 264,772 | (262,284) | 143,177 | 823,429 | (680,252) |
| Grade of ore sold | | | | | | |
| Copper ore (%Cu) | 0.8 | 0.5 | 0.3 | 1.3 | 0.4 | 0.9 |
| Nickel ore (%Ni) | - | 1.3 | (1.3) | 2.0 | 1.2 | 0.8 |
| Payable metal sold | | | | | | |
| Copper (000s lbs) | 25 | 2,611 | (2,586) | 2,820 | 7,284 | (4,464) |
| Nickel (000s lbs) | 10 | 2,660 | (2,650) | 1,627 | 8,925 | (7,298) |
| Gold (ozs) | (157) | 1,252 | (1,409) | 1,552 | 2,693 | (1,141) |
| Platinum (ozs) | 93 | 2,776 | (2,683) | 4,280 | 6,417 | (2,137) |
| Palladium (ozs) | 137 | 4,556 | (4,419) | 6,514 | 10,253 | (3,739) |
| Cobalt (000s lbs) | 0.1 | 42.3 | (42.2) | 9.5 | 146.2 | (136.7) |
| Minesite revenue and margin ⁽²⁾ | | | | | | |
| Minesite revenue (\$/ton) | 921 | 102 | 819 | 245 | 169 | 76 |
| Minesite margin (\$/ton) | 602 | (20) | 622 | 97 | 37 | 60 |

| Table 6 – Production and Sales Summary (Podolsky) | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|--|--|-------------|---------------|---|-------------|---------------|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Ore sold (tons) | | | | | | |
| Copper ore | 6,814 | 82,215 | (75,401) | 163,192 | 161,222 | 1,970 |
| Grade of ore sold | | | | | | |
| Copper ore (%Cu) | 3.5 | 5.6 | (2.1) | 5.5 | 6.3 | 0.8 |
| Payable metal sold | | | | | | |
| Copper (000s lbs) | 394 | 6,948 | (6,554) | 15,174 | 16,428 | (1,254) |
| Nickel (000s lbs) | 28 | 486 | (458) | 1,132 | 1,204 | (72) |
| Gold (ozs) | 555 | 2,321 | (1,766) | 2,378 | 3,540 | (1,162) |
| Platinum (ozs) | 176 | 2,859 | (2,683) | 4,694 | 6,258 | (1,564) |
| Palladium (ozs) | 193 | 2,615 | (2,422) | 5,526 | 6,072 | (546) |
| Cobalt (000s lbs) | - | - | - | - | - | - |
| Minesite revenue and margin ⁽²⁾ | | | | | | |
| Minesite revenue (\$/ton) | 449 | 294 | 155 | 375 | 486 | (111) |
| Minesite margin (\$/ton) | 236 | 100 | 136 | 177 | 261 | (84) |

(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 copper and nickel, 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 copper and nickel contained in the ore that FNX sells to a third-party processor for processing each month is generally 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 three 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 September 30 | | | | Nine Months Ended September 30 | | | |
|--------------------------------|---------------------------------|--------------|---------------|--------------|--------------------------------|--------------|---------------|--------------|
| | 2009 | | 2008 | | 2009 | | 2008 | |
| | Average Price | Market Price | Average Price | Market Price | Average Price | Market Price | Average Price | Market Price |
| Copper (US\$/lb) | 4.99 | 2.66 | 2.93 | 3.48 | 2.17 | 2.11 | 3.43 | 3.62 |
| Nickel (US\$/lb) | 26.68 | 8.03 | 6.61 | 8.60 | 6.72 | 6.21 | 10.20 | 11.12 |
| Cobalt (US\$/lb) | 205.92 | 17.34 | 17.43 | 32.57 | 33.33 | 15.03 | 40.30 | 39.20 |
| Platinum (US\$/oz) | 3,314 | 1,232 | 201 | 1,544 | 1,536 | 1,143 | 1,372 | 1,786 |
| Palladium (US\$/oz) | 1,422 | 272 | (6) | 331 | 310 | 235 | 291 | 388 |
| Gold (US\$/oz) | 1,029 | 960 | 827 | 870 | 1,003 | 930 | 863 | 897 |
| \$/US\$ | 1.10 | 1.10 | 1.04 | 1.04 | 1.17 | 1.16 | 1.02 | 1.02 |

- (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 \$3.3 million in the third quarter of 2009, compared to \$13.6 million in the second quarter of 2009 and a negative \$21.3 million in the third quarter of 2008. Year to date, the net adjustment to revenues, as a result of provisional pricing, for ore shipments from prior periods that had not been settled was a positive \$25.4 million, compared to a negative \$17.1 million in 2008.

