

**FNX MINING COMPANY INC.**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**March 31, 2009**



## TABLE OF CONTENTS

<b>Annual Information Form</b> .....	2
Information Incorporated by Reference.....	2
Cautionary Note Regarding Forward-Looking Statements .....	2
<b>Corporate Overview</b> .....	3
Corporate Structure.....	3
Principal Assets.....	3
<b>General Development of the Mining Operations Business</b> .....	4
Sudbury Basin Properties Acquired from Vale Inco .....	4
Aurora Properties .....	7
Exploration and Development .....	8
Production .....	8
Reserves and Resources - Technical Report .....	8
Competition .....	11
<b>General Development of the Mining Services Business</b> .....	11
2007 Acquisition .....	11
Services .....	12
Contracts and Marketing .....	13
Competition .....	14
<b>Investments</b> .....	14
Gold Wheaton .....	14
Lake Shore Gold .....	14
Superior Diamonds .....	14
Fieldex.....	14
Visible Gold .....	15
International Nickel Ventures .....	15
Strategic Resources.....	15
<b>Credit Facility</b> .....	16
<b>Employees</b> .....	16
<b>Health and Safety, the Environment and Community Relations</b> .....	16
Health and Safety.....	16
Environment.....	16
Community Relations .....	17
<b>Risks and Uncertainties</b> .....	18
<b>Share Capital</b> .....	26
Common Shares .....	26
Dividend Policy.....	26
Ratings .....	26
Market for Securities .....	26
<b>Directors and Officers</b> .....	27
Directors .....	27
Officers.....	28
Security Holdings as a Group .....	29
Cease Trade Orders or Similar Orders, Bankruptcies, Penalties or Sanctions.....	29
<b>Material Contracts</b> .....	29
<b>Legal Proceedings</b> .....	31
<b>Transfer Agent and Registrar</b> .....	31
<b>Experts</b> .....	31
<b>Audit Committee</b> .....	31
<b>Management's Discussion and Analysis</b> .....	32
<b>Additional Information</b> .....	32
<b>Exhibit "A": Audit Committee Mandate</b> .....	33

## ANNUAL INFORMATION FORM

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This annual information form (this “AIF”) contains important information that will help you make an informed decision about investing in FNX Mining Company Inc. (“FNX” or the “Corporation”). It describes FNX, its mineral reserves and resources, its exploration and production activity, and the risks and other factors that affect its business.

All information contained in this AIF is as of December 31, 2008, unless otherwise indicated. All currency amounts are in Canadian dollars, unless otherwise indicated.

### **Information Incorporated by Reference**

The information in FNX’s management’s discussion and analysis of the financial condition and results of operations for the year ended December 31, 2008 (the “MD&A”) and the information in FNX’s consolidated financial statements for the year ended as at December 31, 2008 (the “Financial Statements”) which Financial Statements have been audited by KPMG LLP, is incorporated by reference in this AIF. The MD&A and the Financial Statements are included in FNX’s 2008 Annual Report, and have been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Cautionary Note Regarding Forward Looking Statements**

*This AIF contains “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and similar Canadian legislation, concerning the business, operations and financial performance and condition of FNX. These forward looking statements are based on current expectations and involve risks and uncertainties, referred to herein and/or in the MD&A, that could cause actual events or results to differ materially from estimated or anticipated events or results reflected in the forward looking statements. Forward-looking statements include, but are not limited to, statements regarding FNX’s financial results and expectations for 2008 and 2009, interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations, forecast levels of production of ore and/or metals, metal prices, demand for metals, currency exchange rates, cash operating margins, cash operating cost (including processing costs) per pound of metals sold, costs per ton of ore, expenditures on property, plant and equipment, increases and decreases in production, mineral reserves and/or mineral resources and anticipated grades and recovery rates and are or may be based on assumptions and/or estimates related to future economic, market and other conditions. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled estimates”, “forecasts”, “intends”, “anticipates”, “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might”, “will” or “will be taken”, “occur”, or “be achieved”. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of FNX to be materially different from those expressed or implied by such forward-looking statements, including but not limited to: risks associated with the mining industry in general relating to the exploration for, development and mining of mineral deposits and the commercial viability of such deposits; risks and uncertainties relating to the interpretation of drill results, the geology, grade and continuity of mineral deposits and conclusions of economic evaluations; the results of initial feasibility, pre-feasibility and feasibility studies, and the possibility that future exploration, development or mining results will not be consistent with FNX’s expectations; the uncertainty of mineral reserve and mineral resource estimates; FNX’s ability to replace depleted mineral reserves; the reliance of FNX on commercial contracts; current global financial conditions; FNX’s dependence on its key management, personnel and executives; hedging considerations; governmental regulation; environmental risks and liabilities and hazards associated with mining in general and with respect to the Properties; competition within the mining industry generally and for mining services contracts; foreign investments and operations; sufficiency of internal controls; FNX’s dependence on good relations with employees; the costs of compliance with climate change initiatives; uninsured risks; conflicts of interest; First Nations consultations; joint ventures; reclamation funds and mine closure costs; the potential refund obligations of FNX under its agreement with Gold Wheaton Gold Corp.; risks relating to possible variations in reserves, grade, planned mining dilution and ore loss, or recovery rates and changes in project parameters as plans continue to be refined; mining and development risks, including risks related to accidents, equipment breakdowns, labour disputes (including work stoppages and strikes) or other unanticipated difficulties with or interruptions in exploration and development; the potential for delays in exploration or development activities or the completion of feasibility studies; risks related to the inherent uncertainty of production and cost estimates and the potential for unexpected costs and expenses; risks related to commodity price and foreign exchange rate fluctuations; FNX’s reliance on Vale Inco Limited for ore processing and that future payments for provisional payable metal terms for such ore processing may differ from those made in the past; the uncertainty of profitability based upon the cyclical nature of the industry in which FNX operates; risks related to failure to obtain adequate financing on a timely basis and on acceptable terms or delays in obtaining governmental approvals or in the completion of development or construction activities; risks related to FNX’s ability to successfully integrate acquisitions; risks related to adverse changes to FNX’s credit rating; risks related to contests over title to FNX’s properties, particularly title to undeveloped properties; political and regulatory risks associated with mining and exploration; and other risks and uncertainties related to FNX’s prospects, properties and business strategy, as well as those factors discussed herein or referred to in the current annual MD&A.*

Although management of FNX has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Many of such factors are beyond FNX's ability to control or predict. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. FNX does not undertake to update any forward-looking statements that are incorporated herein, except in accordance with applicable securities laws. Additional information, including quarterly and annual consolidated financial statements, MD&A, Management Information Circular and other disclosure documents, may be obtained through the Internet by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com).

## CORPORATE OVERVIEW

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FNX is an Ontario based company operating in Canada and in the United States with consolidated assets of over \$800 million, over \$375 million of revenues and more than 675 employees functioning within two operating segments - mining and mining services. The mining 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.

### Corporate Structure

The Corporation was incorporated under the *Business Corporations Act* (Ontario) on June 26, 1984 as Fort Knox Gold Resources Inc. The name of the Corporation was changed to FNX Mining Company Inc. by articles of amendment effective June 20, 2002. On January 1, 2009, FNX amalgamated with Aurora Platinum Corp. ("**Aurora Platinum**") a wholly-owned subsidiary of FNX, and the amalgamated corporation continued under the name FNX Mining Company Inc. FNX became a reporting issuer in the Province of Ontario following the filing of an exchange offering prospectus dated November 26, 1984 and is also a reporting issuer in each of the other Provinces of Canada. FNX's registered and head office is located at 145 King Street West, 15th Floor, Toronto, Ontario, M5H 1J8.

FNX has two subsidiaries: FNX Mining Company USA Inc. ("**FNX USA**"), a Delaware corporation, and DMC Mining Services Corporation ("**DMC USA**"), a Colorado corporation. FNX holds all of the issued and outstanding shares of FNX USA which, in turn, holds all of the issued and outstanding shares of DMC USA.

### Principal Assets

FNX's principal assets currently consist of:

- (a) a 100% interest in the mineral rights to five properties acquired from Inco Limited (now Vale Inco Limited, "**Vale Inco**"), all of which are located within 35 kilometres of Sudbury, Ontario: (i) McCreedy West; (ii) Levack; (iii) Podolsky; (iv) Kirkwood; and (v) Victoria (collectively, the "**Sudbury Basin Properties**");
- (b) interests in five properties, previously owned by Aurora Platinum, all of which are located in Ontario: (i) Falconbridge Footwall; (ii) Foy; (iii) Canhorn; (iv) North Range; and (v) Cartier (collectively, the "**Aurora Properties**");
- (c) a mining services business ("**DMC**"), the assets of which were acquired from Sherritt International Corporation in October 2007; and
- (d) investments in Gold Wheaton Gold Corp., Fieldex Exploration Inc., International Nickel Ventures Corporation, Lake Shore Gold Corp., Superior Diamonds Inc. and Visible Gold Mines Inc. (collectively, the "**Investments**").

## GENERAL DEVELOPMENT OF THE MINING OPERATIONS BUSINESS

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### Sudbury Basin Properties Acquired from Vale Inco

#### **Option to Purchase**

On November 29, 2001, FNX entered into an Option to Purchase Agreement (the “**Option Agreement**”) with Vale Inco pursuant to which FNX obtained an option (the “**Option**”) to acquire a 100% interest in the mineral rights to the Sudbury Basin Properties and the right to access and use such part of the surface rights and on-site facilities as are required to permit exploration, development and mining operations on the Sudbury Basin Properties. The Option required continuing exploration and, if warranted, development of the Sudbury Basin Properties under a 52 month program within which period of time FNX was required to spend \$30 million to earn its interest.

The Option Agreement includes the following additional terms that continue to apply:

- If FNX discovers a New Deposit (as defined in the Option Agreement) on any of the Sudbury Basin Properties and elects to complete a bankable feasibility study on such New Deposit which recommends production, and should such New Deposit contain mineral resources having a value (based on then current metal prices) of at least 600 million pounds of nickel equivalent at the time of such bankable feasibility study, Vale Inco has a right to acquire a 51% interest in such New Deposit by bringing the New Deposit into commercial production without financial recourse to FNX. If Vale Inco acquires a 51% interest in such New Deposit, Vale Inco and FNX will form a joint venture, with Vale Inco as the operator, to hold and operate the New Deposit. Vale Inco would be entitled to receive 80% of the net revenues from production from the New Deposit until such time as Vale Inco is reimbursed for the funding, if any, that it provided to bring the New Deposit into commercial production; thereafter, the net revenues would be shared by FNX and Vale Inco pro rata to their respective ownership interests of 49% and 51%, respectively.
- Vale Inco continues to be responsible for all environmental liabilities existing on the Sudbury Basin Properties as at January 10, 2002. FNX is responsible for environmental liabilities incurred on the Sudbury Basin Properties that result from actions taken by FNX after January 10, 2002. Environmental obligations relating to the processing of ore cease upon delivery of ore to Vale Inco.
- Vale Inco has a right of first offer to purchase any interest in the Sudbury Basin Properties that FNX proposes to sell to an arm’s-length third party.
- Vale Inco is entitled to nominate up to 20% of the number of directors to be elected at each annual meeting of shareholders of FNX.

A copy of the Option Agreement, a material agreement to FNX, can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

On January 10, 2002, Dynatec Corporation (“**Dynatec**”) acquired 25% of FNX’s interest, rights and obligations in the Option Agreement and Dynatec and FNX formed a joint venture known as the “Sudbury Joint Venture” (the “**SJV**”) to explore, develop and, if economically appropriate, mine the Sudbury Basin Properties.

By December 1, 2003, the SJV had exceeded the required \$30 million in expenditures on the Sudbury Basin Properties and the Option was exercised.

On October 21, 2005, FNX re-acquired the 25% interest in the Sudbury Basin Properties it had previously sold to Dynatec and since that time has held a 100% interest in the Sudbury Basin Properties. The SJV was terminated on the following terms:

- FNX issued 20,500,000 FNX common shares to Dynatec;
- FNX and Dynatec entered into: (i) a voting trust agreement; (ii) a standstill agreement; and (iii) a mining services agreement;
- FNX was provided with a right of first refusal in the event that Dynatec wished to distribute any of the FNX common shares; and
- Dynatec was provided with proportional representation on FNX’s board of directors (the “**Board**”).

In 2007, the FNX common shares owned by Dynatec were distributed to Dynatec shareholders and the foregoing arrangements were terminated upon the closing of the Sherritt Transaction (described below).

### **Offtake Arrangements**

The Option Agreement includes a form of Offtake Agreement (the "**Offtake Agreement**") which sets out the terms governing FNX's sale of minerals and ores from the Sudbury Basin Properties to Vale Inco. Among other things, the Offtake Agreement provides: (a) subject to paragraphs (d) and (e) below, Vale Inco has both the right and the obligation to purchase all ores produced; (b) Vale Inco is required to pay FNX for payable metals, less applicable milling, smelting and refining charges; (c) with regard to precious metals, FNX has the right to receive gold, platinum and palladium as product in kind in lieu of a cash payment by Vale Inco; (d) Vale Inco has the right to refuse to purchase any ores that are unsuitable for treatment; and (e) Vale Inco has the right, upon providing FNX with 12 months prior notice, to suspend its purchase of ores if it does not have sufficient processing capacity to handle such ores and may terminate such suspension by providing FNX with 12 months prior notice. During the time that Vale Inco has suspended its purchases, FNX is entitled to have its ore processed by a third party in which case Vale Inco will be entitled to be paid a 2% net smelter royalty for nickel, copper and cobalt and a net smelter royalty ranging from 2.5% to 5% for precious metals.

