



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third Quarter Ended September 30, 2008

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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, 2008, in comparison to the corresponding prior-year periods. This MD&A is prepared as at November 3, 2008, and is intended to supplement and complement the audited consolidated financial statements of FNX for the years ended December 31, 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 the most recent Annual Information Form ("**AIF**") on file with the Canadian provincial securities regulatory authorities. This MD&A contains certain forward-looking statements based on management's current expectations (please see "Cautionary Note Regarding Forward-Looking Statements" below). All references to dollars herein are in Canadian dollars unless otherwise specified.



Company Overview

FNX Mining Company Inc. ("**FNX**" or "the **Company**") is an Ontario based company operating in Canada and the United States with consolidated assets in excess of \$1.3 billion and more than 1,300 employees functioning within two operating segments: the Mining Operations segment and the Mining Services segment, resulting from the acquisition of the Dynatec Mining Services Business in October 2007. The Mining Operations segment produces, develops and explores for nickel, copper, cobalt, platinum, palladium and gold in Canada's prolific Sudbury mining district. The Mining Services segment operates in both Canada and the United States providing services in contract mining, mine shaft sinking, lateral mine development, mine construction, civil underground construction, raise boring and Alimak raising.

Executive Summary

Significant events and transactions

On July 15, 2008, FNX entered into an agreement with Gold Wheaton Gold Corp. ("**Gold Wheaton**", formerly known as Kadywood Capital Corp.), whereby Gold Wheaton purchased 50% of the gold, platinum and palladium contained in ore produced from certain of the Company's deposits for consideration of \$175 million in cash, 350 million Gold Wheaton common shares with a then fair value of \$175 million representing approximately 37.5% of Gold Wheaton's outstanding common shares, a deferred payment of \$50 million in Gold Wheaton warrants, shares or cash payable on January 15, 2009 and a future payment of US\$400 per ounce of gold equivalent once delivered to the custom processor.

The third quarter and particularly October of 2008 were extremely turbulent times for global economies in general and the mining industry in specific. Trillions of dollar losses were experienced by both the debt and equity markets, market volatility reached nearly unprecedented proportions and overall global financial liquidity was severely strained. Concerns about the potential economic downturn resulted in sharply lower commodity prices. On October 21, 2008, FNX announced that, due to low commodity prices and low interim metal accountabilities along with high operating costs at the Levack nickel contact deposits, the Company suspended commercial production from that part of the Levack Complex. 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 they will be batch processed by the Company's custom processor. 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 agreement 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 re-activate commercial production from this part of the Levack Complex. Mining will continue from the Rob's Deposit at Levack.

As a result of the Gold Wheaton transaction, the Company's already strong balance sheet has been enhanced with a large infusion of cash. At September 30, 2008, FNX had \$151 million of cash, with no debt. In addition, as evidenced by the suspension of commercial production at the Levack contact nickel deposits, FNX is able to quickly and economically decrease, increase or suspend its production levels. FNX believes it is uniquely placed to weather the current economic downturn while continuing to invest in the development of its highest grade orebody,



the Levack Footwall Deposit ("LFD"). FNX is well positioned for success when the commodity prices increase and debt and equity markets stabilize in the future. FNX will continue to closely monitor economic and operational conditions and will quickly take appropriate actions in the best interests of the Company.

Consolidated Financial Results

FNX incurred a loss in the third quarter of \$26.5 million, equal to \$0.31 per share, compared to net earnings of \$11.3 million, or \$0.13 per share, during the second quarter of 2008 and \$12.5 million, or \$0.15 per share, during the third quarter of 2007. Provisional price adjustments from metal sales that provide for final pricing based upon quoted market prices in periods subsequent to the month of sale, resulted in \$21.3 million less revenue from Mining Operations in the third quarter of 2008. In addition, write-offs of certain investments, accounts receivables and intangible assets totaled \$18.4 million. Year to date net earnings were \$8.9 million, equal to \$0.10 per share, compared to net earnings of \$77.7 million, or \$0.93 per share, during the first nine months of 2007. In 2007, net earnings benefited from record high nickel prices experienced during the first and second quarters of 2007, while 2008 suffered from declining metal prices.

Cash flow from operating activities, after an \$11.5 million outflow for changes in working capital, resulted in a \$0.1 million net outflow during the third quarter of 2008, equal to \$nil per share, compared to a net inflow of \$27.6 million, or \$0.33 per share, during the third quarter of 2007. Cash balances and working capital were \$151.1 million and \$165.1 million, respectively, at September 30, 2008, compared to \$35.2 million and \$70.2 million, respectively, at December 31, 2007. After drawing down a small amount of funds in the second quarter of 2008 from the Company's US\$100 million line of credit ("**LOC**"), FNX is, once again, debt-free.

Mining Operations

Production

Mining Operations maintained a consistent level of production with total tonnage of 346,987 tons of ore shipped in the third quarter of 2008, a decrease of less than 2% over the second quarter of 2008 and an increase of 40% over the third quarter of 2007. The proportion of nickel ore relative to copper ore mined and shipped has, however, shifted significantly away from nickel, which had been FNX's main revenue stream in the past, to copper and precious metals in the quarter. This was due to the ramp up of production at the copper-rich Podolsky Mine and the decrease in production from the Levack contact nickel deposits. Lower commodity prices and interim metal accountabilities have reduced the viability of nickel mining in lower grade zones. Nickel ore production was 159,419 tons shipped, compared to 220,579 tons during the second quarter of 2008 and 156,232 tons in the third quarter of 2007. Copper ore production was 187,568 tons, compared to 132,186 tons during the second quarter of 2008 and 92,040 tons in the third quarter of 2007. Year to date the Company has shipped 984,651 tons of ore, compared to 687,815 tons during 2007, an increase of 43% (see Table 4). The year over year tonnage improvement was a result of additional production from McCreedy West and the start and ramp up of production at the Podolsky Mine.

During the third quarter of 2008, metal sales totaled 3.1 million pounds of nickel, 9.6 million pounds of copper and 16,379 ounces of platinum, palladium and gold ("**TPM**"). Nickel grades were slightly higher this quarter relative to the prior quarter at 1.3%, compared to 1.1% in the second quarter of 2008, and have remained constant relative to the 1.3% grade in the third



quarter of 2007. Higher copper grades and the ramp up of production at Podolsky contributed to the additional copper pounds and TPM ounces produced in the quarter compared to prior periods. The ramp up in copper ore shipments from Podolsky is expected to continue in the fourth quarter of 2008.

Due to a combination of lower metal prices and payable metal accountabilities, the Company expects that production in 2008 will be about 1.3 million tons of ore yielding payable metal of approximately 13.5 million pounds of nickel, 38.0 million pounds of copper and 56,000 ounces of TPM, rather than its original estimates of 1.45 million tons of ore, 15.5 million pounds of nickel, 44.3 million pounds of copper and 58,800 ounces of TPM.

The average metal prices earned during the third quarter were US\$6.61 per pound of nickel (the LME average was US\$8.60 per pound), US\$2.93 per pound of copper (the LME average was US\$3.48 per pound), and drastically low TPM prices. This compares to US\$11.65 and US\$3.57 per pound of nickel and copper, respectively, during the same period last year. The significant decline in metal prices resulted in a \$21.3 million negative provisional price adjustment in the third quarter of 2008 and \$17.1 million year to date. Provisional price adjustments resulted in decreased revenues of \$5.8 million in the second quarter of 2008 and \$4.5 million in the third quarter of 2007.

Year to date revenue from copper, cobalt and TPM by-products, however, increased \$69.3 million, or 146%, over last year. The relative contribution of nickel to by-product metals has gone from 78%:22% in 2007 to 47%:53% in 2008 (see Table 8). The year over year decline in nickel revenues is entirely due to the change in price as the quantity of nickel produced has increased significantly, by 1.2 million pounds year to date over 2007. The year to date increase in nickel production generated \$27.8 million more revenues in 2008 compared to 2007, while the significantly lower nickel price reduced revenues by \$91.8 million in 2008 compared to 2007 (see Table 9).

The cash cost per ton of ore sold was \$139, compared to \$145 in the second quarter of 2008 and \$105 in the third quarter of 2007. The cash cost to produce a pound of nickel, net of by-product credits, for the quarter was US\$4.56, compared to US\$2.39 in the third quarter of 2007, as a result of the lower sales prices of metals in the quarter, which result in lower by-product credits (see Table 10).

In the third quarter, sales to Gold Wheaton totaled 10,810 ounces of gold equivalent units for the period from July 15, 2008 to September 30, 2008.

10,683 tons of the 15,000 ton bulk sample that was extracted from the 4000 Level exploration drift of the LFD accessed from Xstrata Nickel's Craig Mine, were shipped for processing at Vale Inco Limited's ("**Vale Inco**") Clarabelle Mill in early July 2008, resulting in a pre-production credit to the carrying value of the LFD property of \$5.8 million in the quarter.

Capital Expenditures

Capital expenditures on property, plant and equipment totaled \$41.2 million, which includes \$5.5 million for Mining Services, in the quarter and were focused mainly on the development and advanced exploration of the LFD, and the purchase of certain equipment for both mining and expanding infrastructure. Work on developing the LFD continues to be a priority to ensure access to this high margin deposit is achieved as rapidly as possible. Capital expenditures were comprised of \$13.8 million of advanced exploration at the LFD, \$9.8 million at the Levack



Complex, \$9.4 million at Podolsky and \$2.7 million across all other exploration properties. As announced in the second quarter, certain capital expenditures at the Levack Mine and other projects will be deferred to 2009. The decline ramp for the Podolsky Nickel Ramp project continues to be deferred to allow for assessment of the results of the exploratory drilling which was completed this quarter. Overall anticipated capital expenditures in 2008 are \$175 million, which is \$11 million lower than forecast at June 30, 2008, as discussed in the second quarter of 2008, and \$62 million lower than the original capital budget of \$237 million (see Table 13).

Development/Advanced Exploration

The development and advanced exploration of the LFD is the principal capital project currently being pursued by FNX. The LFD decline has progressed from the 2650 Level and is currently at the 3100 elevation. Access to the Rob's Deposit has been completed for the 2900 and 2950 Levels, and is progressing on the 3035 Level and 3090 Level. Current information indicates that the Rob's Deposit may merge with the LFD as the area between the two deposits is being filled in from new drill locations. Work continues on shaft rehabilitation to allow access to the 3600 Level of the Levack No. 2 shaft. In the quarter, an indicated initial mineral resource estimate of 754,000 tons averaging 8.09% copper, 1.26% nickel and 7.76 g/t (0.22 opt) platinum, palladium and gold, on a 250 foot vertical block of the LFD centered on the 4000 Level was completed. This represents a small portion of the LFD's total extent.