Minesite operating revenues, including the aforementioned provisional price adjustments of \$3.3 million, totaled \$5.3 million in the third quarter of 2009, approximately 90% lower than each of the second quarter of 2009 and the third quarter of 2008. Revenues were lower in the third

quarter of 2009 compared to 2008 as a result of stockpiling ore during the labour disruption at Vale Inco, for processing in the fourth quarter of 2009.

The 6% quarter over quarter appreciation in the value of the Canadian dollar relative to the US dollar in the third quarter of 2009 resulted in lower revenue in Canadian dollars than would otherwise have been realized and also resulted in a foreign exchange loss on the US dollar denominated account receivable 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 third quarter of 2009 to the third quarter of 2008 and second quarter of 2009, respectively.

| Table 8 – Net Change in Copper Sales Revenue | Q3-2009 compared to Q3-2008 | Q3-2009 compared to Q2-2009 |
|---|-----------------------------------|-----------------------------------|
| | \$000s | \$000s |
| \$ Change due to quantity | (27,098) | (22,012) |
| \$ Change due to price | 1,021 | 1,022 |
| Net change in copper sales revenue | (26,077) | (20,990) |
| <i>Change in quantity sold (000s lbs)</i> | <i>(9,139)</i> | <i>(7,437)</i> |
| <i>Change in revenue (US\$/lb)</i> | <i>2.06</i> | <i>2.48</i> |

| Table 9 – Net Change in Nickel Sales Revenue | Q3-2009 compared to Q3-2008 | Q3-2009 compared to Q2-2009 |
|---|-----------------------------------|-----------------------------------|
| | \$000s | \$000s |
| \$ Change due to quantity | (21,580) | (13,372) |
| \$ Change due to price | 830 | 756 |
| Net change in nickel sales revenue | (20,750) | (12,616) |
| <i>Change in quantity sold (000s lbs)</i> | <i>(3,108)</i> | <i>(1,507)</i> |
| <i>Change in revenue (US\$/lb)</i> | <i>20.07</i> | <i>19.13</i> |

The following table shows the composition of copper, 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 September 30 | | | |
| | \$000s | \$000s | \$000s |
| Copper | 2,263 | 28,340 | (26,077) |
| Nickel | 1,091 | 21,841 | (20,750) |
| Other | 1,247 | 997 | 250 |
| | 4,601 | 51,178 | (46,577) |
| Nine months ended September 30 | | | |
| | \$000s | \$000s | \$000s |
| Copper | 47,381 | 82,221 | (34,840) |
| Nickel | 22,065 | 105,024 | (82,959) |
| Other | 20,836 | 30,448 | (9,612) |
| | 90,282 | 217,693 | (127,411) |

The decrease in nickel revenues in the third quarter of 2009 relative to the previous quarter of 2009 and the third quarter of 2008 is as a result of shipping only 9,302 tons of copper ore in the third quarter of 2009, resulting in lower nickel quantities and grades than if nickel ores had been shipped, which have higher nickel grades and quantities. 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 three and nine month periods ended September 30, 2009 and 2008.

| Table 11 – Precious Metal Sales | Sold to Gold | Sold to Vale | Total |
|--|---------------------|---------------------|---------------|
| Three months ended September 30, 2009 | Wheaton | Inco | |
| | \$000s | \$000s | \$000s |
| Gold | 255 | 100 | 355 |
| Platinum | 305 | 129 | 434 |
| Palladium | 232 | 107 | 339 |
| | 792 | 336 | 1,128 |
| Nine months ended September 30, 2009 | Sold to Gold | Sold to Vale | Total |
| | \$000s | \$000s | \$000s |
| Gold | 2,686 | 921 | 3,607 |
| Platinum | 9,723 | 2,672 | 12,395 |
| Palladium | 2,465 | 890 | 3,355 |
| | 14,874 | 4,483 | 19,357 |

| Three months ended September 30, 2008 | Sold to Gold | Sold to Vale | Total |
|--|---------------------|---------------------|----------------|
| | Wheaton | Inco | |
| | \$000s | \$000s | \$000s |
| Gold | 2,058 | 484 | 2,542 |
| Platinum | 2,807 | (4,539) | (1,732) |
| Palladium | 501 | (1,242) | (741) |
| | 5,366 | (5,297) | 69 |
| Nine months ended September 30, 2008 | Sold to Gold | Sold to Vale | Total |
| | \$000s | \$000s | \$000s |
| Gold | 2,058 | 2,921 | 4,979 |
| Platinum | 2,807 | 11,799 | 14,606 |
| Palladium | 501 | 3,583 | 4,084 |
| | 5,366 | 18,303 | 23,669 |

Minesite revenues (and revenues per ton) differ from revenues on the Statement of Operations due to the gold equivalent ounces sold to Gold Wheaton. Minesite revenues include all sales of gold, platinum and palladium as if they had been sold by FNX to the custom processor.