The amount that Vale Inco is required to pay to FNX for ore shipped and sold by FNX is 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 different payable metals terms for each of the various ore deposits to reflect the differences in the metallurgical composition of the ore deposits.

Interim processing cost terms and interim payable metals terms have been established by Vale Inco for the Levack and Podolsky mines. Additional and more extensive metallurgical testing continued in the fourth quarter of 2008 and will extend throughout 2009 in order to finalize payable metals terms and processing cost terms for both mines. Levack's current 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. 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. FNX cannot, at this time, determine the amount, if any, of such adjustment.

### **Gold Wheaton Transaction**

On July 15, 2008, FNX completed a transaction with Gold Wheaton Gold Corp. ("**Gold Wheaton**") pursuant to which FNX agreed to sell 50% of the gold, platinum and palladium metal contained in ore mined and shipped from: (i) the PM and 700 Deposits at McCreedy West; (ii) the Levack Footwall, Rob's and 1900 Deposits at Levack; and (iii) the 2000 and North Deposits at Podolsky (the "**Gold Wheaton Transaction**"). The consideration given by Gold Wheaton consisted of: (i) an upfront cash payment of \$175 million; (ii) 350 million Gold Wheaton common shares with a then fair value of \$175 million and representing approximately 38% of the then issued and outstanding Gold Wheaton common shares, subject to a statutory hold period which expired on November 16, 2008; (iii) a deferred payment of \$50 million in Gold Wheaton warrants, shares or cash due January 15, 2009; and (iv) on an ongoing basis, a cash payment equal to the lesser of (a) US\$400 per gold equivalent ounce (subject to an inflationary adjustment three years after the anniversary date) and (b) the then prevailing market price per ounce of gold. The gold, platinum and palladium recovered in excess of 50% of the contained gold, platinum and palladium is to FNX's account and is not subject to the Gold Wheaton Transaction. FNX therefore continues to receive the price of precious metals recovered from the ore that are above and beyond 50% of the contained precious metals.

On December 8, 2008, the terms of the deferred \$50 million payment were renegotiated to extend the due date to July 16, 2010, at which time the amount may be repaid at either FNX's or Gold Wheaton's option through the issuance of that number of additional common shares of Gold Wheaton determined by dividing \$50 million by the lesser of: (a) \$1.00; and (b) the greater of: (i) the 20-day volume weighted average price of the Gold Wheaton common shares ending June 30, 2010; and (ii) \$0.20. As consideration for extending the due date, Gold Wheaton issued 10 million common shares with a then fair value of \$2.7 million to FNX.

FNX has the right to maintain its then pro rata equity position in Gold Wheaton until January 2010, provided that it holds at least 10% of the then outstanding Gold Wheaton common shares. On March 5, 2009, Gold Wheaton issued 460 million Gold Wheaton common shares. FNX did not participate in this equity issuance and FNX's ownership in Gold Wheaton declined to 26%.

The Gold Wheaton common shares were acquired for investment purposes only. Other than as agreed to as consideration for the transaction, FNX has no present intention to acquire further Gold Wheaton common shares and may, from time to time, increase or decrease its ownership of or control over securities of Gold Wheaton in response to market conditions, the business and prospects of Gold Wheaton or other factors.

### **Suspension of Nickel Contact Production at Levack and McCreedy West**

The latter part of the third quarter and the entire fourth quarter of 2008 were extremely difficult and turbulent times for global economies in general and the mining industry in particular. Staggering 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 economic downturn resulted in sharply lower commodity prices, widespread mine closures and suspended capital projects.

On October 21, 2008, FNX announced that Levack's contact nickel deposits were no longer economically viable and that it was suspending commercial production of these deposits. Mining from Levack's contact nickel deposits did, however, continue during the fourth quarter to produce 37,665 tons of ore for metallurgical testing.

On December 10, 2008, FNX reduced its mining workforce by approximately 45% through layoffs and terminations, extended the suspension of contact nickel ore production at Levack and suspended nickel ore production at McCreedy West. The nickel contact deposits at Levack and McCreedy West do not produce recoverable precious metals and are not part of the Gold Wheaton Transaction. As such, the suspension of production from these deposits will not affect FNX's precious metal production.

Ore is still being mined from the Rob's Deposit at Levack, the 700 and PM Deposits at McCreedy West and from the 2000 Deposit at Podolsky, as these continue to be economically viable. Operating plans for each of the mine sites will be reviewed and updated on an ongoing basis to ensure the continued economic viability of FNX's deposits. Work to advance the development of the Levack Footwall Deposit (the "LFD") continues as this high-grade copper-nickel-precious metal deposit remains FNX's main focus and represents a significant portion of the future of FNX.

### **Development of the Sudbury Basin Properties**

Since its acquisition of the Sudbury Basin Properties, FNX has undertaken significant steps in the development of the Sudbury Basin Properties.

- Production was initiated at McCreedy West in the second quarter of 2003; commercial production declared November 1, 2003; and the daily production target of 1,000 tons achieved in April 2004.
- The LFD, a significant copper-nickel-precious metal sulphide deposit in the Levack footwall environment was discovered in February 2005.
- The Levack mine was reopened in December 2006 after being closed since 1999.
- In December 2006, an agreement with Xstrata Nickel, a business unit of Xstrata Canada Corporation ("**Xstrata**"), providing FNX with access from Xstrata's Craig Mine to secure a bulk sample from the LFD while concurrently driving a development/exploration heading to the upper levels of the deposit from the 2650 Level at Levack was reached.
- The Levack mine achieved commercial production effective January 1, 2007, with production ramping up from 9,000 tons per month to 20,000 tons per month by year end.
- 18,129 tons of pre-production ore from Podolsky was shipped to Vale Inco's Clarabelle Mill for processing in 2007.
- Commercial production at Podolsky was achieved effective January 1, 2008 and progressed from mining 24,000 tons in the first quarter to 82,000 tons in the fourth quarter, demonstrating continuous improvement towards full production levels.
- The trunk vein system of the LFD's high grade mineralization was intersected on January 7, 2008.
- Initial production from the Rob's Deposit commenced in the second quarter of 2008 and by year end 2008, the Rob's Deposit had contributed 8,164 tons.
- In early 2008, a 15,027 ton bulk sample was extracted from the 4000 Level exploration drift of the LFD and in July 2008 10,683 tons were shipped for processing at Vale Inco's Clarabelle Mill.
- In early 2009, the LFD was approved for development for commercial production by the Board.

During 2009, FNX's primary focus will be on the further development of the LFD, which continues to be the largest capital project pursued by FNX. The LFD project team is currently focused on driving the LFD ramp down to the upper part of the LFD in order to commence lateral development work later in 2009. Project deadlines indicate that development ore is expected to be mined from the upper parts of the LFD in the second half of 2009. Rehabilitation of the Levack No. 2 shaft continues and access to the 3600 Level should be reached by mid-2009, following which clean-up of the 3600 Level and skipping infrastructure will become the priority. Mining of the Rob's Deposit is continuing on a limited basis to allow full focus on LFD development. The ongoing production mining and definition drilling indicate that the Rob's Deposit merges with the LFD with each being a zonation within the same mineral deposit.

2009 development and exploration at McCreedy West is focused on extending known resources and reserves, including diamond drilling and development to extend the PM deposit. Capital development at Podolsky continues to be focused on extending the ramp access and level development of the bulk mining zone of the 2000 Deposit. Ramp development progressed upwards from the 2300 Level and downwards from the 2000 Level, with level development ongoing on several levels. The ramp from the 2450 Level up to the 1700 Level is

scheduled to be completed during the third quarter of 2009. Ventilation and backfilling infrastructure capital work will be completed in the first half of 2009.

### **Aurora Properties**

On July 1, 2005, FNX acquired all of the issued and outstanding common shares of Aurora Platinum, a then-publicly traded company, whose common shares were listed on the TSX Venture Exchange (the "**TSXV**"), by way of a plan of arrangement, in exchange for the issuance of 4,270,803 FNX common shares to the former security holders of Aurora Platinum. Immediately following the acquisition of Aurora Platinum, FNX transferred all of the common shares of Aurora Platinum to FNX's wholly-owned subsidiary, Aurora Holdings Limited ("**Aurora Holdings**"), which was incorporated to hold such common shares, and sold 50% of the common shares of Aurora Holdings and, accordingly, a 50% interest in Aurora Platinum, to Dynatec, in exchange for 7,716,594 common shares of Dynatec and \$12,246,528 in cash. On October 21, 2005, FNX re-acquired the 50% interest in Aurora Holdings that it had previously sold to Dynatec. Aurora Platinum was subsequently amalgamated with Aurora Holdings and continued under the name Aurora Platinum Corp. On January 1, 2009, Aurora Platinum amalgamated with FNX. The amalgamated corporation was continued under the name FNX Mining Company Inc.

Through its amalgamation with Aurora Platinum, FNX now has direct interests in the Aurora Properties described below.

*Footwall and Foy.* The Footwall Property, comprising 1601 hectares, is located approximately 15 kilometres east-northeast of Sudbury within Falconbridge and Garson townships. The Foy Property, comprising 20 sq kilometres, is located approximately 30 kilometres north-northwest of Sudbury within parts of Bowell, Foy, Tyrone and Harty townships. The Footwall Property and the Foy Property were acquired by Aurora Platinum under an option and joint venture agreement with Falconbridge Limited (now Xstrata) of August 28, 2000 (the "**Falconbridge JV**").

Under the terms of the Falconbridge JV, Aurora earned an initial 60% interest in the Footwall and Foy properties by spending \$6 million on exploration over three years. Aurora, and now FNX, is the operator of the Falconbridge JV. FNX's ownership extends only to the mineral rights and surface access rights with Xstrata holding the surface rights. Xstrata retains liability for any historic environmental damage. Each of FNX and Xstrata has a right of first refusal to purchase all or any part of the other party's interest in the Footwall and Foy properties under the Falconbridge JV. However, Xstrata can, without the consent of FNX, assign the Falconbridge JV, provided that the assignee delivers to FNX a written undertaking to be bound by the terms and conditions of the Falconbridge JV. If the interest of either party is reduced to 10% then that party's interest is extinguished and is converted into a royalty equal to 5% of the net proceeds of production. Each of FNX and Xstrata is entitled to designate one or more claims within the Footwall and Foy properties as a "Specific Project", at which point a joint venture is formed in respect of the Specific Project. Xstrata, in its discretion, may also designate any area as a Specific Project. At least 30 days before the beginning of each calendar year, FNX is required to submit a program to the management committee of the Falconbridge JV for its approval. If Xstrata does not elect to participate in a program, then its interest is diluted in the ratio that its expenditures in the Falconbridge JV are of the total expenditures of both parties. Xstrata declined to participate in the 2006, 2007 and 2008 programs and, accordingly, its interest had decreased to 20% by December 31, 2008 with FNX holding a 80% interest.

*Canhorn.* The Canhorn Property is subject to an agreement dated October 30, 1998 between Xstrata, Canhorn Chemical Corporation ("**Canhorn**") and United Reef Limited ("**United**"), pursuant to which Xstrata purchased from Canhorn and United a 100% beneficial interest in the Canhorn Property, subject to a 1% net smelter returns royalty payable as to 0.5% to Canhorn and as to 0.5% to United, up to a maximum of \$750,000. The net smelter returns royalty can be purchased by Xstrata for \$250,000 payable to each of Canhorn and United. Xstrata subsequently transferred 50% of its 100% beneficial interest in the Canhorn Property to Vale Inco. No work was conducted on the Canhorn Property in 2008 and none are planned for 2009.

*North Range.* The North Range property adjoins the Foy Property on the north and east sides and is a grass roots property owned 100% by FNX. No work was conducted at North Range in 2008 and none is planned for 2009.

*Cartier.* The Cartier Property comprises three claims staked by Aurora Platinum in 2004 and is located approximately five kilometres west of McCreedy West. In 2005, Aurora Platinum completed a reconnaissance geological mapping and prospecting program and in 2006, further geological and geochemical samples were taken to evaluate the exploration potential of the property. No significant results were obtained. Exploration at Cartier in 2008 included airborne electromagnetic and magnetic surveys. All exploration potential was fully evaluated by the end of 2008 and management recommended that no further work be done on the Cartier Property and that the claims be allowed to lapse.

## **Exploration and Development**

FNX's exploration program in 2008 focused on various projects at Levack, including definition and expansion drilling of the LFD and the Rob's Deposit, and a search for new copper footwall and nickel contact deposits. Other expenditures in 2008 included drill programs at McCreedy West, Victoria, Podolsky and Falconbridge Footwall. No new economic deposits were discovered in 2008.

The drill exploration programs completed by FNX over the previous three years at the LFD and Rob's Deposit were confirmed in 2008 with the completion of access development from Levack's 2650 Level to the Rob's Deposit and from and the 4000 Level at Xstrata Nickel's Craig Mine to the LFD. The development on the LFD's 4000 Level provided confirmation that the 'trunk' vein system was similar to other footwall veins systems mined on the North Range of the Sudbury Igneous Complex.

FNX's exploration objectives for 2009 are based on the need to explore for, and fast-track, production from higher value, higher margin copper-nickel-precious metal ores, and to upgrade and, where necessary, enhance, company-wide geological and mineral resource management standards. The bulk of exploration expenditures will be incurred on definition drilling of the upper LFD from positions in the footwall access ramp and on exploration drilling for new deposits outside of the 2000 Deposit at Podolsky.

## **Production**

In 2008, FNX shipped a record 1.25 million tons of ore from its Sudbury operations, representing a 35.5% increase to 2007. Nickel ore sold totaled 682,681 tons and copper ore sold totaled 573,306 tons. Payable metals for 2008 were: 13.1 million pounds of nickel (2007 – 2.2 million); 35.2 million pounds of copper (2007 – 9.6 million); 166,027 pounds of cobalt (2007 – 157,557); 18,495 ounces of platinum (2007 – 7,855); 24,182 ounces of palladium (2007 – 13,066); and 9,357 ounces of gold (2007 – 3,459).

