



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter Ended September 30, 2007

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



Executive Summary

Operations

FNX continued to increase production at its Sudbury, Ontario mining operations reporting record quarterly operating and production results and strong quarterly financial results. The total tons of ore, pounds of nickel, pounds of copper and ounces of total precious metals produced and sold were higher during the third quarter of 2007 than in any previous quarter. The Company's financial results during the third quarter continued to be strong due to the Company's continuing low cash operating costs and historically robust commodity prices. However, the financial results were adversely impacted, compared to previous quarters, by a very strong Canadian dollar and by significantly lower quarterly realized nickel prices.

During the first nine months of the year, the Company produced more tons of ore, pounds of nickel and copper and ounces of total precious metals and reported higher net earnings, earnings per share and cash flow from operating activities than in any previous comparable period in the Company's history. These results are primarily due to increased nickel production associated with the commencement of commercial production from the Levack nickel deposits effective January 1, 2007. As the Levack and McCreedy properties are adjacent to each other and the operations overlap, the combined operations are considered to be one operating segment entitled the Levack Complex. The McCreedy West to Levack tramming system on the 1600 Level was completed in the third quarter; however, it is not expected to have a material impact on production in 2007.

The Company shipped and sold 248,272 tons of ore from the Levack Complex resulting in the sale of 3.2 million pounds of nickel, 2.9 million pounds of copper and 8,073 ounces of total precious metals during the third quarter of 2007. Year to date, nickel production has been higher than originally budgeted and the corresponding prior period due to the increase in tons mined; however, grades this year have been lower than last year due to the ramping up production at the Levack Mine. The Company expects to achieve and somewhat exceed its original production target of 900,000 tons of ore and 12.7 million pounds of payable nickel for the entire 2007 year.

FNX realized revenues of US\$11.65 per pound of nickel sold and had cash operating costs, net of by-product credits, of US\$2.39 per pound of nickel sold. The revenue per ton of ore sold was \$229 at a cash cost of \$105 per ton, resulting in a cash operating margin per ton of ore sold of \$124. Despite the continuing rising costs of many of the consumables required in mining operations, the Company's cash operating cost per ton of ore sold continues to be below the Company's \$120 cash operating cost per ton benchmark. Nickel sales, along with significant by-product revenues from copper, platinum, palladium, gold and cobalt resulted in operating revenues of \$56.8 million. Mine cash operating costs for the quarter totaled \$26.0 million, providing a cash operating margin of \$30.8 million.

Revenue and earnings were adversely impacted by the lower nickel prices received in the third quarter and adjustments to revenues as a result of provisional pricing to reflect lower nickel prices for ore shipments from prior periods that had not been settled as at June 30, 2007. Provisional price adjustments in the third quarter resulted in a \$4.5 million reduction in revenues.



As a result of the planned and scheduled maintenance shutdown of CVRD Inco Limited's ("CVRD Inco") Clarabelle Mill for most of the month of July 2007, FNX focused on the mining of copper ores that month as nickel ores oxidize when exposed to humid air on surface and, therefore, nickel ore production was curtailed for that period. While production of virtually all metals was up this quarter, the Clarabelle shutdown resulted in a relative increase in copper and precious metals payable in the quarter.

During the third quarter net earnings were \$12.5 million, equal to \$0.15 per share, compared to net earnings of \$35.0 million, or \$0.42 per share, and \$20.5 million, or \$0.24 per share, during the second quarter of 2007 and third quarter of 2006, respectively. Year to date net earnings were \$77.7 million, equal to \$0.93 per share, compared to net earnings of \$49.0 million, or \$0.59 per share, during the first nine months of 2006.

The 17% appreciation in the value of the Canadian dollar relative to the US dollar in 2007 resulted in lower revenue in Canadian dollars than would otherwise have been realized had the Canadian dollar remained at the December 31, 2006 rate of \$1.17/US\$. All other things being equal, revenues would have been approximately \$7 million higher in the third quarter of 2007 and approximately \$11 million higher for the year to date had the foreign exchange rate remained at \$1.17/US\$ for the year rather than declining to \$1.00/US\$.

Cash flow from operating activities was \$27.6 million in the third quarter of 2007, or \$0.33 per share, compared to \$27.3 million, or \$0.33 per share during the third quarter of 2006. Cash balances and working capital were \$108.2 million and \$116.7 million, respectively, at September 30, 2007, compared to \$115.1 million and \$131.6 million, respectively, at December 31, 2006 and the Company continues to remain debt free.

In the third quarter, the board of directors approved new work programs involving additional advanced exploration and development programs at Podolsky and additional development work at McCreedy West. To accommodate these new work programs, the capital expenditure budget was increased for 2007 from \$173 million to \$185 million. The Podolsky programs, described below, total approximately \$18 million, \$7 million of which are scheduled to be incurred in 2007 and the \$11 million balance in 2008. The McCreedy West program involves the development into new nickel resource areas at the south-western extension of the Inter Main Deposit at depth and in the upper portions of the mine for extensions of the Upper Main Deposit at a total cost of \$10 million, of which \$5 million is to be incurred in 2007 and the balance next year.

Development

A decision was made in the third quarter of 2007 to develop the 2000 Deposit at Podolsky for commercial production. The \$124.4 million of accumulated mineral property and exploration capital costs, net of \$3.7 million of pre-production revenue credits, associated with the 2000 Deposit were transferred from mineral exploration properties to property under development. The 2000 Deposit mineralization was intersected on the 2450 Level with 82 feet of massive chalcopyrite exposed in the first crosscut. An initial measured resource of this high grade area of the 2000 Deposit totals 102,000 tons grading 22.69% copper, 1.43% nickel and 0.41 ounces per ton of platinum, palladium and gold ("TPM"). This high-grade measured resource is included within a larger measured resource of 401,000 tons grading 7.08% copper, 0.69% nickel and 0.17 ounces of TPM, which has been converted to a probable reserve of 350,000 tons grading 7.78% copper, 0.67% nickel and 0.18 ounces of TPM. These new resources are from the lower part of the Podolsky Mine 2000 Deposit. In addition, borehole FNX4277, which forms part of the ongoing drill program intersected another high-grade vein up dip from the high-



grade copper-nickel-TPM chalcopyrite-rich massive sulphide zone reported here. This hole intersected 23.7 feet of massive to semi-massive sulphides of similar character to the massive zone on 2450 level described above; assays are pending. At this time, from this single hole, it is not possible to determine the extent or shape of this high grade mineralization. At September 30, 2007, FNX had shipped 1,405 tons of Podolsky development ore to CVRD Inco and had an additional 1,810 tons in surface inventory. FNX also started development of the Podolsky ramp down to the North Deposit at Podolsky. It is currently anticipated that the Podolsky Mine will achieve commercial production sometime during the first half of 2008.

Development on the Levack Footwall Deposit continued to progress in the third quarter. The access drift from the 2650 Level of the Levack Mine is 58% complete, with 932 feet remaining to intersect the mineralization at the Rob's Zone. A second access drift from the 4000 Level of Xstrata Nickel's Craig Mine is 89% complete with 200 feet remaining to the mineralization.

Exploration

FNX also announced during the third quarter that it will initiate an advanced underground exploration program on the Nickel Ramp Deposit at Podolsky. It will start from the Podolsky Ramp and will diverge at approximately 100 feet depth towards the Nickel Ramp Deposit. A 20,000 foot surface drill campaign was initiated in October 2007 to provide data for mineral resource classification. The Nickel Ramp Deposit is a contact nickel style of deposit situated below the previously mined Whistle Pit.

Other

In July 2007, the Company disposed of its 1,466,153 shares of Sherritt International Corporation ("Sherritt") at \$17.40 per share for net proceeds of \$25.5 million and net realized gain of \$4.0 million.

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 the payment to Sherritt of \$53.0 million in cash, including an estimated \$19.9 million for working capital, and is subject to final working capital and other adjustments.

During the third quarter of 2007 financial markets and corporate credit were adversely affected by defaults in the asset backed commercial paper market. FNX was not affected by this situation as the Company does not hold asset backed commercial paper in its portfolio of investments. FNX has historically and will continue in the future to invest all surplus cash resources in conservative, term deposits with major Canadian chartered banks.

The rising Canadian dollar relative to the US dollar has also negatively impacted the account receivable from CVRD Inco and certain other balances that are denominated in US dollars, and resulted in foreign exchange losses of \$6.0 million for the third quarter and \$14.6 million for the year to date, which are included in other expenses on the statements of operations.