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 deposits subject to the Gold Wheaton agreement. Minesite revenue for the third quarter of 2009 totaled \$5.3



million. The cash component above US\$400 per ounce that is to Gold Wheaton's account totaled \$1.1 million, while the amount amortized into revenue from deferred revenue totaled \$0.4 million, resulting in mining revenue of \$4.6 million as per the Statement of Operations. For year to date 2009, minesite revenue totaled \$96.4 million. The cash component for Gold Wheaton totaled \$13.0 million, while the amount amortized into revenue from deferred revenue totaled \$6.9 million, resulting in mining revenue of \$90.3 million as per the Statement of Operations.

Mining Cost of Sales

Mine operating expenses, excluding mine depreciation and amortization costs, ("cash operating costs") were \$2.2 million in the third quarter of 2009, \$26.3 million lower than in the second quarter of 2009, and \$46.1 million lower than the third quarter of 2008. Total cash operating costs are expected to be lower in 2009 than 2008 due to lower tonnages of ore mined and sold this year and were particularly lower in the third quarter due to the low number of tons sold and the stockpiling of most of FNX's production.

Minesite Margin Per Ton of Ore Sold

While the cash operating cost per pound of metal sold is an important industry benchmark, the polymetallic nature of the Company's sales and the decreasing significance of any one particular metal produced and sold by FNX relative to the Company's overall operating results has led the Company to no longer provide guidance with respect to the cash operating cost per pound of any of the individual metals. 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 three and nine months ended September 30, 2009 and 2008.

| Table 12 – Minesite Margin Per Ton ⁽¹⁾ | Three months ended | | Nine months ended | |
|--|---------------------------|--------|--------------------------|--------|
| | September 30 | | September 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| | \$/ton | \$/ton | \$/ton | \$/ton |
| Minesite revenue | 575 | 147 | 315 | 221 |
| Minesite expenses ⁽²⁾ | (241) | (139) | (175) | (147) |
| Minesite margin per ton of ore sold | 334 | 8 | 140 | 74 |

(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 minesite revenue per ton of ore sold in the third quarter of 2009 was positively impacted by provisional price adjustments of \$357 per ton and resulted in minesite revenue per ton of \$575, compared to minesite revenue of \$274 in the second quarter of 2009 and \$147 in the third quarter of 2008. The increase in minesite revenue per ton in the third quarter of 2009 compared to the second quarter of 2009 is due mainly to the positive provisional price adjustment, but also due to higher average metal prices in the quarter. The average mine



operating cost per ton was \$241 in the third quarter of 2009, compared to \$148 in the second quarter of 2009 and \$139 in the third 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 third quarter were much lower than the second quarter due to lower production; however, certain costs remain fixed regardless of the number of tons sold resulting in a higher minesite cash operating cost per ton due to the lower number of tons sold in the third quarter. The minesite margin per ton of ore sold was \$334 in the third quarter of 2009, compared to \$126 in the second quarter of 2009 and \$8 in the third quarter of 2008. On a year over year basis, the minesite margin per ton of ore sold increased \$326. Due to the relatively low tonnage of ore sold in the third quarter of 2009, the revenue, cost and margin per ton of ore sold is not representative of ongoing amounts per ton.

While FNX anticipates that the minesite margin per ton of ore sold will continue to fluctuate, combined mining operations' production and processing costs for the balance of 2009 are 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 \$0.5 million in the third quarter of 2009, \$1.2 million lower than in the second quarter of 2009 and \$13.4 million lower than during the third quarter of 2008, and \$5.3 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 that are subject to depreciation and amortization.

DMC Segment

Revenues from the DMC segment for the three months ended September 30, 2009 totaled \$14.2 million, compared to \$11.7 million in the second quarter of 2009 and \$25.2 million in the third quarter of 2008. For the nine month period ended September 30, 2009, revenues were \$39.3 million, compared to \$111.6 million in the same period of 2008. Contracting operating costs for the third quarter of 2009 totaled \$12.5 million, compared to \$11.3 million in the second quarter of 2009 and \$25.1 million in the comparable period in 2008. For the nine month period ended September 30, 2009, contracting operating costs were \$37.1 million compared to \$107.3 million for the same period in 2008. Operating revenues and expenses were significantly lower in 2009 compared to 2008 as a result of the loss of a large client at the end of September 2008. Depreciation and amortization expenses totaled \$1.1 million in the third quarter of 2009, compared to \$1.1 million in the second quarter of 2009 and \$2.4 million in the third quarter of 2008. For the nine month period ended September 30, 2009, depreciation and amortization expenses were \$3.5 million, compared to \$7.0 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 \$1.7 million during the third quarter of 2009, compared to \$0.4 million in the second quarter of 2009 and \$0.2 million in the third quarter of 2008. Overall, the DMC segment incurred a loss of \$0.3 million in the third



quarter of 2009, compared to a loss of \$1.3 million in the second quarter of 2009 and \$9.6 million in the third quarter of 2008. Year to date, DMC incurred a loss of \$2.5 million, compared to \$12.1 million for the same period in 2008. As at September 30, 2009, DMC had a backlog of work to be completed of approximately \$26.9 million, the majority of which is to be earned in the United States, with \$14.4 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. \$13.6 million or 35% of DMC's revenue for the nine month period ended September 30, 2009 has come from contracts that have been secured and started in the current calendar year.