At the Levack Complex, development and exploration is focused on extending known resources and reserves at McCreedy West, while very little development work is being conducted at Levack nickel.

At Podolsky, capital development is focused on extending the ramp to the 2300 Level and further developing infrastructure needs. Ramp development from the 2450 Level up to the 2375 Level was completed and sill development initiated during the quarter.

Exploration

The bulk of the Company's exploration diamond drill footage continued to be concentrated on the LFD. The surface diamond drill program at the Victoria property continued in the third quarter of 2008, as well as footwall exploration at the Podolsky property and the Podolsky Nickel Ramp definition diamond drill program for 2008 was completed in the quarter.

Mining Services

Revenues from Mining Services totaled \$25.2 million for the three months ended September 30, 2008, \$11.8 million lower than the second quarter of 2008, primarily due to reduced activities at certain projects in the United States and the July 1, 2008 completion of an underground water control project in Canada. The operating margin for the third quarter was \$0.2 million, \$1.6 million lower than the second quarter and, after depreciation, amortization and other expenses, including the write-off of intangible assets and a provision for doubtful accounts, resulted in a net loss of \$10.9 million. Mining Services incurred a year to date net loss of \$12.1 million and year to date cash flow from operating activities of \$0.8 million.

Other

For the quarter, FNX's 37.5% share of the loss of its equity investee, Gold Wheaton, was \$1.0 million. FNX accounts for its investment in Gold Wheaton using the equity method.



As a result of Strategic Resource Acquisition Corporation (“**SRA**”) closing its Mid-Tennessee zinc mine (“**MTZ**”), FNX recorded a write-down of its \$10.0 million investment in SRA and established a provision for doubtful accounts of \$4.2 million for work completed by Mining Services for MTZ that has not been paid.

In the third quarter of 2008, the \$4.1 million unamortized balance of FNX’s intangible assets that arose from the acquisition of Mining Services in October 2007 were written down to \$nil.

Safety results improved during the third quarter relative to the second quarter of 2008. Mining Operations personnel and all onsite contractors experienced two lost time accidents, compared to three in the second quarter, and Mining Services incurred no lost time accidents.

Mining Operations suffered one reportable environmental incident during the quarter: a low pH occurrence was noted at the water discharge point from the Norman north bog at Podolsky. Remedial action has been taken and the control system is in place and functioning well.

Key Economic Trends and Sensitivities

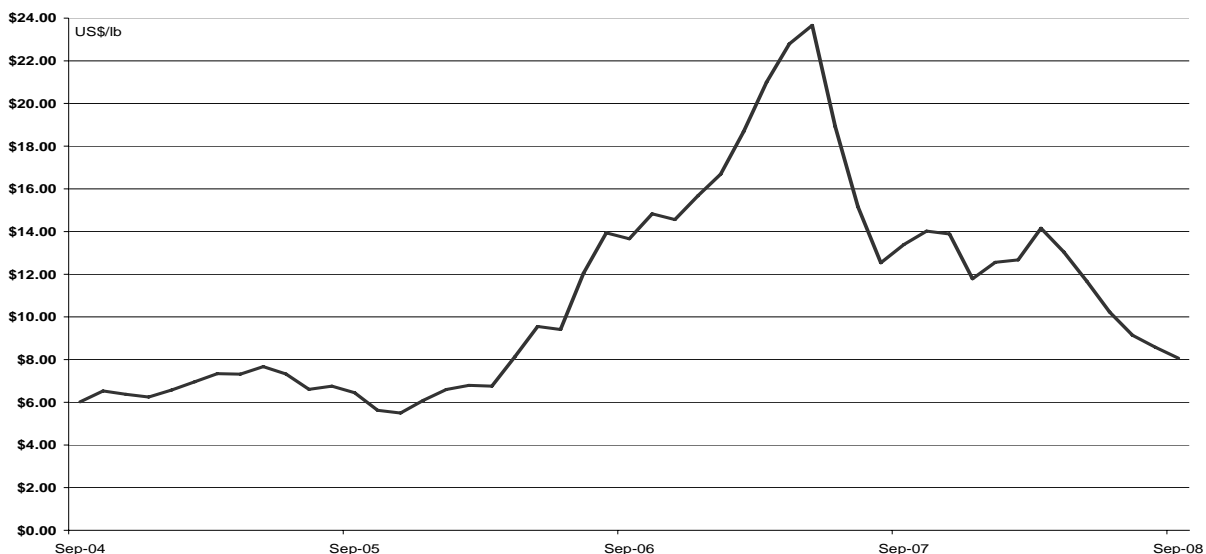
The MD&A included in FNX's 2007 Annual Report contained a discussion of the key economic trends that affect the Company and how they impact FNX's financial statements. This interim MD&A provides an update to reflect any significant changes in those trends since the preparation of the 2007 Annual MD&A. FNX's financial performance has been and is expected to continue to be closely linked to the prices of metals produced by the Company.

The third quarter and particularly October of 2008 were extremely turbulent times for global economies in general and the mining industry in specific. Trillions of dollar losses were experienced by both the debt and equity markets, market volatility reached nearly unprecedented proportions and overall global financial liquidity was severely strained. Concerns about the potential economic downturn resulted in sharply lower commodity prices.

Metal Prices

Nickel accounted for approximately 40% of the Company's mine operating revenues in the third quarter of 2008, a decrease from 43% in the second quarter of 2008 and 68% in the third quarter of 2007. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and the price of each metal and thus the decrease in nickel's contribution as a percentage of total revenues is a result of two effects: nickel prices have continued to decline since the second quarter of 2007; and, as a result, production focus has been shifted from low-grade nickel ore at the Levack Complex to high-grade copper ore at the Podolsky Mine.

Figure 1 – Nickel Prices

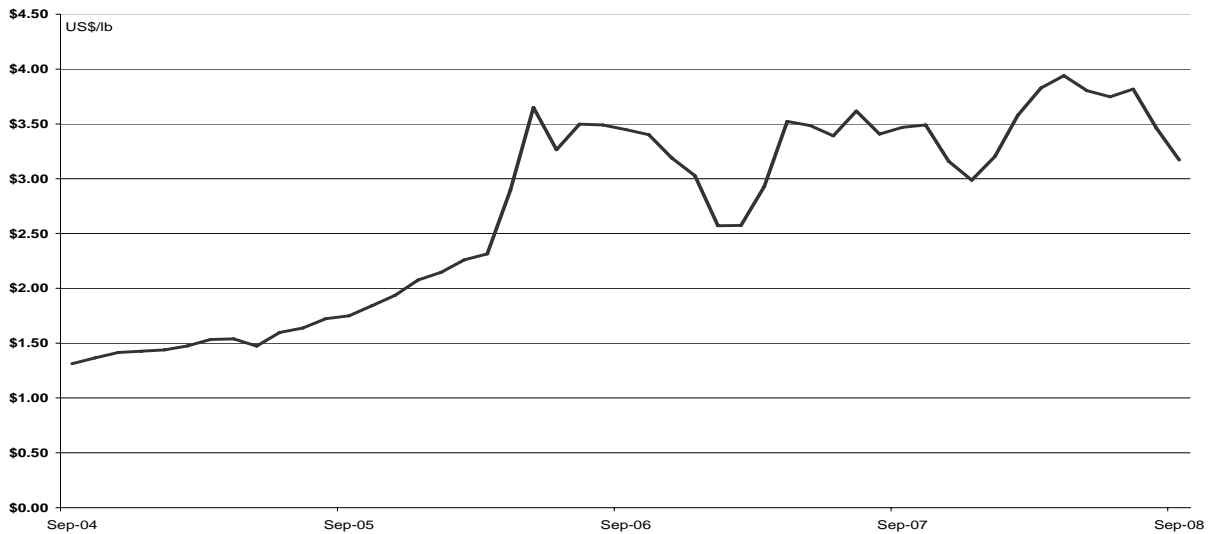


Source: LME monthly average cash mean per lb

The cash settlement price of nickel on the London Metal Exchange ("LME") averaged US\$8.60 per pound in the third quarter of 2008, declined to US\$7.15 on September 30, 2008, reached a low of US\$4.09 on October 24, 2008 and was US\$5.15 per pound on November 3, 2008. Year to date, the LME cash settlement price of nickel averaged US\$11.12 per pound compared to

US\$18.09 per pound in 2007. Management is of the view that the LME cash settlement price for nickel will exhibit continued volatility. Tables 1 and 2 at the end of this section illustrate commodity prices and FNX's sensitivity to nickel prices.

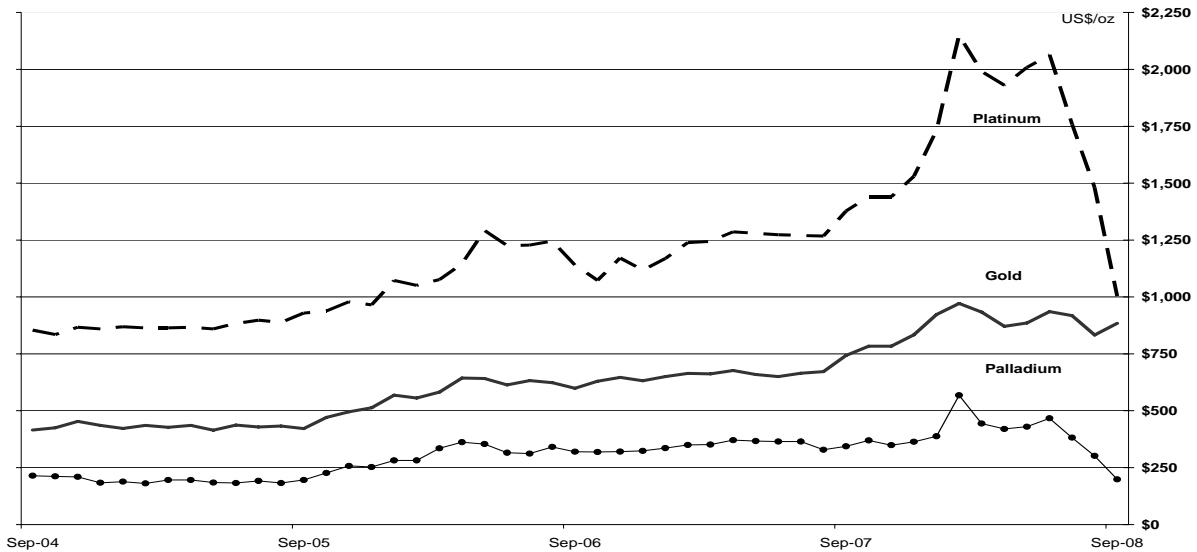
Figure 2 - Copper Prices



Source: LME monthly average cash mean per lb

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 51% of revenues in the third quarter of 2008, compared to 36% in the second quarter of 2008 and 19% in the third quarter of 2007 due to higher copper sales associated with the commencement of commercial production at the Podolsky Mine in January 2008. The LME cash settlement price of copper decreased during the third quarter of 2008 and averaged US\$3.48 per pound, compared to US\$3.83 per pound in the second quarter of 2008 and US\$3.50 per pound in the third quarter of 2007. Tables 1 and 2 illustrate commodity prices and FNX's sensitivity to copper prices.

