



UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

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



Consolidated Balance Sheets (in thousands of Canadian dollars) (Unaudited)	As at	
	September 30	December 31
	2008	2007
	\$	\$
Assets		
Current		
Cash and cash equivalents	151,069	35,160
Accounts receivable (note 18)	80,829	103,257
Inventory (note 4)	876	4,060
Prepaid and other assets	2,449	1,142
	235,223	143,619
Investments (note 5)	5,228	35,603
Investment in Gold Wheaton Gold Corp. (note 6)	228,357	-
Property, plant and equipment (note 7)	909,501	815,376
Intangible assets (note 8)	-	6,605
Reclamation deposits	6,485	6,485
	1,384,794	1,007,688
Liabilities		
Current		
Accounts payable and accrued liabilities	42,952	72,405
Deferred revenue (note 10)	27,152	975
	70,104	73,380
Long-term deferred revenue (note 10)	369,785	-
Mine closure and site restoration	5,316	5,087
Future income and resource taxes	186,088	178,180
	561,189	183,267
	631,293	256,647
Shareholders' equity		
Share capital (note 11)	571,751	567,700
Contributed surplus – stock-based compensation (note 12)	12,707	9,816
Retained earnings	176,822	167,960
Accumulated other comprehensive income (note 3)	(7,779)	5,565
	753,501	751,041
	1,384,794	1,007,688

*Subsequent event (note 20) and contingencies and litigation (note 19).
The accompanying notes are an integral part of these consolidated financial statements.*

Consolidated Segmented Balance Sheets

(in thousands of Canadian dollars)

(Unaudited)

As at September 30, 2008

	Mining Operations	Mining Services	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	145,369	5,700	151,069
Accounts receivable	50,020	30,809	80,829
Inventory	518	358	876
Prepaid and other assets	1,753	696	2,449
	197,660	37,563	235,223
Investments	233,585	-	233,585
Property, plant and equipment	876,839	32,662	909,501
Reclamation deposits	6,485	-	6,485
	1,314,569	70,225	1,384,794
Liabilities			
Accounts payable and accrued liabilities	28,963	13,989	42,952
Deferred revenue	27,002	150	27,152
	55,965	14,139	70,104
Long-term deferred revenue	369,785	-	369,785
Mine closure and site restoration	5,316	-	5,316
Future income and resource taxes	183,540	2,548	186,088
	558,641	2,548	561,189
	614,606	16,687	631,293

	Mining Operations	Mining Services	Total
	\$	\$	\$
<i>As at December 31, 2007</i>			
Assets			
Cash and cash equivalents	24,247	10,913	35,160
Accounts receivable	63,148	40,109	103,257
Inventory	3,384	676	4,060
Prepaid and other assets	982	160	1,142
	91,761	51,858	143,619
Investments	35,603	-	35,603
Property, plant and equipment	785,054	30,322	815,376
Intangible assets	-	6,605	6,605
Reclamation and other deposits	6,485	-	6,485
	918,903	88,785	1,007,688
Liabilities			
Accounts payable and accrued liabilities	48,402	24,003	72,405
Deferred revenue	-	975	975
	48,402	24,978	73,380
Mine closure and site restoration	5,087	-	5,087
Future income and resource taxes	175,807	2,373	178,180
	180,894	2,373	183,267
	229,296	27,351	256,647

The accompanying notes are an integral part of these 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	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating revenues	76,423	56,767	329,339	216,427
Operating expenses				
Expenses, excluding depreciation and amortization	73,352	26,015	251,849	74,874
Depreciation and amortization	16,233	7,080	41,949	17,910
	89,585	33,095	293,798	92,784
	(13,162)	23,672	35,541	123,643
Expenses				
Administration	4,896	1,958	11,912	6,428
Capital taxes	-	594	(1,803)	1,316
Depreciation	206	138	624	345
Stock-based compensation (note 12)	856	777	3,419	2,355
Other expenses (income) (note 13)	14,227	1,550	3,388	(5,827)
	20,185	5,017	17,540	4,617
Earnings (loss) before taxes and other items	(33,347)	18,655	18,001	119,026
Income and resource taxes recovery (expense)	7,814	(6,170)	(8,130)	(41,359)
Loss of equity investee (note 6)	(1,009)	-	(1,009)	-
Net earnings (loss) for the period	(26,542)	12,485	8,862	77,667
Basic earnings (loss) per share (note 11(b))	(0.31)	0.15	0.10	0.93
Diluted earnings (loss) per share (note 11(b))	(0.31)	0.15	0.10	0.91

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



Consolidated Segmented Statements of Operations

(in thousands of Canadian dollars)

(Unaudited)

Three months ended September 30, 2008

	Mining Operations	Mining Services	Total
	\$	\$	\$
Operating revenues	51,178	25,245	76,423
Operating expenses			
Expenses, excluding depreciation and amortization	48,289	25,063	73,352
Depreciation and amortization	13,863	2,370	16,233
	62,152	27,433	89,585
	(10,974)	(2,188)	(13,162)
Expenses			
Administration	4,896	-	4,896
Depreciation	206	-	206
Stock-based compensation	371	485	856
Other expenses (income)	5,979	8,248	14,227
	11,452	8,733	20,185
Earnings (loss) before taxes and other items	(22,426)	(10,921)	(33,347)
Income and resource taxes recovery	6,461	1,353	7,814
Loss of equity investee	(1,009)	-	(1,009)
Net earnings (loss) for the period	(16,974)	(9,568)	(26,542)