Nickel accounted for approximately 47% of FNX's metal sales revenues in 2008 (77% in 2007) while copper accounted for 37% (13% in 2007); platinum, palladium and gold accounted for 14% (8% in 2007) and cobalt 2%. The percentage contribution of the various commodities is influenced by both the quantity of each metal produced and the price of each metal.

Based on FNX's operating plans and capital expenditures budget for 2009, FNX anticipates to end 2009 with a cash balance of approximately \$50 million. FNX has limited 2009 production to deposits which can generate sufficient cash flow at budgeted commodity prices to cover their operating costs and sustainable capital expenditures. This includes McCreedy West's copper-precious metal PM and 700 Deposits, Levack's nickel-copper-precious metal Rob's Deposit and Podolsky's copper-precious metal 2000 Deposit. In light of the current economic environment, FNX will continue to closely monitor economic and operational conditions and will quickly take appropriate actions in the best interests of FNX.

FNX has budgeted annual production for 2009 of 678,682 tons of ore, a 46% reduction from 2008 comprised of 372,049 tons from Podolsky's 2000 Deposit, 279,633 tons from McCreedy West's PM and 700 Deposits and 27,000 tons from Levack's Rob's Deposit. Current plans also call for production of an additional 50,000 tons of low to medium grade development ore from the top of the LFD in late 2009.

The 2009 approved capital, mine development and exploration budget totals \$63.7 million and consists of a net \$38.9 million for development of the LFD to the initial production stage, \$11.3 million to complete development of the Podolsky Mine \$3.8 million of sustainable capital at McCreedy West and \$9.7 million for exploration, which will focus on definition drilling and expansion of the LFD.

## **Reserves and Resources - Technical Report**

Catharine E.G. Farrow, B.Sc. (Hons.), M.Sc., Ph.D., P.Geo., FNX's Vice-President, Exploration until December 2008 (Senior Vice-President, Corporate Development and Technical Services thereafter); Mark Frayne, B.A.Sc., M.B.A., P.Eng., FNX's Manager of Engineering – Technical Services and Business Development; and John O. Everest, B.Sc., M.Sc., P.Geo., FNX's Manager of Sudbury Exploration (collectively, the "**Qualified Persons**"), have prepared a report (referred to as the "**Technical Report**") for the Corporation dated March 31, 2009, and are qualified persons as such term is defined in National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("**NI 43-101**"). Set forth below is a summary of the Technical Report which has been prepared under the authority and supervision and with the consent of the Qualified Persons (each, a "qualified person" within the meaning of NI 43-101) and in some cases is an extract from the Technical Report. The full text of the Technical Report is available at [www.sedar.com](http://www.sedar.com).

The Technical Report has been prepared to provide the scientific and technical information in support of the estimates of mineral resources and mineral reserves to December 31, 2008 within FNX's Sudbury-area properties, and in support of this AIF, as required under NI 43-101. The format and content of this Report is intended to conform to NI 43-101F1.

All of the project areas described in this Technical Report are located in the world-class Sudbury mining camp, where concentrations of nickel, copper, platinum, palladium and gold are located at, or in close proximity to, the basal contact of the Sudbury Igneous Complex ("SIC"). The SIC has intruded Archean Levack Gneiss Complex gneissic and migmatitic rocks on its north and east margins and Huronian supracrustal rocks along its southern contact. The nickel-rich contact deposits typically are located in embayments or troughs along the base of the SIC and are characterized by a pyrrhotite-dominant sulphide mineral assemblage that includes chalcopyrite and pentlandite. The footwall to the SIC is the host to Sudbury Footwall-style nickel-copper-platinum-palladium-gold deposits. These deposits may be 'sharp-walled', 'low-sulphide' or 'hybrid' type systems, characterized by chalcopyrite-rich veins, stringers or disseminations. Both nickel-rich deposits and 'hybrid' copper-nickel-platinum-palladium-gold deposits may be hosted by Sudbury offset dykes. All three environments, the SIC basal contact, the footwall to the SIC, and offset environments occur within the FNX property position and all are exploration targets for FNX.

The FNX properties reported on in the Technical Report are the object of multiple projects at various levels of exploration, development and production. Since 2002, FNX has spent more than \$140 million in exploration and drilled more than 3.5 million feet of diamond drill core. The Foy and Falconbridge Footwall properties have been the subject of various geological mapping, geophysical and diamond drilling programmes by FNX in the past three years. The Kirkwood and Victoria properties have both supported historical production, largely from contact nickel orebodies. Since 2002, FNX has completed geological mapping, geophysical and diamond drill programmes on both Kirkwood and Victoria, and both have NI 43-101 Indicated and Inferred mineral resources, but no development projects have been initiated on either property. The McCreedy West, Levack and Podolsky mines were in commercial production at December 31, 2008. Contact nickel production from both the Levack and McCreedy West mines was suspended in the fourth quarter of 2008. An aggressive advanced exploration programme for the LFD is planned for 2009 with the Rob's Deposit being the focus for production in the Levack Footwall environment in 2009. An exploration surface diamond drill programme at Podolsky will continue through most of 2009.

Footwall-style copper-nickel-precious metal reserves have increased slightly due to increases at the Rob's Deposit at Levack and the 2000 Deposit at Podolsky, and footwall resources are reported for the first year from the LFD. As of December 31, 2008, the first reserves have been reported for the Rob's Deposit (92,000 tons of 1.31% copper, 1.87% nickel, and 0.04 opt platinum, palladium and gold), the up-dip extension of the LFD, and new indicated resources reported for the LFD. The initial indicated mineral resource reported for the LFD in September 2008 was 754,000 tons at 8.09% copper, 1.26% nickel and 0.22 opt platinum, palladium and gold based on focused definition drill programmes that began in 2007 and continued through 2008. The re-interpreted indicated mineral resource reported for December 31, 2008, based on the same 250 foot slice through the LFD, is 687,000 tons of 8.84% copper, 1.40% nickel and 0.25 opt platinum, palladium and gold. The re-interpretation was facilitated by a tightening of interpolation parameters to reduce the smoothing of grade, given the selective, narrow vein mining methods applied to the estimate. The result is an in-situ copper content decrease of 0.4%, and an increase in in-situ nickel and platinum, palladium and gold content of 1.2% and 3.5%, respectively. Additional geological resources exist outside of the mineral resources reported here, but remain unclassified until additional definition drilling at appropriate angles can be completed.

FNX significantly changed its resource profile in 2009 as a result of the rapid decline in base metal prices during the second half of 2008 and a subsequent re-evaluation of its mineral resources that were added to the FNX mineral resource inventory in 2007 from the previous owner's historical resource inventory, during a period of particularly robust commodity prices. The result was a decrease of FNX's measured and indicated resources by almost half to 20.61 million tons and its inferred resources by three quarters to 6.61 million tons. These historical mineral resources had been established based on the economics of underground, bulk mining methods at an average nickel price of US\$10/lb and a copper+nickel cut-off grade of 0.5%. The re-evaluation of these mineral resources of both Indicated and Inferred classifications at FNX's long term metal prices and a cut-off grade of 1% nickel resulted in the drop of more than 90% of the Victoria property and more than 85% of the Kirkwood property low grade mineral resource inventories.

FNX reports its mineral resources inclusive of reserves. They are reported as follows (to December 31, 2008) for all three producing properties (McCreedy West, Levack and Podolsky) and for the Victoria and Kirkwood properties, not currently in production.

Tables 1-1 and 1-2 are summaries of FNX's reserve and mineral resource profiles as of December 31, 2008.

**Table 1-1: FNX Mineral Reserves as of December 31, 2008**

Mine	Category	Deposit Type	Tons	Cu	Ni	Pt	Pd	Au	TPM
				%		oz/ton			
McCreedy West	Proven	Contact	287,000	0.19	1.58				
	Probable	Contact	1,040,000	0.23	1.36				
		Footwall	744,800	1.38	0.26	0.06	0.08	0.02	0.16
	<b>Subtotal</b>	<b>Contact</b>	<b>1,327,000</b>	<b>0.22</b>	<b>1.41</b>				
		<b>Footwall</b>	<b>744,800</b>	<b>1.38</b>	<b>0.26</b>	<b>0.06</b>	<b>0.08</b>	<b>0.02</b>	<b>0.16</b>
Levack	Probable	Footwall	92,000	1.31	1.87	0.01	0.03	0.00	0.04
Podolsky	Probable	Footwall	415,000	4.64	0.42	0.06	0.06	0.02	0.15
<b>TOTAL RESERVES</b>			<b>2,578,800</b>	<b>1.31</b>	<b>0.93</b>	<b>0.03</b>	<b>0.03</b>	<b>0.01</b>	<b>0.07</b>

**Table 1-2: FNX Mineral Resources as of December 31, 2008**

Mine	Category	Deposit Type	Tons	Cu	Ni	Pt	Pd	Au	TPM
				%		oz/ton			
McCreedy West	Measured	Contact	408,100	0.28	2.22				
	Indicated	Contact	1,436,000	0.34	1.62				
		Footwall	2,352,400	1.24	0.27	0.06	0.07	0.02	0.15
	<b>Subtotal M &amp; I</b>	<b>Contact</b>	<b>1,844,100</b>	<b>0.33</b>	<b>1.75</b>				
		<b>Footwall</b>	<b>2,352,400</b>	<b>1.24</b>	<b>0.27</b>	<b>0.06</b>	<b>0.07</b>	<b>0.02</b>	<b>0.15</b>
	Inferred	Contact	1,879,300	0.26	1.60				
		Footwall	220,000	1.11	0.31	0.09	0.13	0.03	0.25
Levack	Measured	Contact	2,345,000	1.11	2.19				
	Indicated	Contact	3,628,000	1.05	2.02				
		Footwall	779,200	7.96	1.47	0.05	0.13	0.04	0.22
	<b>Subtotal</b>	<b>Contact</b>	<b>5,973,000</b>	<b>1.08</b>	<b>2.09</b>				
	<b>M &amp; I</b>	<b>Footwall</b>	<b>779,200</b>	<b>7.96</b>	<b>1.47</b>	<b>0.05</b>	<b>0.13</b>	<b>0.04</b>	<b>0.22</b>
	Inferred	Contact	1,099,800	0.88	1.86				
		Footwall	195,000	2.58	1.64	0.03	0.05	0.01	0.09
Podolsky	Measured	Footwall	86,800	6.26	0.54	0.06	0.06	0.03	0.15
	Indicated	Contact	6,678,000	0.21	0.75				
		Footwall	1,743,000	4.04	0.36	0.05	0.05	0.02	0.12
	<b>Subtotal</b>	<b>Contact</b>	<b>6,678,000</b>	<b>0.21</b>	<b>0.75</b>				
	<b>M &amp; I</b>	<b>Footwall</b>	<b>1,829,800</b>	<b>4.15</b>	<b>0.37</b>	<b>0.05</b>	<b>0.05</b>	<b>0.02</b>	<b>0.12</b>
	Inferred	Footwall	1,020,000	3.68	0.38	0.04	0.05	0.02	0.11
Victoria	Indicated	Contact	531,200	1.41	1.23				
	Inferred	Contact	442,450	0.87	1.37				
Kirkwood	Indicated	Contact	662,690	0.49	1.17				
	Inferred	Contact	1,752,000	0.97	1.27				

The mineral reserve and resource estimates are prepared in accordance with the "CIM Definition Standards On Mineral Resources and Mineral Reserves", adopted by the CIM Council on December 11, 2005, and the "CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines", adopted by CIM Council on November 23, 2003, using geostatistical and/or classical methods, plus economic and mining parameters appropriate to each deposit, in accordance with NI 43-101 requirements.

FNX's McCreedy West mine has been in production since 2003, the Levack mine since 2007 and the Podolsky mine since January 1, 2008. Combined production from these mines has resulted in 3,578,025 tons of ore sold to year-end 2008. For the year ending December 31, 2008, FNX shipped 1,255,987 tons of ore to Vale Inco for processing at Clarabelle Mill. In 2008, the McCreedy West mine increased production by 7% over 2007 and shipped 760,997 tons to the Clarabelle Mill. The Levack mine shipped 251,751 tons in 2008, an increase of approximately 11% over 2007. A total of 243,239 tons was shipped from Podolsky mine in 2008, its first full year of commercial production. FNX suspended commercial production from its contact nickel environments at the McCreedy West and Levack mines in the fourth quarter of 2008 as a result of rapidly declining global commodity prices. The planned production profile for 2009 will reflect this change, with approximately 679,000 tons to be produced from dominantly copper-nickel-precious metal ores for a total of approximately 3.7 million lbs of nickel, 35.2 million lbs of copper, 22,000 oz of platinum, 26,600 oz of palladium, and 9,400 oz of gold. The Levack Complex (the combined output from the McCreedy West and Levack mines) will produce approximately 307,000 of those tons (1.9 million pounds of nickel, 6.7 million pounds of copper, 9,700 ounces of platinum, 15,300 ounces of palladium, and 5,700 ounces of gold), and the Podolsky mine approximately 372,000 tons (1.8 million pounds of nickel, 28.5 million pounds of copper, 12,300 ounces of platinum, 11,300 ounces of palladium, and 3,700 ounces of gold). A limited amount of pre-production is scheduled from the LFD in 2009 with production to ramp-up in 2010.