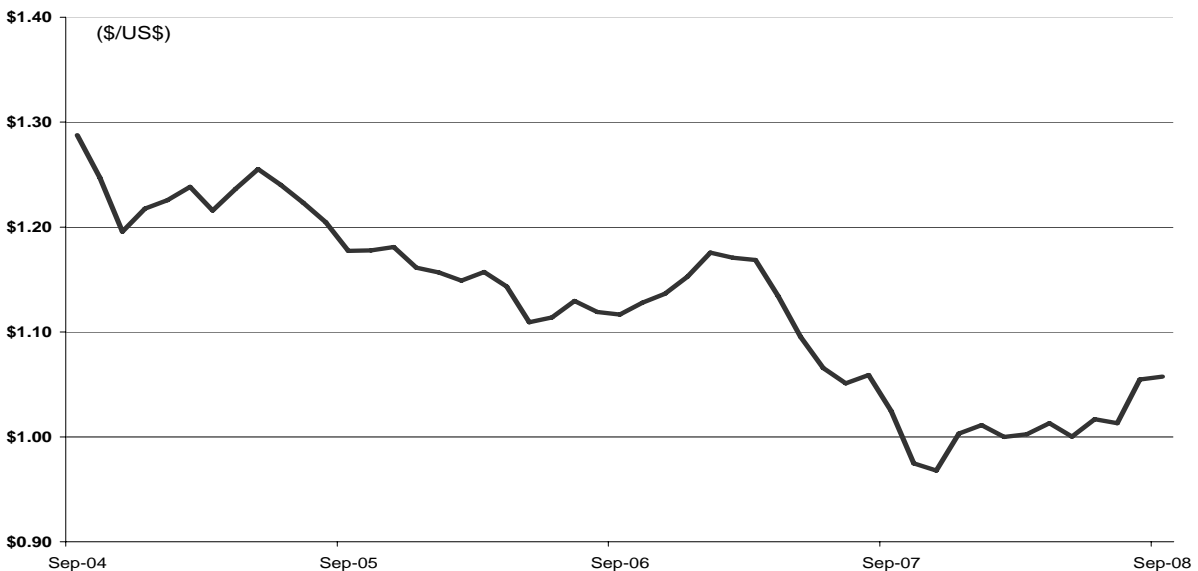
Figure 3 - TPM Prices



Source: *metalbulletin.com* monthly average price per oz

The balance of FNX's revenues comes from the by-product production of platinum, palladium, gold and cobalt which contributed a combined 9% to FNX's revenues during the third quarter of 2008 compared to 21% in the second quarter of 2008 and 12% during the third quarter of 2007. 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. Figure 3 and Table 1 illustrate the movement in TPM prices.

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



Source: *Bank of Canada's* monthly average close.

FNX reports its financial results in Canadian dollars. While the Company's minesite operating costs and most exploration and administration costs are in Canadian dollars, revenues from metal sales and concentrating, smelting and refining costs are in US dollars. The Canadian dollar depreciated relative to the US dollar averaging \$1.04/US\$ during the quarter, compared to \$1.01/US\$ during the second quarter of 2008, and remained unchanged from the \$1.04/US\$ averaged during the third quarter of 2007. Table 2 below illustrates FNX's sensitivity to \$/US\$ exchange rates.

Summary

The following table summarizes average commodity prices and Canadian-US dollar exchange rates over the last four years and the spot prices and exchange rate on November 3, 2008.

Table 1 – Commodity Prices				Three months ended		Nine months ended		Nov 3 2008
	2005	2006	2007	September 30		September 30		
				2008	2007	2008	2007	
Ni (US\$/lb)	6.68	11.00	16.88	8.60	13.70	11.12	18.09	5.15
Cu (US\$/lb)	1.67	3.05	3.22	3.48	3.50	3.62	3.22	1.80
Co(US\$/lb)	14.55	15.32	28.28	32.57	25.95	39.20	26.61	24.50
Pt (US\$/oz)	897	1,142	1,303	1,544	1,292	1,786	1,255	821
Pd (US\$/oz)	202	320	355	331	349	388	353	200
Au (US\$/oz)	445	604	697	870	681	897	666	730
\$/US\$	1.21	1.13	1.07	1.04	1.04	1.02	1.11	1.19

(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, on an annualized basis, the sensitivity of the Company's forecast 2008 results to changes in key metal prices and foreign exchange rates.

Table 2 – Sensitivity	Change in Price	Effect on Net Earnings	Effect on EPS	Effect on Cash Flow from Operating Activities
Nickel	US\$1.00 / lb	\$9.9 million	\$0.12	\$13.6 million
Copper	US\$0.25 / lb	\$7.1 million	\$0.08	\$9.7 million
\$/US\$	\$0.10 movement	\$22.7 million	\$0.27	\$31.1 million

Financial Results

Overview

The following tables present a summary of FNX's unaudited Consolidated Statements of Operations and other cash flow data for the periods ended September 30, 2008 and 2007.

Table 3 – Financial Overview			2008		2007	
Three Months Ended September 30 (Unaudited)	Mining	Mining	Total	Total	Change	
	Operations	Services				
	\$000s	\$000s	\$000s	\$000s	\$000s	
Revenues	51,178	25,245	76,423	56,767	19,656	
Expenses ⁽¹⁾	(48,289)	(25,063)	(73,352)	(26,015)	(47,337)	
Margin	2,889	182	3,071	30,752	(27,681)	
Depreciation and amortization	(13,863)	(2,370)	(16,233)	(7,080)	(9,153)	
Mining operations and services, net	(10,974)	(2,188)	(13,162)	23,672	(36,834)	
Administration	(4,896)	-	(4,896)	(1,958)	(2,938)	
Capital taxes	-	-	-	(594)	594	
Depreciation	(206)	-	(206)	(138)	(68)	
Stock-based compensation	(371)	(485)	(856)	(777)	(79)	
Taxes	6,461	1,353	7,814	(6,170)	13,984	
Other (expenses) income	(5,979)	(8,248)	(14,227)	(1,550)	(12,677)	
Loss of equity investee	(1,009)	-	(1,009)	-	(1,009)	
Net earnings (loss)	(16,974)	(9,568)	(26,542)	12,485	(39,027)	
Basic earnings (loss) per share			(\$0.31)	\$0.15	(\$0.46)	
Diluted earnings (loss) per share			(\$0.31)	\$0.15	(\$0.46)	
Cash flow from operating activities			(127)	27,586	(28,722)	
Cash flow per share from operating activities ⁽²⁾			-	\$0.33	(\$0.33)	
Diluted cash flow per share from operating activities ⁽²⁾			-	\$0.32	(\$0.32)	
			2008		2007	
Nine Months Ended September 30 (Unaudited)	Mining	Mining	Total	Total	Change	
	Operations	Services				
	\$000s	\$000s	\$000s	\$000s	\$000s	
Revenues	217,693	111,646	329,339	216,427	112,912	
Expenses ⁽¹⁾	(144,587)	(107,262)	(251,849)	(74,874)	(176,975)	
Margin	73,106	4,384	77,490	141,553	(64,063)	
Depreciation and amortization	(34,976)	(6,973)	(41,949)	(17,910)	(24,039)	
Mining operations and services, net	38,130	(2,589)	35,541	123,643	(88,102)	
Administration	(11,912)	-	(11,912)	(6,428)	(5,484)	
Capital taxes	1,803	-	1,803	(1,316)	3,119	
Depreciation	(624)	-	(624)	(345)	(279)	
Stock-based compensation	(1,801)	(1,618)	(3,419)	(2,355)	(1,064)	
Taxes	(8,046)	(84)	(8,130)	(41,359)	33,229	
Loss of equity investee	(1,009)	-	(1,009)	-	(1,009)	
Other (expenses) income	4,393	(7,781)	(3,388)	5,827	(9,215)	
Net earnings (loss)	20,934	(12,072)	8,862	77,667	(68,805)	
Basic earnings (loss) per share			(\$0.10)	\$0.93	(1.03)	
Diluted earnings (loss) per share			(\$0.10)	\$0.91	(1.01)	
Cash flow from operating activities			69,200	116,365	(48,174)	
Cash flow per share from operating activities ⁽²⁾			\$0.82	\$1.39	(\$0.57)	
Diluted cash flow per share from operating activities ⁽²⁾			\$0.81	\$1.37	(\$0.56)	

(1) Operating expenses exclude depreciation and amortization.

(2) Cash flows per share are non-GAAP performance measures (see Non-GAAP Performance Measures below).

Mining Operations

Metal Production and Sales

The following table presents a summary of the production and sales information for FNX's Mining Operations for the three and nine months ended September 30, 2008 and 2007.