During the third quarter, no lost time accidents were reported by FNX employees; however, FNX's on-site contractors experienced one lost time accident. One minor environmental incident was reported in the third quarter and was immediately remediated.

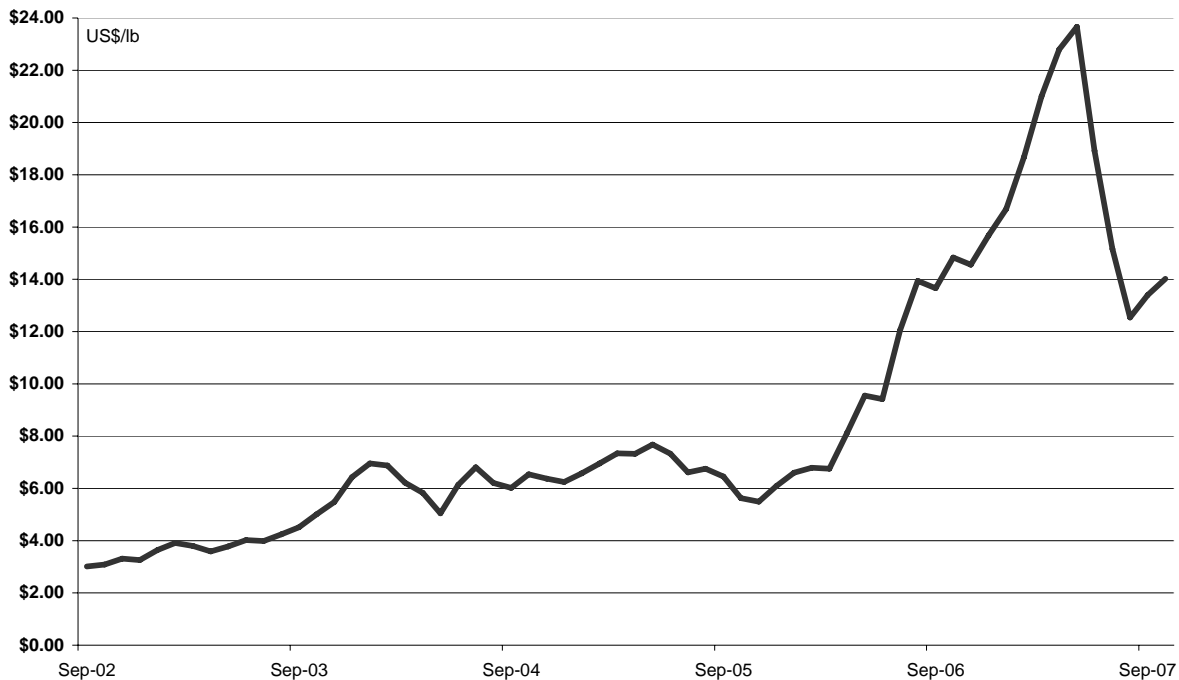
Key Economic Trends and Sensitivities

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

Nickel

Nickel accounted for approximately 68% of the Company's mine operating revenues in the third quarter of 2007, a decrease from 80% in the second quarter of 2007 and consistent with 69% in the third quarter of 2006. The cash settlement price of nickel on the London Metal Exchange ("LME") dropped to US\$11.36 on August 16, 2007, its lowest point in 2007 and averaged US\$13.70 per pound in the third quarter of 2007 (see Figure 1). The LME cash settlement price of nickel rose to US\$14.07 on September 30, 2007 and was US\$14.02 per pound on October 30, 2007. Year to date, the LME cash settlement price of nickel averaged US\$18.09 per pound compared to US\$9.66 per pound in 2006. Management is of the view that the LME cash settlement price for nickel will moderate in 2007 with continued volatility, however, the price should remain strong relative to historic long-term average prices. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to nickel prices.

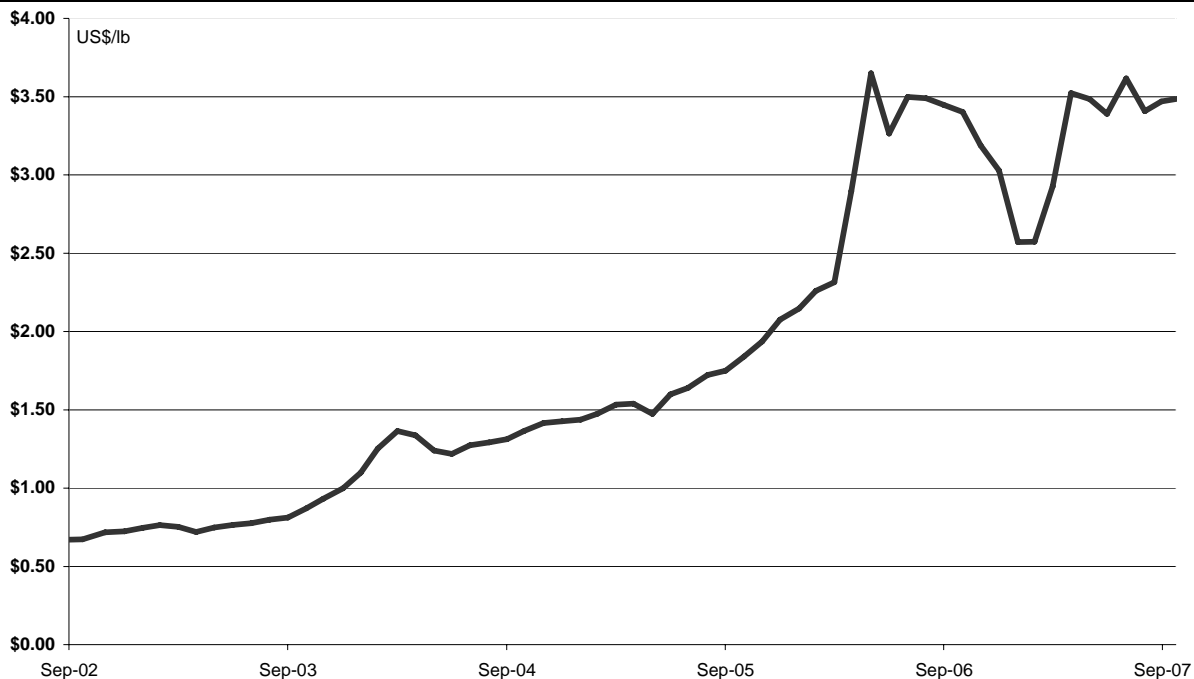
Figure 1 – Nickel Prices



Copper

Copper, which is included in revenue but is considered to be a by-product for purposes of calculating the cash operating cost per pound of nickel, accounted for 19% of revenues in the third quarter of 2007, an increase of 6% over the second quarter of 2007, due to higher production volume sold in the third quarter, and in line with 20% during the third quarter of 2006. The average price of copper has remained relatively constant rising US\$0.03/lb to US\$3.50/lb in the third quarter (see Figure 2). Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to copper prices.