	Mining Operations	Mining Services	Total
	\$	\$	\$
<i>Nine months ended September 30, 2008</i>			
Operating revenues	217,693	111,646	329,339
Operating expenses			
Expenses, excluding depreciation and amortization	144,587	107,262	251,849
Depreciation and amortization	34,976	6,973	41,949
	179,563	114,235	293,798
	38,130	(2,589)	35,541
Expenses			
Administration	11,912	-	11,912
Capital taxes	(1,803)	-	(1,803)
Depreciation	624	-	624
Stock-based compensation	1,801	1,618	3,419
Other expenses (income)	(4,393)	7,781	3,388
	8,141	9,399	17,540
Earnings (loss) before taxes and other items	29,989	(11,988)	18,001
Income and resource taxes recovery (expense)	(8,046)	(84)	(8,130)
Loss of equity investee	(1,009)	-	(1,009)
Net earnings (loss) for the period	20,934	(12,072)	8,862

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

Consolidated Statements of Cash Flow (in thousands of Canadian dollars) (Unaudited)	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating activities				
Net earnings (loss) for the period	(26,542)	12,485	8,862	77,667
Non-cash items				
Depreciation and amortization	16,439	7,218	42,573	18,255
Amortization of line of credit transaction costs	156	-	156	-
Stock-based compensation	856	777	3,419	2,355
Future income and resource taxes	62	7,046	10,559	23,822
Interest on deferred payment obligation	-	63	-	188
Gain on disposal of shares	-	(3,960)	(8,461)	(15,480)
Gain on disposal of fixed assets	(3)	-	(97)	-
Gain on sale of mineral exploration properties	-	-	-	1,077
Write-down of mineral exploration properties	-	-	-	(2,354)
Write-down of investment	10,000	-	10,000	-
Write-down of intangible assets	4,128	-	4,128	-
Provision for doubtful accounts	4,242	-	4,242	-
(Increase) decrease in value of investments held for trading	474	788	727	(146)
Loss of equity investee	1,009	-	1,009	-
Other	544	(136)	443	(306)
	11,365	24,281	77,560	105,078
Net change in non-cash working capital	(11,492)	3,305	(8,360)	11,287
	(127)	27,586	69,200	116,365
Financing activities				
Common shares issued	2,173	1,027	2,814	4,049
Bank indebtedness – advance	-	-	45,837	-
Bank indebtedness – payment	(20,372)	-	(45,837)	-
	(18,199)	1,027	2,814	4,049
Investing activities				
Investments	-	-	(10,000)	(2,821)
Property, plant and equipment	(41,224)	(55,443)	(139,625)	(149,689)
Proceeds on sale of gold equivalent units	175,000	-	175,000	-
Gold Wheaton transaction costs	(4,366)	-	(4,366)	-
Proceeds from disposal of investments	-	25,512	21,441	25,512
Other	-	(334)	-	(334)
	129,410	(30,265)	42,450	(127,332)
Effect of exchange rate changes on cash	513	-	1,445	-
Change in cash and cash equivalents for the period	111,597	(1,652)	115,909	(6,918)
Cash and cash equivalents – beginning of period	39,472	109,851	35,160	115,117
Cash and cash equivalents – end of period	151,069	108,199	151,069	108,199

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

Consolidated Segmented Statements of Cash Flow

(in thousands of Canadian dollars)

(Unaudited)

Three months ended September 30, 2008

	Mining Operations	Mining Services	Total
	\$	\$	\$
Operating activities			
Net earnings (loss) for the period	(16,974)	(9,568)	(26,542)
Non-cash items			
Depreciation and amortization	14,069	2,370	16,439
Write-downs	10,000	8,370	18,370
Loss of equity investee	1,009	-	1,009
Other	1,607	482	2,089
	9,711	1,654	11,365
Net change in non-cash working capital	(7,357)	(4,135)	(11,492)
	2,354	(2,481)	(127)
Financing activities			
Common shares issued	2,173	-	2,173
Bank indebtedness	(20,372)	-	(20,372)
Investing activities			
Property, plant and equipment	(35,694)	(5,530)	(41,224)
Other	170,634	-	170,634
Effect of exchange rate changes on cash	-	513	513
Change in cash and cash equivalents for the period	119,095	(7,498)	111,597
Cash and cash equivalents – beginning of period	26,274	13,198	39,472
Cash and cash equivalents – end of period	145,369	5,700	151,069

For the nine months ended September 30, 2008

	Mining Operations	Mining Services	Total
	\$	\$	\$
Operating activities			
Net earnings (loss) for the period	20,934	(12,072)	8,862
Non-cash items			
Depreciation and amortization	35,600	6,973	42,573
Write-downs	10,000	8,370	18,370
Loss of equity investee	1,009	-	1,009
Other	5,225	1,521	6,746
	72,768	4,792	77,560
Net change in non-cash working capital	(4,347)	(4,013)	(8,360)
	68,421	779	69,200
Financing activities			
Common shares issued	2,814	-	2,814
Investing activities			
Property, plant and equipment	(132,188)	(7,437)	(139,625)
Other	182,075	-	182,075
Effect of exchange rate changes on cash	-	1,445	1,445
Change in cash and cash equivalents for the period	121,122	(5,213)	115,909
Cash and cash equivalents – beginning of period	24,247	10,913	35,160
Cash and cash equivalents – end of period	145,369	5,700	151,069

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

Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30 2008	2007	September 30 2008	2007
	\$	\$	\$	\$
Net earnings (loss) for the period	(26,542)	12,485	8,862	77,667
Other comprehensive income, net of tax				
Unrealized gains (loss) on available for sale investments (note 3)	(7,879)	(2,289)	(15,681)	3,745
Cumulative translation adjustment (note 3)	513	-	1,074	-
Comprehensive income (loss)	(33,908)	10,196	(5,745)	81,412

Consolidated Statements of Retained Earnings

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30 2008	2007	September 30 2008	2007
	\$	\$	\$	\$
Retained earnings – beginning of period	203,364	123,195	167,960	58,013
Net earnings (loss) for the period	(26,542)	12,485	8,862	77,667
Retained earnings – end of period	176,822	135,680	176,822	135,680

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007
(amounts 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 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.