Table 4 – Mining Operations Production and Sales Summary	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	Change	2008	2007	Change
Ore (tons)						
Pre-production	-	1,405	(1,405)	-	1,405	(1,405)
Ore sold (tons)						
Nickel ore	159,419	156,232	3,187	579,052	449,057	129,995
Copper ore	187,568	92,040	95,528	405,599	238,758	166,841
Total ore sold	346,987	248,272	98,715	984,651	687,815	296,836
Grade of ore sold						
Nickel ore (%Ni)	1.3	1.3	-	1.2	1.3	(0.1)
Copper ore (%Cu)	3.0	1.4	1.6	3.1	1.4	1.7
Payable metal sold						
Nickel (000s lbs)	3,146	3,198	(52)	10,129	8,931	1,198
Copper (000s lbs)	9,558	2,929	6,629	23,712	7,617	16,095
TPM (ozs)	16,379	8,073	8,306	35,233	19,317	15,916
Cobalt (000s lbs)	42.3	43.6	(1.3)	146.2	115.7	30.5
Metal sales revenue						
Average Ni price (US\$/lb)	6.61	11.65	(5.04)	10.20	16.98	(6.78)
Average Cu price (US\$/lb)	2.93	3.57	(0.64)	3.43	3.36	0.07
\$/US\$ exchange rate	1.04	1.04	-	1.02	1.11	(0.09)
Total revenue (\$000s)	51,178	56,767	(5,589)	217,693	216,427	1,266
Revenue (\$/ton of ore sold)	147	229	(82)	221	315	(94)
Cash cost						
Mining (\$000s)	48,289	26,015	22,274	144,587	74,874	69,713
Cash cost (\$/ton of ore)	139	105	34	147	109	38
Cash cost (US\$/lb of Ni)	4.56	2.39	2.17	2.70	2.78	(0.08)

Pursuant to an agreement with Vale Inco, FNX ships all of its ore to Vale Inco's Clarabelle Mill in Sudbury, Ontario for processing. The number of tons of ore sold has been increasing consistently year over year and totalled 346,987 tons in the third quarter of 2008, a 1.6% decrease over the second quarter of 2008 but a 39.8% increase over the third quarter of 2007. The increase in production is a result of the continued ramp up in production at the Podolsky Mine.

FNX continues to increase use of the 1600 Level drift and the Levack shaft to hoist nickel ore from McCreedy West by way of an underground tramming system. Using the tram system reduces the capacity constraint with respect to the amount of PM ore that can be hauled up the McCreedy West ramp by allowing for an increase in the ramp time allocated to trucks hauling PM ore to surface, which ultimately maximizes the amount of total ore brought to surface. Almost 60,000 tons of nickel ore from McCreedy West were brought to surface via the Levack



shaft in the quarter. Shipping of Inter Main ore to Levack for hoisting will continue throughout the last quarter of the year. It is expected that at least 20,000 tons per month of Inter Main ore will be hoisted through Levack during the fourth quarter.

Production of Levack contact nickel ore declined as the low commodity prices and interim accountabilities of several zones have reduced the economic viability of these areas. Production has been focused on extracting only high-grade ores. The limited number of headings and constriction of faces, however, restricted production capacity from these zones. Development of the Rob's Deposit, a transitional orebody situated directly above the LFD, continues from the LFD decline ramp. With a limited number of access points to the Rob's Deposit, production levels were relatively modest in the quarter, but are expected to increase as the LFD ramp continues to advance downwards. Mining in the Rob's Deposit contributed 3,609 tons, shipped at an average grade of 1.6% nickel and 1.2% copper with some precious metals. Definition of mineable blocks at the Rob's Deposit is progressing from sill cuts and diamond drilling. At the end of September 2008, crews initiated the first mining cut over backfill on the 2950 Level. This is the first cut-and-fill sequence in the Rob's Deposit. The 3035 Level access has crossed the first ore vein and mining has commenced from this level. Production in the Rob's Deposit is expected to increase as development opens up new veins and mining of currently opened veins progresses into the cut-and-fill sequence.

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 interim 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 batch processed by the Company's custom processor. 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. Mining will continue from the Rob's Deposit at Levack.

The Podolsky Mine continues to progress toward anticipated production levels of 1,000 tons per day, with an average of 916 tons per day produced in the third quarter. Podolsky has progressed from 24,000 tons in the first quarter, to 55,000 tons in the second quarter, to 82,000 tons in the third quarter, illustrating its ramp up towards full production levels. Development of the first three levels within the longhole mining sequence has allowed the cycling of stopes to mature. Mining in the main longhole block of the 2000 Deposit continues on the 2450 and 2500 Levels. Podolsky mining crews have crossed the 2000 Deposit on the 1925 Level and commenced mining on several veins. The Grey Gabbro Deposit has also been crossed and several veins of mineable size have been identified.

10,683 tons of the 15,000 ton bulk sample that was extracted from the 4000 Level exploration drift accessed from Xstrata Nickel's Craig Mine, were shipped for processing at the Clarabelle Mill in early July 2008. Approximately 4,000 tons have been retained for potential additional metallurgical test work. 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 pre-production credit to the carrying value of the LFD property of \$5.8 million in the quarter.

The metals Vale Inco is required to pay to FNX for ore shipped by FNX are, pursuant to the agreement, 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 payable metals terms for the various ore deposits to reflect the differences in the metallurgical composition of the ore deposits.

New interim processing cost terms and interim 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 continued in the third quarter and will extend over the next several months in order to determine final payable metals terms and processing cost terms for both mines. Levack's new interim terms are effective from January 1, 2008 until final payable metals and processing cost terms are determined, and are less favourable to FNX than the previous interim terms established for Levack for 2006 and 2007. Once final payable metals and processing cost terms are determined, they may be applied to ore shipped from Levack in 2006 to 2008 and for ore shipped from Podolsky in 2007 and 2008. The Company cannot, at this time, determine the amount, if any, of such adjustment.

Management considers the new interim 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 cost terms there may be a material increase or decrease in payable metals and/or processing costs to be recorded.

The following tables present a summary of the production and sales information at the Levack Complex and Podolsky Mines for the three and nine months ended September 30, 2008 and 2007.

Table 5 – Production and Sales Summary (Levack Complex)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	Change	2008	2007	Change
Ore sold (tons)						
Nickel ore	159,419	156,232	3,187	579,052	449,057	129,995
Copper ore	105,353	92,040	13,313	244,377	238,758	5,619
Total ore sold	264,772	248,272	16,500	823,429	687,815	135,614
Grade of ore sold						
Nickel ore (%Ni)	1.3	1.3	-	1.2	1.3	(0.1)
Copper ore (%Cu)	0.5	1.4	(0.9)	0.4	1.4	(1.0)
Payable metal sold						
Nickel (000s lbs)	2,660	3,198	(538)	8,925	8,931	(6)
Copper (000s lbs)	2,611	2,929	(318)	7,284	7,617	(333)
TPM (ozs) ⁽¹⁾	8,584	8,073	511	19,363	19,317	46
Cobalt (000s lbs)	42.3	43.6	(1.3)	146.2	115.7	30.5
Metal sales and costs of ore sold						
Revenue (\$/ton)	102	229	(127)	169	315	146
Cash cost (\$/ton) ⁽²⁾	122	105	17	132	109	23
Cash operating margin	(20)	124	(144)	37	206	169

Table 6 – Production and Sales Summary (Podolsky)	Three Months Ended September 30			Nine Months Ended September 30		
	2008	2007	Change	2008	2007	Change
Ore sold (tons)						
Pre-production	-	1,405	(1,405)	-	1,405	(1,405)
Ore sold (tons)						
Copper ore	82,215	-	82,215	161,222	-	161,222
Grade of ore sold						
Copper ore (%Cu)	5.6	-	5.6	6.3	-	6.3
Payable metal sold						
Nickel (000s lbs)	486	-	486	1,204	-	1,204
Copper (000s lbs)	6,948	-	6,948	16,428	-	16,428
TPM (ozs) ⁽¹⁾	7,795	-	7,795	15,870	-	15,870
Metal sales and costs of ore sold						
Revenue (\$/ton)	294	-	294	486	-	486
Cash cost (\$/ton) ⁽²⁾	194	-	194	225	-	225
Cash operating margin (\$/ton)	100	-	100	261	-	261

(1) TPM represents total precious metals – platinum, palladium and gold.

(2) Cash costs per ton and per pound are non-GAAP performance measures (see Non-GAAP Performance Measures below).



Metal Sales

Quarterly tonnages of nickel ore have increased year over year and the grade of nickel has remained constant at 1.3%. However, nickel sales of 3.1 million pounds in the third quarter of 2008 were lower than the 3.5 million pounds sold in the second quarter of 2008 and 0.1 million pounds lower than the third quarter of 2007 due to the lower interim metal payment terms. Copper sales in the third quarter of 2008 were a record 9.6 million pounds, 31.5% higher than the second quarter of 2008 and 231.0% higher than in the third quarter of 2007. Precious metals also recorded record sales quantities, totaling 16,379 ounces during the third quarter of 2008, up from 11,582 ounces in the second quarter of 2008 and 8,073 ounces during the third quarter of 2007. Again, precious metals increased less when compared to 2007 due to the lower interim metal payment terms. The significant increase in copper and precious metals was a result of higher grades and the commencement of commercial production at the Podolsky Mine on January 1, 2008.

At the Levack Complex, quarterly production tonnage nickel grades improved slightly and higher grade blocks were still under development, however face and stoping block limitations resulted in a lower grade array of stopes. Annual grade performance will be met as the higher grade blocks come into cycle. Crews continued mining the Rob's Deposit, resulting in shipment of 3,609 tons of ore at an average grade of 1.6% nickel and 1.2% copper during the third quarter of 2008.

Production is expected to increase at Podolsky in the fourth quarter of 2008.

A brief scheduled mill shutdown at the custom processor occurred early in the third quarter of 2008; however, the shutdown did not materially impact FNX's production.

Metal Sales Revenue

Revenue is recognized at the time ore is shipped to Vale 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 and for TPMs ranges from the second to fifth month following shipment, depending upon the particular metal. Any variance in the price of the metals sold is adjusted in subsequent periods. The use of provisional pricing can lead to higher volatility in quarterly revenues. The nickel and copper contained in the ore that FNX sells to Vale Inco for further processing each month is priced at and ultimately paid to FNX on the basis of the lower of the month's average LME cash settlement price and the monthly average LME three month seller price. When foreign exchange rates remain stable, in a rising metal price environment, the Company will realize higher metal prices than the average metal price for the period, while the converse is true in a declining metal price environment.

Pursuant to an agreement signed on July 15, 2008, FNX sold to Gold Wheaton, 50% of the 15,878 TPM production contained in ore shipped to the custom processor from July 15, 2008 to September 30, 2008, resulting in the sale of 13,603 ounces of platinum, palladium and gold. Accordingly, \$3.2 million of deferred revenue and US\$4.3 million for the US\$400 per ounce cash payments were recognized in the Statement of Operations.