The capital planned for the LFD is \$38.9 million, approximately 71% of the total mine capital budget of \$54.5 million. The capital expenditures schedule also includes the capital to achieve the planned 679,000 ton total production for 2009. This capital schedule is conservative for McCreedy West (\$3.8 million) and Podolsky (\$11.3 million) compared to previous years given the necessity of FNX to conserve cash during the global economic downturn predicted for 2009. The aggressive capital programs undertaken by FNX from 2003 to 2008 facilitated the production flexibility of mining its copper-nickel-precious metal dominant orebodies in 2009. FNX's 2009 approved capital, mine development and exploration budget totals \$63.7 million, with \$54.5 million for capital, mine development and advanced exploration programs, and \$9.7 million for general exploration and is appropriate for the challenging global economic situation projected to exist throughout 2009.

### **Competition**

The mineral exploration and mining business is competitive in all phases of exploration, development and production. FNX competes with a number of other entities in the search for and the acquisition of productive mineral properties. As a result of this competition, much of which is with companies with greater financial resources than FNX, FNX may be unable to acquire attractive properties in the future on terms it considers acceptable. As well, FNX competes with other companies for the recruitment and retention of qualified employees. Finally, FNX competes with other resource companies, many of whom have greater financial resources and/or more advanced properties, in attracting equity and other capital.

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## **GENERAL DEVELOPMENT OF THE MINING SERVICES BUSINESS**

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### **2007 Acquisition**

Pursuant to an agreement dated April 20, 2007, FNX was granted the right, subject to the closing of the acquisition by Sherritt International Corporation ("**Sherritt**") of all of the issued and outstanding common shares of Dynatec under a Plan of Arrangement (the "**Sherritt Transaction**"), to purchase DMC for a purchase price to be determined based upon independent valuations.

The Sherritt Transaction closed on June 14, 2007, and Dynatec and Sherritt amalgamated and were continued under the name Sherritt International Corporation. Each shareholder of Dynatec received, for each Dynatec common share, 0.19 of a Sherritt common share and approximately 0.0635 of an FNX common share from the FNX common shares that were owned by Dynatec. On June 14, 2007, the 7,716,594 Dynatec common shares owned by FNX were exchanged for 1,466,153 common shares of Sherritt and 490,004 common shares of FNX. The FNX common shares acquired by FNX were immediately cancelled and a gain of \$11.5 million was recognized in the second quarter of 2007 on the disposition of the Dynatec common shares. In July 2007, FNX sold the 1,466,153 Sherritt common shares at \$17.40 per share for net proceeds of \$25.5 million and net realized gain of \$3.96 million.

On September 28, 2007 FNX exercised its right to purchase DMC for \$53 million, subject to final working capital and other adjustments on closing and thereby acquired the assets and liabilities of the Canadian mining services business and the shares of DMC USA, which provides mining services in the United States. The transaction closed on October 15, 2007. The final purchase price, including a working capital adjustment and costs associated with the transaction, totalled \$59.8 million.

FNX acquired DMC to obtain its large pool of highly skilled and experienced managerial, professional, supervisory, technical, and mining employees to support FNX's ambitious growth plans in Sudbury, Ontario and to enable FNX to become a significant joint venture partner and mine/exploration operator in other mining projects.

### **Services**

DMC was established in 1980 to meet the needs of Canadian and international mining companies in certain specialized areas. Today, its principal activities consist of contract mining, mine shaft sinking, lateral mine development, mine construction, civil underground construction and raise boring and Alimak raising. These services are provided primarily in Canada (including the Canadian Arctic) and the United States, but DMC has also been active in Venezuela, Australia, Papua New Guinea, Ireland, Honduras, Mexico and Turkey.

DMC was critical to the development and operation of the Sudbury Basin Properties under the SJV and continued to perform mine production, development and construction work for FNX pursuant to a mining services contract when the SJV was terminated.

DMC generated revenues of \$133.1 million in 2008. As at December 31, 2008, DMC had a backlog of work to be completed totaling \$46.1 million, of which approximately \$34.0 million is to be completed in 2009 and \$12.1 million to be completed in 2010. As part of the normal course of business, DMC regularly sources new clients and new contracts to replace expiring contracts and management continues to pursue new opportunities on an ongoing basis.

The services provided by DMC are discussed below.

### **Contract Mining**

Contract mining is a form of outsourcing whereby a project owner retains an outside contractor to conduct all or a portion of mine development and operations. In providing contract mining services, DMC draws upon its broad range of disciplines: its engineering and estimating staff assesses mineable reserves based on geological reserves estimates provided by the owner; it assesses mine feasibility and designs underground operations, including mine shafts, ore and waste handling systems, mine dewatering systems, backfill systems and ventilation systems; it is capable of selecting and procuring equipment and determining manpower requirements; and once the feasibility and design of an underground mine have been established, DMC is able to develop and operate the mine with its equipment, trained personnel and management systems. Where it assumes responsibility for mine operation, DMC hires staff, develops production budgets and schedules, produces regular reports, maintains regulatory permits and filings, manages operating staff and assumes overall responsibility for safety and loss control.

DMC has performed contract work in both Canada and the US for, among others: Goldcorp Inc. at its Red Lake Mine redevelopment project from 1999 to 2007; Newmont Mining Corporation at its Midas, Deep Star, Deep Post and Leeville operations in Nevada during 2006 and 2007; Strategic Resources Acquisition Corporation ("SRA") at its Mid-Tennessee zinc mines in Tennessee in 2007 and 2008; Denison Mines at its Tony M uranium mine in Utah. DMC has also performed contract work at gold mining properties in western Canada, Nevada and Quebec; a copper mine in British Columbia; salt mines in Louisiana and Ontario; trona mines in Wyoming; potash mines in Saskatchewan; base metal mines in New Brunswick, Ontario and British Columbia; and uranium and coal mines in Colorado and Utah.

### **Mine Shaft Sinking**

Mine shaft sinking is one of the most critical and technically difficult aspects of underground mine development and construction. A mine shaft is usually completed and commissioned for an underground mine before any other underground mine development can commence. Accordingly, mine owners place a premium on rapid sinking schedules. DMC is one of a small group of businesses in North America that possesses the highly-skilled shaft sinking crews and the specialized techniques and equipment necessary to meet the requirements and schedules of technically difficult projects, such as those involving poor ground conditions or extreme depth. DMC Mining Service's expertise in mine shaft sinking is based on more than 20 years of experience. During this time, DMC has continuously worked to develop technical improvements, the most significant of which is its patented Long Round Jumbo technology which involves a process for blasting 5 metre long shaft benches and which has materially increased the speed at which shafts can be sunk.

Numerous mine shaft sinking projects have been completed over the years including: a two-year contract to sink a 3,280 feet ventilation shaft and perform associated underground development work at Vale Inco's Garson Mine near Sudbury, Ontario from 2002 to 2005; a ventilation/man and materials shaft for FMC Corporation near Rock Springs, Wyoming in 2004; and a man/materials/production shaft to a depth of 2660 feet at Podolsky in 2006.

### **Lateral Mine Development**

Lateral mine development involves the excavation of access ramps and declines and the excavation of drifts and crosscuts leading to the ore body. Management believes DMC Mining Service's expertise in mineshaft sinking has allowed it to capture lateral development work through a bundling of services. Aur Resources Inc.'s Louvicourt Mine and Barrick Gold Corporation's Meikle and Bousquet Mines located in north-western Quebec, are typical examples of major lateral mine development work obtained by DMC as a result of having performed mine shaft sinking at an earlier stage in the same project.

Among the lateral mine development work performed by DMC has been: the construction of some 3,000 feet of new ore and waste mine openings at Newmont's Midas Mine in Nevada; underground development projects for Vale Inco at its Garson, Coleman/McCreedy East and Creighton Mines in Sudbury; mine development projects for Queenstake Resources at the Steer and Smith mines; and for Kennecott Utah Copper Corporation's Highland Bay Project at the Bingham Open Pit in Utah.

Current contracts include lateral development and remnant mining at Vale Inco's Garson Mine and lateral development work at Kinross Buckhorn Mine and Barrick Turquoise Ridge J.V. Mine.

### **Mine Construction**

Mine construction services involve numerous specialized activities related to both surface and underground mine construction. Mine construction work has also included the construction of refuge stations, underground explosives magazines, underground shops, sumps and dams for mine dewatering systems, as well as mine stabilization through the installation of rockbolts and application of shotcrete.

DMC has completed a number of underground construction projects, including at: Aur Resources' Louvicourt Mine; Barrick Gold Corporation's Meikle and Bousquet Mines; Xstrata's lead-zinc mine in Bathurst, New Brunswick; Mosaic's K2 potash mine in Esterhazy, Saskatchewan; Cargill Inc.'s Cayuga salt mine in Lansing, New York; Goldcorp Inc.'s Red Lake Mine in Ontario; and Barrick Turquoise Ridge J.V.'s Mine in Nevada; Newmont's Leeville project in Nevada; Pan American Silver's San Vicente project in Bolivia; and Vale Inco's Creighton mine in Sudbury.

### **Civil Underground Construction**

DMC also provides services to customers in the civil underground construction industry. It completed an underground powerhouse excavation, penstock excavation and tailrace tunnel excavation for a mini-hydro project in northern Ontario; conducted ground stabilization and construction work for The Sudbury Neutrino Observatory at the Creighton Mine in Sudbury, Ontario; worked on the Cat Arm, Newfoundland hydroelectric tunnel rehabilitation; established a freshwater reservoir and collection system for a Utah resort by installing a concrete bulkhead and piping system in an adjacent abandoned mine; constructed an underground pedestrian walkway and underground utility tunnels in Salt Lake City as part of a downtown revitalization project; and rehabilitated the Yates Shaft at the old Homestake Mine in Lead, South Dakota as part of the effort by the South Dakota Science and Technology Authority to prepare the Mine for use as an underground science laboratory.

### **Raise Boring and Alimak Raising**

Raise boring is a continuous, mechanical method of boring vertical, or nearly vertical, openings used for ventilation, manways, and ore and waste transportation for operating mines. Raise boring techniques are also used to complete underground shafts for civil construction projects. Raise boring is a substitute for traditional raise excavation methods, such as Alimak raising, and has a number of advantages that make it preferable in certain applications. In particular, raise boring leaves smooth walls allowing for more efficient ventilation, which enhances the use of the opening as a hoisting shaft when equipped with conveyance guiding systems. Raise boring is generally considered a safer means of excavating raises than more traditional drilling and blasting methods. In addition, in unstable or frozen ground conditions, raise boring dramatically lowers the cost and expedites completion of the raise.

DMC has a fleet of 10 raise bore machines and has performed raise boring for both the mining and heavy civil construction industries in North America and internationally. The largest raise boring project that has been completed by DMC was for Westmin Mining Corporation's mine on Vancouver Island, British Columbia, which involved four 1,575 foot long, 12.5 foot diameter raises to the surface.

In 2007, DMC completed approximately 15,500 feet of pilot hole and approximately 12,600 feet of 4 foot to 12 foot diameter raises for various North American mines. In 2008, DMC completed approximately 13,200 feet of pilot hole and 11,400 feet of reaming. Current contracts include projects for Newmont at Midas in Nevada; Goldcorp in Red Lake, New Gold at the Afton Mine in British Columbia, Goldcorp at Hoyle Pond (Ontario) and Turquoise Ridge (Nevada) properties.

### **Contracts and Marketing**

In past years, mining services contracts were typically obtained through a process of competitive bids. More recently, sole-source contracts have increasingly been awarded on the strength of the technical capabilities of DMC. Significant mining contract terms may therefore be negotiated, rather than arrived at through a competitive bid process.

DMC' revenue is earned for work provided, most commonly on either a unit price basis where DMC is paid at a set rate for an agreed upon unit of performance, or a cost-plus basis, which involves repayment of expenses plus an agreed upon margin. DMC, on occasion, also enters into fixed price contracts.

DMC draws upon its network of contacts within the Canadian and international mining industries to keep informed of new opportunities to provide its mining services. It also markets its services through advertising, tradeshow, direct telephone marketing and technical paper presentations.

## **Competition**

DMC's operating and financial performance is generally dependent upon the level of activity in the North American mining industry, which in turn is largely dependent on metal prices. DMC has been adversely affected by the world-wide economic downturn currently being experienced.

The mining services industry in Canada and the United States is highly fragmented, with competition coming from international, national and regional mining services providers, depending on the size, location and technical demands of the project. The key to DMC's competitive position in the industry is its technical expertise with respect to contract mining, mine development, Alimak raising and shaft design and construction. While some mining contracts are obtained through a competitive bid process, others are awarded on a single-source basis on, management believes, the strength of DMC's expertise and safety record.

In mine development and construction, competition is based on a number of factors. In the case of many projects, firms must pre-qualify based on their technical capability and safety record. Mining companies then typically select from pre-qualified firms on the basis of price and the ability to meet construction schedules. The key to DMC's competitive position in this industry is its technical expertise with respect to the design and construction of mine shafts and ramps. Management believes that DMC is one of only a few businesses in North America that can provide shaft-sinking services for technically difficult projects. As mine shaft sinking is generally the first major contract in the development of a new underground mine, providing services in this area often position DMC to obtain ongoing underground mine development and construction work, which mining companies are increasingly contracting out as a package.

With respect to raise boring, DMC competes with a relatively small number of international or national firms offering raise boring services and a large number of national or regional firms offering traditional raise excavation involving drilling and blasting methods. Competition is based mainly on price and equipment availability. FNX believes that the competitive position of DMC in the raise boring and raise excavation market is strong, due mainly to its large fleet of raise boring and Alimak machines and its experienced work crews.