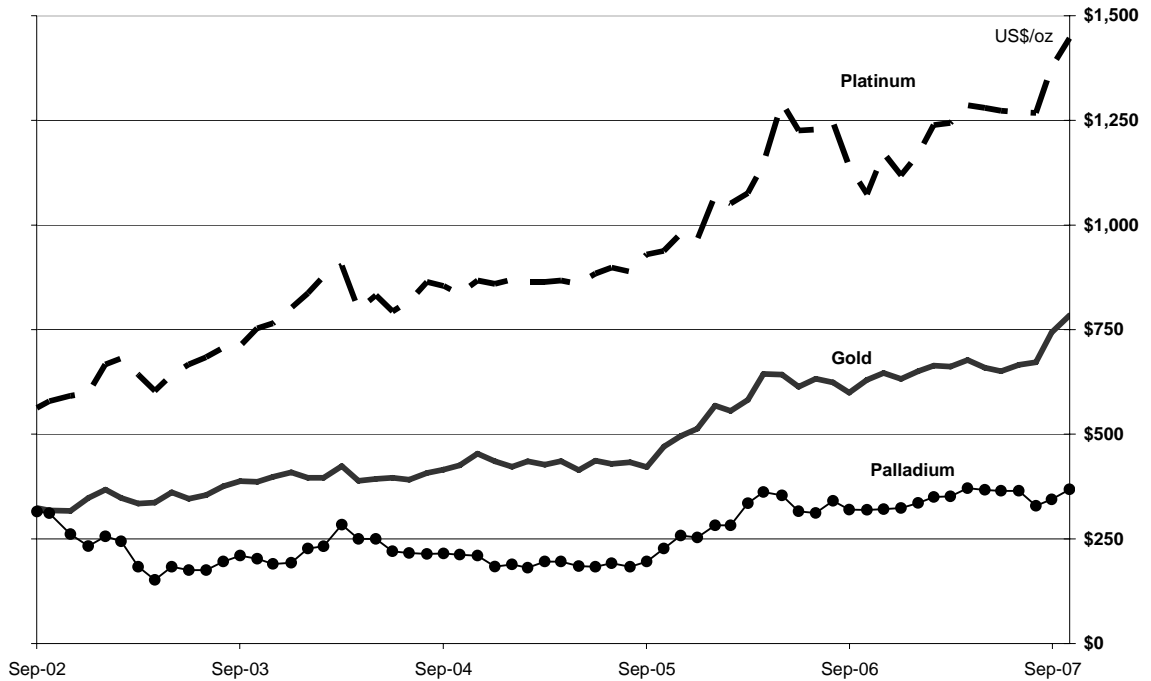
Figure 2 - Copper Prices



Precious and other metals

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt which contributed a combined 12% to FNX's revenues during the third quarter of 2007 compared to 7% during the second quarter of 2007 and 11% during the third quarter of 2006. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and by the unit price of each metal. The contribution from the sale of platinum, palladium and gold ("TPM") as a percentage of total revenue to FNX's revenue is expected to be lower in 2007, compared to 2006, due to the increase in nickel ore production (the copper ore contains the payable TPM) resulting from the commencement of commercial production at Levack. Figure 3 shows the price of the precious metals that FNX mines – platinum, palladium and gold.

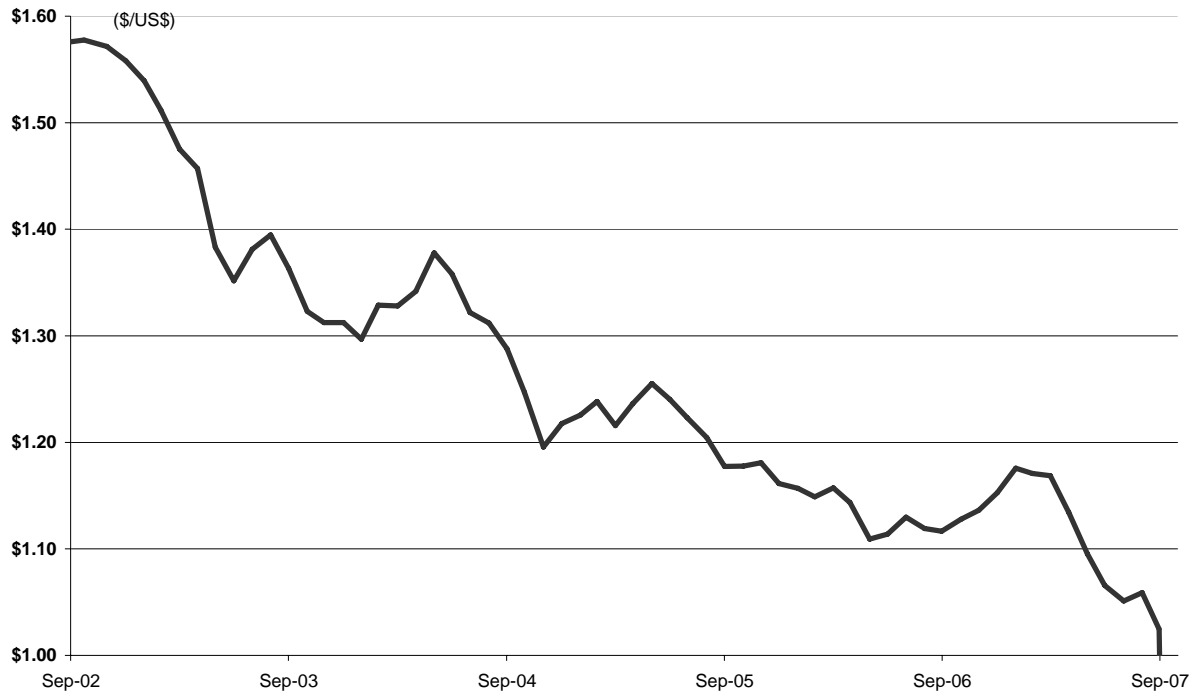
Figure 3 – Precious metals



Foreign exchange

FNX reports its financial results in Canadian dollars. While the Company's minesite operating costs and most exploration and administration costs are in Canadian dollars, revenues from metal sales and concentrating, smelting and refining costs are in US dollars. The appreciation of the Canadian dollar relative to the US dollar continued during the quarter as the average rate for the third quarter of 2007 was \$1.04/US\$, compared to \$1.10/US\$ in the second quarter of 2007 (see Figure 4). Year to date, the Canadian dollar has appreciated 17% compared to the US dollar. The Canadian dollar has continued to experience steady appreciation relative to the US dollar reaching par on September 28, 2007. The exchange rate was \$0.95/US\$ on October 30, 2007. The Company's US dollar accounts receivable and revenues were negatively impacted by the higher Canadian dollar in the third quarter of 2007. Table 2 below illustrates FNX's sensitivity to \$/US\$ exchange rates.

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



Source: Bank of Canada's monthly average close.

Summary

Table 1 summarizes average commodity prices and average Canadian-US dollar exchange rates.

Table 1 – Commodity Prices				Three months ended		Nine months ended		
	2004	2005	2006	September 30 2007	September 30 2006	September 30 2007	September 30 2006	October 30 2007
Ni (US\$/lb)	6.28	6.68	11.00	13.70	13.22	18.09	9.66	14.02
Cu (US\$/lb)	1.30	1.67	3.05	3.50	3.48	3.22	3.00	3.49
Co(US\$/lb)	22.76	14.55	15.32	25.95	15.52	26.61	14.11	30.50
Pt (US\$/oz)	846	897	1,142	1,292	1,216	1,255	1,146	1,446
Pd (US\$/oz)	230	202	320	349	324	353	320	368
Au (US\$/oz)	408	445	604	681	622	666	601	784
\$/US\$	1.30	1.21	1.13	1.04	1.12	1.11	1.13	0.95

(1) Commodity prices are based on monthly averages as published on metalbulletin.com.

(2) Foreign exchange rates as published by the Bank of Canada.

Sensitivity Analysis

Net earnings, earnings per share (“EPS”) and cash flow from operating activities are affected by external factors including fluctuations in metal prices and changes in exchange rates between the Canadian and US dollars. Table 2 illustrates the sensitivity of certain items, on an annualized basis, to changes in key metal prices and foreign exchange rates based on the Company’s budgeted 2007 results.

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

Financial Results

Overview

Table 3 presents a summary of FNX’s Consolidated Statements of Operations and other cash flow data for the periods ended September 30, 2007 and 2006.

Table 3 – Financial Overview	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	Change	2007	2006	Change
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Mine operating revenues	56,767	52,964	3,803	216,427	119,743	96,684
Mine operating expenses ⁽¹⁾	(26,015)	(16,520)	(9,495)	(74,874)	(48,438)	(26,436)
Margin	30,752	36,444	(5,692)	141,553	71,305	70,248
Mine depreciation and amortization	(7,080)	(3,338)	(3,742)	(17,910)	(9,365)	(8,545)
Mining, net	23,672	33,106	(9,434)	123,643	61,940	61,703
Administration	(1,958)	(1,850)	(108)	(6,428)	(7,125)	697
Capital taxes	(594)	(798)	204	(1,316)	(1,373)	57
Depreciation	(138)	(53)	(85)	(345)	(104)	(241)
Stock-based compensation	(777)	(589)	(188)	(2,355)	(1,721)	(634)
Income and resource taxes	(6,170)	(10,505)	4,335	(41,359)	(6,080)	(35,279)
Other (expenses) income	(1,550)	1,165	(2,715)	5,827	3,476	2,351
Net earnings	12,485	20,476	(7,991)	77,667	49,013	28,654
Basic earnings per share	\$0.15	\$0.24	(\$0.09)	\$0.93	\$0.59	\$0.34
Diluted earnings per share	\$0.15	\$0.24	(\$0.09)	\$0.91	\$0.58	\$0.33
Cash flow from operating activities	27,586	27,316	270	116,365	49,626	66,739
Basic cash flow per share ⁽²⁾	\$0.33	\$0.33	-	\$1.39	\$0.59	\$0.80
Diluted cash flow per share ⁽²⁾	\$0.32	\$0.32	-	\$1.37	\$0.59	\$0.78

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

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

Metal Production and Sales

Pursuant to an agreement with CVRD Inco, FNX ships all of its ore to CVRD Inco's Clarabelle Mill for processing. The number of tons of ore sold has been increasing steadily and reached 248,272 tons in the third quarter of 2007, a 50% increase over the third quarter of 2006 and a 6% increase over the second quarter of 2007. The year over year increase is a result of the commencement of commercial production from the Levack nickel deposits. In 2007 the Levack Complex is expected to produce and sell slightly more than the originally budgeted 900,000 tons of ore.