Table 7 – Metal Prices	Three Months Ended September 30				Nine Months Ended September 30			
	2008		2007		2008		2007	
	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price	Average Price	Market Price
Nickel (US\$/lb) ⁽¹⁾	6.61	8.60	11.65	13.70	10.20	11.12	16.98	18.09
Copper (US\$/lb) ⁽¹⁾	2.93	3.48	3.57	3.50	3.43	3.62	3.36	3.22
Palladium (US\$/oz) ⁽²⁾	(6)	331	310	349	291	388	363	353
Platinum (US\$/oz) ⁽²⁾	201	1,544	1,334	1,292	1,372	1,786	1,415	1,255
Gold (US\$/oz) ⁽²⁾	827	870	716	681	863	897	714	666
Cobalt (US\$/lb) ⁽²⁾	17.43	32.57	26.56	25.95	40.30	39.20	27.74	26.61
\$/US\$ ⁽³⁾	1.04	1.04	1.04	1.04	1.02	1.02	1.11	1.11

(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.

Mine operating revenues, including the aforementioned \$21.3 million negative provisional price adjustments, totaled \$51.2 million in the third quarter of 2008, compared to \$75.2 million in the second quarter of 2008 and \$56.8 million in the third quarter of 2007. Year to date revenues totaled \$217.7 million, compared to \$216.4 million in 2007, an increase of 0.6%. Revenues were lower in the third quarter of 2008 compared to the second quarter of 2008 and the third quarter of 2007 as a result of rapidly declining metal prices, resulting in significant negative provisional price adjustments and the year over year appreciation of the Canadian dollar relative to the US dollar.

FNX realized US\$1.99 per pound of nickel less than the LME average price of US\$8.60 per pound for the third quarter of 2008 as a result of metal sales that were provisionally priced in prior periods. In the third quarter of 2008, FNX realized \$21.3 million less revenue related to metal sales that were provisionally priced in prior periods, compared to \$5.8 million less revenue in the second quarter of 2008 and \$4.5 million less revenue in the third quarter of 2007. Absent provisional price adjustments, FNX would have recorded \$72.5 million and \$81.0 million of revenues in the third and second quarter of 2008, respectively. Year to date, FNX realized US\$0.92 per pound of nickel less than the LME average price of \$11.12 per pound, compared to US\$1.11 per pound lower in the prior year.

The 8.8% year over year appreciation in the value of the Canadian dollar relative to the US dollar for the first nine months of 2008 compared to 2007 resulted in lower revenue in Canadian dollars than would otherwise have been realized.

The following table shows the composition of nickel and all by-product metals revenue from Mining Operations and the changes therein.

Table 8 – Composition of Sales Revenue	Q3-08 \$000s	Q3-07 \$000s	Change \$000s
Nickel	21,841	38,741	(16,900)
By-products	29,337	18,026	11,311
	51,178	56,767	(5,589)
	YTD-08 \$000s	YTD-07 \$000s	Change \$000s
Nickel	105,024	169,022	(63,998)
By-products	112,669	47,405	65,264
	217,693	216,427	1,266

The increase in revenues from by-products relative to nickel results from both the increase in quantity of by-product metal produced and the decline in the price of nickel. The relative contribution of nickel to by-product metals has gone from a ratio of 78%:22% in 2007 to 47%:53% in 2008 as a result of commercial production commencing at Podolsky in 2008.

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

Table 9 – Net Change in Nickel Sales Revenue	Q3-2008 compared to Q3-2007	YTD-2008 compared to YTD-2007	Q3-2008 compared to Q2-2008
	\$000s	\$000s	\$000s
\$ Change due to quantity	(637)	27,785	(3,214)
\$ Change due to price	(16,263)	(91,783)	(7,464)
Net change in nickel sales revenue	(16,900)	(63,998)	(10,678)
<i>Change in quantity sold (000s lbs)</i>	(53)	1,198	(345)
<i>Change in revenue (US\$/lb)</i>	(5.04)	(6.78)	(2.60)

The year over year decline in realized year to date nickel prices along with the 8.1% decline in the average \$/US\$ exchange rate from 1.11 to 1.02 combined to reduce the Company's year to date nickel revenues by \$64.0 million, from \$169.0 million to \$105.0 million, a 37.9% decline. Year to date revenue from copper, cobalt and TPM by-products, however, increased \$68.4 million, or 143.7%, over last year. The year over year decline in nickel revenues is almost entirely due to the change in price as the quantity of nickel produced has remained fairly constant year over year. The year to date increase in nickel production generated \$27.8 million more revenues in 2008 compared to 2007, while the significantly lower nickel price reduced revenues by \$91.8 million in 2008 compared to 2007.

Mining Cost of Sales

Mine operating expenses, excluding mine depreciation and amortization costs ("cash operating costs"), were \$48.3 million in the third quarter of 2008, \$2.8 million lower than the second quarter of 2008 and \$22.3 million higher than the third quarter of 2007. Overall cash operating costs were budget to be higher in 2008 due to higher tonnages mined and ore sold this year as a result of the commencement of commercial production at the high-grade copper-rich Podolsky Mine, which costs more to process due to the high metal content, and higher processing costs under the terms of the interim payable metals contracts with Vale Inco (the greater the metal



content, the higher the total processing costs). In the third quarter, higher costs were mainly due to higher processing costs related to the new provisional terms from Vale Inco and higher processing charges related to the high-grade Podolsky copper ores. In addition, operating costs have been higher in 2008 due to increased costs for diesel fuel, propane, electric power, steel and cement.

Cash Operating Cost per Pound of Nickel Sold

While the cash operating cost per pound of nickel sold is an important industry benchmark, FNX considers the cash operating cost per ton of ore sold and the cash operating margin per ton of ore sold, both non-GAAP performance measures (see discussion under Non-GAAP Performance Measures below), to be more relevant benchmarks in evaluating costs and profitability for the Company's operating mines. The cash cost per ton of ore sold was \$139 in the quarter, compared to \$145 in the second quarter of 2008 and \$105 in the third quarter of 2007.

In the first nine months of 2008, the Company experienced higher cash operating costs per ton compared to the first nine months of 2007 as a result of higher input costs and higher processing costs per ton. In addition, due to the high-grade nature of the Podolsky copper ores, the processing cost per ton of ore has been higher than that at the Levack Complex.

The main increase in total costs per ton has come from the increase in processing charges. For the quarter, processing costs per ton are 46% higher than the budget cost per ton. High-grade ore zones such as Podolsky contributed significantly to the higher costs, since high grades require additional processing costs to process, refine and smelt.

FNX's cash operating cost per pound of nickel sold, net of by-product credits, was US\$4.56 for the quarter, US\$2.18 per pound higher than in the second quarter of 2008 and US\$2.17 lower than the third quarter of 2007. The year to date cash operating cost was US\$2.70 per pound, compared to US\$2.78 during 2007. The cash operating cost per pound of nickel sold, net of by-products, is highly volatile from period to period, as it is affected not only by the actual cash costs incurred but also by the number of pounds of nickel produced and by the quantity and price of the by-product metals. With Podolsky achieving commercial production on January 1, 2008 and possible future production from the Cu-Ni-TPM rich LFD, the percentage of copper and TPM ore as a percentage of total ore production is expected to increase and thus, assuming consistent metal prices, the cash operating cost per pound of nickel, net of by-products, would be expected to decrease year over year.

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

Table 10 – Cash Operating Cost Per Pound of Nickel Sold (Unaudited)	Three months ended September 30, 2008			Three months ended September 30, 2007		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Mine operating expenses ⁽¹⁾	48,289	46,355	14.74	26,015	24,897	7.79
By-product credits:						
Copper	(28,340)	(27,205)	(8.65)	(10,904)	(10,435)	(3.26)
Other ⁽²⁾	(5,006)	(4,806)	(1.53)	(7,123)	(6,817)	(2.14)
Cash operating costs	14,943	14,344	4.56	7,988	7,645	2.39
Nickel sold (000s lbs)		3,146			3,198	
(Unaudited)	Nine months ended September 30, 2008			Nine months ended September 30, 2007		
	C\$000s	US\$000s	US\$/lb	C\$000s	US\$000s	US\$/lb
Mine operating expenses ⁽¹⁾	144,587	141,928	14.01	74,874	67,759	7.59
By-product credits:						
Copper	(82,221)	(80,708)	(7.97)	(27,925)	(25,271)	(2.83)
Other ⁽²⁾	(34,458)	(33,824)	(3.34)	(19,481)	(17,630)	(1.98)
Cash operating costs	27,908	27,396	2.70	27,468	24,858	2.78
Nickel sold (000s lbs)		10,129			8,931	

(1) Mine 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

The cash operating margin per ton of ore sold, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below), was \$8 per ton in the third quarter of 2008, compared to \$68 per ton in the second quarter of 2008 and \$124 per ton in the third quarter of 2007. Lower realized metal prices, primarily due to the \$21.3 million reduction in revenues from negative provisional price adjustments, caused margins to decrease 88% from the second quarter of 2008. Year to date cash operating margin per ton of ore sold was \$74 per ton, compared to \$206 per ton during 2007 when metal prices were much higher and revenues were augmented by positive provisional price adjustment. On a year over year basis, the cash operating margin per ton of ore sold decreased due to lower realized nickel prices in 2008, increased mining cost and processing charges, (see discussion above under Mining Cost of Sales).



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

Table 11 – Cash Margin Per Ton	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	\$/ton	\$/ton	\$/ton	\$/ton
Mine operating revenue	147	229	221	315
Mine operating expenses	(139)	(105)	(147)	(109)
Cash operating margin per ton of ore sold	8	124	74	206

- (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 and grades continuing to fluctuate as a result of stope sequencing at Podolsky, the cash operating margin per ton of ore sold will continue to fluctuate. In the third quarter of 2008, the Company experienced a \$6 per ton reduction in cash operating costs from the second quarter of 2008.

Mine Depreciation and Amortization

Mine depreciation and amortization expense was \$13.9 million in the third quarter of 2008, an increase from \$12.5 million in the second quarter of 2008 and \$7.1 million in the third quarter of 2007. Mine depreciation and amortization expense is anticipated to increase in 2008 as a result of an increase in budgeted production from Podolsky as commercial production was achieved in January 2008.

Mining Services

On October 15, 2007, the Company acquired the Dynatec Mining Services Business, comprised of a Canadian mining services division and Dynatec Mining Corporation which provides mining services in the United States. On October 15, 2008, the right to use the Dynatec name expired. The transition to the new operating name of DMC Mining Services began in the third quarter of 2008. The Mining Services division will operate under this new name throughout North America.