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

FNX holds as a core value the principle of zero harm to people and the environment. 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, as well as on the management of operations in a manner that minimizes any adverse effect on the environment.

In the third 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 minesites.

Employees and contractors in the Mining segment experienced zero Lost Time Injuries ("LTI") and six Medical Aid Injuries ("MAI") during the quarter. The Lost Time Injury Frequency Rate ("LTIFR") for the quarter was zero and the Total Medical Injury Frequency Rate ("TMIFR") was 4.9, compared to 0.8 and 9.8, respectively, for the third quarter of 2008. This compares to the average LTIFR and TMIFR for other Ontario mines in the same WSIB rate group for the third quarter of 2009 of 0.8 and 3.8, respectively, and for the third quarter of 2008 of 0.5 and 8.2, respectively.

Employees in the DMC segment experienced zero LTIs and four MAI during the period. The LTIFR for the quarter was zero and the TMIFR was 6.6, compared to zero and 0.5, respectively, for the third quarter of 2008. This compares to the average LTIFR and TMIFR for Ontario mine contractors for the third quarter of 2009 of zero and 2.9, respectively and for the third quarter of 2008 of 0.4 and 7.5, respectively.

The LTIFR and TMIFR for the quarter for the combined Mining and DMC segments, including contractors, were zero and 5.4, respectively, compared to zero and 5.6, respectively, for the third quarter of 2008.

As at September 30, 2009, the Mining segment had 425 direct employees and 49 contractors, compared to 405 and 35, respectively, at December 31, 2008. As at September 30, 2009, the DMC segment had 240 direct employees and one contractor, including 76 in Canada and 164 in



the United States, compared to 271 direct employees and three contractors as at December 31, 2008, including 169 in Canada and 102 in the United States.

Environment

There have been no reportable environmental incidents in the first nine months of 2009.

In an effort to further enhance its environmental management system, FNX engaged a consultant to conduct an independent compliance audit at all three minesites in 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. The last of the actions necessary to correct the audit findings at all minesites were completed during the third quarter. FNX has implemented a sustainability plan of conducting annual internal audits and an independent third party audit is to be conducted every three years.

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.

During the third quarter of 2009, both the Wahnapiatae First Nation and FNX nominated their respective Implementation Committee members, agreed on a Terms of Reference for the committee and have begun implementing the Impact Benefit Agreement signed in July 2008. The Environment Committee and the Human Resources Committee, which report to the Implementation Committee, will be established in the fourth quarter of 2009.

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 \$2.6 million in the third quarter of 2009, compared to \$1.5 million and \$4.9 million in the second quarter of 2009 and the third quarter of 2008, respectively. Year to date, administration expenses were on budget at \$7.0 million, compared to \$11.9 million in 2008. Administration expenses were lower in 2009 than in 2008 as a result of the relocation of the corporate head office to new space and the payments made in connection with the departure of the former President and CEO in August of 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 \$1.6 million in the third quarter of 2009, compared to \$2.6 million and \$0.9 million during the second quarter of 2009 and third quarter of 2008, respectively. The decrease since the second quarter is mainly due to a lower Deferred Share Unit (“DSU”) expense as a result of the less dramatic increase in the Company’s share price this quarter over the second quarter of 2009, and the increase since the third quarter of 2008 is as a result of the positive movement of the Company’s share price this quarter, compared to a negative movement in the third quarter of 2008.

In the third quarter of 2009, no options to purchase common shares were granted to directors, officers and employees, compared to 118,000 granted in the third quarter of 2008, no options were exercised, compared to 168,000 in the third quarter of 2008, 20,666 options were cancelled, compared to 120,500 in the third quarter of 2008 and 45,000 options expired, compared to none in the third quarter of 2008. Stock-based compensation expense is based upon the Black-Scholes option pricing model.

Investment Impairments

FNX evaluates its equity investment for evidence of impairment pursuant to the CICA 3051, *Investments*. Under the required impairment tests, it was determined that an “other-than-temporary” impairment exists with respect to FNX’s investment in Gold Wheaton as at September 30, 2009. While management believes in the long-term investment value of Gold Wheaton, accounting rules required that the investment be written down to its fair value, determined to be the market value at the Balance Sheet date, with a total impairment loss of \$53.0 million being recognized in the Statement of Operations.