Table 4 presents a summary of FNX's metal production and sales information for the periods ended September 30, 2007 and 2006.

Table 4 – Production and Sales Summary	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	Change	2007	2006	Change
Ore (tons)						
Pre-production	1,405	-	1,405	1,405	-	1,405
Ore sold (tons)						
Nickel ore	156,232	75,248	82,984	449,057	233,040	216,017
Copper ore	92,040	90,058	(18)	238,758	233,744	5,014
Total ore sold	248,272	165,306	82,966	687,815	466,784	221,031
Grade of ore sold						
Nickel ore (%Ni)	1.3	1.8	(0.5)	1.3	1.6	(0.3)
Copper ore (%Cu)	1.4	1.4	-	1.4	1.6	(0.2)
Payable metal sold						
Nickel (000s lbs)	3,198	2,280	918	8,931	6,139	2,792
Copper (000s lbs)	2,929	2,640	289	7,617	7,309	308
TPM (ozs)	8,073	7,934	139	19,317	22,225	(2,908)
Cobalt (000s lbs)	43.6	21.3	22.3	115.7	63.8	51.9
Metal sales revenue						
Average Ni price (US\$/lb)	11.65	14.20	(2.55)	16.98	10.82	6.16
Average Cu price (US\$/lb)	3.57	3.60	(0.03)	3.36	3.29	0.07
\$/US\$ exchange rate	1.04	1.12	(0.08)	1.11	1.13	(0.02)
Total revenue (\$000s)	56,767	52,964	3,803	216,427	119,743	96,684
Revenue (\$/ton of ore sold)	229	320	(91)	315	257	58
Cash cost						
Mining (\$000s)	26,015	16,500	(9,495)	74,874	48,438	(26,436)
Cash cost (\$/ton of ore sold)	105	100	(5)	109	104	(5)
Cash cost (US\$/lb of Ni sold)	2.39	(0.07)	(2.46)	2.78	0.51	(2.27)

(1) Cash operating cost per pound of nickel sold excludes mine depreciation and amortization and includes mining, milling, smelting, refining, haulage and marketing costs and is net of by-product credits.

(2) TPM represents total precious metal – platinum, palladium and gold.

(3) Cash cost is a non-GAAP performance measure (see Non-GAAP Performance Measures below).



Metal sales

The volume of nickel, copper and TPM's sold in the quarter was higher than in any other previous comparable period. Ore sold in the third quarter of 2007 totaled 248,272 tons, compared to 233,689 tons sold in the second quarter of 2007 and 165,306 tons sold in the third quarter of 2006, representing increases of 6% and 50%, respectively. Nickel sales of 3.2 million pounds in the third quarter of 2007 were 94,000 pounds higher than the second quarter of 2007 and 918,000 pounds higher than the second quarter of 2006, as a result of the commencement of commercial production from the Levack nickel deposits in January 2007. To date, nickel production has been higher than originally budgeted and last year due to the increase in tons mined; however, grades this year have been lower than last year due to the broken up nature of the mineralization in the Levack ore zones and stope sequencing issues as a result of ramping up production at the Levack Mine. Copper sales in the third quarter of 2007 were 2.9 million pounds, an increase of 503,000 pounds over the second quarter of 2007, due to the increase in tons mined and shipped. Copper sales were also 289,000 pounds higher than in the same period in 2006 as a result of increased production. Precious metals sales totaled 8,073 ounces during the third quarter of 2007, up from 5,282 in the second quarter of 2007 and totaled 19,317 ounces year to date, a 13% decline from 22,225 ounces produced during the first nine months of 2006. This decline resulted from lower precious metal grades in the PM Deposit.

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

Metal sales revenue

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

Table 5 shows the average metal prices as per the LME or other standard reference market price source and the average metal price realized by FNX.

Table 5 – Metal Prices (average)	Three Months Ended September 30				Nine Months Ended September 30			
	2007		2006		2007		2006	
	Realized Price	Market Price	Realized Price	Market Price	Realized Price	Market Price	Realized Price	Market Price
Nickel (US\$/lb)	11.65	13.70	14.20	13.22	16.98	18.09	10.82	9.66
Copper (US\$/lb)	3.57	3.50	3.60	3.48	3.36	3.22	3.29	3.00
Cobalt (US\$/lb)	26.56	25.95	18.38	15.52	27.74	26.61	15.72	14.11
Platinum (US\$/oz)	1,334	1,292	1,138	1,216	1,415	1,255	1,220	1,146
Palladium (US\$/oz)	310	349	326	324	363	353	339	320
Gold (US\$/oz)	716	681	622	622	714	666	616	601
\$/US\$	1.04	1.04	1.12	1.12	1.11	1.11	1.13	1.13

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

Operating revenues, including the aforementioned provisional price adjustments, totaled \$56.8 million in the third quarter of 2007, a 28% decline from the second quarter of 2007, but 7% higher than in the third quarter of 2006. Year to date revenues totaled \$216.4 million, compared to \$119.7 million in 2006, an increase of 81%. Revenues are higher in the third quarter and year to date 2007, compared to 2006, as a result of the commencement of commercial production from the Levack nickel deposits in January 2007.

FNX realized US\$2.05 per pound of nickel less than the LME average price of US\$13.70 per pound for the third quarter of 2007 as a result of metal sales that were provisionally priced in prior periods. While the price of most metals was higher in the third quarter of 2007 than the second quarter, the decline in nickel prices, which commenced in May 2007, resulted in a net \$4.5 million negative provisional price adjustment in the quarter. Year to date, FNX realized US\$1.11 per pound of nickel less than the LME average price of US\$18.09 per pound, while in 2006, FNX realized US\$1.18 per pound higher than the LME average price in the prior year. As a result of the increase in metal prices in the first quarter of 2007, the provisional price adjustment resulted in a net \$7.0 million increase in year to date revenue.

Operating earnings continued to be negatively impacted by the significant appreciation of the Canadian dollar relative to the US dollar. The 17% appreciation in the value of the Canadian dollar relative to the US dollar in 2007 resulted in lower revenue in Canadian dollars than would otherwise have been realized had the Canadian dollar remained at the December 31, 2006 rate of \$1.17/US\$. All other things being equal, revenues would have been approximately \$7 million higher in the third quarter of 2007 and approximately \$11 million higher for the year to date had the foreign exchange rate remained at \$1.17/US\$ for the year rather than declining to \$1.00/US\$.

Table 6 shows the increase (decrease) in FNX's nickel sales revenue (in Canadian dollars) as a result of an increase (decrease) in the quantity of nickel sold and the price of nickel earned. In conjunction with the declining value of the US dollar, the 94,000 pound increase in nickel production in the third quarter of 2007 over the second quarter of 2007 resulted in a \$1.9 million increase in revenues, while the US\$6.89 decline in the price of nickel resulted in a \$26.9 million decrease in revenues.

Table 6 – Net Change in Sales Revenue	Q3-2007 compared to Q3-2006	YTD-2007 compared to YTD-2006	Q3-2007 compared to Q2-2007
	\$000s	\$000s	\$000s
\$ Change due to quantity	14,707	34,047	1,931
\$ Change due to price	(12,233)	60,127	(26,863)
Net change in nickel sales revenue	2,474	94,174	(24,932)
<i>Change in quantity sold (000s lbs)</i>	<i>918</i>	<i>2,792</i>	<i>94</i>
<i>Change in revenue (US\$/lb)</i>	<i>(2.55)</i>	<i>6.16</i>	<i>(6.89)</i>

Mining cost of sales

Mine operating expenses, excluding mine depreciation and amortization costs (“**cash operating costs**”), were \$26.0 million in the third quarter of 2007, \$1.7 million higher than the second quarter of 2007, and \$9.5 million higher than the third quarter of 2006 due to higher production tonnages. Cash operating costs are expected to trend higher in 2007 due to higher tonnages mined and ore sold this year as a result of the commencement and ramp-up of production from the Levack nickel deposits. The appreciation in the Canadian dollar relative to the US dollar has, in Canadian dollar terms, reduced the Company’s US dollar denominated processing costs.

