



UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

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



Consolidated Balance Sheets (in thousands of Canadian dollars)	As at September 30 2007 (Unaudited) \$	December 31 2006 \$
Assets		
Current		
Cash and cash equivalents	108,199	115,117
Accounts receivable	61,295	52,082
In-process inventory	3,151	960
Prepaid and other assets	1,465	259
	174,110	168,418
Investments (note 4)	36,552	30,380
Property, plant and equipment (note 5)	747,711	625,683
Reclamation and other deposits (note 6)	6,099	6,099
	964,472	830,580
Liabilities		
Current		
Accounts payable and accrued liabilities	49,937	29,580
Deferred payment obligation	7,432	7,244
	57,369	36,824
Mine closure and site restoration	2,762	2,631
Future income and resource taxes	190,422	165,136
	193,184	167,767
	250,553	204,591
Shareholders' equity		
Share capital (note 7)	559,136	560,266
Contributed surplus (note 8)	11,555	7,710
Retained earnings	135,680	58,013
Accumulated other comprehensive income (note 3)	7,548	-
	713,919	625,989
	964,472	830,580

Subsequent events (note 14)

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



Consolidated Statements of Operations

(in thousands of Canadian dollars
except earnings per share)

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Mine operating revenues	56,767	52,964	216,427	119,743
Mine operating expenses				
Mining, excluding depreciation and amortization	26,015	16,520	74,874	48,438
Depreciation and amortization	7,080	3,338	17,910	9,365
	33,095	19,858	92,784	57,803
	23,672	33,106	123,643	61,940
Expenses				
Administration	1,958	1,850	6,428	7,125
Capital taxes	594	798	1,316	1,373
Depreciation	138	53	345	104
Stock-based compensation (note 8)	777	589	2,355	1,721
Other expenses (income) (note 9)	1,550	(1,165)	(5,827)	(3,476)
	5,017	2,125	4,617	6,847
Earnings before taxes	18,655	30,981	119,026	55,093
Income and resource taxes	(6,170)	(10,505)	(41,359)	(6,080)
Net earnings for the period	12,485	20,476	77,667	49,013
Basic earnings per share (note 7(b))	0.15	0.24	0.93	0.59
Diluted earnings per share (note 7(b))	0.15	0.24	0.91	0.58

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



Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars except earnings per share)
(unaudited)

	Three months ended September 30 2007	Nine months ended September 30 2007
	\$	\$
Net earnings for the period	12,485	77,667
Other comprehensive income, net of tax		
Unrealized gains (losses) on available for sale investments	(2,289)	3,745
Comprehensive income	10,196	81,412

Consolidated Statements of Retained Earnings (Deficit)

(in thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30 2007		Nine months ended September 30 2006	
	\$	\$	\$	\$
Retained earnings (deficit) – beginning of period	123,195	17,870	58,013	(10,667)
Net earnings for the period	12,485	20,476	77,667	49,013
Retained earnings – end of period	135,680	38,346	135,680	38,346

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



Consolidated Statements of Cash Flow (in thousands of Canadian dollars) (Unaudited)	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Operating activities				
Net earnings for the period	12,485	20,476	77,667	49,013
Non-cash items				
Mine depreciation and amortization	7,080	3,338	17,910	9,365
Depreciation	138	53	345	104
Stock-based compensation	777	589	2,355	1,721
Future income and resource taxes	7,046	7,761	23,822	3,336
Interest on deferred payment obligation	63	129	188	383
Gain on disposal of shares	(3,960)	-	(15,480)	-
Gain on sale of mineral exploration properties	-	-	1,077	-
Write-down of mineral exploration properties	-	-	(2,354)	-
Change in value of investments held for trading	788	-	(146)	-
Other	(136)	37	(306)	99
	24,281	32,383	105,078	64,021
Net change in non-cash working capital (note 10)	3,305	(5,067)	11,287	(14,395)
	27,586	27,316	116,365	49,626
Financing activities				
Common shares issued	1,027	53	4,049	808
Investing activities				
Investments	-	-	(2,821)	(996)
Proceeds from disposal of investments	25,512	-	25,512	-
Property, plant and equipment	(55,443)	(32,086)	(149,689)	(68,561)
Reclamation deposits	-	(63)	-	(473)
Other	(334)	-	(334)	-
	(30,265)	(32,149)	(127,332)	(70,030)
Change in cash and cash equivalents for the period	(1,652)	(4,780)	(6,918)	(19,596)
Cash and cash equivalents – beginning of period	109,851	137,644	115,117	152,460
Cash and cash equivalents – end of period	108,199	132,864	108,199	132,864

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2007 and 2006
(in thousands of Canadian dollars except where otherwise noted)
(Unaudited)

1. Nature of operations

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

2. Accounting policies and basis of presentation

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

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("**CICA**") recommendations pertaining to financial instruments, which established standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. This change in accounting policy had the following effect on the consolidated financial statements: investments with a book value of \$30,380 were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50,535 which resulted in a revaluation gain of \$16,507, net of tax. The revaluation gains have been recognized in accumulated other comprehensive income ("**OCI**") (note 3).