FNX evaluates its available-for-sale investments for evidence of impairment pursuant to CICA 3855, *Financial Instruments – Recognition and Measurement*. Under the required impairment tests, it was determined that an “other-than-temporary” impairment exists with respect to certain of FNX’s junior mining company investments as at September 30, 2009. As a result, these investments were written down to their fair values, being the market value, at the Balance Sheet date, with total impairment losses of \$4.9 million being recognized in the Statement of Operations.

Other Expenses (Income)

Other expenses (income) resulted in a net income of \$0.6 million in the third quarter of 2009, compared to a net income of \$0.5 million and a net expense of \$14.2 million during the second quarter of 2009 and the third quarter of 2008, respectively. Year to date, other expenses (income) resulted in a net income of \$4.6 million, compared to a net expense of \$3.4 million in the comparable period in 2008. Year to date, other income primarily consists of \$5.8 million of accretion and mark-to-market gain on the Gold Wheaton derivative note receivable, \$0.8 million of mark-to-market gains on the International Nickel Ventures Corporation (“INV”) warrants held, \$0.6 million of interest income on cash and cash equivalents of the Company and an offsetting \$2.8 million foreign exchange loss. As at September 30, 2009, the Company had \$258.2 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, albeit at relatively low interest rates.



Provision for Income and Resource Taxes and Provincial Capital Taxes

Income and resource tax expense was recorded at a year to date rate of 23% on earnings excluding the dilution and impairment losses, compared to 32% in 2008. For the nine months ended September 30, 2009, the current portion was an expense of \$8.2 million and the future income tax recovery was \$4.4 million. The future income tax liability was reduced to \$53.5 million at September 30, 2009 mainly as a result of the taxes recorded on the share and warrant issue costs which were capitalized to share capital and warrants related to the September 9, 2009 bought deal equity financing.

Many provincial jurisdictions charge a tax based on a corporation's taxable capital. The Province of Ontario passed legislation in the third quarter of 2008 that eliminated capital taxes for companies actively mining in Ontario retroactive to January 1, 2007 and, accordingly, during the third 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 (\$1.0) million in the third quarter of 2009, compared to of \$17.8 million and \$1.8 million in the second quarter of 2009 and the third quarter of 2008, respectively. The following table presents the calculation of EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2009 and 2008.

| Table 13 – EBITDA and Adjusted EBITDA | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-----------------|-----------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| | \$000s | \$000s | \$000s | \$000s |
| Earnings (loss) before taxes and equity investee | (59,426) | (33,347) | (67,677) | 18,001 |
| Interest income | (170) | (1,104) | (586) | (1,595) |
| Interest expense | - | 161 | - | 374 |
| Depreciation and amortization | 1,909 | 16,439 | 9,466 | 42,573 |
| EBITDA | (57,688) | (17,851) | (58,797) | 59,353 |
| Adjustments: | | | | |
| Stock-based compensation | 1,573 | 856 | 5,479 | 3,419 |
| (Gain) loss on sale of PP&E | (14) | (4) | (17) | (98) |
| Dilution loss | - | - | 31,238 | - |
| Mark-to-market and accretion of Gold Wheaton note | (2,093) | - | (5,785) | - |
| Mark-to-market of investments held-for-trading | (634) | 474 | (751) | 727 |
| Investment impairments | 57,935 | 10,000 | 57,935 | 10,000 |
| Asset impairments | - | 4,128 | - | 4,128 |
| Miscellaneous | (45) | 4,242 | (117) | 4,242 |
| Adjusted EBITDA | (966) | 1,845 | 29,184 | 81,771 |

Financial Condition and Liquidity

Cash and Cash Flows

Cash flow from operating activities was \$8.2 million during the third quarter of 2009, or \$0.09 per share, compared to net outflows of \$0.1 million, or \$nil per share, during the third quarter of 2008. Year to date cash flow from operating activities was \$23.6 million, equal to \$0.27 per share, compared to \$69.2 million, equal to \$0.82 per share, in the first nine months of 2008. Cash balances and working capital were \$258.2 million and \$256.3 million, respectively, at September 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 lower quantities of ore mined and sold in 2009 relative to 2008.

Financing activities resulted in net cash inflows of \$136.7 million in the third quarter of 2009, compared to \$14.3 and a net outflow of \$18.2 million during the second quarter of 2009 and third quarter of 2008, respectively, from the issuance of 14,950,000 Units for gross proceeds of \$144.3. Year to date financing activities resulted in net cash inflows of \$151.0 million, compared to \$2.8 million in the comparable period of 2008 as a result of the issuance of 14,950,000 Units in September 2009 and the issuance of 2,173,914 million flow-through common shares in April 2009.