Revenues from Mining Services for the three months ended September 30, 2008 totaled \$25.2 million, compared to \$37.0 million during the second quarter of 2008. Year to date revenues were \$111.6 million. Contracting costs for the third quarter of 2008 totaled \$25.1 million, compared to \$35.2 million during the second quarter of 2008. Year to date contract costs totaled \$107.3 million. Depreciation and amortization expenses for the quarter totaled \$2.4 million, \$0.1 million higher than in the second quarter of 2008, and \$7.0 million year to date.

Cash operating margin, a non-GAAP performance measure (see discussion under Non-GAAP Performance Measures below) calculated as the operating revenues of Mining Services less operating expenses of Mining Services and excluding depreciation and amortization, was \$0.2 million during the third quarter 2008, compared to \$1.8 million for the second quarter of 2008. Mining Services has generated an overall operating loss since its acquisition in late 2007, as it incurred a net loss of \$12.1 million during the first nine months of 2008 and had net earnings of \$1.2 million during the fourth quarter of 2007. 2008 earnings were negatively impacted when a client that had accounted for 27% of Mining Services fourth quarter 2007 revenues assumed the on-site workforce and cancelled the contract effective January 1, 2008.



During the period January 1, 2008 to September 30, 2008, 53% of Mining Services revenues were derived from one client, the MTZ mine owned by SRA. Pursuant to an agreement dated February 6, 2008, FNX acquired 3.5 million common shares of SRA, or approximately 10.7% of the then issued and outstanding common shares of SRA. On October 9, 2008, SRA announced by News Release that it was placing 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 current 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 MTZ to Mining Services was charged to the Statement of Operations as at September 30, 2008. In addition, pursuant to the February 6, 2008 agreement, one of FNX’s executive officers became a director of SRA in March 2008, but resigned from SRA’s board of directors on August 15, 2008.

In the third quarter of 2008, FNX concluded that events and changes in circumstances indicated that the carrying value of FNX’s intangible assets may not be recoverable. Intangible assets arose from the acquisition of Mining Services from Sherritt International Corporation on October 15, 2007. The triggering event and change in circumstances included 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 at September 30, 2008.

As at September 30, 2008, Mining Services had 604 active employees and a backlog of work to be completed of approximately \$52.0 million, with \$15.5 million during the balance of 2008 and \$36.5 million thereafter. As part of the normal course of business, Mining Services regularly sources new clients and new contracts to replace expiring contracts and management continues to pursue new opportunities on an ongoing basis. During the quarter ended September 30, 2008, Mining Services signed new revenue contracts totaling \$18.0 million, of which \$1.4 million was completed during the quarter.

On October 14, 2008, William Shaver was appointed as President of DMC Mining Services.

Health, Safety, Environment and Community

Health and Safety

The implementation of the Company’s occupational health, safety and environmental management systems continued in the third quarter of 2008. FNX understands that management systems alone will not produce the health and safety performance it expects and as a result the design of a leadership development program focused on safety was completed this quarter. Several sessions were held during the third quarter and, ultimately, all employees will participate in the program.

Health and safety compliance auditing, using the Mining Industry Safety and Health Audit, was initiated at the three FNX operations during the quarter. The audit is a tool developed by the



Ontario mining industry to measure compliance to regulations and best practices. Approximately 55% of the audit had been completed as at September 30, 2008.

Safety results improved during the third quarter relative to the second quarter of 2008. Mining Operations personnel and all onsite contractors experienced two lost time accidents, compared to three in the second quarter, and had a TMIFR of 8.1, compared to 11.6 for the same period last year. Mining Services incurred no lost time accidents and experienced a TMIFR of 0.5 for the quarter, compared to 0.9 during the second quarter of 2008 and 6.3 in the third quarter of 2007.

Environment

Mining Operations experienced one reportable environmental incident during the quarter: a low pH occurrence was noted at the water discharge point from the Norman north bog at Podolsky. Notification was given to all applicable regulatory authorities. Remedial action has been taken and a control system is in place and operating effectively. There were no other reportable environmental incidents at the Levack, McCreedy West, or Podolsky Mines during the third quarter.

Construction of a new ammonia treatment plant at the Podolsky Mine was completed in the third quarter. Ammonia levels have been under control and are well under permitted levels since the second quarter. The plant will provide control of ammonia levels during the winter operating season when ammonia control becomes more difficult due to the cold weather.

Community

On July 4, 2008, the Company completed and signed an Impact and Benefits Agreement (“**IBA**”) with the Wahnapiatae First Nation (“**WFN**”), which describes how the WFN and FNX will collaborate during the life of the Podolsky Mine and into the future on other mining projects at FNX’s Podolsky Property. The IBA provides social, cultural and business related benefits for each party from successful mine development and, among other aspects, describes the processes for mutually protecting and preserving the environment.

FNX continues to sponsor various community groups in the Sudbury area.

Other Items in the Statements of Operations

Administration

Administration expenses were \$4.9 million and \$11.9 million in the third quarter and year to date 2008, respectively, compared to \$2.0 million and \$6.4 million in 2007. Administration expenses were higher during the third quarter than last year as a result of the relocation of the corporate head office to new space and payments made in connection with the departure of the former President and CEO in August of 2008. Administration expense is budgeted to be higher in 2008 compared to 2007 primarily due to the addition of personnel to assist in facilitating the growth of FNX’s business.

Depreciation

Depreciation expense for the Toronto head office and Sudbury exploration office equipment, furniture and fixtures was not significant and is not budget to be significant in 2008.



Stock-based Compensation

Stock-based compensation expense was \$0.9 million in the third quarter of 2008, compared to \$1.4 million in the second quarter of 2008 and \$0.8 million during in the third quarter of 2007. In the third quarter of 2008, options to purchase 118,000 common shares were granted, 168,000 options were exercised and 120,500 options were cancelled, compared to 720,000 options granted, 120,000 exercised and 50,000 cancelled in the second quarter of 2008. Stock-based compensation expense is based upon the Black-Scholes option pricing model.

Other Expenses (Income)

Other expenses (income) resulted in net expenses of \$14.0 million in the third quarter of 2008, compared to net income of \$8.0 million and net expense of \$1.6 million during the second quarter of 2008 and third quarter of 2007, respectively. Other expenses were higher in the third quarter of 2008 due to the recognition of a \$10 million write-down of FNX's investment in SRA, a \$4.2 million bad debt expense resulting from the write-down of Mining Services' account receivable from MTZ and \$4.1 million write-down of intangible assets relating to the acquisition of Mining Services, partially offset by interest income on the Company's cash deposits and a non-cash gain on foreign exchange in the quarter. Other income typically consists of foreign exchange gains or losses resulting from movements in the Canadian dollar relative to the US dollar during the quarter and interest income on cash and cash equivalents of the Company. FNX will continue to earn interest income from conservative deposits with a major Canadian bank in 2008.

Provision for Income and Resource Taxes

Income and resource tax expense was recorded at a year to date rate of 32% compared to 38% in 2007. As a result of the loss in the third quarter, a \$2.4 million recovery of current taxes was recorded while a future income tax expense of \$10.6 million was recorded. The future income tax liability was \$186.1 million at September 30, 2008.

Loss of Equity Investee

The investment in Gold Wheaton has been accounted for using the equity method whereby the Company's share of Gold Wheaton's earnings or losses is included in the statement of operations and the Company's investment therein is adjusted by an equivalent amount. During the period July 15, 2008 to September 30, 2008, FNX sold to Gold Wheaton 50% of the contained gold, platinum and palladium ounces mined and shipped from certain of its deposits being mined, which resulted in the recognition of \$3.2 million of deferred revenue. For the quarter, FNX had a loss from equity investee of \$1.0 million, which represents FNX's 37.5% share of Gold Wheaton's loss for the quarter.

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 expenses, income and capital taxes, stock-based compensation, depreciation and amortization, write-downs and income or loss from equity investees (“**EBITDA**”), a non-GAAP performance measure (please see discussion under Non-GAAP Performance Measures below), was a gain of \$1.4 million in the third quarter of 2008, compared to \$29.6 million during the second quarter of 2008 and \$26.0 million in the third quarter of 2007. Year to date EBITDA was \$79.3 million compared to \$137.6 million during 2007. EBITDA was lower in the third quarter of 2008 and year over year, compared to 2007, as a result of decreasing metal prices, in particular nickel.

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

Table 12 – EBITDA	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$000s	\$000s	\$000s	\$000s
Operating revenue	76,423	56,767	329,339	216,427
Operating expenses ⁽¹⁾	(73,351)	(26,015)	(251,848)	(74,874)
Operating margin	3,072	30,752	77,491	141,553
Administration	(4,896)	(1,958)	(11,912)	(6,428)
Other (expenses) income ⁽²⁾	3,202	(2,789)	13,762	2,476
EBITDA	1,378	26,005	79,341	137,601

(1) Operating expenses exclude operating depreciation and amortization, write-downs and amortization of intangibles.

(2) Excludes interest income and interest expense.

(3) 2008 results include the Mining Services segment.

Financial Condition and Liquidity

Cash and Cash Flows

Cash flow from operating activities, after \$11.5 million of outflow for changes in working capital, resulted in a \$0.1 million net outflow million in the third quarter, while year to date 2008 was a cash inflow of \$69.2 million, compared to \$27.6 million and \$116.4 million, respectively, of cash inflows in 2007. The year over year decline in nickel prices and new interim accountabilities at Levack have caused operating cash flows to be less robust in 2008 than in 2007.

Financing activities resulted in a net cash outflow of \$18.2 million for the quarter, and a net cash inflow of \$2.8 million year to date 2008, compared to net cash inflows of \$1.0 million and \$4.0 million in 2007. On April 1, 2008, the Company established a US\$100 million secured 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 instalments 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. The net \$20.4 million (US\$20 million) outstanding as at June 30, 2008 was repaid in the third quarter. As at September 30, 2008, there were no amounts drawn down on the LOC. The facility will be retained for general corporate purposes.

Investing activities resulted in net cash inflows of \$129.4 million and \$42.5 million for the third quarter of 2008 and year to date, respectively, compared to net cash outflows of \$30.3 million and \$127.3 million in 2007. Third quarter cash inflows were mainly due to the receipt of \$175 million in cash from Gold Wheaton, which was partially offset by capital expenditures of \$41.2 million and transaction costs related to the Gold Wheaton agreement of \$4.4 million.

The net change in cash balances as a result of operating, financing and investing activities was a net cash inflow of \$111.6 million since June 30, 2008, compared to a net cash outflow of \$1.7 million during the comparative period in 2007.