Cash operating cost per pound of nickel

FNX’s cash operating cost per pound of nickel sold, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was US\$2.39 for the quarter, US\$0.19 per pound lower than in the second quarter of 2007 and US\$2.46 per pound higher than in the third quarter of 2006. The year to date cash operating cost was US\$2.78 per pound, compared to US\$0.51 per pound during the comparable 2006 period. The year over year increase in cash operating cost per pound of nickel, net of by-products, was due to increased nickel production from the Levack nickel deposits and a lower proportion of by-product revenues to operating costs with both the McCreedy West and Levack mines in operation at the Levack Complex. In 2007, cash costs per pound have decreased quarter over quarter as a result of economies of scale and efficiencies associated with the ramp-up of production from the Levack nickel deposits and the increased number of pounds of nickel sold.

Table 7 present the calculation of cash operating costs per pound of nickel sold.

Table 7 – Cash Operating Cost Per Pound of Nickel Sold	Three months ended September 30, 2007			Three months ended September 30, 2006		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	26,015	24,897	7.79	16,520	14,727	6.46
By-product credits:						
Copper	(10,904)	(10,435)	(3.26)	(10,666)	(9,509)	(4.17)
Other ⁽²⁾	(7,123)	(6,817)	(2.14)	(6,030)	(5,376)	(2.36)
Cash operating costs	7,988	7,645	2.39	(176)	(158)	(0.07)
Nickel sold (000s lbs)		3,198			2,280	

Table 7 (cont'd) – Cash Operating Cost Per Pound of Nickel Sold	Nine months ended September 30, 2007			Nine months ended September 30, 2006		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Operating expenses ⁽¹⁾	74,874	67,759	7.59	48,438	42,763	6.97
By-product credits:						
Copper	(27,925)	(25,271)	(2.83)	(27,106)	(23,930)	(3.90)
Other ⁽²⁾	(19,481)	(17,630)	(1.98)	(17,789)	(15,705)	(2.56)
Cash operating costs	27,468	24,858	2.78	3,543	3,128	0.51
Nickel sold (000s lbs)		8,931			6,139	

(1) Operating expenses exclude mine depreciation and amortization.

(2) Platinum, palladium, gold and cobalt.

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

Cash operating margin per ton of ore sold

Cash operating margin per ton of ore sold, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was \$124 per ton in the third quarter of 2007, compared to \$235 per ton in the second quarter of 2007 and \$220 per ton in the third quarter of 2006. Lower nickel prices and the continued strengthening of the Canadian dollar relative to the US dollar were the main factors contributing to the lower margin in the third quarter of 2007.

Table 8 presents the calculation of cash operating margin per ton of ore sold⁽¹⁾ for the periods indicated.

Table 8 – Cash Margin Per Ton	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	\$/ton	\$/ton	\$/ton	\$/ton
Mine operating revenue	229	320	315	257
Mine operating expenses ⁽²⁾	(105)	(100)	(109)	(104)
Cash operating margin per ton of ore sold	124	220	206	153

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

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

With metal prices continuing to be volatile, grades forecast to remain stable and increasing tonnages of ore mined and sold from the Levack Complex in 2007, FNX anticipates that the cash operating margin per ton of ore sold will continue to fluctuate period to period. Despite the continuing rising costs of many of the consumables required in mining operations, the Company's cash operating cost per ton of ore sold continues to be below the Company's \$120 cash operating cost per ton benchmark.

Mine depreciation and amortization

Mine depreciation and amortization expense was \$7.1 million in the third quarter of 2007, an increase from \$6.0 million in the second quarter of 2007 and \$3.3 million in the third quarter of 2006, primarily due to higher volumes of ore produced and sold. Mine depreciation and amortization expense will be higher in 2007 than in 2006 as a result of additional amortization



resulting from production at the Levack Complex due to the commencement of commercial production from the Levack nickel deposits on January 1, 2007. The mine depreciation and amortization expense per ton of ore produced has also risen during 2007 as capital expenditures on mine development in the period are incurred and added to the amortization base. Reserve and resource estimates are re-evaluated annually at the end of each fiscal year.

Health, safety, and environment

Health and safety

The development and implementation of FNX's Safety, Health and Environmental Management System (SHEMS) continued in the third quarter of 2007. Basic SHEMS training to all staff and labour was completed in July. System level policies are currently being developed and awaiting final approval. Objectives and targets are in the process of being finalized. A system audit for the SHEMS is planned for early 2008.

The FNX Health and Safety Advisory Committee, comprised of independent consultants, conducted a surface tour of the Levack mine site in September. Their observations, comments and recommendations were provided with actions taken where appropriate.

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

Environment

There was one minor reportable environmental incident during the third quarter at the Podolsky site, when suspended solids were discharged from the water treatment plant. The solids settled out in the discharge ditch and were recovered.

During the quarter, the large water treatment plant at Podolsky continued to operate to performance objectives, although modifications are being investigated to improve the treatment of ammonia.

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

Other Items in the Statements of Operations

Administration

Administration expenses were \$2.0 million and \$6.4 million in the third quarter and year to date 2007, respectively, compared to \$1.9 million and \$7.1 million in 2006. Administration expenses in 2007 are in line with management expectations.

Depreciation

Depreciation expense for the Toronto head office and Sudbury exploration office equipment, furniture and fixtures was not significant in the quarter and is not expected to be significant for the entire year.



Stock-based compensation

Stock-based compensation expense was \$0.8 million in the third quarter of 2007, compared to \$0.7 million in the second quarter of 2007 and \$0.6 million in the third quarter of 2006. In the third quarter of 2007, options to purchase 135,000 common shares were granted, 125,000 options were exercised and 6,000 options were forfeit, compared to 113,000 granted, 206,000 exercised and 44,000 forfeit and/or cancelled in the second quarter of 2007. Year to date stock-based compensation expense was \$2.4 million, compared to \$1.7 million in 2006. In the nine months ending September 30, 2007, options to purchase 344,000 options were granted, 614,000 options were exercised and 56,000 options cancelled and forfeited, compared to 351,000 granted, 190,000 exercised and 147,000 cancelled and/or forfeit in the comparable period in 2006. Stock-based compensation expense is based upon the Black-Scholes option pricing model and, as FNX's average share price was higher in 2007 than 2006, the stock-based compensation expense for new options granted in the period is higher on a per share basis.

Other expenses (income)

Other expenses (income) resulted in net expense of \$1.6 million in the third quarter of 2007, compared to net income of \$6.1 million in the second quarter of 2007 and \$1.2 million during third quarter of 2006. Other expenses for the quarter primarily consisted of a foreign exchange loss of \$6.0 million and a \$0.8 million mark-to-market loss on investments in warrants partially offset by a \$4.0 million gain on sale of Sherritt shares and \$1.3 million of interest income.

As at September 30, 2007/ the Company had \$108.2 million of cash and cash equivalents on hand. During the third quarter of 2007 financial markets and corporate credit were adversely affected by defaults in the asset backed commercial paper market. FNX was not affected by this situation as the Company does not hold asset backed commercial paper in its portfolio of investments. FNX has historically and will continue in the future to invest all surplus cash resources in conservative, term deposits with major Canadian chartered banks.

Year to date other income of \$5.8 million primarily consisted of a \$15.5 million gain on disposal of Dynatec and Sherritt shares, a \$2.4 million gain on the sale of mineral exploration properties to Fieldex Exploration Inc. ("**Fieldex**") and \$3.5 million of interest income, partially offset by a \$14.6 million foreign exchange loss and a \$1.1 million write down of certain non-Sudbury mineral exploration properties. Year to date other income in 2006 was \$3.5 million.

In July 2007, the Company disposed of its 1,466,153 shares of Sherritt at \$17.40 per share for net proceeds of \$25.5 million and net realized gain of \$4.0 million. The disposition of the Dynatec shares and simultaneous acquisition of Sherritt shares in the second quarter of 2007 generated a \$11.5 million gain.