Investing activities for the third quarter of 2009, resulted in a net cash outflow of \$16.2 million, compared to a net cash outflow of \$14.7 million and \$129.4 million during the second quarter of 2009 and the third quarter of 2008, respectively. Expenditures on property, plant and equipment comprised all of the investing activities in 2009, while in 2008, these expenditures were offset by \$21.4 million of proceeds on the disposal of a number of Lake Shore Gold Corp. shares, a \$10.0 million investment in Strategic Resource Acquisition Corporation and the receipt of the \$175 million Gold Wheaton deferred revenue, offset by transaction costs of \$4.4 million.



Development, equipment and exploration expenditures are budgeted to be \$64 million in 2009 plus \$6.2 million of flow-through expenditures.

The net change in cash balances as a result of operating, financing and investing activities was a net cash inflow of \$127.1 million in the third quarter of 2009, compared to a net cash outflow of \$16.5 million in the second quarter of 2009 and a net cash inflow of \$111.6 million during the third quarter of 2008. FNX remained debt free during the quarter.

Working Capital

Working capital increased \$118.6 million during the third quarter of 2009 to \$256.3 million, primarily due to the cash received from the September 9, 2009 bought deal equity financing.

While FNX does not receive provisional payments for the metal in the ore it sells, the account receivable at September 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\$0.25 change in the price per pound of copper or US\$1.00 change in the price per pound of nickel would impact the September 30, 2009 trade accounts receivable from Vale Inco and Gold Wheaton and earnings before tax by approximately \$1.8 million and \$1.5 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 September 30, 2009 and earnings before tax by approximately \$2.0 million.

The Company had \$258.2 million of cash and \$151.1 million carrying value of investments at September 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.

Investments

Under the required impairment tests, it was determined that an "other-than-temporary" impairment exists with respect to FNX's investments in Fieldex Exploration Inc., Northern Superior Resources Inc. and Visible Gold Mines Inc. as at September 30, 2009. See the investment impairment section above for further details. At September 30, 2009, FNX's available-for-sale investments and common share purchase warrants were measured at a total fair value of \$14.8 million.

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.

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 September 30, 2009, FNX's 25.6% share of the loss of its equity investee, Gold Wheaton, was \$0.5 million, compared to income of \$nil in the second quarter of 2009 and a loss of \$1.0 million in the third quarter of 2008.

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 September 30, 2009 was \$40.9 million, an increase of \$2.1 million since June 30, 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.

Under the impairment tests, it was determined that an "other-than-temporary" impairment exists with respect to FNX's investment in Gold Wheaton as at September 30, 2009. See the investment impairment section above for further details. At September 30, 2009, the market value of FNX's 360 million Gold Wheaton shares was approximately \$95.4 million.

Property, Plant and Equipment

(i) Summary

Expenditures on property, plant and equipment ("PP&E") totaled approximately \$16.2 million during the third quarter of 2009 compared to \$14.7 million during the second quarter of 2009 and \$41.2 million during the third 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 PP&E expenditures for the three and nine months ended September 30, 2009, by property location and the 2009 annual budget including flow-through funds.

| Table 14 – PP&E Expenditures | Three months ended September 30, 2009 | Nine months ended September 30, 2009 | Annual budget 2009 ⁽¹⁾ |
|---|--|---|--|
| | \$000s | \$000s | \$000s |
| LFD | 8,813 | 26,589 | 44,332 |
| Podolsky Mine | 2,929 | 9,531 | 14,684 |
| Levack Complex | 1,229 | 3,689 | 4,412 |
| Victoria | 2,826 | 3,590 | 2,463 |
| Kirkwood | 42 | 42 | 1,362 |
| Podolsky Nickel Ramp | - | 38 | - |
| Other Properties | 275 | 345 | 2,588 |
| Corporate | - | 49 | - |
| DMC | 60 | 50 | 500 |
| | 16,174 | 43,948 | 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 September 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 and \$1.3 million on Other Properties. As a result of the additional flow-through funds, budgeted capital expenditures in 2009 have increased from an original budget of \$64.2 million to \$70.4 million to include flow-through expenditures. Capital expenditures are expected to be slightly below budget for the year.

(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 comprised of drifting at McCreedy West to support current and future production.

(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 above the 2225 Level and completing related lateral development work on the 2225 and 2000 Levels. The main access ramp remains on schedule for internal connection late in 2009, which will support access on all levels for future production. Capital work was also completed on the backfill plant and system during the third quarter of 2009.

(iv) Property Under Development – LFD

As at September 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. The concentration on LFD development will limit the pre-operating tons produced in 2009, but will provide more accesses at depth where higher grade ore is available by the middle of 2010. As a result of the changing tenor of the ore, which improves with depth, the decision has been made to focus on advancing the development depth as rapidly as possible to allow access to ore deeper in the LFD in 2010. Other work completed in the third quarter of 2009 included the replacement of guides in the cage compartment as work continues on rehabilitation of the No. 2 Shaft to achieve commercial production at the LFD in mid to late 2010.