FNX has not invested in asset-backed commercial paper ("**ABCP**") and continues to invest its cash balances very conservatively in a large Canadian bank.

Working Capital

Working capital increased \$113.2 million during the third quarter of 2008 to \$165.1 million, as a result of the increase in cash and cash equivalents from the Gold Wheaton agreement.

The Company had \$151.1 million of cash and \$5.2 million of investments for a total of \$156.3 million of liquid assets at September 30, 2008. As described above, on April 1, 2008 the Company obtained the LOC for working capital and general corporate purposes and had no amounts drawn down as at September 30, 2008.

Reclamation and Other Deposits

Reclamation deposits have remained unchanged this year at \$6.5 million and include various amounts with Vale Inco and the Province of Ontario in connection with the Levack, McCreedy West and Podolsky properties. Reclamation deposits are subject to re-evaluation based upon changes in the underlying mine reclamation and site restoration obligation as a result of updated environmental plans and changes in environmental laws and regulations.

Investments

As stated above, FNX's \$10.0 million investment in SRA was written off at September 30, 2008.

Investment in Gold Wheaton

On July 15, 2008, FNX and Gold Wheaton entered into an agreement whereby Gold Wheaton purchased 50% of the gold, platinum and palladium metal contained in ore mined and shipped from the Company's PM and 700 Deposits at the McCreedy West Mine, Levack Footwall, Rob's and 1900 Deposits at the Levack Mine, and 2000 and North Deposits at the Podolsky Mine, for proceeds of:

- an upfront cash payment of \$175 million;
- 350 million Gold Wheaton common shares with a fair value of \$175 million representing ownership of approximately 37.5% of Gold Wheaton's basic shares outstanding after the



recent completion of Gold Wheaton's private placement of subscription receipts, which raised gross proceeds of \$260 million for Gold Wheaton;

- \$50 million of "deferred warrants" to be paid on January 15, 2008 in Gold Wheaton warrants, shares or cash;
- on an ongoing basis a cash payment equal to the lesser of (a) US\$400 per gold ounce equivalent (subject to a 1.0% inflationary adjustment commencing July 1, 2011) and (b) the then prevailing market price per ounce of gold. The gold equivalent ounces delivered to Gold Wheaton will be calculated based on then prevailing gold, platinum, and palladium prices.

FNX produces more gold equivalent ounces than the 50% of contained ounces being sold to Gold Wheaton and will, therefore, continue to have full market exposure to these excess ounces.

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

Gold Wheaton has granted FNX a right to maintain its pro rata equity position in Gold Wheaton to December 31, 2009 provided that it holds at least 10% of the then outstanding Gold Wheaton common shares. FNX has granted Gold Wheaton a right of first refusal with respect to any similar gold stream transactions that FNX may wish to enter into with respect to any properties in the Sudbury mining district.

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%.

The 350 million share investment in Gold Wheaton with an original fair value of \$175 million has been accounted for using the equity method whereby the Company's share of Gold Wheaton's net earnings and losses is included in the Statement of Operations and the Company's investment therein is adjusted by an equivalent amount. In addition, transaction costs of \$4.4 million were included in the investment in Gold Wheaton account balance. For the quarter, FNX incurred a loss from equity investee of \$1.0 million.

Property, Plant and Equipment

(i) Summary

Expenditures on property, plant and equipment totaled approximately \$41.2 million during the third quarter of 2008 and \$139.6 million year to date, compared to \$55.4 million and \$149.7 million during the comparable 2007 periods. The cash expenditures consisted of underground development, including raise development at Podolsky and underground access rehabilitation and development at Levack, and the purchase of certain mining equipment.

The 2008 capital, mine development and exploration budget originally totaled \$237.4 million. As a result of the new interim accountabilities provided by Vale Inco for the Levack Mine and the declining nickel price environment, certain capital expenditures at the Levack Mine have been deferred. The decline ramp for the Podolsky Nickel Ramp project has also been deferred to permit assessment of the result of the exploratory drilling completed this quarter. Overall anticipated capital expenditures in 2008 are \$175 million, which is \$11 million lower than at June

30, 2008, as discussed in the second quarter of 2008, and \$62 million lower than the original capital budget of \$237 million and are detailed by project in the following table.

Table 13 – PP&E Forecast	Revised annual budget	Original annual budget	Change
	\$000s	\$000s	\$000s
Levack Complex	58,000	97,425	(39,425)
Podolsky Mine	50,000	55,485	(5,485)
Levack Footwall Deposit	52,000	59,798	(7,798)
Aurora Properties	1,000	2,060	(1,060)
Podolsky Nickel Ramp	2,000	11,603	(9,603)
Kirkwood	-	113	(113)
Victoria	3,500	3,280	220
Corporate	1,000	778	222
Mining Services	7,500	6,876	624
	175,000	237,418	(62,418)

Table 14 shows the net increase in property, plant and equipment expenditures for 2008 by property location and 2008 revised annual budget.

Table 14 – PP&E Expenditures	Three months ended September 30 2008	Nine months ended September 30 2008	Revised annual budget 2008
	\$000s	\$000s	\$000s
Levack Complex	9,832	52,003	58,000
Podolsky Mine	9,412	42,387	50,000
Levack Footwall Deposit	13,812	31,906	52,000
Aurora Properties	401	468	1,000
Podolsky Nickel Ramp	464	1,663	2,000
Kirkwood	-	-	-
Victoria	1,670	3,127	3,500
Corporate	103	634	1,000
Mining Services	5,530	7,437	7,500
	41,224	139,625	175,000

(ii) *Levack Complex*

FNX holds a 100% interest in the Levack Complex, which is located in the Sudbury mining district of Ontario and is comprised of two adjacent mining operations, the McCreedy West and Levack properties. For reporting purposes, the two adjacent properties are considered to be one operating segment as they are integrated from an operational perspective, produce similar ore and sell all production to the same purchaser, Vale Inco.

During the third quarter of 2008, almost 60,000 tons of Inter Main nickel ore were trammed from McCreedy West to Levack for hoisting up Levack's No. 2 shaft. As a result, additional ramp capacity became available at McCreedy West allowing production tonnage from the PM Deposit to increase accordingly. This is expected to continue throughout the last quarter of the year with an average of 20,000 tons per month of Inter Main ore being hoisted by Levack.

At McCreedy West, development and exploration is focused on extending known resources and reserves. Work to extend the PM Deposit, including diamond drilling and development, progressed during the quarter. Current production rates require additional development at McCreedy West. Work has commenced on two drifts off the main ramp to allow access to some remnant ore areas in the Inter Main Deposit area.

(iii) Podolsky

FNX holds a 100% interest in Podolsky, which is located in the Sudbury mining district of Ontario. It was determined that, effective January 1, 2008, the Podolsky Mine achieved commercial production. Accordingly, commencing January 1, 2008, mining revenues and expenses from ore mined and shipped from the Podolsky property have been included in the Statement of Operations.

At Podolsky, capital development is focused on extending the ramp upwards to the 2300 Level and further developing infrastructure needs. Ramp development from the 2450 Level up to the 2375 Level was completed and sill development was initiated during the quarter. The incline ramp to the 2300 Level was approximately 75% complete by the end of the quarter; this development continues to be critical to allow the mine's stoping system to be fully effective. Development of the decline below the 1925 Level continues, while at the same time, the 1925 Level ore zones are being accessed. Mining on this level has crossed ore grade material in the Grey Gabbro Deposit and in the 2000 Deposit. Engineering and initial construction on a permanent backfill system also occurred in the third quarter, as backfilling is currently utilizing a temporary cement slurry plant.

(iv) Exploration Properties

The carrying value of the mineral exploration properties represents the accumulated costs to date for the acquisition of and exploration costs incurred by FNX on its non-producing mineral exploration properties. Mineral exploration properties are not amortized. FNX's mineral exploration properties at September 30, 2008 are all located in the Sudbury mining district and the accumulated costs to date are shown in the following table.

Table 15 – Accumulated Costs of Exploration Properties	September 30 2008	December 31 2007
	\$000s	\$000s
Levack Footwall Deposit	295,847	269,773
Podolsky Nickel Ramp	2,727	1,063
Aurora Properties	91,976	91,507
Victoria	9,486	6,359
Kirkwood	2,480	2,480
	402,516	371,182

As at September 30, 2008, FNX held a 100% interest in the LFD (located on the Levack Complex property), Podolsky Nickel Ramp (located on the Podolsky property), Kirkwood and Victoria mineral properties. The mineral properties included in the Aurora Properties at September 30, 2008 are located in the Sudbury mining district of Ontario and are pursuant to a joint venture agreement (the "**Falconbridge Joint Venture**") with Xstrata Nickel. As at December 31, 2007, the Company and Xstrata Nickel held a 78% and 22% interest (2006 - 74% and 26%), respectively, in the Falconbridge Joint Venture. Xstrata Nickel has elected not to



participate in the 2008 exploration program and, as a result, Xstrata Nickel's interest will continue to be diluted. The Company is the operator of the Falconbridge Joint Venture. FNX holds between a 50% and 100% interest in the mineral exploration properties included in the Aurora Properties.

During the third quarter, FNX completed 78 diamond drill holes for a total of 82,085 feet for a total of 241 holes for 259,815 to the end of September 30, 2008. The total number of holes and the total footage was lower in the third quarter of 2008 than in the second quarter due to the scheduled annual summer diamond drill shut down. More than half of the holes and approximately 32% of the footage for the year to date are for the LFD due to the aggressive definition drill program that continued during the third quarter of 2008.

The development and advanced exploration of the LFD is the principal capital project currently being pursued by FNX. The LFD decline has progressed from the 2650 Level and is currently at the 3100 elevation. Access to the Rob's Deposit has been completed for the 2900 and 2950 Levels, and are progressing on the 3035 Level and for the 3090 Level. A significant drift for diamond drilling purposes will be cut on the 3090 Level, and diamond drilling progress continues from each new level. Current information indicates that the Rob's Deposit may merge with the LFD as the area between the two deposits is being filled in from new drill locations. Work continues on shaft rehab to allow access to the 3600 Level of the Levack No. 2 shaft. This will provide a platform for developing into the LFD at the 4000 Level to provide both haulage capacity and infrastructure installation for long-term mining of the LFD. In the quarter, an indicated initial mineral resource estimate of 754,000 tons averaging 8.09% copper, 1.26% nickel and 7.76 g/t (0.22 opt) platinum, palladium and gold, on a 250 foot vertical block of the LFD centered on the 4000 Level was complete. This represents a small portion of the LFD's total extent. Work on infrastructure for ventilation, pumping, hoisting, and backfilling continued in the quarter. Raises for ventilation are progressing, as well as work to allow dewatering from the bottom of the shaft and the LFD ramp decline. Engineering and design work continues on all aspects of mining the LFD.