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

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

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

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

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

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

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

3. Accumulated other comprehensive income

	September 30
	2007
	<u> </u>
	\$
Accumulated OCI as at January 1, 2007	-
Adjustment at beginning of period due to change in accounting for assets available for sale ¹	16,507
Changes in fair value of assets available for sale ²	11,646
Accumulated OCI as at March 31, 2007	<u>28,153</u>
Reclassification adjustment of gains included in net income	(12,765)
Changes in fair value of assets available for sale ³	(5,612)
Accumulated OCI as at June 30, 2007	<u>9,776</u>
Reclassification adjustment of gains included in net income	61
Changes in fair value of assets available for sale ⁴	(2,289)
Accumulated OCI as at September 30, 2007	<u>7,548</u>

¹ Tax impact of \$3,648

² Tax impact of \$2,574

³ Tax impact of \$3,689

⁴ Tax impact of \$444

4. Investments

	September 30 2007		December 31 2006	
	Shares	Amount	Shares	Amount
	# 000s	\$	# 000s	\$
Lake Shore Gold Corp.	13,300	25,270	13,300	14,630
INV ¹ (common shares) (note 11)	4,762	5,191	3,150	1,956
Fieldex Exploration Inc. (note 5(c))	6,500	2,860	-	-
Superior Diamonds Inc.	6,861	1,715	6,861	3,070
INV ¹ (warrants) (note 11)	3,154	1,191	2,348	692
Visible Gold Mines Inc. (note 5(c))	1,066	320	-	-
Dynatec Corporation	-	-	7,717	10,032
		<u>36,552</u>		<u>30,380</u>

¹ International Nickel Ventures Corporation ("INV")

Effective January 1, 2007, the Company prospectively adopted the CICA recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale. In accordance with the new standards, as of January 1, 2007 the Company has classified its investments in common shares as available for sale. Unrealized holding gains and losses related to available for sale investments are excluded from net income and included in OCI until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Warrants held by the Company are for long-term investment purposes; however, due to their nature they meet the definition of a derivative and are marked-to-market on a quarterly basis. Mark-to-market gains and losses relating to the warrants are included in net income in the period they occur. The Company estimates the fair value of its investment in common shares at the balance sheet date using quoted market prices for available for sale securities and a Black-Scholes option pricing model for private warrants held. Accordingly, investments with a book value of \$30,380 were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50,535 which resulted in a revaluation gain of \$16,507, net of tax. During the three and nine months ended September 30, 2007, the investments were measured at a fair value of \$36,552 resulting in a revaluation loss of \$2,289 and a gain of \$3,745 respectively, net of tax, recognized in accumulated OCI. Warrants with a book value of \$1,047 were measured at a fair value of \$1,192, a decline of \$788 from the previous quarter recognized in other expenses (income) (note 9).

On June 14, 2007, Sherritt International Corporation ("**Sherritt**") and Dynatec Corporation ("**Dynatec**") completed a Plan of Arrangement (the "**Sherritt-Dynatec Arrangement**") whereby Sherritt acquired all of the issued and outstanding shares of Dynatec. Under terms of the Sherritt-Dynatec Arrangement, Dynatec and Sherritt amalgamated (and were continued under the name Sherritt), and the shareholders of Dynatec received 0.19 of a Sherritt common share and approximately 0.0635 of a common share of FNX that was owned by Dynatec for each of their Dynatec common shares. Accordingly, on June 14, 2007, FNX's 7.717 million Dynatec common shares were exchanged for 1.466 million common shares of Sherritt and 0.490 million common shares of FNX, which were immediately cancelled. A gain was recognized in the second quarter on the disposal of the Dynatec shares in the amount of \$11,520 (note 9).

In July 2007, the Company disposed of its 1.466 million shares of Sherritt at \$17.40 per share for net proceeds of \$25,512 and net realized gain of \$3,960 (note 9).