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## **INVESTMENTS**

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### **Gold Wheaton**

In connection with the Gold Wheaton Transaction, FNX acquired 360 million common shares of Gold Wheaton, representing 38% of the then issued and outstanding common shares of Gold Wheaton. In March 2009, Gold Wheaton issued 460 million Gold Wheaton common shares. FNX did not participate in this equity issuance and FNX's ownership in Gold Wheaton declined to 26%. Gold Wheaton is a TSXV listed company. Additional information on Gold Wheaton can be obtained on Gold Wheaton's website at [www.goldwheaton.com](http://www.goldwheaton.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Lake Shore Gold**

Aurora Platinum owned 13.3 million common shares of Lake Shore Gold Corp. ("**Lake Shore Gold**"), a Toronto Stock Exchange ("**TSX**") listed company engaged in gold and base metals exploration in Ontario and Quebec, owns 100% of the Timmins Gold Project and has a number of properties within the Sudbury, Ontario mining camp. On June 23, 2008, 11.8 million common shares of Lake Shore Gold were sold to Hochschild Mining Holdings Limited at a price of \$1.82 per share for net proceeds of \$21.4 million and a pre-tax gain of \$8.5 million. FNX continues to own 1.5 million common shares of Lake Shore Gold. Additional information on Lake Shore Gold can be obtained on Lake Shore Gold's website at [www.lsgold.com](http://www.lsgold.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Superior Diamonds**

Aurora Platinum also owned 6.86 million common shares of Superior Diamonds Inc. ("**Superior Diamonds**"), a TSXV listed company with properties in the Superior Craton area of Ontario and in Quebec, which are operated both independently by Superior Diamonds and through joint ventures. Additional information on Superior Diamonds can be obtained on Superior Diamond's website at [www.superiordiamonds.com](http://www.superiordiamonds.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Fieldex**

In April 2007, Aurora Platinum sold its interest in four Quebec based copper-nickel properties to Fieldex Exploration Inc. ("**Fieldex**") in exchange for 6.5 million common shares of Fieldex and a 2% net smelter royalty, which royalty can be purchased by Fieldex at any time for \$1.5 million. Concurrent with this transaction, FNX and Fieldex entered into a Standstill Agreement for a period of one year during which period FNX was prohibited from acquiring any additional Fieldex shares, making a proposal or extraordinary offer for Fieldex or disposing of its Fieldex shares without the consent of Fieldex. The Standstill Agreement expired in April 2008. Fieldex is a TSXV listed company. For additional information concerning Fieldex consult the Fieldex website at [www.fieldexploration.com](http://www.fieldexploration.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Visible Gold**

On July 26, 2007, each Fieldex shareholder received approximately one common share of Visible Gold Mines Inc. ("**Visible Gold**") for each six shares of Fieldex then held. Accordingly, FNX received 1.066 million common shares of Visible Gold. Visible Gold is a TSXV listed company. For additional information concerning Visible Gold consult the Visible Gold website at [www.visiblegoldmines.com](http://www.visiblegoldmines.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **International Nickel Ventures**

In exchange for its purchase of the three non-Sudbury, northern Ontario mineral properties from Aurora, International Nickel Ventures Corporation ("**INV**") issued 2.9 million common shares of INV to FNX. On May 19, 2007, INV closed a bought deal financing and a concurrent private placement. FNX participated in the financing and acquired 1.612 million units (each unit consisting of one common share and one-half of one common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one additional common share at a price of \$2.25) for \$2.8 million. As a result, FNX owns and controls 7,662,060 common shares of INV and 3,153,801 share purchase warrants of INV. INV is listed on the TSX. For additional information concerning INV consult the INV website at [www.nickelventures.com](http://www.nickelventures.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Strategic Resources**

On February 12, 2008, FNX acquired, through a private transaction, 3,508,772 common shares of SRA or approximately 10.7% of the issued and outstanding common shares of SRA at that time. The shares were acquired at \$2.85 per share, which represented a 5% discount to the closing price of the SRA common shares on January 31, 2008. DMC USA provided mining and milling services under contract to SRA's Mid-Tennessee Zinc Project until October 2008, when SRA closed the mine. FNX recorded a write-down of its \$10 million investment in SRA in the third quarter of 2008. All 3.5 million shares were subsequently sold on December 22, 2008 for a nominal amount. For additional information concerning SRA consult SRA's website at [www.SRA-Corporation.com](http://www.SRA-Corporation.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

The number of securities held, the percentage which FNX's ownership represents of the relevant company and the market value of such securities as at December 31, 2008, based on the closing prices of the shares on the TSX or TSXV, as applicable, on that date are as follows:

<b>Company</b>	<b>Number of Securities Held by FNX (directly or indirectly)</b>	<b>% of Issued and Outstanding Securities<sup>(1)</sup></b>	<b>Market Value as at December 31, 2008</b>
Gold Wheaton Gold Corp.	360,000,000	26%	\$91,800,000
Fieldex Exploration Inc.	6,500,000	13.9%	\$292,500
International Nickel Ventures Corporation	7,662,060 common shares 2,347,886 share purchase warrants	14.2% 94.2%	\$1,225,930 \$38,740
Lake Shore Gold Corp.	1,500,000	.9%	\$2,130,000
Superior Diamonds Inc.	6,860,715	10.8%	\$240,125
Visible Gold Mines Inc.	1,065,617	4.2%	\$79,922

(1) Based on publicly available information as to the number of issued and outstanding shares of the relevant company.

(2) A Black-Scholes option pricing model was used to estimate the fair value of the private share purchase warrants held.

## CREDIT FACILITY

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On April 1, 2008 FNX established a US\$100 million secured line of credit facility (the “LOC”) for working capital and general corporate purposes. The terms of the LOC required that FNX notify the lenders by January 31, 2009 of its intention to renew the LOC for another year. As a result of the current global credit crisis, the cost of borrowing money has increased dramatically from that of April 2008 and renewing the LOC would have resulted in significant costs, including material extension fees and increases in both the standby fees and interest rates. Given the significant cost increase of maintaining the LOC, combined with FNX’s strong balance sheet as at December 31, 2008 and its reduced 2009 budgeted expenditure level, FNX determined that it did not have a requirement to borrow under the LOC to achieve its operating plan and budget for 2009. Accordingly, FNX elected not to renew the LOC which was therefore cancelled effective February 5, 2009.

## EMPLOYEES

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As at December 31, 2008, FNX had a total of 676 employees compared to 1,741 at December 31, 2007. Of the 676 total, 405 employees were engaged in FNX’s mining business while 271 were engaged with DMC. This significant reduction reflects the suspension of production from the nickel contact ores as a result of the decline in commodity prices in the latter part of 2008 and, for DMC, the reduction of mining activity throughout Canada and the United States and the termination of a few large contracts.

Approximately 250 (or 39%) of the Corporation’s employees are governed by a collective agreement with the United Steelworkers Union, Local 2020, which was renewed in 2008 and expires June 30, 2011.

## HEALTH AND SAFETY, THE ENVIRONMENT AND COMMUNITY RELATIONS

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### Health and Safety

FNX maintains a strong emphasis on developing a safety culture across the organization. FNX approaches safety as a partnership, with management’s leadership on the one hand, and, on the other, a workforce of employees that are dedicated to their own safety and to the safe and positive behaviour of those around them. FNX believes that its safety record continues to be a competitive advantage when pursuing contract work and discussing partnership opportunities. FNX regards safety as a key measurement of management effectiveness, firmly believing that well managed companies have good safety records.

FNX’s Safety, Health and Environmental Affairs Committee of the Board adopted a Safety, Health and Environmental Policy concerning the Corporation’s treatment of environmental matters a copy of which is available for review on the Corporation’s website at [www.fnxmining.com](http://www.fnxmining.com).

In 2008, FNX’s lost time injury frequency rate (excluding DMC) was 0.48 (0.6 in 2007) and its total medical aid injury frequency rate was 8.00 (9.04 in 2007). In 2008, DMC’s total lost time injury frequency rate was 0.39 (0.69 in 2007) and its total medical aid injury frequency rate was 2.32 (4.9 in 2007). DMC focused on identifying the behaviours needed to improve health and safety performance then communicated these behaviours through quarterly training sessions with all supervision and management.

FNX continued the implementation of Safety, Health & Environmental Management Systems; modelled on the internationally recognized standard ISO 14001 Environmental and OHSAS 18001 Occupational Health & Safety Management Systems. These Management Systems provide an organized framework for developing best practices, managing compliance with regulatory requirements and working toward continuous improvement.

### Environment

Vale Inco continues to be responsible for all environmental liabilities existing on the Sudbury Basin Properties as at January 10, 2002. The SJV, prior to October 21, 2005, and now FNX, is responsible for all environmental liabilities incurred on the Sudbury Basin Properties that result from the actions taken after January 10, 2002. Processing environmental obligations cease upon delivery of ore to Vale Inco.

As is customary in the industry, DMC is typically contractually responsible for any environmental damage it may cause during the course of its work for a client. With respect to projects in Canada and the United States, it is DMC’s policy to comply with all applicable environmental laws and regulations. With respect to projects in other jurisdictions, it is DMC’s policy to meet the higher of the standards imposed by local environmental laws and regulations and the corresponding Canadian standards. It is also DMC’s policy to follow the Environmental Code established by the Mining Association of Canada and the Canadian Institute of Mining, Metallurgy and Petroleum. In addition, employees of DMC who handle hazardous materials are provided with appropriate training. Responsibility for obtaining any necessary environmental permits relating to a particular project generally rests with DMC’s clients. However, in the case of contract

mining, DMC may obtain environmental permits on behalf of the project owner and may be responsible for a wider range of activities giving rise to environmental compliance requirements. Compliance with environmental laws and regulations has not to date required DMC's businesses to make substantial capital or operating expenditures.

FNX is committed to be compliant with all environmental regulatory requirements. All required environmental leases, licenses and approvals were in place at the McCreedy West, Levack and Podolsky properties in 2008. Due to the mine sites' continuing growth and development in 2008, a number of amendments to these regulatory approvals were requested including upgrading the municipal sewage treatment facilities at McCreedy West and Podolsky to tertiary treatment, upgrading the high efficiency water treatment plant at Podolsky by adding an ammonia treatment module and improving mine ventilation at Levack and Podolsky.

An FNX-wide Spill Prevention and Contingency Plan was developed to identify potential spills and evaluate the risk of occurrence. Water consumption was reduced in 2008 by treating and re-cycling process water from underground operations, and both the Levack and Podolsky Mines recycle 100% of their process water. All three mine sites significantly upgraded their hazardous waste handling facilities by constructing dedicated facilities to handle, store and dispose of these wastes in an environmentally safe and friendly manner.

During the fall of 2007 and into the winter of 2008, the water treatment plant at Podolsky was unable to effectively treat ammonia in the mine water, resulting in a number of incidents of ammonia concentrations exceeding the permitted level. The Ministry of the Environment issued a Provincial Officers Order to Podolsky Mine to control the ammonia and to install an ammonia treatment module in the water treatment plant. The staff at Podolsky took a number of interim measures to effectively reduce ammonia below the permitted level and an ammonia treatment module was installed in the water treatment plant in the summer of 2008. Ammonia concentrations have been in compliance since May 2008.

Regular and special environmental monitoring programs are conducted at all of FNX's properties. The Podolsky site has a very comprehensive regular surface and groundwater monitoring program because treated mine water is discharged into Post Creek upstream of the Wahnapiatae First Nation ("WFN") Reserve. The key monitoring programs at both the McCreedy West and Levack sites are for noise and vibration due to their proximity to the communities of Onaping and Levack. Dustfall monitoring programs were initiated at all three projects in August 2008 and special biological, sediment and water quality assessments were conducted in Post Creek for Podolsky operations and around the Victoria property in the fall of 2008.

FNX's independent Environmental Technical Advisory Committee, formed in 2005, is composed of nationally recognized senior environmental professionals drawn from industry, government and academia. It met four times in 2008 and visited McCreedy West, Levack and Podolsky sites during the year, reviewed environmental monitoring data and reports, assisted with government and community relations and reported their findings to FNX management.

### **Community Relations**

FNX is committed to working in partnership with its local communities and First Nations in a manner which fosters active participation and mutual respect. FNX's employees live and work in the local communities. FNX regularly consults with communities proximal to its operations to advise them of plans and answer any questions they may have about current and future activities. A public meeting was held in Capreol in August 2008 to present the Podolsky Mine closure plan to about 70 local residents. Similarly, McCreedy West and Levack Mines held a joint public meeting in Onaping/Levack in November 2008 drawing approximately 35 local residents. In previous public meetings the issues of noise and vibration from the primary crusher were concerns expressed by some local residents. As a result of several noise reduction initiatives, including enclosing the crusher plant, no noise concerns were raised in 2008. FNX values the open exchange of information with the communities.

FNX also supports certain selected charities and sponsorships, both at the local community level and within Ontario. Two examples of FNX's corporate commitment are multi-year contributions toward a Chair in Geophysics at Laurentian University and the Norcat Training centre at Cambrian College.

In 2004, FNX signed a Memorandum of Understanding with the WFN community. As a result, a joint WFN-FNX Liaison Committee was formed and held regular meetings to discuss and resolve a wide range of issues. The Liaison Committee commenced negotiations on an Impact and Benefit Agreement ("IBA") in October 2007 and on July 4, 2008, FNX signed an IBA with the WFN, which describes how the WFN and FNX will collaborate on mining projects at Podolsky. 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.

In September of 2008, FNX met with the Atikameksheng Anishnawbek First Nation to begin a dialogue on activities at McCreedy West and Levack.

For procurement of services and supplies, FNX's purchasing policy is directed, wherever practical, to look locally for solution providers.

## **RISK AND UNCERTAINTIES**

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An investment in common shares of FNX entails certain risk factors, which should be considered carefully, including those set out below.

The risks described below are not the only ones facing FNX. Additional risks not currently known to FNX may also negatively affect FNX's operations.

### **Mining Industry**

The exploration for, and the development and mining of, mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration programs planned by FNX will result in a profitable commercial mining operation.