On October 15, 2007, the Company acquired a mining services business ("**Mining Services**") from Sherritt International Corporation ("**Sherritt**"), comprised of a Canadian mining services division and the shares of Dynatec Mining Corporation ("**DMC**"), which provides mining services in the United States. The consolidated financial statements include the results of operations for Mining Services commencing October 16, 2007 and, accordingly, segmented results of operations and cash flow information is presented only for the period January 1 to September 30, 2008.

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, 2007, except as noted below. Generally accepted accounting principles ("**GAAP**") 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 annual 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.

On July 15, 2008, the Company entered into an agreement with Gold Wheaton Gold Corp. ("**Gold Wheaton**", formerly known as Kadywood Capital Corp.), whereby the Company agreed to sell 50% of the gold, platinum and palladium production from certain of its deposits for consideration of \$175 million in cash, 350 million of Gold Wheaton common shares with a fair value of \$175 million representing approximately 38% of Gold Wheaton's basic shares outstanding to the Company, and a deferred payment of \$50 million in Gold Wheaton warrants, shares or cash on January 15, 2009. The investment in Gold Wheaton has been accounted for using the equity method whereby the Company's share of Gold Wheaton's earnings and losses is included in the statement of operations and the Company's investment therein adjusted by an equivalent amount.

(a) Changes in accounting policies

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("**CICA**") Handbook Section 1535, Capital Disclosures, Section 3862,

Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentations. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 replaced Section 3861, Financial Instruments - Disclosure and Presentation, and increases emphasis on disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Application of these pronouncements did not have an impact on the reported results of operations.

Effective January 1, 2008, the Company prospectively adopted CICA Handbook Section 3031 recommendations relating to the accounting for inventories which revises and enhances the requirements for assigning costs to and disclosure of inventories. Application of this pronouncement did not have an impact on the reported results of operations.

(b) New accounting pronouncements

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. These sections provide more specific guidances on the recognition of internally developed intangible assets and require that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. These sections standardize Canadian GAAP with International Financial Reporting Standards ("IFRS") and apply to interim and annual statements relating to fiscal years beginning on or after October 1, 2008. These standards are not expected to have a material impact on the Company's consolidated financial statements.

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

3. Accumulated other comprehensive income

The following table summarizes information regarding FNX's accumulated other comprehensive income ("OCI") as at and for the nine months ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance – beginning of period	5,565	-
Adjustment at beginning of period due to change in accounting for available-for-sale ¹ assets	-	16,507
Changes in fair value of available-for-sale ² assets	(15,681)	3,745
Reclassification adjustment of gains included in net income ³	(7,145)	(12,704)
Reclassification adjustment for write down of investment ⁴	8,408	-
Cumulative translation adjustment	1,074	-
Balance – end of period	<u>(7,779)</u>	<u>7,548</u>

¹ Tax impact of \$nil (2007 - \$3,648)

² Tax impact of (\$2,447) (2007 – (\$1,559))

³ Tax impact of \$1,115 (2007 - \$2,074)

⁴ Tax impact of \$1,312 (2007 - \$nil)

4. Inventory

	September 30 2008	December 31 2007
	\$	\$
In-process		
Cash costs	319	1,618
Non-cash costs	199	997
	518	2,615
Pre-production	-	769
Supplies	358	676
	876	4,060

Mining Operations in-process inventory represents the cost of ore that has been mined and brought to surface but has not been shipped to Vale Inco Limited (“Vale Inco”), for concentrating, smelting and refining as at the balance sheet date. Cash costs include mining costs and all costs up to and including crushing but not haulage to the concentrator. Non-cash costs represent the amount of mine depreciation and amortization deferred to in-process inventories as at the balance sheet date. The mine depreciation and amortization included in the carrying value of in-process inventories is charged to the Mining Operations depreciation and amortization expense category of the statement of operations when the ore is shipped to Vale Inco.

The supplies inventory relates to Mining Services and includes spare parts, consumable operating supplies as well as the cost of inventory held on construction sites for installation at customers’ facilities.

5. Investments

	September 30, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
	#000s	\$	#000s	\$
Fieldex Exploration Inc.	6,500	553	6,500	1,723
INV ¹ (common shares)	7,662	1,839	7,662	6,895
INV (common share purchase warrants)	3,154	59	3,154	786
Lake Shore Gold Corp.	1,500	1,725	13,300	23,275
SRA ²	3,509	-	-	-
Superior Diamonds Inc.	6,861	892	6,861	2,573
Visible Gold Mines Inc.	1,066	160	1,066	351
		5,228		35,603

¹ International Nickel Ventures Corporation (“INV”)

² Strategic Resource Acquisition Corporation (“SRA”)

During the nine months ended September 30, 2008, the investments were measured at a fair value of \$5.2 million resulting in a revaluation loss of \$15.7 million, net of tax, recognized in accumulated OCI.

Pursuant to an agreement dated February 6, 2008, FNX acquired 3.509 million common shares of SRA or approximately 10.7% of the, at that time, issued and outstanding common shares of SRA through a private transaction. The shares were acquired at \$2.85 per share,



which represented a 5% discount to the closing pricing of the SRA common shares on January 31, 2008, the date the negotiations had commenced. Mining Services provided contract mining services to a wholly-owned subsidiary of SRA in the United States (note 18(a)) until October 9, 2008.

In light of SRA's financial difficulties, the precipitous decline in metal prices including zinc, and the recent turmoil in the debt and equity markets, the Company has concluded that the fair value of the SRA investment has experienced an other-than-temporary decline in fair value. Accordingly, FNX has written off the investment at September 30, 2008 (note 18(a)).