5. Property, plant and equipment

	September 30, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
Levack Complex			
Property and development	225,500	35,499	190,001
Plant and equipment	76,682	9,434	67,248
	<u>302,182</u>	<u>44,933</u>	<u>257,249</u>
Property under development			
Podolsky	124,400	-	124,400
Exploration	364,719	-	364,719
Corporate	2,133	790	1,343
	<u>793,434</u>	<u>45,723</u>	<u>747,711</u>
	December 31, 2006		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
McCreedy West			
Property and development	69,244	21,572	47,672
Plant and equipment	19,748	7,050	12,698
	<u>88,992</u>	<u>28,622</u>	<u>60,370</u>
Property under development			
Levack	136,998	-	136,998
Exploration	427,384	-	427,384
Corporate	1,376	445	931
	<u>654,750</u>	<u>29,067</u>	<u>625,683</u>

(a) Levack Complex

The Levack Complex is located in the Sudbury Basin region of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack mines. For financial reporting purposes, the two adjacent properties are considered to be one mining operation as they are integrated from an operational perspective, produce similar ore and sell all production to the same purchaser, CVRD Inco Limited (“**CVRD Inco**”).

Commencing January 1, 2007, mining revenues and expenses from ore mined and shipped from the Levack property have been included in the statement of operations. In 2006, mining revenues and expenses were only from the McCreedy West property.

FNX holds a 100% interest in the Levack Complex.

(b) Property under development - Podolsky

Podolsky is located in the Sudbury Basin region of Ontario. A decision was made in the third quarter of 2007 to develop Podolsky for commercial production. The accumulated mineral property and exploration capital costs to date, net of \$3,738 of pre-production revenue credits, were transferred from mineral exploration properties to property under development.

Once Podolsky achieves commercial production the accumulated capital costs will be transferred to the appropriate categories of mining property and development and plant and equipment.

FNX holds a 100% interest in Podolsky.

(c) Mineral exploration properties

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

	September 30 2007	December 31 2006
	\$	\$
Levack Footwall	260,393	231,008
Podolsky ¹	-	92,327
Aurora Properties	95,566	96,134
Victoria	6,287	6,235
Kirkwood	2,473	1,680
	364,719	427,384

¹ Accumulated capital costs were transferred to property under development during the third quarter of 2007.

As at September 30, 2007, FNX held a 100% interest in the Levack Footwall, Victoria and Kirkwood mineral exploration properties, all of which are located in the Sudbury Basin region of Ontario.

The Aurora Properties are located in the Sudbury Basin region, Timmins and northwestern Ontario. All of the Aurora Properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them.

The mineral properties included in the Aurora Properties that are of most interest to FNX are located in the Sudbury Basin region and are pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel ("**Xstrata Nickel**"). As at December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, in the Falconbridge Joint Venture and, as Xstrata Nickel is not participating in the 2007 exploration program, Xstrata Nickel's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between 50% and 100% interests in the remaining mineral exploration properties included in the Aurora Properties.

On April 30, 2007, the Company sold its interest in its four Quebec based copper-nickel Aurora Properties to Fieldex Exploration Inc. ("**Fieldex**") in exchange for 6.5 million common shares of Fieldex and a 2% net smelter royalty, which can be purchased by Fieldex at any time for \$1,500 (the "**Fieldex Transaction**"). A gain in the amount of \$2,354 was recognized on the sale during the second quarter in other expenses (income) (note 9). Concurrent with the Fieldex Transaction, FNX and Fieldex entered into a Standstill Agreement for a period of one year, whereby FNX is prohibited from acquiring any additional Fieldex shares, making a proposal or extraordinary offer for Fieldex or disposing of its Fieldex shares without the consent of Fieldex. On July 26, 2007, each Fieldex shareholder of record received approximately one common share of Visible Gold Mines Inc. for each six shares of Fieldex then held.

The Company also wrote-down certain other non-Sudbury Aurora Properties and \$1,077 was charged to earnings in the second quarter (note 9).

(d) Corporate

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

6. Reclamation and other deposits

	September 30 2007	December 31 2006
	\$	\$
Reclamation term deposits	3,699	3,699
Deposit with mine contractor	2,400	2,400
	6,099	6,099

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

Deposit with mine contractor relates to amounts advanced to Sherritt as a deposit on mining contractor services to be provided by Sherritt in connection with a Mining Services Agreement entered into on October 21, 2005. The deposit was applied against Sherritt's final invoice for mine contractor services to FNX, which contract was cancelled on October 15, 2007, the date of acquisition of Sherritt's Dynatec Mining Services Business (note 14).