Whether a mineral deposit will be commercially viable depends on a number of factors, including (i) the particular attributes of the deposit, such as size, grade, proximity to infrastructure, and levels of minerals that may be recovered from the deposit; (ii) operating costs (including costs of processing); (iii), metal prices which are highly cyclical; and (iv) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in FNX not receiving an adequate return on invested capital.

Mining operations generally involve a high degree of risk. FNX's operations are subject to most of the hazards and risks normally encountered in the exploration, development and production of ore, including unusual and unexpected geology formations, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although FNX does not operate processing facilities or tailings disposal areas, FNX does utilize third party facilities. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in such facilities becoming unavailable to FNX.

FNX's activities are directed towards the search, evaluation, development and mining of mineral deposits. Some of the mineral properties in which FNX has an interest contain no known body of commercial ore and any exploration programs thereon are exploratory searches for ore. Other properties in which FNX has an interest are at preliminary stages of exploration and development only. Another category of properties in which FNX holds an interest are in the production stage. There is no certainty that the expenditures to be made by FNX as described herein will result in discoveries of commercial quantities of ore. There is aggressive competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. FNX will compete with other interests, many of which have greater financial resources than FNX has for the opportunity to participate in promising projects. Significant capital investment is required to achieve commercial production from successful exploration efforts.

### **Uncertainty of Reserve and Resource Estimates**

The figures presented for reserves and resources herein are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the expected level of recovery will be realized. The ore grade actually recovered may differ from the estimated grades of the reserves and resources. Such figures have been determined based upon assumed metal prices and operating costs (including costs of processing). Future production could differ dramatically from reserve estimates for, among other reasons:

- mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- increases in operating mining costs and processing costs could adversely affect reserves;
- the grade of the reserves may vary significantly from time to time and there is no assurance that any particular level of metals may be recovered from the ore; and
- declines in the market price of the metals may render the mining of some or all of the reserve uneconomic.

Any of these factors may require FNX to reduce its reserves estimates or increase its costs. Short-term factors, such as the need for the additional development of a deposit or the processing of new different grades, may impair FNX's profitability. Should the market price of commodities and/or base and precious metals decrease, FNX could be required to materially write down its investment in mining properties or delay or discontinue production or development of new projects.

### **Replacement of Depleted Reserves**

FNX must continually replace reserves depleted by production to maintain production levels over the long term. Reserves can be replaced by expanding known orebodies, locating new deposits or making acquisitions. Exploration is highly speculative in nature. FNX's exploration projects involve many risks and are frequently unsuccessful. Once a site with mineralization is discovered, it may take several years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves and to construct mining and processing facilities. As a result, there is no assurance that current or future exploration programs will be successful. There is a risk that depletion of reserves will not be offset by discoveries or acquisitions. The mineral base of FNX may decline if reserves are mined without adequate replacement and FNX may not be able to sustain production beyond the current mine lives, based on current production rates.

### **Reliance Upon Contracts**

FNX does not own the facilities used to process the ore mined from its Sudbury Basin Properties. Access to Vale Inco's facilities is regulated by the Offtake Agreement. The amount of metals Vale Inco is required to pay to FNX for ore shipped and sold by FNX is 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 different payable metals terms for each of the various ores deposits to reflect the differences in the metallurgical composition of the ore deposits.

Interim processing cost terms and interim payable metals terms have been established by Vale Inco for the Levack and Podolsky mines. Additional and more extensive metallurgical testing continued in the fourth quarter of 2008, will extend throughout 2009 in order to finalize payable metals terms and processing cost terms for both mines. Levack's current 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. 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. FNX cannot, at this time, determine the amount, if any, of such adjustment.

Metallurgical testing for the purposes of determining the payable metals terms for the LFD commenced in July 2008 when a bulk sample was shipped to Vale Inco for metallurgical testing. Management anticipates interim payable metals terms for the LFD will be determined in 2009.

Establishing final payable metals terms may take longer than currently anticipated and the final payable metals terms may differ from the interim payable metals terms and could have a material adverse effect on FNX and its consolidated financial performance.

Much of Vale Inco's labour force in Sudbury is unionized and their collective agreement ends on May 31, 2009. In the case of a strike or lockout at Vale Inco, shipments of ore could be adversely affected. Management is looking into alternatives to mitigate this situation should it occur.

### **Current Global Financial Conditions**

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have been rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. These factors may impact the ability of FNX to obtain equity or debt financing in the future on terms favourable to FNX or at all. In addition, general economic indicators, including employment levels, announced corporate earnings, economic growth and consumer confidence, have deteriorated. Any or all of these economic factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, FNX's operations could be adversely impacted and the trading price of the common shares may be adversely affected.

Securities of mining companies, including FNX's common shares, have experienced substantial volatility in the past, and especially during the fourth quarter of 2008 and early 2009, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada and globally, and market perceptions of the attractiveness of particular industries. The price of the securities of FNX is also significantly affected by short-term changes in commodity prices, base and precious metal prices or other mineral prices, currency exchange fluctuation and the political environment in the countries in which FNX does business and globally.

### **Dependence on Key Management, Personnel and Executives**

FNX is dependent upon a number of key management personnel, including the services of certain key employees. FNX's ability to manage its activities, and hence its success, will depend in large part on the efforts of these individuals. FNX faces intense competition for qualified personnel, and there can be no assurance that FNX will be able to attract and retain such personnel. FNX does not maintain key person life insurance. Accordingly, the loss of the services of one or more of such key management personnel could have a material adverse effect on FNX.

### **Commodity Prices**

FNX's profitability may be significantly affected by changes in the market price for nickel and copper. For 2009, a US\$1 per pound change in the price of nickel is expected to generate a \$2.5 million change and a US\$0.25 per pound change in the price of copper is expected to generate a \$6.1 million change in FNX's net earnings as reported on its statement of operations.

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

If the market prices for metals fall below FNX's full production costs and remain at such levels for any sustained period of time, FNX may, experience losses and may determine to discontinue mining operations or development of a project or mining at one or more of its properties. If the prices drop significantly, the economic prospects of the mines and projects in which FNX has an interest could be significantly reduced or rendered uneconomic. Low metal prices will affect FNX's liquidity, and if they persist for an extended period of time, FNX may have to look for other sources of cash flow to maintain liquidity until metal prices recover.

### **Foreign Currency Exchange Rates**

Fluctuations in currency exchange rates, principally the Canadian/US dollar exchange rate and, to a lesser extent, other exchange rates, can impact FNX's earnings and cash flows. Most of FNX's revenues are denominated in US dollars, whereas certain of FNX's obligations and operating expenses are denominated in Canadian dollars and other foreign currencies. If the value of the Canadian dollar increases relative to the US dollar, FNX's results of operations, financial condition and liquidity could be materially adversely affected (see Table 1). For example, each \$0.10 change in exchange rates is expected to generate a change of approximately \$2.2 million in FNX's net earnings as reported on its statement of operations.

### **Hedging**

As a result of the Gold Wheaton Transaction, 50% of the precious metals that FNX produces from certain deposits in Sudbury are effectively sold at a price of US\$400 per gold equivalent ounce (subject to a 1% annual inflationary adjustment commencing July 1, 2011) plus the applicable amortization of the deferred revenue amounts. Other than the Gold Wheaton arrangements, FNX does not currently have any commodity or foreign exchange hedging or other derivative instruments and there are currently no plans to enter into any such contracts. Such contracts would prevent losses in situations when the price changed adversely and would prevent gains in situations where the price changed favourably.

### **Government Regulation**

The exploration and development activities of FNX are subject to various federal, provincial and local laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substance and other matters. Exploration, development and mining activities are also subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws mandate, among other things, the maintenance of air and water quality standards and land reclamation. These laws also place limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Although FNX's exploration, development and mining activities are currently carried out in material compliance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and development, mining and milling or more stringent implementation thereof could have a substantial adverse impact on FNX.

Government approvals, licences and permits are currently, and will in the future be, required in connection with FNX's operations. To the extent such approvals are required and not obtained, FNX may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on FNX and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### **Environmental Risks and Hazards**

All phases of FNX's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect FNX's operations. Environmental hazards may exist on the properties on which FNX holds interests which are unknown to FNX at present which have been caused by previous or existing owners or operators of the properties. FNX may become liable for such environmental hazards caused by previous owners and operators of the properties even where it has attempted to contractually limit its liability.

As a producing company located in the Province of Ontario, FNX is required to comply with numerous environmental laws, policies and orders, including, without limitation, those under: (i) the Water Resources Act (Ontario); (ii) the Canadian Environmental Protection Act; (iii) the Canadian Environmental Assessment Act; (iv) the Environmental Bill of Rights (Ontario); (v) the Mining Act (Ontario); (vi) the Environmental Protection Act (Ontario); (vii) The Explosives Act (Canada); the Technical Standards and Safety Act (Ontario); (viii) the Dangerous Goods Transportation Act (Canada); (ix) the Fisheries Act (Canada); (x) the Hazardous Products Act (Canada); and (xi) the Occupational Health and Safety Act (Ontario).

FNX believes that the most significant environmental risk applicable at each of FNX's mine sites is the risk of exceeding limits imposed by applicable permits issued by the Ministry of the Environment. Specific permits held at each of FNX's mine sites include certificates of approval for air, domestic sewage, process water sewage, and permits to take water. Each certificate of approval or permit includes terms and conditions that must be adhered to.

An additional environmental risk faced by FNX is the risk of spills into the natural environment. This includes spills to air (such as dust and noise), water (such as untreated water to a local water body), and land (such as oil and diesel spills). Currently FNX does not have a mill or tailings; however, if in the future this infrastructure were to be constructed, this would expose FNX to significant environmental risk with respect to the storage of large quantities of chemicals and tailings.

Production of mineral properties may involve the use of dangerous and hazardous substances. While all steps will be taken to prevent discharges of pollutants into the natural environment, discharges may occur and FNX may become subject to liability for hazards that cannot be insured against.

In addition, regulatory authorities in various jurisdictions around the world where the mining industry operates may require FNX to post financial security to secure in whole or in part future reclamation and restoration obligations in such jurisdictions.

As at December 31, 2008, FNX has allocated approximately \$6.5 million to cover environmental contingencies and closures and FNX will allocate additional funds for this purpose in the future as required by applicable environmental legislation. There is no assurance that the amount of money allocated by FNX for environmental contingencies and closures will be sufficient to cover the costs associated with any spills or other damage caused to the environment by FNX.

### **Competition**

FNX faces competition from a number of large established mining companies with substantial capabilities, and greater financial and technical resources than FNX. FNX competes with these other mining companies for the acquisition of prospective, explored, developing and developed mining and mineral properties, as well as for the recruitment and retention of qualified directors, professional management, employees and contractors. There is also significant and increasing competition for a limited number of suitable properties and other resource acquisition opportunities and as a result, FNX may be unable to acquire such mining properties which it desires on terms it considers acceptable.

### **Mining Contract Concentration**

Historically, DMC has generated a significant portion of its annual revenue and earnings from a few large mining services contracts. There can be no assurance that, upon the expiration or other termination of key contracts, FNX will obtain sufficient replacement contracts to maintain consolidated revenue and income levels and if it does not do so, its consolidated financial position and results of operations may be adversely affected.

### **Competition for Mining Services Contracts**

DMC competes with a number of international or national firms offering raise boring services and a large number of national or regional firms offering traditional raise excavation involving drilling and blasting methods. Competition is based mainly on price and equipment availability. There can be no assurance that FNX will be able to successfully compete for mining services contracts. There may be competitors with greater resources, equipment inventories and larger work crews.

### **Foreign Investments and Operations**

Prior to acquiring DMC, FNX conducted its principal business in Canada. However, as a result of the purchase of DMC, FNX now has significant international mining services. Mining investments are subject to the risks normally associated with the conduct of any business in foreign countries including: uncertain political and economic environments; war, terrorism and civil disturbances; changes in laws or policies of particular countries, including those relating to imports, exports, duties and currency; cancellation or renegotiation of contracts; royalty and tax increases or other claims by government entities, including retroactive claims; risk of loss due to disease and other potential endemic health issues; risk of expropriation and nationalization; delays in obtaining or the inability to obtain necessary governmental permits; currency fluctuations; import and export regulations; limitations on the repatriation of earnings; and increased financing costs.

These risks may limit or disrupt operating mines or projects, restrict the movement of funds, cause FNX to have to expend more funds than previously expected or required, or result in the ability of the parties contracting with FNX to pay them, deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and may materially adversely affect FNX's consolidated financial position or results of operations. Furthermore, in the event of a dispute arising from FNX's activities in countries outside of North America, FNX may be subject to the exclusive jurisdiction of courts outside North America, which could adversely affect the outcome of the dispute.

### **Acquisitions and Integration**

From time to time, FNX expects to examine opportunities to acquire additional mining assets and businesses. Any acquisition that FNX may choose to complete may be of a significant size, may change the scale of FNX's business and operations, and may expose FNX to new geographic, political, operating, financial and geological risks.

FNX may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt FNX's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. In the event that FNX is able to and chooses to raise debt capital to finance any such acquisition, FNX's leverage will be increased.

If FNX is able to, and chooses to, use equity as consideration for such acquisition, existing shareholders will likely suffer dilution. Alternatively, FNX may choose to finance any such acquisition with its existing resources. There can be no assurance that FNX would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

### **Level of Indebtedness**

Historically, FNX has not financed its operations with debt. However, on April 1, 2008 FNX established of the LOC to assist in managing working capital and possible adverse currency and commodity price fluctuations. As a result of the current global credit crisis, the cost of borrowing money has increased dramatically. Given FNX's strong balance sheet at December 31, 2008 and the reduced 2009 budgeted expenditure level, FNX determined that it did not have a requirement to borrow any funds to achieve its operating plan and budget for 2009. Accordingly, FNX elected not to renew the LOC and it ceased to be available to FNX as at February 5, 2009. Should FNX finance future operations with debt, FNX's ability to meet any future payment obligations will depend on its future financial performance, which will be affected by financial, business, economic and other factors. FNX will not be able to control many of these factors, such as economic conditions in the markets in which it operates.