6. Investment in Gold Wheaton Gold Corp.

On July 15, 2008, FNX entered into an agreement with Gold Wheaton whereby the Company agreed to sell 50% of the contained gold, platinum and palladium metal in ore mined and shipped from the Company's PM and 700 Deposits at the McCreedy West Mine, the Levack Footwall, Rob's and 1900 Deposits at the Levack Mine, and the 2000 and North Deposits at the Podolsky Mine in consideration for an up-front cash payment of \$175 million and 350 million of Gold Wheaton common shares with a fair value of \$175 million representing ownership of approximately 38% of Gold Wheaton's basic shares outstanding, and deferred warrants with a fair value of \$50 million that will be converted on January 15, 2009 into either Gold Wheaton share purchase warrants, shares or cash, and pay, on an ongoing basis, a cash payment equal to the lesser of US\$400 (subject to an inflationary adjustment three years after the anniversary date) per gold equivalent ounce and the then prevailing market price per ounce of gold.

The common shares of Gold Wheaton issued to FNX are subject to a statutory hold period which expires on November 16, 2008. Commencing July 15, 2008, 25% of the Gold Wheaton common shares are being released from escrow every six months.

In addition to FNX's 38% ownership of the outstanding shares of Gold Wheaton, the Company has been granted the right to nominate two directors for membership on the Board of Directors which, combined, constitute a position of significant influence over Gold Wheaton. Consequently, the Company has recorded the Gold Wheaton investment on an equity basis whereby the Company's proportionate share of reported Gold Wheaton income or loss is added to or deducted from the carrying value of its investment.

	September 30 2008
	<u>\$</u>
Initial investment	175,000
Transaction costs	4,366
Loss of equity investee	<u>(1,009)</u>
	178,357
Deferred share purchase warrants, shares or cash	<u>50,000</u>
Balance, end of period	<u><u>228,357</u></u>

As at September 30, 2008 the market value of FNX's 350 million Gold Wheaton shares was approximately \$308.0 million and the Company's interest in Gold Wheaton was 37.5%.

7. Property, plant and equipment

	September 30, 2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
Levack Complex			
Property and development	280,377	55,576	224,801
Plant and equipment	101,074	19,411	81,663
	<u>381,451</u>	<u>74,987</u>	<u>306,464</u>
Podolsky			
Property and development	147,225	8,973	138,252
Plant and equipment	32,149	4,038	28,111
	<u>179,374</u>	<u>13,011</u>	<u>166,363</u>
Exploration	402,516	-	402,516
Corporate	3,036	1,540	1,496
Mining Operations	966,377	89,538	876,839
Mining Services	38,368	5,706	32,662
	<u>1,004,745</u>	<u>95,244</u>	<u>909,501</u>
	December 31, 2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Mining			
Levack Complex			
Property and development	248,371	42,697	205,674
Plant and equipment	81,077	11,353	69,724
	<u>329,448</u>	<u>54,050</u>	<u>275,398</u>
Property under development			
Podolsky	136,988	-	136,988
Exploration	371,182	-	371,182
Corporate	2,402	916	1,486
	<u>840,020</u>	<u>54,966</u>	<u>785,054</u>
Mining Operations	840,020	54,966	785,054
Mining Services	31,466	1,144	30,322
	<u>871,486</u>	<u>56,110</u>	<u>815,376</u>

(a) Levack Complex

The Levack Complex is located in the Sudbury mining district of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack mines. 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, Vale Inco (note 20).

FNX holds a 100% interest in the Levack Complex.

(b) Podolsky

Podolsky is located in the Sudbury mining district region of Ontario. Commencing January 1, 2008, mining revenues and expenses from ore mined from the Podolsky property have been included in the statement of operations and the accumulated costs to date were transferred from property under development 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 2008	December 31 2007
	<u>\$</u>	<u>\$</u>
Levack Footwall	295,847	269,773
Aurora Properties	91,976	91,507
Victoria	9,487	6,359
Kirkwood	2,479	2,480
Podolsky Nickel Ramp	2,727	1,063
	<u>402,516</u>	<u>371,182</u>

As at September 30, 2008, FNX held a 100% interest in the Levack Footwall, Podolsky Nickel Ramp, Victoria and Kirkwood mineral exploration properties, all of which are located in the Sudbury mining district of Ontario. The Levack Footwall Deposit is located on the Levack property but is at the advanced exploration stage. The Podolsky Nickel Ramp project is located on the Podolsky property but is at the exploration stage.

A 15,000 ton bulk sample was extracted from the 4000 Level exploration drift accessed from Xstrata Nickel's Craig Mine and 10,683 tons thereof were shipped to Vale Inco for processing at the Clarabelle Mill in early July 2008. Final analytical results from the shipped tonnage are pending; however preliminary grades combined with management's estimated payable metals and processing cost terms, resulted in a \$5.8 million pre-production credit to the carrying value of the Levack Footwall Deposit in the quarter.

The Aurora Properties are located in the Sudbury mining district of Ontario as all non-Sudbury properties were sold during 2007. All of the Aurora Properties and the Levack Footwall, Victoria, Kirkwood and Podolsky Nickel Ramp properties are in the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist therein.

The Aurora Properties are subject to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel ("**Xstrata Nickel**"), a business unit of Xstrata Canada Corporation. As at December 31, 2007, the Company and Xstrata Nickel held a 78% and 22% interest, respectively (2006 - 74% and 26%), in the Falconbridge Joint Venture. As Xstrata Nickel has elected not to participate in the 2008 exploration program, Xstrata Nickel's interest will continue to be diluted for the year. The Company is the operator of the



Falconbridge Joint Venture. FNX holds between 30% and 100% interests in the Aurora Properties.

(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.

8. Intangible assets

	September 30 2008	December 31 2007
	\$	\$
Cost	7,431	7,431
Accumulated amortization	(3,303)	(826)
Write-down	(4,128)	-
	-	6,605

Intangible assets arose from the acquisition of Mining Services from Sherritt on October 15, 2007.