The appreciation of the Canadian dollar relative to the US dollar continued in the third quarter of 2007 and negatively impacted the Company's results. The Company's account receivable from metal sales to CVRD Inco is denominated in US dollars and, along with other US dollar denominated accounts, the decline in the closing foreign exchange rate from \$1.07/US\$ at June 30, 2007 to \$1.00/US\$ at September 30, 2007, resulted in a \$6.0 million foreign exchange loss. The year to date foreign exchange loss totals \$14.6 million.

Provision for income and resource taxes and provincial capital taxes

The third quarter of 2007 included a provision for income taxes of \$6.2 million, compared to a \$10.5 million provision in the third quarter of 2006. While FNX's significant capital expenditures program in 2007 continues to add to the total amount of tax deductions available to the Company, Canadian income tax rules restrict the amount of such deductions permitted in any particular taxation year. Accordingly, the Company has included in the \$41.4 million provision for taxes for the nine months ended September 30, 2007, \$17.5 million for the estimated amount of current income taxes for 2007 to date. The Company's income tax rate should continue to be approximately 38% in 2007. In June 2006, the Government of Canada enacted legislation reducing corporate tax rates over a period of several years. During the second quarter of 2006, FNX recorded a future income tax recovery of \$13.8 million to reflect the positive impact of these tax rate reductions on transactions in prior years for which future taxes will be paid.

Many provincial jurisdictions, including the Province of Ontario, charge a tax based on a corporation's taxable capital. This expense is, however, deductible in the determination of taxable income and the Company separately discloses it in the statement of operations. FNX charged to earnings \$0.6 million and \$1.3 million in provincial capital tax expense during the third quarter and year to date 2007, respectively, consistent with 2006 expenditures. The Province of Ontario is to eliminate capital taxes in Ontario by 2011.

Hedging

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

EBITDA

Earnings before interest income and expense, income and capital taxes, stock-based compensation and depreciation and amortization ("**EBITDA**"), a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was \$26.0 million in the third quarter of 2007, compared to \$57.8 million in the second quarter of 2007 and \$34.4 million in the third quarter of 2006. EBITDA is expected to be higher in 2007 than 2006 due to higher quantities of ore mined and sold.

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

Table 9 – EBITDA	Three months ended		Nine months ended	
	September 30		September 30	
	2007	2006	2007	2006
	\$000s	\$000s	\$000s	\$000s
Mine operating revenue	56,767	52,964	216,427	119,743
Mine operating expenses ⁽¹⁾	(26,015)	(16,520)	(74,874)	(48,438)
Cash operating margin	30,752	36,444	141,553	71,305
Administration	(1,958)	(1,850)	(6,428)	(7,125)
Other (expenses) income ⁽²⁾	(2,789)	(155)	2,476	(469)
EBITDA	26,005	34,439	137,601	63,711

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

⁽²⁾ Excludes interest income and interest expense.



Financial Condition and Liquidity

Cash and cash flows

Cash flow from operating activities totaled \$27.6 million and \$116.4 million in the third quarter and year to date 2007, respectively, compared to \$27.3 million and \$49.6 million, respectively, in 2006. The year to date cash flows from operating activities are significantly higher in 2007 compared to 2006 due to greater quantities of ore mined and sold as a result of the commencement and ramp up of production from the Levack nickel deposits.

Financing activities resulted in net cash inflows of \$1.0 million and \$4.0 million in the third quarter of 2007 and year to date, respectively, from the issuance of 125,000 and 614,000 common shares, respectively, for stock options exercised under the Company's stock option plan. Financing activities are higher in 2007 compared to 2006 as a result of more stock options being exercised, which in turn is likely due to the appreciation of FNX's share price in 2007.

Investing activities resulted in net cash outflows of \$30.3 million and \$127.3 million for the third quarter of 2007 and year to date, respectively, compared to \$32.1 million and \$70.0 million in 2006. The Company's disposition of its 1,466,153 shares of Sherritt at \$17.40 per share generated net cash proceeds of \$25.5 million. Exploration, development and equipment expenditures that were capitalized as property, plant and equipment totaled \$55.4 million, net of \$3.7 million of pre-production revenue credits from development ore at Podolsky, and \$149.7 million for the quarter and year to date 2007, respectively, and are now budgeted to total \$185 million for the year. In the third quarter, the Board of Directors approved new work programs involving additional advanced exploration and development programs at Podolsky and additional development work at McCreedy West. To accommodate these new work programs, the capital expenditure budget was increased for 2007 from \$173 million to \$185 million. The Podolsky programs, described below, total approximately \$18 million, \$7 million of which are scheduled to be incurred in 2007 and the \$11 million balance in 2008. The McCreedy West program involves the development into new nickel resource areas at the south-western extension of the Inter Main Deposit at depth and in the upper portions of the mine for extensions of the Upper Main Deposit at a total cost of \$10 million, of which \$5 million is to be incurred in 2007 and the balance next year.

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 the payment to Sherritt of \$53.0 million in cash, including an estimated \$19.9 million for working capital, and is subject to final working capital and other adjustments.

The net change in cash balances as a result of operating, financing and investing activities was a net cash outflow of \$1.7 million since June 30, 2007, compared to a net cash outflow of \$4.8 million during the comparative period in 2006. FNX remains debt free and the Company's cash position of \$108.2 million at September 30, 2007, along with expected cash flow from operating activities in the fourth quarter, is sufficient to meet all planned cash expenditures in 2007.

Working capital

Working capital has remained flat, increasing \$0.5 million during the third quarter of 2007 to \$116.7 million and FNX remains debt free.



Reclamation and other deposits

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

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

Investments

Effective January 1, 2007, the Company prospectively adopted the CICA's 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. In accordance with the new standards, as of January 1, 2007, the Company has classified its investments in common shares as available for sale. Unrealized holding gains and losses related to available for sale investments are excluded from net income and included in other comprehensive income ("OCI") until such gains or losses are realized or an other than temporary impairment is determined to have occurred. Warrants held by the Company are for long-term investment purposes; however, due to their nature they meet the definition of a derivative and are marked-to-market on a quarterly basis. Mark-to-market gains and losses relating to the warrants are included in net income in the period they occur. The Company estimates the fair value of its investment in common shares at the balance sheet date using quoted market prices for available for sale securities and a Black-Scholes option pricing model for private warrants held. Accordingly, investments with a book value of \$30.4 million were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50.5 million which resulted in a revaluation gain of \$16.5 million, net of tax. During the three and nine months ended September 30, 2007, the investments were measured at a fair value of \$36.6 million resulting in a revaluation loss of \$2.3 million and a gain of \$3.7 million, respectively, net of tax, recognized in accumulated OCI. Warrants with a book value of \$1.0 million were measured at a fair value of \$1.2 million, a decline of \$0.8 million from the previous quarter recognized in other expenses (income).

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

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



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

On June 14, 2007, Sherritt and Dynatec completed a Plan of Arrangement whereby Sherritt acquired all of the issued and outstanding shares of Dynatec. Under the terms of the Sherritt-Dynatec Arrangement, Dynatec and Sherritt amalgamated (and were continued under the name Sherritt), and the shareholders of Dynatec received 0.19 of a Sherritt common share and approximately 0.0635 of a common share of FNX that was owned by Dynatec for each of their Dynatec common shares. Accordingly, on June 14, 2007, FNX's 7,716,594 Dynatec shares were disposed of, 1,466,153 common shares of Sherritt were acquired, and 490,004 common shares of FNX were acquired and immediately cancelled. A gain in the amount of \$11.5 million has been recognized in the second quarter on the disposition of the Dynatec shares. In July 2007, the Company sold its 1,466,153 Sherritt shares at \$17.40 per share for net proceeds of \$25.5 million and net realized gain of \$3,960.

On July 26, 2007, each Fieldex shareholder of record received approximately one common share of Visible Gold Mines Inc. ("**Visible Gold**") for each six shares of Fieldex then held. Accordingly, FNX received 1.066 million common shares of Visible Gold.

Property, plant and equipment

(i) Summary

Acquisition costs and expenditures on property, plant and equipment totaled approximately \$55.4 million, net of \$3.7 million of pre-production revenue credits from development ore at Podolsky, during the third quarter of 2007 and \$149.7 million year to date. The cash expenditures consisted of exploration drilling, underground exploration/development, including raise development at Podolsky and underground access rehabilitation and underground development at Levack, and the purchase of certain mining equipment. Table 10 shows the net increase (decrease) in property, plant and equipment expenditures for 2007 by property location.