The key development focus is the access ramp which will provide long-term access to the LFD. The access ramp progressed from the 3500 Level and approached the 3700 Level, representing approximately 1,000 feet of new development. This advance leaves roughly 1,700 feet of additional advancement required in order to reach the existing 4000 Level crosscut from Xstrata Nickel's Craig Mine. Development also occurred on the 3180 and 3450 Levels. Current development of the access ramp has provided drill platforms for close-spaced definition drilling to support mine planning and resource estimates. An access drift at the 3450 level was driven to the bottom of a planned fresh ore raise and the raise development will be started in October. Work is currently underway to increase the trucking capacity on the access ramp.

The accumulated mineral property and exploration capital costs to date at the LFD, net of \$5.9 million of pre-production revenue credits, were transferred from mineral exploration properties to property under development during the first quarter of 2009. Once the LFD achieves commercial production, the accumulated capital costs will be transferred to the appropriate categories of mining property and development and plant and equipment.

(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 September 30, 2009, are all located in the Sudbury mining district and are shown in the following table.



| Table 15 – Accumulated Net Costs of Exploration Properties | September 30 2009 | December 31 2008 |
|---|------------------------------|-----------------------------|
| | \$000s | \$000s |
| LFD | - | 362,301 |
| Victoria | 3,590 | - |
| Falconbridge Footwall | 217 | - |
| Kirkwood | 43 | - |
| Podolsky Nickel Ramp | 38 | - |
| Other Properties | 153 | - |
| | 4,041 | 362,301 |

As at September 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 40% and 100% interest in the mineral exploration properties included in the Falconbridge Joint Venture and Other Properties.

The Falconbridge Footwall and Foy 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 and year to date, \$2.9 million and \$3.5 million of the flow-through financing was expended, respectively, 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 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 deposits subject to the Gold Wheaton agreement.

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 and Warrants

On September 9, 2009, FNX closed a bought deal equity financing from a syndicate of underwriters (the "**Offering**"). The Offering consisted of 14,950,000 Units (the "**Units**") with each Unit consisting of one common share and one-half of one common share purchase warrant, at a price of \$9.65 per Unit for aggregate gross proceeds to FNX of \$144.3 million and, after transaction expenses of \$7.6 million and future income taxes of \$2.0 million, net proceeds of \$138.7 million. The net proceeds were allocated \$124.8 million to share capital and \$13.9 million to warrants. Each whole common share purchase warrant entitles the holder to purchase one common share of FNX at a price of \$13.00 at any time prior to September 9, 2012. The proceeds of this financing will be used to take advantage of any future business opportunities and for general corporate purposes.

On April 28, 2009, FNX 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 CEE related to the exploration of the Company's properties located in Ontario, Canada.

Year to date share capital and warrants has increased by \$153.2 million as a result of the aforementioned bought deal equity financing, the exercise of 12,500 stock options and the issuance of 2,173,914 flow-through shares in April 2009. During the third quarter of 2008, share capital increased by \$1.8 million as a result of the exercise of 168,000 stock options. Year to date 2008 share capital increased by \$4.1 million as a result of the exercise of 312,543 stock options.

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. Included in accrued liabilities at September 30, 2009, is \$3.0 million related to 327,432 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 September 30, 2009, warrants to purchase 7,475,000 common shares at \$13.00 per share and stock options to purchase 3,589,167 common shares at a weighted average price of \$13.42 per share were outstanding. The number of warrants and stock options outstanding at September 30, 2009 represents 7.3% and 3.5%, respectively, of the issued and outstanding common shares at that time. From October 1, 2009 to November 9, 2009, no stock options were granted, 26,334 were cancelled and 3,000 were exercised. As at November 9, 2009, the Corporation had 102,013,190 common shares outstanding and stock options to purchase 3,589,167 (or 3.5% 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

(i) Section 3064, Goodwill and Intangible Assets

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.

(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) *EIC-174, Mining Exploration Costs*

In March 2009, the CICA issued *EIC-174, Mining Exploration Costs*. The EIC reached a consensus that the cost of a mining property includes exploration costs if the entity considers such costs to have the characteristics of property, plant and equipment and applies this policy consistently across all properties. The EIC also reached a consensus that an entity has an obligation in the current and subsequent accounting periods to consider the impairment conditions set out in Section 3063 to determine whether a write-down of capitalized costs is required. The adoption of this standard did not have an impact on the Company’s consolidation 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.

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*. This standard is not expected to have a material impact on the Company’s consolidated financial statements.

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 *IAS 27 - Consolidated and Separate Financial Statements*. This standard is not expected to have a material impact on the Company’s consolidated financial statements.