In the third quarter of 2008, FNX concluded that events and changes in circumstances have indicated that the carrying value of FNX's intangible assets may not be recoverable. The triggering event and change in circumstances includes both the deterioration of capital markets, credit markets, and commodities markets in the third quarter of 2008, as well as the recent loss of several customer contracts which made up a significant balance of the intangible assets. FNX performed an impairment analysis in accordance with Section 3063 – Impairment of Long-Lived Assets, which compared the carrying values of all intangible assets with their fair values. Based on the analysis performed, it was determined that there remains no future value in FNX's intangible assets and they have, therefore, been written down to \$nil, with the \$4.1 million unamortized balance being charged to the statement of operations in the third quarter of 2008 (note 13).

9. Bank indebtedness

On April 1, 2008, the Company established a US\$100 million secured line of credit facility (the "LOC") with a consortium of major banks, which provides the Company with the right to borrow for working capital and general corporate purposes. The LOC matures on March 31, 2009, subject to an extension option as well as a right to elect a one-year term out of the LOC, in which case repayment of outstanding amounts is made in four equal installments commencing on June 30, 2009 and ending on March 31, 2010. Borrowings may be made in the form of United States Base Rate loans or London Interbank Offered Rate ("LIBOR") loans. Borrowings bear interest, when drawn, at the United States Base Rate (plus a margin ranging from 0.250% to 0.875%) or at LIBOR (plus a margin ranging from 1.250% to 1.875%) depending on the Company's current leverage ratio and whether the LOC has been converted from revolving to non-revolving. The LOC is secured by a first priority general security interest in all present and future personal property pursuant to a general security agreement (subject to permitted encumbrances) and contains covenants and events of defaults customary to this type of facility. Costs associated with establishing the LOC were deferred and will be amortized over a two year period.



As at September 30, 2008, the Company had no amounts drawn down on the revolving LOC.

10. Deferred revenue

On July 15, 2008, Gold Wheaton paid FNX an up-front cash payment of \$175 million, issued to FNX 350 million Gold Wheaton common shares with a fair value of \$175 million and a deferred warrant of \$50 million payable in Gold Wheaton warrants, shares or cash on January 15, 2009, for a total of \$400 million in deferred revenue. Gold Wheaton will also pay, on an ongoing basis, a cash payment equal to the lesser of US\$400 (subject to an inflationary adjustment three years after the anniversary date) per gold equivalent ounce and the then prevailing market price per ounce of gold.

Deferred revenue is recognized in the statement of operations on the basis of the proportion of gold equivalents sold to Gold Wheaton over the Life of Mine of the Gold Wheaton deposits.

	<u>September 30</u> <u>2008</u>	<u>December 31</u> <u>2007</u>
	\$	\$
Opening balance	975	-
Recognized in revenue – DMC	(825)	-
Deferred payment received	400,000	975
Recognized in revenue – Gold Wheaton	(3,213)	-
	<u>396,937</u>	<u>975</u>
Less: Current portion – Gold Wheaton	27,002	-
Less: Current portion – Mining Services	150	975
Long-term portion	<u>369,785</u>	<u>-</u>

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

11. Share capital and earnings per share

The following table summarizes information regarding FNX's share capital as at and for the nine months ended September 30, 2008 and 2007:

(a) Common shares issued and outstanding ¹

	<u>2008</u>		<u>2007</u>	
	Shares #000s	Amount \$	Shares #000s	Amount \$
Balance – beginning of period	84,564	567,700	83,736	560,266
Stock options exercised	313	2,814	614	4,049
From contributed surplus (note 12)	-	1,237	-	1,632
Share cancellation (note 12)	-	-	(490)	(6,811)
Balance – September 30	<u>84,877</u>	<u>571,751</u>	<u>83,860</u>	<u>559,136</u>

¹ FNX is authorized to issue an unlimited number of common shares.



(b) Earnings (loss) per share

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net earnings(loss) available to shareholders(\$)				
Basic and diluted	<u>(26,542)</u>	<u>12,485</u>	<u>8,862</u>	<u>77,667</u>
Weighted average shares outstanding (#000s)				
Basic	<u>84,724</u>	<u>83,814</u>	<u>84,659</u>	<u>83,943</u>
Effect of dilutive stock options	<u>-</u>	<u>1,286</u>	<u>144</u>	<u>1,145</u>
Diluted	<u>84,724</u>	<u>85,100</u>	<u>84,803</u>	<u>85,088</u>
Stock options excluded from dilution	<u>1,416</u>	<u>24</u>	<u>1,250</u>	<u>233</u>
Earnings (loss) per share				
Basic	<u>(\$0.31)</u>	<u>\$0.15</u>	<u>\$0.10</u>	<u>\$0.93</u>
Diluted	<u>(\$0.31)</u>	<u>\$0.15</u>	<u>\$0.10</u>	<u>\$0.91</u>

12. Contributed surplus

The following table summarizes information regarding FNX's contributed surplus as at and for the nine months ended September 30, 2008 and 2007:

	2008	2007
	\$	\$
Balance – beginning of period	9,816	7,710
Stock-based compensation	4,128	1,717
Transfer of exercised options to share capital (note 11)	(1,237)	(1,632)
Receipt and cancellation of shares	-	3,760
Balance – end of period	<u>12,707</u>	<u>11,555</u>

The following table summarizes information regarding FNX's stock-based compensation expense for the three and nine months ended September 30, 2008 and 2007:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Stock options	1,322	665	4,128	1,717
Deferred share units	(466)	112	(709)	638
	<u>856</u>	<u>777</u>	<u>3,419</u>	<u>2,355</u>

FNX has two stock-based compensation plans: a stock option plan (the “**Option Plan**”); and a deferred share unit plan (the “**DSU Plan**”). The Board of Directors has implemented a policy requiring all directors, the Chief Executive (“**CEO**”) and the Chief Financial Officer (“**CFO**”) to hold a minimum number of common shares and/or deferred share units within five years of their appointment. The required shareholding is for directors, 5,000 common shares, for the Chief Executive Officer the requirement is equal to the value of that number of common shares representing two times the amount of the CEO’s base salary and, for the CFO, the requirement is 5,000 common shares.