Table 10 – PP&E Expenditures	Three months ended September 30	Nine months ended September 30	Budget 2007 ⁽¹⁾
	\$000s	\$000s	\$000s
Levack Complex	18,675	59,882	88,800
Podolsky	11,664	32,073	51,800
Levack Footwall	11,875	29,385	39,800
Aurora Properties	931	(568)	3,200
Kirkwood	26	793	1,000
Victoria	42	52	100
	43,213	121,617	184,700
Corporate	210	411	300
	43,423	122,028	185,000

⁽¹⁾ The budget is for the entire 2007 year, representing gross expenditures before budgeted depreciation and amortization while the actual figures are net of depreciation and amortization.

In the third quarter, the Board of Directors approved new work programs involving additional advanced exploration and development programs at Podolsky and additional development work at McCreedy West. To accommodate these new work programs, the capital expenditure budget was increased for 2007 from \$173 million to \$185 million. The Podolsky programs, described below, total approximately \$18 million, \$7 million of which are scheduled to be incurred in 2007 and the \$11 million balance in 2008. The McCreedy West program involves the development into new nickel resource areas at the south-western extension of the Inter Main at a total cost of \$10 million, of which \$5 million is to be incurred in 2007 and the balance next year. Based on the revised \$185 million capital budget, expenditures at the Levack are budgeted to total \$128.6 million (including \$39.8 million for exploration and development of the LFD), \$51.8 million at Podolsky and \$4.6 million on the rest of FNX's properties.

(ii) Levack Complex

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

During the third quarter, the Company completed the rehabilitation of the ore handling facilities on the McCreedy West side of the Levack Complex to enable the Company to transport McCreedy West nickel ore along the 1600 Level to the Levack shaft where it will be crushed and hoisted to surface via the rehabilitated No. 2 Shaft. The tramway will lead to improvements in operating efficiencies but it is not expected to have a material impact on production in 2007.

On the McCreedy West side of the Levack Complex, the bulk of the exploration effort was on contact nickel deposits up-dip and down-dip, and to the east of the known extents of the Inter Main deposit.

(iii) Property under development - Podolsky

FNX holds a 100% interest in Podolsky, which 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 \$124.4 million of accumulated mineral property and exploration capital costs to date, net of \$3.7 million of pre-production revenue credits from development ore, were transferred from mineral exploration properties to property under development. Once Podolsky achieves commercial production, currently anticipated to be achieved sometime during the first half of 2008, the accumulated capital costs will be transferred to the appropriate categories of mining property and development and plant and equipment.

The 2000 Deposit mineralization was intersected on the 2450 Level with 82 feet of massive chalcopyrite exposed in the first crosscut. An initial measured resource of this high grade area of the 2000 Deposit totals 102,000 tons grading 22.69% copper, 1.43% nickel and 0.41 ounces per ton of platinum, palladium and gold ("TPM"). This high-grade measured resource is included within a larger measured resource of 401,000 tons grading 7.08% copper, 0.69% nickel and 0.17 ounces of TPM, which has been converted to a probable reserve of 350,000 tons grading 7.78% copper, 0.67% nickel and 0.18 ounces of TPM. These new resources are from the lower

part of the Podolsky Mine 2000 Deposit. In addition, borehole FNX4277, which forms part of the ongoing drill program intersected another high-grade vein up dip from the high-grade copper-nickel-TPM chalcopyrite-rich massive sulphide zone reported here. This hole intersected 23.7 feet of massive to semi-massive sulphides of similar character to the massive zone on 2450 level described above; assays are pending. At this time, from this single hole, it is not possible to determine the extent or shape of this high grade mineralization. At September 30, 2007, FNX had shipped 1,405 tons of Podolsky development ore, with an estimated net realizable value of \$1.2 million, to CVRD Inco and had an additional 1,810 tons in surface inventory at a fair value of \$2.5 million.

FNX announced during the third quarter that it had initiated a development programme on the North Deposit that will start from the Podolsky ramp collar. A surface definition drill campaign was completed at the North Deposit in 2005 in preparation for advanced exploration development.

(iii) Exploration properties

The carrying value of the mineral exploration properties represents the accumulated costs to date for the acquisition and exploration costs incurred by FNX on its non-producing mineral exploration properties. Mineral exploration properties are not amortized. FNX's active mineral exploration properties are located in the Sudbury mining district, and are listed in Table 11.

Table 11 – Accumulated Costs of Exploration Properties	September 30	December 31
	2007	2006
	\$000s	\$000s
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 for Podolsky were transferred to property under development during the third quarter of 2007.

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

The Levack Footwall continued to be the focus of most of the FNX exploration activity for the third quarter. Diamond drilling continued to define and expand both the Levack Footwall and Rob's Deposit sulphide system in preparation for new geological and resource modeling and for access to both environments in late fourth quarter of 2007 or first quarter of 2008. Xstrata Nickel has completed 1,215 feet of development in the 4000 Level of the Levack Footwall exploration access ramp from its Craig Mine. The purpose of the Craig Mine ramp development is to provide definition drill platforms, access to the Levack Footwall to gain geological data on the nature and orientation of the complex copper-nickel-TPM vein system, and to provide ore-grade material for a bulk sample programme. On the Levack side, the Company completed 1,268 feet of development in the footwall access ramp from the 2650 Level. This development is designed to provide access to the Rob's Deposit and up-dip extents of the Levack Footwall for advanced exploration activities and ultimately mine development from Levack Mine infrastructure.



Exploration also continued to test the contact nickel environment to the east and down-dip of the Main Depths Deposit, and tested footwall targets on the east side of the property and in the Keel Zone north of the Levack #2 Shaft.

FNX announced during the third quarter that it had initiated an advanced underground exploration program on the Nickel Ramp Deposit at Podolsky. Access to the North Deposit and Nickel Ramp Deposit will start from the Podolsky ramp collar and at a depth of approximately 100 vertical feet will diverge from the North Deposit ramp. For the Nickel Ramp Deposit, approximately 4,025 feet of development is planned. In addition, a 20,000 foot surface drill campaign was initiated in October to support the planned advanced exploration development. The objectives of the drilling are to provide additional validation of the historical drill intersections, provide data for mineral resource classification upgrade, and to provide material for metallurgical/mineralogical assessment. The Nickel Ramp Deposit is a contact nickel deposit situated below the historically mined Whistle Pit. The current inferred resource estimate for Nickel Ramp is 6.68 million tons at 0.75% nickel and 0.21% copper.

The Aurora Properties are located in the Sudbury, Timmins and northwestern Ontario regions. All of the Aurora Properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist on them. The most material mineral properties that are included in the Aurora Properties are located in the Sudbury Basin region and pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel. As of December 31, 2006, the Company and Xstrata Nickel held a 74% and 26% interest, respectively, (2005 - 70% and 30%) in the Falconbridge Joint Venture and, as Xstrata Nickel has elected not to participate in the 2007 exploration program, Xstrata Nickel's interest continues to be diluted. The Company is the operator of the Falconbridge Joint Venture.

The Company also wrote-down certain other non-Sudbury Aurora Properties and \$1.1 million was charged to earnings in the second quarter.

During the third quarter, FNX completed 68 diamond drill holes for a total of 78,787 feet. The decrease in both the number of boreholes and total footage drilled from the second quarter is attributed to the rotating, two week summer vacation shut-downs for each of FNX's three diamond drill contractors. Table 12 details the diamond drilling by property for exploration purposes as pre-production holes are not reported.

Table 12 – Drilling	Three months ended September 30		Nine months ended September 30	
	# Holes	# Feet	# Holes	# Feet
Levack – Exploration	18	30,250	54	112,141
McCreedy West – Exploration	29	23,011	93	76,953
Levack Footwall	18	17,357	64	68,711
Podolsky	-	335	-	335
Kirkwood	-	-	13	16,118
Falconbridge Footwall	2	5,236	4	20,008
Foy	1	2,598	1	2,598
Total	68	78,787	229	296,864

Exploration drilling during the quarter at the McCreedy West side of the Levack Complex was focused on the contact nickel target environments. McCreedy West contact nickel drilling was completed up-dip from the Inter Main Deposit and down-dip of the East Main Deposit from both



the 950 and 1650 Levels. Diamond drilling from the Xstrata Nickel Craig Mine 2000 level tested the boundary area down-dip of the Inter Main Deposit.