### **Increased Energy Prices Could Adversely Affect FNX's Operations**

Mining operations and facilities are intensive users of electricity and carbon based fuels. Energy prices can be affected by numerous factors beyond FNX's control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in energy prices could materially adversely affect FNX's consolidated results of operations and financial condition.

### **Dependence on Good Relations with Employees**

Production at FNX's mining operations depends on the efforts of its employees. There is intense competition for geologists and persons with mining expertise. FNX's ability to hire and retain geologists and persons with mining expertise is key to its business. FNX cannot predict at this time whether it will be able to reach a new agreement with its unionized workforce that is covered by a collective agreement upon expiry of the current agreement without a work stoppage. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdictions FNX carries on business. Changes in such legislation or otherwise in FNX's relationship with its employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on FNX's business, results of operations and financial condition.

### **Costs of Compliance with Climate Change Initiatives**

The Government of Canada and the governments of certain provinces have indicated their intent to regulate greenhouse gas emissions. While the impact of future measures cannot be quantified at this time, the likely effect will be to increase costs for fossil fuels, electricity and transportation, restrict industrial emission levels, impose added costs for emissions in excess of permitted levels and increase costs for monitoring and reporting. Compliance with these initiatives could have a material adverse effect on FNX's results of operations.

### **Uninsured Risks**

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining, and monetary losses and possible legal liability. Where FNX considers it practical to do so, it maintains insurance in amounts that FNX believes to be reasonable, including insurance for workers' compensation, theft, general liability, all risk property, automobile, directors and officers liability and fiduciary liability and others. Such insurance, however, contains exclusions and limitations on coverage. Accordingly, FNX's insurance policies may not provide coverage for all losses related to FNX's business (and specifically do not cover environmental liabilities and losses). The occurrence of losses, liabilities or damage not covered by such insurance policies could have a material and adverse effect on FNX's profitability, results of operations and financial condition. FNX cannot be certain that insurance will be available to FNX, or that appropriate insurance will be available on terms and conditions acceptable to FNX. In some cases, coverage is not available or considered too expensive relative to the perceived risk.

### **Conflicts of Interest**

Certain of the directors of FNX also serve as directors and/or are significant shareholders of other companies involved in natural resource exploration and development. Consequently there exists the possibility for such directors to have a conflicting interest with that of FNX. In the event that a director or officer has a material interest in any transaction being considered by FNX, any such conflict will be subject to and governed by procedures prescribed by the Business Corporations Act (Ontario) (the "OBCA") which require a director or officer of a corporation experiencing such a conflict to disclose his or her interest and refrain from voting on any such matter unless otherwise permitted by the OBCA. In addition, Section 134 of the OBCA provides that every director must act honestly and in good faith with a view to the best interests of FNX. Section 134 is a formalization of the fundamental fiduciary duty that a director has to FNX and encompasses, among other obligations, a duty of loyalty and a duty of confidentiality. As a fiduciary, a director may not interfere with, or take advantage of, any opportunities that rightfully belong to FNX. That a director may represent a specific shareholder of FNX does not relieve the director from fulfilling his fiduciary duty to FNX. If such director was to take any action which preferred the interests of a third party to the interests of FNX, such director would be liable to FNX for a breach of his fiduciary duty, regardless of any legal duties which such director may have to the third party.

### **Land Title**

Although title to FNX's properties has been reviewed by or on behalf of FNX, no assurances can be given that there are no title defects affecting its properties. Title insurance generally is not available for mining claims in Canada and FNX's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be limited. FNX has not conducted surveys of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. It is possible that FNX's properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims and title may be affected by, among other things, undetected defects. In addition, FNX may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

### **First Nations Consultations**

Consultations with the community and the area First Nation continued throughout 2008. FNX signed a Memorandum of Understanding ("MOU") with the WFN in 2004 with respect to Podolsky. The MOU contained a commitment by FNX to negotiate an IBA with WFN prior to commencing commercial production at Podolsky. FNX and WFN signed an IBA in July of 2008 with respect to operations at Podolsky to serve as a framework to facilitate the sharing of mutual benefits, address minimizing negative project impacts, encourage certain joint consultation processes, address certain decision making processes and to maintain meaningful ongoing dialogue between FNX and WFN. First Nations in Ontario are increasingly making lands and rights claims in respect of existing and prospective resource projects on lands asserted to be First Nation traditional or treaty lands. Should a First Nation make such a claim in respect of the Properties and should such claim be resolved by government or the courts in favour of the First Nation, it could materially adversely affect the business of FNX. In September of 2008, FNX met with the Atikameksheng Anishnawbek First Nation to begin a dialogue on activities at McCreedy West and Levack.

### **Joint Ventures**

FNX may enter into joint ventures in the future. Any failure of any joint venture partner to meet its obligations to FNX or third parties, or any disputes with respect to third parties' respective rights and obligations could have a material adverse affect on such joint venture. In addition, FNX may be unable to exert influence over strategic decisions made in respect to properties that are subject of such joint ventures.

### **Reclamation Funds and Mine Closure Costs**

As at December 31, 2008, FNX had \$6.5 million in a number of reclamation funds that will be used to fund future site restoration and mine closure costs at FNX's various mine sites. FNX will continue to contribute annually to these funds based on an estimate of the future site restoration and mine closure costs as detailed in the closure plans. Changes in environmental laws and regulations can create uncertainty with regards to future reclamation costs and affect the funding requirements.

Closing a mine can have significant impact on local communities and site remediation activities may not be supported by local stakeholders. FNX endeavours to mitigate this risk by reviewing and updating closure plans regularly with external stakeholders over the life of the mine and considering where post-mining land use for mining affected areas has potential benefits to the communities.

In addition to the immediate closure activities, including ground stabilization, infrastructure demolition and removal, top soil replacement, re-grading and re-vegetation, closed mining operations require long-term surveillance and monitoring.

Site closure plans have been developed and amounts accrued in FNX's financial statements to provide for mine closure obligations. Future remediation costs for inactive mines are estimated at the end of each period, including ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines are reflected in earnings in the period an estimate is revised. Actual costs realized in satisfaction of mine closure obligations may vary materially from management's estimates.

### **Agreement with Gold Wheaton**

Under the Gold Wheaton Transaction, Gold Wheaton agreed to purchase 50% of the gold, platinum and palladium metal contained in ore mined and shipped from: (i) the PM and 700 Deposits at the McCreedy West Mine; (ii) the Levack Footwall Deposit, Rob's Deposit and 1900 Deposit at the Levack Mine; and (iii) the 2000 and North Deposits at the Podolsky Mine. If, by July 15, 2048, FNX has not sold and delivered to Gold Wheaton its share of gold equivalent production ounces from the deposits in (i) and (ii) above having a value sufficient to reduce to nil the \$400 million deposit, FNX will be obligated to refund the remaining outstanding balance at such time, which could have a material adverse affect on the financial condition of FNX.

## **Corporate Governance**

Management and the Board of FNX recognize the value of good corporate governance and the need to adopt best practices. FNX's corporate governance practices over the last four years have advanced rapidly as a result of FNX's growth from a junior mining corporation to a member of the S&P/TSX Composite Index and changing rules and guidelines and best practices. FNX is committed to continuing to improve its corporate governance practices in light of its stage of development and evolving best practices and regulatory guidance.

The Board has adopted a Board Mandate outlining its responsibilities and defining its duties. The Board has four committees (the Audit, Compensation, Corporate Governance and Nominating and Safety, Health and Environment Committees). Each Board committee has an approved committee charter, which outlines the committees' mandate, procedures for calling a meeting, and provides access to outside resources. The Board has also approved a Code of Business Conduct and Ethics, which governs the ethical behaviour of all employees, management and directors. Separate trading blackout and disclosure policies are also in place, as well as formal position descriptions for each of the Lead Director, Chairman, Chief Executive Officer and chairs of each of the committees of the Board. A whistle blowing procedure was adopted and all relevant policies, charters, mandates, codes and procedures are posted in the corporate governance section of FNX's website at [www.fnxmining.com](http://www.fnxmining.com). FNX's directors have expertise in exploration, mining, accounting, banking, legal, financing and the securities industry. The Board meets at least four times a year and committees generally meet before full Board meetings and as required. At every full Board meeting, the independent directors meet in camera. The Lead Director chairs the meeting of independent directors.

## **Transition to International Financial Reporting Standards ("IFRS")**

FNX continues to evaluate the impact of IFRS on its financial statements. Based on analyses performed in 2008, the main areas of focus for FNX will include: Property, Plant and Equipment; Exploration and Evaluation Expenditures; Development Costs; Asset Retirement Obligation; Income Taxes; and Stock-Based Compensation. The impact on FNX's business practices, information technology, and internal controls over financial reporting is also in the evaluation phase and an implementation plan is currently under development in order to be ready for the changeover planned in 2011.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures ("**Disclosure Controls**") are procedures designed to provide reasonable assurance that all relevant information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to FNX's management, including its Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**"), as appropriate, to allow timely decisions regarding required disclosure. Management, including the CEO and the CFO, does not expect that FNX's Disclosure Controls will prevent or detect all error and all fraud. The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within FNX have been detected.

Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators ("**CSA**") requires CEOs and CFOs to certify that they are responsible for establishing and maintaining Disclosure Controls for the issuer, that Disclosure Controls have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's Disclosure Controls, and that their conclusions about the effectiveness of those Disclosure Controls at the end of the period covered by the relevant annual filings have been disclosed by the issuer. FNX's CEO and the CFO evaluated the effectiveness of FNX's Disclosure Controls as at December 31, 2008 and concluded that, subject to the inherent limitations noted above, FNX's Disclosure Controls were effective for the year then ended.

## **Internal Controls Over Financial Reporting**

Multilateral Instrument 52-109 also requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal controls over financial reporting ("**ICFR**"), as defined by the CSA, for FNX, that the ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP, and that FNX has disclosed any changes in its ICFR during its' most recent interim period that has materially affected, or is reasonably likely to materially affect, its' financial reporting.

As discussed above, the inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within FNX have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

During 2008, FNX management, including its CEO and CFO, evaluated the existence and design of FNX's ICFR and confirmed there were no changes to the ICFR that had occurred during the twelve months ended December 31, 2008 which materially affected, or are

reasonably likely to materially affect, FNX's ICFR. During 2008, FNX management, including its CEO and CFO, evaluated the operating effectiveness of the Company's ICFR and concluded that there are no material weaknesses in the operating effectiveness of FNX's internal controls over financial reporting, and that the design and operating effectiveness of ICFR are effective.

FNX continues to review and document our Disclosure Controls and our ICFR, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

## SHARE CAPITAL

### Common Shares

The Corporation is authorized to issue an unlimited number of common shares of which 84,876,776 were issued and outstanding as fully paid and non-assessable shares as at March 25, 2009.

Each common share of FNX entitles the holder thereof to receive notice of and vote at each meeting of the holders of common shares on the basis of one vote per common share. The holders of FNX common shares are entitled to receive dividends to the extent declared by the directors of FNX, and to participate in the distribution of any assets upon the dissolution or winding-up of the Corporation, subject in each case to the rights attaching to any securities which have priority over the common shares.

### Dividend Policy

The Corporation does not currently have a policy of declaring or paying dividends on its common shares and intends to retain cash from operations, if any, for use in its business. Any determination to pay any future dividends will remain at the discretion of the Board and will be made based on the Corporation's financial condition and other factors deemed relevant by the Board. The Corporation has not paid any dividends since its incorporation.

### Ratings

Credit ratings address the ability of a company to meet its financial commitment on an obligation and are an independent measure of credit quality. FNX's securities are not currently rated by a rating agency. If any securities are rated in the future, there is no assurance that any rating will remain in effect for any given period of time, or that any rating will not be revised or withdrawn by a rating agency if it believes the circumstances warrant.

### Market for Securities

FNX common shares are listed and posted for trading on the TSX under the symbol "FNX". The table below sets forth the high and low closing prices and the volumes for the common shares traded through the TSX on a monthly basis for the period commencing on January 1, 2008, and ending on December 31, 2008.

	High	Low	Volume (in 000,000's, rounded down)
January 2008	\$30.80	\$21.50	13,799,510
February 2008	\$35.10	\$25.20	14,583,220
March 2008	\$33.00	\$24.80	13,397,562
April 2008	\$31.10	\$25.00	14,474,598
May 2008	\$30.80	\$22.30	20,160,066
June 2008	\$27.00	\$22.20	15,470,951
July 2008	\$24.50	\$15.20	16,206,937
August 2008	\$18.00	\$13.60	19,985,978
September 2008	\$15.00	\$10.30	24,228,094
October 2008	\$11.40	\$3.30	23,502,172
November 2008	\$5.75	\$2.14	22,359,371
December 2008	\$3.54	\$2.00	27,144,654

## DIRECTORS AND OFFICERS

### Directors

**A. TERRANCE MACGIBBON, 62**  
Oakville, Ontario, Canada

**Director Since:** March 6, 1997

**Director Status:**  
Non-Independent  
(Chief Executive Officer)

Mr. MacGibbon was FNX's President and Chief Executive Officer from November 1997 to September 17, 2007 at which time he was appointed Executive Chairman. Mr. MacGibbon was appointed Chairman and Chief Executive Officer on August 6, 2008. Mr. MacGibbon is a professional geologist with over 40 years of experience in the mining industry.