(a) Stock option plan

The Option Plan is for directors, officers, employees and certain individuals that provide ongoing services to FNX. Under the Option Plan, options may be granted for a term not exceeding 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 vest at the discretion of the Board of Directors or the Compensation Committee. Effective January 1, 2005, the Board established a policy pursuant to which options would vest as to 33.3% each year on the anniversary date of each of the first three years following the grant date. Options are not assignable and, except in specified circumstances, terminate upon the optionee ceasing to be employed by or associated with FNX. The exercise price of each option may not be less than the closing price of the common shares on the last trading day immediately preceding the date the options are granted.

The following table summarizes information regarding FNX's outstanding and exercisable stock options as at September 30, 2008:

Range of exercise prices per share \$	Outstanding			Exercisable	
	Shares #000s	Weighted average months remaining #	Weighted average exercise price per share \$	Shares #000s	Weighted average exercise price per share \$
5.04 to 6.85	12	11	5.04	12	5.04
7.40	203	18	7.40	203	7.40
8.15 to 12.99	434	30	10.87	279	10.39
13.00	68	27	13.00	39	13.00
13.01 to 13.83	177	31	13.60	130	13.65
14.01 to 18.04	140	35	15.58	38	15.48
18.05 to 29.66	987	13	25.12	40	23.05
30.20 to 34.65	49	44	31.30	16	31.16
37.53	281	50	37.53	-	-
	<u>2,351</u>			<u>757</u>	



The following table summarizes information regarding FNX's stock options as at and for the three and six months ended September 30, 2008:

	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	2,522	20.61	1,959	18.07
Granted	118	12.23	937	23.61
Exercised	(168)	6.97	(313)	9.00
Forfeited/cancelled	(121)	29.81	(232)	26.26
Balance – end of period	2,351	20.67	2,351	20.67

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 weighted average assumptions used for grants as follows: dividend yield of 0% (2007 - 0%), expected volatility of 45% (2007 - 42%), risk-free interest rate of 3.0% (2007 - 4.0%) and expected life of 36 months (2007 - 36 months).

(b) Deferred share units plan

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 \$546 related to 43,436 DSUs.

13. Other expenses (income)

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Gain on disposal of investments	-	-	(8,461)	-
Foreign exchange (gain)/loss	(3,610)	5,990	(5,723)	14,584
Interest income	(1,104)	(1,301)	(1,595)	(3,538)
Gain on sale of fixed assets	(3)	-	(97)	-
Interest on bank indebtedness	161	-	374	-
(Gain)/loss on investments held for trading	474	788	727	(146)
Write-down of intangible assets (note 8)	4,128	-	4,128	-
Provision for doubtful accounts (note 18(a))	4,242	-	4,242	-
Write-down of investment (note 5)	10,000	-	10,000	-
Gain on disposal of Dynatec shares	-	-	-	(11,520)
Gain on sale of mineral exploration properties	-	-	-	(2,354)
Management fees	-	(30)	-	(93)
Interest on deferred payment obligation	-	63	-	188
Write-down of mineral exploration properties	-	-	-	1,077
Gain on disposal of Sherritt shares	-	(3,960)	-	(3,960)
Miscellaneous	(61)	-	(207)	(65)
	14,227	1,550	3,388	(5,827)

14. Supplementary cash flow information

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net change in non-cash working capital				
Accounts receivable	23,705	6,433	22,428	(7,941)
Inventory	154	2	3,184	466
Prepaid and other assets	(1,164)	(353)	(1,307)	(896)
Accounts payable and accrued liabilities	(30,974)	(2,777)	(29,452)	19,658
Deferred revenue	(3,213)	-	(3,213)	-
	(11,492)	3,305	(8,360)	11,287
Other information				
Interest paid	161	-	374	-
Income and resource taxes paid	982	925	2,478	8,263

15. Related party transactions

INV terminated the January 1, 2006 agreement between FNX and INV effective December 31, 2007 and, other than one common director, FNX and INV do not have any common directors, officers or employees. Accordingly, INV ceased to be a related party at that time. During the nine month period ended September 30, 2007, FNX invoiced INV \$162 for services provided under the agreement.

16. Segmented information

FNX has two operating segments: Mining Operations and Mining Services, which was acquired on October 15, 2007.

The Mining Operations segment operates in one geographic location, Ontario, Canada, and is responsible for mineral exploration, development and mining.

The Mining Services segment, comprised of the Canadian mining services division and DMC, provides mining and civil underground construction services in Canada and the United States.

The following table summarizes information regarding FNX's operations by geographic location as at and for the three and nine month periods ended September 30, 2008.

	Three months ended September 30, 2008		
	Canada	United States	Total
	\$	\$	\$
Operating revenues	58,823	17,600	76,423
Operating expenses			
Expenses, excluding depreciation and amortization	56,678	16,674	73,352
Depreciation and amortization	15,600	633	16,233
Other expenses (income)	16,027	4,158	20,185
Earnings before taxes	<u>(29,482)</u>	<u>(3,865)</u>	<u>(33,347)</u>
Accounts receivable	64,082	16,747	80,829
Accounts payable and accrued liabilities	33,803	9,149	42,952
Property, plant and equipment	893,485	16,016	909,501
Capital expenditures	35,869	5,355	41,224
	Nine months ended September 30, 2008		
	Canada	United States	Total
	\$	\$	\$
Operating revenues	249,845	79,494	329,339
Operating expenses			
Expenses, excluding depreciation and amortization	178,280	73,569	251,849
Depreciation and amortization	40,195	1,754	41,949
Other expenses (income)	13,608	3,932	17,540
Earnings (loss) before taxes	<u>17,762</u>	<u>239</u>	<u>18,001</u>
Accounts receivable	64,082	16,747	80,829
Accounts payable and accrued liabilities	33,803	9,149	42,952
Property, plant and equipment	893,485	16,016	909,501
Capital expenditures	133,597	6,028	139,625

17. Capital management

The Company's objectives when managing capital are to:

- ensure that the Company has the financial capacity to support its operations throughout the metals cycles;
- ensure that the Company has the capital and capacity to support the current mine development plans and the long-term growth strategy; and
- provide investors with superior returns over time.