The bulk of the Company's exploration diamond drill footage continued to be concentrated on the Levack Footwall Deposit and its associated sulphide mineralized system, on contact nickel targets in the vicinity of the Levack Main Depths Deposit and west of the Levack #2 Shaft, and on potential expansion of the copper rich Keel Zone footwall environment. Xstrata Nickel, as part of a contract development agreement with FNX, advanced the 40-1 exploration access ramp from the Craig Mine 4000 Level to 1,215 feet. FNX contractors completed 1,268 feet of development from the Levack Mine 2650 Level. This development is designed to provide access to Rob's Footwall Deposit and the up-dip extents of the LFD from the Levack Mine infrastructure. Two underground drill rigs continued to drill the Levack Footwall and Rob's Deposit environment from the 4300 (43-3) and 3000 (30-1) Levels at Craig Mine. The 43-3 platform provided access to deeper extents of the Levack Footwall Deposit, whereas the 30-1 platform was used extensively to test the Rob's Deposit. One underground rig on the 2650 Level of Levack Mine also tested the Rob's Deposit and the up-dip extents of the Levack Footwall Deposit. Two surface rigs also continued to test footwall Cu-Ni-PGE deposits on the Levack property.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are higher at September 30, 2007 than at the end of 2006 as a result of the increase in business activity of FNX, including the commencement of commercial production from the Levack nickel deposits and an approximately \$12.5 million accrual for income taxes that are anticipated to be paid by February 28, 2007.

Mine closure and site restoration

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

Share capital

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

Approximately 0.1 million stock options with an ascribed value of \$1.0 million were exercised in the third quarter.

Year to date share capital has decreased by a net \$1.1 million as a result share cancellation in the second quarter and the exercise of 0.6 million stock options for \$4.0 million. As at September 30, 2007, stock options to purchase 2.3 million common shares at a weighted average of \$12.31 per share were outstanding.

Under the terms of a deferred share unit plan (the "**DSU Plan**"), the number of DSUs granted to directors and executive employees is based upon the fair market value of FNX's common



shares at that time. DSUs are paid out in cash only upon the director's or executive employee's death or resignation from the Board or the Company. Included in accrued liabilities is \$1.2 million related to 36,519 DSUs.

Post-retirement benefits

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

Related Party Transactions

Under the terms of an agreement between FNX and INV, dated January 1, 2006, FNX has agreed to provide certain administrative services and facilities to INV as well as the non-exclusive services of certain personnel, all in consideration of a flat fee of \$10,000 per month. These services and facilities include commercially reasonable office facilities and communication equipment and the non-exclusive services of certain FNX personnel, including the Senior Vice President and Chief Financial Officer of FNX (who also served as the Vice President and Chief Financial Officer of INV until May 31, 2007), as well as accounting and administrative staff as required by INV. The services provided by these personnel are limited to 20% of the time of each such individual per week on the basis of a 40 hour work week. In addition, the non-exclusive services of the former Vice President Business Development of FNX (who also served as the President and Chief Executive Officer of INV until February 5, 2007) and the Vice President Investor Relations and Corporate Secretary of FNX (who also served as the Director of Investor Relations for INV until September 30, 2007) are provided to INV pursuant to the agreement in consideration of the reimbursement to FNX of an amount equal to the salary and benefits paid by FNX to each such officer, multiplied by the percentage of their respective time spent providing services to INV. The services provided by the Vice President Investor Relations and Corporate Secretary of FNX 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 \$40,000 and \$162,000 respectively, for services provided under the agreement.

Non-GAAP Performance Measures

Cash operating margin per ton of ore sold, cash operating cost per pound of nickel sold, cash flow per share and EBITDA are included in this MD&A because these statistics are key performance measures that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to plan and to assess the overall effectiveness and efficiency of mining operations. Management believes that the inclusion of these statistics in the MD&A helps an investor to assess performance "through the eyes of management" and that certain investors use these statistics to assess the Company's performance. These performance measures do not have a meaning within GAAP and, therefore, amounts presented may not be comparable to similar data presented by other mining companies. The data is intended to provide additional information and should not be



considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Outstanding Share Data

As at September 30, 2007, stock options to purchase 2.3 million common shares at a weighted average price of \$12.31 per share were outstanding. The number of stock options outstanding at September 30, 2007 represents 2.8% of the issued and outstanding common shares at that time. From October 1, 2007 to October 30, 2007, no stock options have been granted or cancelled and 13,000 have been exercised. As at October 30, 2007, the Corporation had 83.9 million common shares issued and outstanding and stock options to purchase 2.3 million common shares had been granted and were outstanding.

Adoption of New Accounting Standards

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

Changes in accounting policies

Effective January 1, 2007, the Company prospectively adopted the Canadian Institute of Chartered Accountants (“**CICA**”) recommendations pertaining to financial instruments, which establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. These recommendations require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held for trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. This change in accounting policy had the following effect on the consolidated financial statements for the nine months ended September 30, 2007: investments with a book value of \$30.4 million were classified as available for sale and measured as of January 1, 2007, at a fair value of \$50.5 million which resulted in a revaluation gain of \$16.5 million, net of tax. At September 30, 2007, the investments were measured at a fair value of \$36.3 million resulting in a revaluation loss of \$2.2 million and a gain of \$3.8 million, net of tax, in the three and nine month periods then ended, recognized in accumulated OCI. Warrants with a book value of \$1.1 million were measured at a fair value of \$1.2 million, which resulted in a revaluation loss of \$0.8 million for the quarter, recognized in other expenses (income).

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

Effective January 1, 2007, the Company prospectively adopted the CICA recommendations regarding the reporting and disclosure of comprehensive income. Comprehensive income consists of changes in the equity of the Company from sources other than the Corporation’s share owners and includes earnings of the Company, the foreign currency translation



adjustment relating to self-sustaining foreign operations and unrealized gains and losses on changes in fair values of available for sale assets and effective cash flow hedging instruments. OCI comprises revenues, expenses and gains and losses that are recognized in comprehensive income but are excluded from earnings for the period. Comprehensive income is disclosed in a separate statement in the consolidated financial statements.

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

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

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

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

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

Internal Controls Over Financial Reporting

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

Quarterly Metal Production and Sales Statistics

Table 13 – 2007 Statistics	Q1	Q2	Q3	Q4	Total
Ore (tons)					
Pre-production ore	-	-	1,405		1,405
Sold					
Nickel ore	133,630	159,195	156,232		449,057
Copper ore	72,224	74,494	92,040		238,758
Total ore sold	205,854	233,689	248,272		687,815
Grade of ore sold					
Nickel ore (%Ni)	1.2	1.3	1.3		1.3
Copper ore (%Cu)	1.3	1.5	1.4		1.4
Payable metal sold					
Nickel (000s lbs)	2,628	3,104	3,198		8,931
Copper (000s lbs)	2,261	2,426	2,929		7,617
TPM (ozs)	5,961	5,282	8,073		19,317
Cobalt (000s lbs)	34	38	44		116
Metal sales revenue					
Average Ni price (US\$/lb)	21.65	18.54	11.65		16.98
Average Cu price (US\$/lb)	2.67	3.73	3.57		3.36
\$/US\$ exchange rate	1.17	1.10	1.04		1.11
Total revenue (\$000s)	80,473	79,187	56,767		216,427
Revenue (\$/ton of ore sold)	391	339	229		315
Cash cost of metals sold					
Mining (\$000s)	24,555	24,304	26,015		74,874
Cash cost (\$/ton of ore sold)	119	104	105		109
Cash cost (US\$/lb of Ni sold)	3.46	2.58	2.39		2.78

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

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

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



Summary of Selected Quarterly Financial Information

Table 15	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
2007					
Revenue	80,473	79,187	56,767		216,427
Net earnings	30,191	34,991	12,485		77,667
Basic EPS	\$0.36	\$0.42	\$0.15		\$0.93
Diluted EPS	\$0.36	\$0.41	\$0.15		\$0.91
2006					
Revenue	26,799	39,981	52,963	50,202	169,945
Net earnings	3,193	25,344	20,476	19,667	68,680
Basic EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.82
Diluted EPS	\$0.04	\$0.30	\$0.24	\$0.23	\$0.81
2005					
Revenue	19,057	24,231	18,588	22,726	84,602
Net earnings (loss)	2,484	3,855	(2,218)	477	4,597
Basic EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08
Diluted EPS	\$0.05	\$0.08	(\$0.04)	\$0.01	\$0.08

While ore mined and metal sales continue on an increasing trend, revenues and net earnings are fluctuating due to variability in metal prices.

Cautionary Note Regarding Forward-Looking Statements

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



be relied upon as representing management's views as of any date subsequent to the date of this MD&A.

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