The carrying value of the LFD exploration property was reduced by \$5.8 million in the quarter for the pre-production credits related to the 10,683 ton bulk sample shipped in early July 2008. The bulk sample was extracted from the 4000 Level exploration drift accessed from Xstrata Nickel's Craig Mine and shipped to Vale Inco for processing at the Clarabelle Mill. Final analytical results from the shipped tonnage are pending; however preliminary grades combined with management's estimated payable metals and processing cost terms were used to value the shipments.

The Podolsky Nickel Ramp definition diamond drill program for 2008 was completed during the third quarter of 2008. This drilling was designed to support the advanced exploration development and future scoping studies for the Nickel Ramp deposits. At the end of the quarter, one surface rig remained on the Podolsky property to continue to test the new Sudbury Breccia/Quartz Diorite environment discovered in the second quarter of 2008 for both nickel-rich and Cu-PGE-rich mineralization. Two surface drill rigs continued to drill Quartz Diorite targets on the southern part of the property to follow-up on Ni-Cu sulphide mineralization intersected early in the third quarter of 2008.

The bulk of the Company's exploration diamond drill footage continued to be concentrated on the LFD and its associated sulphide mineralized system, on Contact nickel targets above the Rob's Deposit, on Cu-Ni-PGE targets in the footwall to both the No. 7 and No.1 orebodies, and on the Sudbury Breccia package host to the LFD.



The surface diamond drill program at the Victoria property continued in the third quarter of 2008.

All of the Company's mineral exploration properties are at the exploration stage and there can be no assurance that commercially viable mineral deposits or reserves exist therein.

Mine Closure and Site Restoration

FNX estimates the total future mine closure and site reclamation costs (also known as asset retirement obligations) associated with the Sudbury operations to be \$6.5 million, unchanged from the end of 2007. Management anticipates that such obligations will substantially be settled at or near the closure of its mining operations.

Share Capital

During the third quarter of 2008, share capital increased by \$1.8 million as a result of the exercise of 168,000 stock options. Year to date share capital has increased by \$4.1 million as a result of the exercise of 312,543 stock options.

Under the terms of a deferred share unit plan (the "DSU Plan"), the number of DSUs granted to Directors and executive employees is based upon the fair market value of FNX's common shares at that time. DSUs are only paid out in cash upon the Director's or executive employee's death or resignation from the Board or the Company. Included in accrued liabilities is \$0.5 million related to 43,436 DSUs.

Post-Retirement Benefits

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

Non-GAAP Performance Measures

Cash operating margin per ton of ore sold, cash operating cost per pound of nickel sold, cash flow per share, cash operating margin for Mining Services, 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, 2008, stock options to purchase 2.4 million common shares at a weighted average price of \$20.67 per share were outstanding. The number of stock options outstanding at September 30, 2008 represents 2.8% of the issued and outstanding common shares at that time. From October 1, 2008 to November 3, 2008, no stock options have been granted, 31,833 were cancelled and none have been exercised. As at November 3, 2008, the Corporation had 84,876,781 million common shares outstanding and stock options to purchase 2,319,660 million common shares had been granted and were outstanding.

Adoption of New Accounting Standards

We monitor the 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, 2008, the Company prospectively adopted 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.

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. This section provides more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section standardizes Canadian GAAP with International Financial Reporting Standards ("**IFRS**") and applies to interim and annual statements relating to fiscal years beginning on or after October 1, 2008. This standard is 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 and developing a preliminary plan to identify the major differences between the Company's accounting policies and IFRS and will assess the impact of the application of IFRS on the Company's consolidated financial statements. The impact on the Company's business practices, information technology, and internal controls over financial reporting will also be assessed and an implementation plan will be developed by year end as part of the process to be ready for the changeover planned in 2011.



Internal Controls Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the nine months ended September 30, 2008 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 16 – 2008 Statistics	Q1	Q2	Q3	Q4	Total
Ore sold (tons)					
Nickel ore	199,054	220,579	159,419		579,052
Copper ore	85,845	132,186	187,568		405,599
Total ore sold	284,899	352,765	346,987		984,651
Grade of ore sold					
Nickel ore (%Ni)	1.3	1.1	1.3		1.2
Copper ore (%Cu) ⁽²⁾	4.2	5.2	3.0		3.1
Payable metal sold					
Nickel (000s lbs)	3,492	3,491	3,146		10,129
Copper (000s lbs)	6,892	7,262	9,558		23,712
TPM (ozs) ⁽³⁾	7,272	11,582	16,379		35,233
Cobalt (000s lbs)	55	54	42		146
Metal sales revenue					
Average Ni price (US\$/lb)	14.43	9.21	6.61		10.20
Average Cu price (US\$/lb)	3.84	3.70	2.93		3.43
\$/US\$ exchange rate	1.00	1.01	1.04		1.02
Total mining revenue (\$000s)	91,323	75,192	51,178		217,693
Revenue (\$/ton of ore sold)	321	213	147		221
Cash cost of metals sold					
Mining (\$000s)	45,232	51,066	48,288		144,586
Cash cost (\$/ton of ore sold)	159	145	139		147
Cash cost (US\$/lb of Ni sold) ⁽¹⁾	1.30	2.38	4.56		2.70

(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 and the Podolsky Mine.

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

Table 17 – 2007 Statistics	Q1	Q2	Q3	Q4	Total
Ore (tons)					
Pre-production ore Sold	-	-	1,405	16,724	18,129
Nickel ore	133,630	159,195	156,232	182,160	631,217
Copper ore	72,224	74,494	92,040	56,906	295,664
Total ore sold	205,854	233,689	248,272	239,066	926,881
Grade of ore sold					
Nickel ore (%Ni)	1.2	1.3	1.3	1.2	1.3
Copper ore (%Cu) ⁽²⁾	1.3	1.5	1.4	1.2	1.4
Payable metal sold					
Nickel (000s lbs)	2,628	3,104	3,198	3,289	12,219
Copper (000s lbs)	2,261	2,426	2,929	1,995	9,611
TPM (ozs) ⁽³⁾	5,961	5,282	8,073	5,064	24,380
Cobalt (000s lbs)	34	38	44	42	158
Metal sales revenue					
Average Ni price (US\$/lb)	21.65	18.54	11.65	12.16	15.69
Average Cu price (US\$/lb)	2.67	3.73	3.57	2.94	3.27
\$/US\$ exchange rate	1.17	1.10	1.04	0.98	1.07
Total revenue (\$000s)	80,473	79,187	56,767	51,324	267,751
Revenue (\$/ton of ore sold)	391	339	229	215	289
Cash cost of metals sold					
Mining (\$000s)	24,555	24,304	26,015	25,443	100,317
Cash cost (\$/ton of ore sold)	119	104	105	106	108
Cash cost (US\$/lb of Ni sold) ⁽¹⁾	3.46	2.58	2.39	4.13	3.11

(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 and the Podolsky Mine.

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

Table 18 - Consolidated Quarterly Statements of Operations					
2008	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Operating revenues					
Mining Operation revenues	91,323	75,192	51,178		217,693
Mining Service revenues	49,393	37,008	25,245		111,646
	140,716	112,200	76,423		329,339
Operating expenses					
Mining Operation expenses	45,232	51,066	48,289		144,587
Mining Service expenses	46,984	35,215	25,063		107,262
Depreciation and amortization	10,890	14,826	16,233		41,949
	103,106	101,107	89,585		293,798
	37,610	11,093	(13,162)		35,541
Expenses					
Administration	2,675	4,341	4,896		11,912
Capital taxes	-	(1,803)	-		(1,803)
Stock-based compensation	1,174	1,389	856		3,419
Depreciation	220	198	206		624
Other expenses (income)	(2,822)	(8,017)	14,227		3,388
	1,247	(3,892)	20,185		17,540
	36,363	14,985	(33,347)		18,001
Income and resource taxes	(12,300)	(3,644)	7,814		(8,130)
Loss of equity investee	-	-	(1,009)		(1,009)
Net earnings (loss)	24,063	11,341	(26,542)		8,862
Basic earnings per share	0.28	0.13	(0.31)		0.10
Diluted earnings per share	0.28	0.13	(0.31)		0.10
2007					
	Q1	Q2	Q3	Q4	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
Operating revenues					
Mining Operation revenues	80,473	79,187	56,767	51,324	267,751
Mining Service revenues	-	-	-	54,292	54,292
	80,473	79,187	56,767	105,616	322,043
Operating expenses					
Mining Operation expenses	24,555	24,304	26,015	25,443	100,317
Mining Service expenses	-	-	-	49,764	49,764
Depreciation and amortization	4,879	5,951	7,080	10,387	28,297
	29,434	30,255	33,095	85,594	178,378
	51,039	48,932	23,672	20,022	143,665
Expenses					
Administration	2,293	2,177	1,958	2,826	9,254
Capital taxes	450	272	594	403	1,719
Stock-based compensation	888	690	777	1,072	3,427
Depreciation	97	110	138	144	489
Other expenses (income)	(1,267)	(6,110)	1,550	2,380	(3,447)
	2,461	(2,861)	5,017	6,825	11,442
	48,578	51,793	18,655	13,197	132,223
Income and resource taxes	18,387	16,802	6,170	(19,083)	22,276
Net earnings	30,191	34,991	12,485	32,280	109,947
Basic earnings per share	0.36	0.42	0.15	0.38	1.31
Diluted earnings per share	0.36	0.41	0.15	0.38	1.30

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this document constitute “forward-looking statements”. These forward-looking statements are based on current expectations and involve risks and uncertainties, referred to above and/or in FNX's Annual Information Form (“AIF”) 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 2008, 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, ultimate amount of payable metals pursuant to finalized offtake agreements, metal prices, demand for metals, currency exchange rates, cash operating margins, cash operating cost per pound of nickel sold, costs per ton of ore sold, expenditures on property, plant and equipment, reserves and/or resources and anticipated grades and recovery rates, operational risks inherent in mining or development activities, legislative factors relating to prices, taxes, royalties, land use, title and permits, environmental protection 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, except where required by security regulators. 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.