The Company's capital structure reflects the requirements of a company focused on significant growth in a capital intensive industry that experiences lengthy development lead times as well as risks associated with capital costs and timing of project completion due to factors that are beyond the Company's control, including the availability of resources, the issuance of necessary permits, costs of various inputs and the volatility of metals prices.

The adequacy of the Company's capital structure is assessed on an ongoing basis and adjusted as necessary after taking into consideration the Company's strategy, the metals markets, the mining industry, economic conditions and the associated risks.

In order to maintain or adjust its capital structure, the Company may adjust its capital spending, issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or issue new debt or repay existing debt.

Although the Company has not historically utilized debt facilities as part of its capital management program, as at April 1, 2008, FNX finalized the US\$100 million LOC with a group of banks to assist in managing working capital and possible adverse currency and commodity price fluctuations. The Company is subject to certain covenants with respect to the LOC (note 9).

18. Financial instruments

The carrying amount of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, investments, reclamation deposits and accounts payable and accrued liabilities, approximate their fair values due to the short-term maturities of these financial instruments.

As described below, the Company has exposure to credit risk, liquidity risk, foreign exchange risk and market risk from its use of financial instruments. In addition, other quantitative disclosures regarding these risks are included throughout these consolidated financial statements.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum counterparty credit exposure at period end consists of the following, which approximates fair value:



	Carrying amount	
	September 30	December 31
	2008	2007
	\$	\$
Cash and cash equivalents	151,069	35,160
Accounts receivable	80,829	103,257
Reclamation deposits	6,485	6,485
	238,383	144,902

FNX has historically and will continue in the future to invest all surplus cash resources in conservative term deposits with major Canadian chartered banks.

(i) *Trade and accounts receivable*

Except for 50% of the gold, platinum and palladium metal contained in ore mined and shipped from certain of the Levack Complex and Podolsky mineral deposits which is sold to Gold Wheaton, FNX's Mining Operations sells all of the other metals contained in the ore it produces from the Levack Complex and Podolsky to Vale Inco. Accordingly, Vale Inco and Gold Wheaton are the only two customers of Mining Operations (note 19(b)).

During the period January 1 to September 30, 2008, 53% of Mining Services revenues were derived from one client, SRA, at its sole producing operation, the Mid-Tennessee Zinc ("MTZ") mine. On October 9, 2008, SRA announced by News Release that it has placed the MTZ mine on care and maintenance until such time "when zinc prices improve and funding becomes available". Furthermore, on October 1, 2008, SRA announced by News Release that "it is in discussion with significant holders of its Series 1 Notes to restructure aspects of the company's senior secured debt". In light of SRA's financial difficulties, the precipitous decline in metal prices including zinc, and the recent turmoil in the debt and equity markets, a provision for doubtful accounts for the full \$4.2 million amount owed by SRA to Mining Services was charged to the statement of operations as at September 30, 2008 (note 13).

The maximum exposure to credit risk for trade accounts receivables included in the total accounts receivable balance at the reporting date by customer type was:

	Carrying amount	
	September 30	December 31
	2008	2007
	\$	\$
Mining Operations - Vale Inco	55,122	62,803
Mining Operations - Gold Wheaton	4,555	-
DMC - Vale Inco	9,299	7,760
DMC - SRA	-	12,242
Other contracts	10,921	20,158
	79,897	102,963

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established for groups of similar assets in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data



of payment statistics for similar financial assets. As at the reporting date, the balance in the allowance for doubtful accounts was \$4.2 million (December 31, 2007 - \$nil).

The aging of trade accounts receivable at the reporting date was:

	<u>Gross</u>	<u>Allowance</u>
	\$	\$
Not past due	76,537	-
Past due 0-30 days	4,107	-
Past due 31-120 days	3,495	4,242
More than one year	-	-
	<u>84,139</u>	<u>4,242</u>

(ii) Investments

Investment certificates are maintained on deposit with certain investment dealers.

(iii) Guarantees

The Company has provided certain financial guarantees to the Ontario Government and Vale Inco with respect to estimated future reclamation expenditures and letters of credit covering the estimated expenditures are maintained with a major Canadian chartered bank. In the normal course of business, certain of the Mining Services contracts require DMC to provide the customer with a performance or surety bond from an insurance company. The Company has provided guarantees to an insurance company that has issued surety bonds in the United States on behalf of DMC. As at September 30, 2008, the aggregate principal amount of the surety bonds which the Company has guaranteed totaled US\$11 million.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. FNX strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal periods to identify financing requirements which are addressed through a combination of committed credit facilities and access to capital markets. Effective April 1, 2008, the Company entered into a LOC with a consortium of major banks which provides the Company with the right to borrow for working capital and general corporate purposes (note 9).

(c) Price risk

Price risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) *Currency risk*

Fluctuations in the Canadian/US dollar exchange rate can impact FNX's earnings and cash flows. Most of FNX's revenues are denominated in US dollars, whereas certain of FNX's obligations and operating expenses are denominated in Canadian dollars and other foreign currencies. If the value of the Canadian dollar increases relative to the US dollar, FNX's results of operations, financial condition and liquidity could be materially adversely affected. The Company converts a majority of its US dollars into Canadian dollars upon receipt; however, its self-sustaining US subsidiary maintains sufficient cash on hand in order to fund internal operations.

Management estimates each \$0.10 change in the value of the Canadian/US dollar exchange rate impacts US denominated financial instruments at September 30, 2008 and earnings before tax by approximately \$5.7 million.