7. Share capital and earnings per share

(a) Common shares issued and outstanding

	2007		2006	
	Shares	Amount	Shares	Amount
	# 000s	\$	# 000s	\$
Balance – beginning of year	83,736	560,266	83,530	558,947
Stock options exercised	614	4,049	190	808
From contributed surplus (note 8)	-	1,632	-	359
Share cancellation (note 8)	(490)	(6,811)	-	-
Balance – September 30	83,860	559,136	83,720	560,144

(b) Earnings per share

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Net earnings available to shareholders (\$)				
Basic and diluted	<u>12,485</u>	<u>20,476</u>	<u>77,667</u>	<u>49,013</u>
Weighted average shares outstanding (#000s)				
Basic	<u>83,814</u>	<u>83,715</u>	<u>83,943</u>	<u>83,691</u>
Effect of dilutive stock options	<u>1,286</u>	<u>700</u>	<u>1,145</u>	<u>641</u>
Diluted	<u>85,100</u>	<u>84,415</u>	<u>85,088</u>	<u>84,332</u>
Stock options excluded from dilution	<u>24</u>	<u>633</u>	<u>233</u>	<u>340</u>
Earnings per share				
Basic	<u>\$0.15</u>	<u>\$0.24</u>	<u>\$0.93</u>	<u>\$0.59</u>
Diluted	<u>\$0.15</u>	<u>\$0.24</u>	<u>\$0.91</u>	<u>\$0.58</u>

8. Contributed surplus

The following table summarizes information regarding FNX's contributed surplus as at and for the nine month period ended September 30:

	2007	2006
	\$	\$
Balance – beginning of year	7,710	5,677
Stock-based compensation	1,717	1,802
Transfer of exercised options to share capital	(1,632)	(359)
Receipt and cancellation of shares	<u>3,760</u>	<u>-</u>
Balance – September 30	<u>11,555</u>	<u>7,120</u>

The following table summarizes information regarding FNX's stock-based compensation expense for the periods ended September 30:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Stock options	665	615	1,717	1,802
Deferred share units	112	(26)	638	(81)
	<u>777</u>	<u>589</u>	<u>2,355</u>	<u>1,721</u>

(a) Stock option plan

Until March 16, 2005, FNX had only one stock-based compensation plan, a stock option plan (the "Option Plan"). The Board of Directors has implemented a policy requiring all directors and executive officers to hold a minimum of 5,000 common shares and/or deferred share

units (“DSUs”) within five years of their appointment to qualify for membership on the Board or appointment as an executive officer of the Company.

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

The following table summarizes information regarding FNX’s outstanding and exercisable stock options as at September 30, 2007:

Range of exercise prices per share	Outstanding			Exercisable	
	Shares	Weighted average months remaining	Weighted average exercise price per share	Shares	Weighted average exercise price per share
	# 000s	#	\$	# 000s	\$
5.04 to 6.85	502	7	6.52	502	6.52
7.40	225	30	7.40	115	7.40
8.15 to 12.99	724	24	9.65	573	9.23
13.00	175	39	13.00	18	13.00
13.01 to 13.83	204	41	13.54	93	13.64
14.01 to 18.04	178	47	15.62	16	14.89
18.05 to 29.66	282	57	26.00	-	-
30.20 to 34.65	56	56	31.53	-	-
	<u>2,346</u>		12.31	<u>1,317</u>	8.46

The following table summarizes information regarding FNX's stock options as at and for the periods ended September 30, 2007:

	Three months ended		Nine months ended	
	Shares	Weighted average exercise price per share	Shares	Weighted average exercise price per share
	# 000s	\$	# 000s	\$
Balance – beginning of period	2,342	11.10	2,672	9.15
Granted	135	29.66	344	26.83
Exercised	(125)	8.24	(614)	6.59
Forfeited/cancelled	(6)	15.04	(56)	13.49
Balance – end of period	<u>2,346</u>		<u>2,346</u>	

For purposes of stock-based compensation, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the year to date weighted average assumptions used for grants as follows: dividend yield of 0.0% (2006 - 0%), expected volatility of 42% (2006 - 46%), risk-free interest rate of 4.0% (2006 - 4.1%) and expected life of 36 months (2006 - 36 months).