(ii) *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 many of the required analyses assessing accounting policy decisions, and has begun to quantify the effects of these decisions. These documents will continually be reviewed and revised where necessary for any changes in circumstances. 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) | | | | | |
| Copper ore | 100,629 | 162,408 | 9,302 | | 272,339 |
| Nickel ore | 4,415 | 29,615 | - | | 34,030 |
| Total ore sold | 105,044 | 192,023 | 9,302 | | 306,369 |
| Grade of ore sold | | | | | |
| Copper ore (%Cu) | 5.6 | 2.5 | 2.8 | | 3.8 |
| Nickel ore (%Ni) | 1.8 | 2.0 | - | | 2.0 |
| Payable metal sold | | | | | |
| Copper (000s lbs) | 9,718 | 7,857 | 419 | | 17,994 |
| Nickel (000s lbs) | 1,177 | 1,545 | 38 | | 2,759 |
| Gold (ozs) | 337 | 3,195 | 398 | | 3,930 |
| Platinum (ozs) | 2,779 | 5,926 | 269 | | 8,974 |
| Palladium (ozs) | 4,299 | 7,411 | 330 | | 12,040 |
| Cobalt (000s lbs) | 1.7 | 7.6 | 42.3 | | 9.5 |
| Metal sales revenue | | | | | |
| Average Cu price (US\$/lb) | 1.77 | 2.51 | 4.99 | | 2.17 |
| Average Ni price (US\$/lb) | 5.00 | 7.55 | 26.68 | | 6.72 |
| \$/US\$ exchange rate | 1.24 | 1.17 | 1.10 | | 1.17 |
| Total mining revenue (\$000s) | 35,485 | 50,196 | 4,601 | | 90,282 |
| Minesite revenue (\$/ton of ore sold) ⁽²⁾ | 366 | 274 | 575 | | 315 |
| Cash operating cost of metals sold | | | | | |
| Operating cost (\$000s) | 22,906 | 28,533 | 2,245 | | 53,684 |
| Operating cost (\$/ton of ore sold) | 218 | 148 | 241 | | 175 |

(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) | | | | | |
| Copper ore | 85,845 | 132,186 | 187,568 | 167,707 | 573,306 |
| Nickel ore | 199,054 | 220,579 | 159,419 | 103,629 | 682,681 |
| Total ore sold | 284,899 | 352,765 | 346,987 | 271,336 | 1,255,987 |
| Grade of ore sold | | | | | |
| Copper ore (%Cu) | 4.2 | 2.6 | 3.0 | 5.3 | 3.7 |
| Nickel ore (%Ni) | 1.3 | 1.1 | 1.2 | 1.5 | 1.2 |
| Payable metal sold | | | | | |
| Copper (000s lbs) | 6,892 | 7,262 | 9,558 | 11,501 | 35,213 |
| Nickel (000s lbs) | 3,492 | 3,491 | 3,146 | 3,011 | 13,140 |
| 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 Cu price (US\$/lb) | 3.84 | 3.70 | 2.93 | 0.66 | 2.53 |
| Average Ni price (US\$/lb) | 14.43 | 9.21 | 6.61 | 3.02 | 8.56 |
| \$/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 | 4,601 | | 90,282 |
| DMC revenues | 13,468 | 11,673 | 14,181 | | 39,322 |
| | 48,953 | 61,869 | 18,782 | | 129,604 |
| Mining expenses | 22,906 | 28,533 | 2,245 | | 53,684 |
| DMC expenses | 13,273 | 11,269 | 12,536 | | 37,078 |
| Depreciation and amortization | 4,251 | 2,857 | 1,707 | | 8,815 |
| | 40,430 | 42,659 | 16,488 | | 99,577 |
| | 8,523 | 19,210 | 2,294 | | 30,027 |
| Administration | 2,967 | 1,502 | 2,580 | | 7,049 |
| Stock-based compensation | 1,353 | 2,553 | 1,573 | | 5,479 |
| Depreciation | 234 | 215 | 202 | | 651 |
| Dilution loss | 31,238 | - | - | | 31,238 |
| Investment impairments | - | - | 57,935 | | 57,935 |
| Other expenses (income) | (3,547) | (531) | (570) | | (4,648) |
| | 32,245 | 3,739 | 61,720 | | 97,704 |
| Earnings (loss) before tax and other | (23,722) | 15,471 | (59,426) | | (67,677) |
| Income tax (expense) recovery | (2,199) | (3,020) | 1,465 | | (3,754) |
| Share of loss of equity investee | (230) | 2 | (540) | | (768) |
| Net earnings (loss) | (26,151) | 12,453 | (58,501) | | (72,199) |
| Basic earnings (loss) per share | (0.31) | 0.14 | (0.65) | | (0.83) |
| 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 |
| Investment impairments | - | - | 10,000 | - | 10,000 |
| Asset impairments | - | - | 4,128 | 487,362 | 491,490 |
| 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.