(ii) *Commodity Prices and interest rates*

The profitability of the Company will be significantly affected by changes in the market price of nickel and copper and to a lesser extent by cobalt, platinum, palladium and gold. The level of interest rates, the rate of inflation, world supply and demand of base metals and precious metals and stability of exchange rates can all cause significant fluctuations in base metal and precious metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of base metals and precious metals has fluctuated widely in recent years, and future serious price declines could cause continued commercial production to be impracticable. Depending on the price of base metals and precious metals, cash flow from mining operations may not be sufficient to cover operating costs. Any figures for reserves and resources presented by FNX will be estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations and the price of base metals and precious metals may render reserves and resources uneconomic. Moreover, short-term operating factors relating to the reserves, such as the need for orderly development of the ore bodies or the processing of new or different grades of ore, may cause a mining operation to be unprofitable in any particular accounting period.

The crushed ore shipped to Vale Inco is sold under terms that provide for final prices that are determined by quoted market prices in a period subsequent to the date of sale. Variations from the provisionally priced sales are recognized as revenue adjustments as they occur until the price is finalized. Management estimates that for each \$1.00 change in the price per pound of nickel or \$0.25 change in the price per pound of copper would impact the September 30, 2008 trade account receivable from Vale Inco and earnings before tax by approximately \$3.4 million and \$2.7 million, respectively.

Gold equivalents are sold to Gold Wheaton at US\$400 per ounce of gold equivalent plus the appropriate portion of the deferred revenue.

(iii) *Market risk*

The value of certain of the Company's financial instruments will fluctuate as a result of changes in market prices, therefore the Company is subject to market risk. The extent to which the Company is exposed to market risk is outlined as follows:



	Fair value	
	September 30 2008	December 31 2007
	\$	\$
Available-for-sale investments	5,228	35,603
Deferred warrants	50,000	-
Equity Investment in Gold Wheaton	228,358	-
	283,586	35,603

FNX has not entered into any hedging agreements in respect of metal prices or foreign exchange rates at this time. Such contracts would prevent losses in situations where the price changed adversely and would prevent gains in situations where the price changed favourably.

19. Contingencies and litigation

(a) Mining Services

In the normal course of business Mining Services enters into agreements that contain indemnification commitments and may contain features that meet the expanded definition of guarantees. The terms of these indemnification agreements will vary based on the contract and typically do not provide for a limit on the maximum potential liability. The Company has not made any payments under such indemnifications and no amounts have been accrued in the financial statements with respect to these indemnification commitments.

Mining Services is involved from time to time in litigation which arises in the normal course of operations. With respect to these claims, the Company believes the claims are without merit and that any impact on the operations of the Company will either not be material or a sufficient provision has been made. The Company's policy is to recognize the losses, if any, on any such litigation when the outcome becomes reasonably determinable.

(b) Mining Operations

The payable metals Vale Inco is required to pay for ore shipped by FNX are determined based on the metal which Vale Inco is able to recover from the various ore deposits. This will vary depending on the particular metallurgical composition of each ore deposit as determined by metallurgical testing of the various ore deposits. There are several different final payable metals terms for the various ore deposits at McCreedy West to reflect the differences in the metallurgical composition of the ore deposits.

New interim processing costs terms and interim provisional payable metals terms, based on preliminary and limited metallurgical testing, have been established for the Levack and Podolsky mines. Additional and more extensive metallurgical testing, to be conducted over the next several months, is required in order to determine final payable metals terms and processing costs terms for both mines. Management anticipates this to be completed by year end.

Podolsky's interim provisional payable metals and processing costs terms are effective for all ore shipped from September 2007, the date ore shipments commenced from the Podolsky Mine, until final payable metals and processing costs terms are determined, which management anticipates to be in place by year end. FNX's pre-production revenue credits accrued at December 31, 2007 and the metals production forecasts for 2008 were previously



based on management's estimated payable metals and processing costs terms. The pre-production revenue credits were revalued using the new interim provisional payable metals and processing costs terms, resulting in a \$1.6 million increase in the carrying value of Podolsky being recorded in the first quarter of 2008 as these amounts were previously offset against the carrying value.

Levack's new interim provisional payable metals and processing costs terms replaced the Levack interim provisional terms that had been used up to December 31, 2007, which were based on those at McCreedy West. Levack's new interim provisional terms are effective from January 1, 2008 until final payable metals and processing costs terms are determined, which management anticipates to be in place by year end, and are less favourable to FNX than the previous interim provisional terms. Once final payable metals and processing costs terms are determined, they will also be applied to ore shipped from Levack in 2006 and 2007. The Company cannot, at this time, determine the amount, if any, of such adjustment.

Pre-production revenue credits for the Levack Footwall Deposit are based upon estimated provisional metals, pricing and processing costs.

Management considers the new provisional payable metals terms at both Levack and Podolsky to be conservative based on the results of the metallurgical testing FNX has conducted to date. Depending on the outcome of the final payable metals and costs terms there may be a material increase or decrease in payable metals and/or processing costs to be recorded.

20. Subsequent event

On October 21, 2008, the Company suspended commercial production from the Levack nickel contact deposits at its Levack Complex due to low commodity prices and low provisional metal accountabilities along with high operating costs. Mining from the Levack nickel deposits will, however, continue during the fourth quarter to produce about 35,000 tons of metallurgical test production. The tons extracted will be stockpiled until a critical volume is achieved at which time it will be shipped to the Company's custom processor for batch processing. This batch test, along with other ongoing metallurgical test work, will help finalize metal accountabilities for the Levack nickel contact deposits.

The Levack nickel contact deposits do not contain or produce any precious metals and the suspension of production from these deposits will not affect FNX's precious metal production and its agreements with Gold Wheaton.

Pending commodity prices and final metal accountabilities, a decision will be made at year end whether to continue the suspension, put the Levack nickel contact deposits on long-term care and maintenance or to re-activate commercial production from this part of the Levack Complex.