(b) Deferred share units plan

On March 16, 2005, as amended, the Board of Directors approved the implementation of a deferred share unit plan (the “**DSU Plan**”), effective July 1, 2005. The purpose of the DSU Plan is to promote a greater alignment of interests between shareholders and Directors and executive employees by linking a portion of Director compensation and executive employee bonuses to the future value of FNX’s common shares. The DSU Plan is only eligible to Directors and executive employees of FNX and is to allow Directors and executive employees the choice to receive, in increments of 25%, up to 100% of their director compensation or management bonus in the form of DSUs rather than by way of cash. Under the terms of the DSU Plan, the number of DSUs granted is based upon the fair market value of FNX’s common shares at that time. DSUs are only paid out upon the Director’s or executive employee’s death or resignation from the Board or the Company. Included in accrued liabilities is \$1.2 million related to 36,519 DSUs.

(c) Receipt and cancellation of shares

Pursuant to the Sherritt-Dynatec Arrangement (note 4), on June 14, 2007, FNX received and cancelled 0.490 million common shares with a market value of \$16,895. The cancelled shares were originally issued to Dynatec in October 2005 at \$13.90 per share as part of an acquisition by FNX of certain assets of Dynatec. The difference of \$3,760, net of \$3,051 of tax, has been recorded as contributed surplus.

9. Other expenses (income)

	Three months ended September 30		Nine months ended September 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
Gain on disposal of Dynatec shares (note 4)	-	-	(11,520)	-
Gain on disposal of Sherritt shares (note 4)	(3,960)	-	(3,960)	-
Gain on sale of mineral exploration properties (note 5(c))	-	-	(2,354)	-
Loss (gain) on investments held for trading	788	-	(146)	-
Interest income	(1,301)	(1,449)	(3,538)	(4,328)
Management fees	(30)	(30)	(93)	(93)
Foreign exchange	5,990	185	14,584	563
Write-down of mineral exploration properties (note 5(c))	-	-	1,077	-
Interest on deferred payment obligation	63	129	188	383
Miscellaneous	-	-	(65)	(1)
	<u>1,550</u>	<u>(1,165)</u>	<u>(5,827)</u>	<u>(3,476)</u>

10. Supplementary cash flow information

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net change in non-cash working capital				
Accounts receivable	6,433	(10,970)	(7,941)	(28,189)
In-process inventory	2	369	466	802
Prepaid and other assets	(353)	(187)	(896)	(307)
Accounts payable and accrued liabilities	(2,777)	5,721	19,658	13,299
	<u>3,305</u>	<u>(5,067)</u>	<u>11,287</u>	<u>(14,395)</u>
Other information				
Interest paid	-	-	-	-
Income and resource taxes paid	925	-	8,263	-

11. Related party transactions

Under the terms of an agreement between FNX and INV, dated January 1, 2006, FNX has agreed to provide certain administrative services and facilities to INV as well as the non-exclusive services of certain personnel, all in consideration of a flat fee of \$10 per month. These services and facilities include commercially reasonable office facilities and communication equipment (until August 31, 2007) and the non-exclusive services of certain FNX personnel, including the Senior Vice President and Chief Financial Officer of FNX (who also served as the Vice President and Chief Financial Officer of INV until May 31, 2007), as well as accounting and administrative staff as required by INV. The services provided by these personnel are limited to 20% of the time of each such individual per week on the basis of a 40 hour work week. In addition, the non-exclusive services of the former Vice President Business Development of FNX (who also served as the President and Chief Executive Officer of INV until February 5, 2007) and the Vice President Investor Relations and Corporate Secretary of FNX (who also served as the Director of Investor Relations for INV until September 30, 2007), were provided to INV pursuant to the agreement in consideration of the reimbursement to FNX of an amount equal to the salary and benefits paid by FNX to each such officer, multiplied by the percentage of their respective time spent providing services to INV. The services provided by the Vice President Investor Relations and Corporate Secretary of FNX to September 30, 2007 were limited to 20% of the time of such individual per week on the basis of a 40 hour work week. No similar limitations applied to the services provided by the former Vice President Business Development of FNX. The agreement may be terminated by either party at any time upon the provision of 30 days written notice to the other party, at nominal cost. INV has provided notification of termination of the agreement effective December 31, 2007. During the three and nine months ended September 30, 2007, FNX invoiced INV \$40 and \$162, respectively, for services provided under the agreement.

12. Fair value of financial instruments

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

13. Segmented information

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

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

14. Subsequent events

Acquisition of mining services business

On October 15, 2007, the Company acquired from Sherritt the Dynatec Mining Services Business comprised of the Canadian Mining Services Division and Dynatec Mining Corporation, which provides mining services in the United States. The purchase price was satisfied by a cash payment to Sherritt totalling \$53,000 and included an estimated \$19,947 for working capital and is subject to final working capital and other adjustments. The results of the acquired business will be consolidated from October 15, 2007.