**Share Ownership as at March 27, 2009:**  
FNX common shares: 516,000; Options: 160,000; Deferred Share Units: 22,932  
Total Market Value of FNX common shares and Deferred Share Units: \$2,613,820

**ROBERT D. CUDNEY, 51**  
Toronto, Ontario, Canada

**Director Since:** May 25, 2006  
(also from 1993 – 2005)

**Director Status:**  
Independent

Mr. Cudney is the founder and President and Chief Executive Officer of Northfield Capital Corp. Mr. Cudney holds a B.A. from York University.

**Share Ownership as at March 27, 2009:**  
FNX common shares: 584,946; Options: 5,400; Deferred Share Units: Nil  
Total Market Value of FNX common shares and Deferred Share Units: \$2,836,988

Of this total, 29,500 FNX common shares are held by Mr. Cudney directly, and 555,446 are held by Northfield Capital Corp. ("Northfield"). Mr. Cudney is the direct or indirect holder of 823,952 Class A Subordinate Voting Shares and 3,720 Class B Multiple Voting Shares of Northfield, representing in the aggregate approximately 28.9% of all issued and outstanding voting securities of Northfield as of the date hereof (and 57.0% of the aggregate voting rights attached to all of Northfield's issued and outstanding shares as of the date hereof).

**FRANKLIN LORIE DAVIS, 54**  
Etobicoke, Ontario, Canada

**Director Since:**  
January 22, 2008

**Director Status:**  
Independent

Mr. Davis is a partner of the law firm Fraser Milner Casgrain LLP, practicing corporate and securities law, principally in the mining industry. Mr. Davis holds a B.Comm., LLB and MBA, all from the University of Toronto.

**Share Ownership as at March 27, 2009:**  
Common Shares: Nil; Options: 15,400; Deferred Share Units: 4,846

Total Market Value of FNX common shares and Deferred Share Units: \$23,503

**J. DUNCAN GIBSON, 59**  
Toronto, Ontario, Canada

**Director Since:** December 9, 2003

**Director Status:**  
Independent

Mr. Gibson retired in November 2001 from TD Bank Financial Group where he was Vice Chairman of the Commercial Banking Group. His career with TD included senior executive positions in Commercial Banking, Wealth Management, Operations and Retail Banking in Canada and in Corporate Banking in the United States. Mr. Gibson holds a B.Comm and a M.B.A. degree.

**Share Ownership as at March 27, 2009:**  
Common Shares: 4,000; Options: 5,400; Deferred Share Units: 3,115  
Total Market Value of FNX common shares and Deferred Share Units: \$34,508

**DANIEL INNES, 62**  
Vancouver, British Columbia, Canada

**Director Since:** July 1, 2005

**Director Status:**  
Independent

Mr. Innes has served as President and as a director of D.G. Innes and Associates Ltd. (a private consulting company) since 1980. Mr. Innes also served as Vice President, Exploration and a director of Southwestern Resources Corp. (a mineral exploration company) from 1993 to 2006. Mr. Innes has also previously served as President, Chief Executive Officer and a director of Aurora Platinum (a mineral exploration company) from 2000 until its acquisition by FNX in 2005 and as President, Chief Executive Officer, Chairman and a director of Lake Shore Gold (a mineral exploration company) from 2003 to 2005. Mr. Innes holds H.B.Sc. and M.Sc. degrees from Laurentian University, a diploma in Geology Technology from Cambrian College and an F.G.A.C. designation from the Geological Association of Canada.

**Share Ownership as at March 27, 2009:**  
FNX common shares: 3,800; Options: 55,400; Deferred Share Units: Nil  
Total Market Value of FNX common shares and Deferred Share Units: \$18,430

**JOHN LYDALL, 64**  
Oakville, Ontario, Canada

**Director Since:** October 27, 2003;  
Lead Director since December 2, 2004

**Director Status:**  
Independent

Mr. Lydall is a mining engineer and corporate director who retired as Managing Director of the Mining Investment Banking Group at National Bank Financial in September 2003. Prior to this, Mr. Lydall held various positions at National Bank Financial and its predecessor company, First Marathon Securities Inc., ranging from mining analyst to senior investment banker. Mr. Lydall holds a B.Sc. in mining engineering from the University of Nottingham and a M.B.A. from the Cranfield School of Management.

**Share Ownership as at March 27, 2009:**  
FNX common shares: 215,000; Options: 5,400; Deferred Share Units: 5,000  
Total Market Value of FNX common shares and Deferred Share Units: \$1,067,000

**DONALD M. ROSS, 77**  
Toronto, Ontario, Canada

**Director Since:** June 26, 1984

**Director Status:**  
Independent

Mr. Ross has been involved in the investment industry since 1955 and is Chairman of the Board of Directors of Jones, Gable & Company Limited. Mr. Ross holds a B.A. from the University of Toronto. Mr. Ross has served on various TSX committees, including the Stock List Committee.

**Share Ownership as at March 27, 2009:**

FNX common shares: 185,900; Options: 5,400; Deferred Share Units: Nil  
Total Market Value of FNX common shares and Deferred Share Units: \$901,615

**Notes:**

(1) Mr. D. Ross paid fines of \$7,500 in 2001 for charges of failing to file insider and early warning reports in the province of Alberta.

**JAMES WALLACE, 62**  
Copper Cliff, Ontario, Canada

**Director Since:** March 12, 2008

**Director Status:**  
Independent

Mr. Wallace is the owner, CEO and active leader of a number of family owned private corporations including in the heavy construction, real estate and investment business. He has dedicated time and financial support to medical, educational, cultural and sports related community efforts. Mr. Wallace possesses a broad experience in mining, finance and heavy construction. He also has extensive merger and acquisition experience chairing the Independent Committee for CTV, Rio Algom, Falconbridge and Osprey Media. Mr. Wallace previously was a director of Rio Algom, Baton Broadcasting Corporation, CTV, Falconbridge, Noranda and Board Chairman of Osprey Media Group. Mr. Wallace has a B.Sc., M.B.A., C.M.A. and F.C.A.

**Share Ownership as at March 27, 2009:**

FNX common shares: Nil; Options: 15,400; Deferred Share Units: 9,118  
Total Market Value of FNX common shares and Deferred Share Units: \$44,222

<sup>1</sup> The market values of the FNX common shares and Deferred Share Units shown above were determined based on the closing price of an FNX common share on March 27, 2009 of \$4.85.

**Officers**

In addition to Mr. MacGibbon, a director and the Chairman and Chief Executive Officer (see above under "Directors"), FNX's officers are as follows:

<b>Name and Municipality of Residence</b>	<b>Office</b>	<b>Principal Occupation in Previous Five Years</b>
Catharine Farrow Sudbury, Ontario, Canada FNX common share ownership: Nil	Senior Vice President, Corporate Development and Technical Services	Ms. Farrow joined FNX in March 2003 as a Chief Geologist. In 2005, she was appointed as FNX's Director of Exploration, in 2007, as FNX's Vice-President, Exploration and in December 2008, appointed to her current position. Ms. Farrow was with Vale Inco prior to joining FNX.
Ronald P. Gagel Mississauga, Ontario, Canada Owns 15,000 FNX common shares	Senior Vice President, Chief Financial Officer	Mr. Gagel is a Chartered Accountant and has served as FNX's Chief Financial Officer since June 2005. From 1999 to 2004, he served as Vice-President and Chief Financial Officer of Aur Resources Inc., a mining company.
John Marrington Goodwood, Ontario, Canada Owns 23,487 FNX common shares	Senior Vice President, Mining Services	Mr. Marrington joined FNX in 2007. Mr. Marrington served in various capacities with Dynatec from 1982 to 2007, the most recent as the Vice President, General Manager.
Gord Morrison Sudbury, Ontario, Canada Owns 20,161 FNX common shares	Senior Vice President, Exploration	Gord Morrison served as a Senior Geologist for Vale Inco., a mining company, with whom he was with for more than 30 years prior to joining FNX in 2002, initially in a consulting capacity and, in 2003, as FNX's Director of Exploration. Mr. Morrison served as Senior Vice-President, Corporate Development of FNX from July 2007 to December 2008, when he was appointed to his current position.
William M Shaver Oakville, Ontario, Canada Owns 100,000 FNX common shares	Senior Vice President, Chief Operating Officer	Mr. Shaver joined FNX in October 2008. From 2006-2008, Mr. Shaver was with Denison Mines, where he served as Executive Vice President, Mine Development and Canadian Operations prior to joining FNX. Mr. Shaver was a co-founder of Dynatec with whom he was with until 2004 after which he served as President of Shaver Engineering Limited. Mr. Shaver has a B.Sc degree in mining engineering and more than 40 years experience in the mining industry.
Vern Baker Sudbury, Ontario, Canada FNX common share ownership: Nil	Vice President, Sudbury Operations	Vern Baker joined FNX in February 2008, as the Vice-President, Sudbury Operations. Prior to joining FNX, Mr. Baker was the General Manager of the Goldstrike Operations for Barrick Gold. Prior to managing Goldstrike, Mr. Baker was the General Manager for the Hemlo Operations for Barrick and Teck Cominco.
David Constable Burlington, Ontario, Canada FNX common share ownership: Nil	Vice President, Investor Relations	David Constable has served as Vice President, Investor Relations and Corporate Affairs of FNX since 2006 (and from 2002 to 2005); from 2005 – 2006 he served as Vice President, Investor Relations of Elko Energy Inc.
Hugh Ducasse Oakville, Ontario, Canada FNX common share ownership: Nil	Vice President, Health, Safety and the Environment	Hugh Ducasse joined FNX in October 2007 after serving as Vice-President Health, Safety and Environment of Dynatec (now Sherritt) from 2006 to 2007, prior to which he served as the Director of Health and Safety for Kinross Gold Corporation from 2003 to 2006. Prior to that he held various positions with Echo Bay Mines Ltd.

Name and Municipality of Residence	Office	Principal Occupation in Previous Five Years
Julie Galloway Toronto, Ontario, Canada FNX common share ownership: Nil	Vice President, General Counsel and Corporate Secretary	Julie Galloway joined FNX in January 2007. Prior thereto she served as Vice-President and General Counsel of Dynatec (2005 – 2007) and in various positions with Falconbridge Limited (now Xstrata) including Associate General Counsel and Corporate Secretary (1995-2005).

### **Security Holdings as a Group**

As of March 27, 2009, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 1,668,294 FNX common shares, representing approximately 2% of the total issued and outstanding FNX common shares as at such date.

### **Cease Trade Orders or Similar Orders, Bankruptcies, Penalties or Sanctions**

Mr. Cudney was a director of Aspen Group Resources Corporation which became subject to management cease trade orders for failure to file financial statements in each of May, 2003 and May, 2004. These management cease trade orders were lifted in July 2003 and July, 2004, respectively. Mr. Ross paid a fine of \$7,500 in 2001 for failing to file insider and early warning reports in the province of Alberta.

## **MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, (i) the Option Agreement; (ii) the Shareholder Rights Plan dated April 8, 2005 between FNX and CIBC Mellon Trust Company (the “Rights Plan”); (iii) the agreement pursuant to which FNX acquired DMC; and (iv) the Gold Wheaton Transaction, are the only contracts that are material to the Corporation that were entered into either (i) within the most recently completed financial year of the Corporation; or (ii) after January 1, 2002 and before the most recently completed financial year of the Corporation and which are still in effect as of March 31, 2009.

The Rights Plan was approved and reconfirmed by FNX’s shareholders on May 29, 2008. A summary of the key features of the Rights Plan is found below. The summary is qualified by the complete text of the Rights Plan which is available in the Investor Relations menu on FNX’s website at [www.fxmining.com](http://www.fxmining.com) or on SEDAR at [www.sedar.com](http://www.sedar.com) or by contacting the Vice President, Investor Relations of FNX.

The fundamental objectives of the Rights Plan are to provide adequate time for the Board of Directors and shareholders to assess an unsolicited take-over bid for FNX, to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made, to provide adequate time for competing bids to emerge, to ensure that shareholders have adequate time to properly assess a bid and an equal opportunity to participate in a bid. The Rights Plan encourages a potential acquiror who makes a take-over bid to proceed either by way of a “Permitted Bid” (described below), which generally requires a take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board of Directors. If a take-over bid fails to meet these minimum standards and the Rights Plan is not waived by the Board of Directors, the Rights Plan provides that holders of FNX Common Shares, other than the acquiror, will be able to purchase additional FNX Common Shares at a significant discount to market, thus exposing the person acquiring FNX Common Shares to substantial dilution of its holdings. Currently, the Board of Directors is not aware of any pending or threatened take-over bid for FNX.

The following is a summary of the principal terms of the Rights Plan which is qualified in its entirety by reference to the text of the Rights Plan.

*(i) Effective Date.* The effective date for the issuance of Rights (as defined below) under the Shareholder Rights Plan is April 18, 2005 (the “Effective Date”).

*(ii) Expiration.* The Rights Plan will remain in force until the earlier of the Termination Time (the time at which the right to exercise Rights shall terminate pursuant to the Rights Plan) and the termination of the annual meeting of the shareholders in the year 2011 unless at or prior to such meeting the Independent Shareholders (as defined below) ratify the continued existence of the Rights Plan.

*(iii) Issuance of Rights.* One right (a “Right”) was issued by FNX in respect of each FNX Common Share outstanding at the close of business on April 18, 2005, the date of implementation of the Original Plan, and one Right was issued and will continue to be issued in respect of each FNX Common Share of the Corporation issued thereafter, prior to the earlier of the Separation Time and the Expiration Time. Under the Rights Plan, the Rights are simply confirmed and the Corporation confirms its authorization to continue the issuance of new Rights for each FNX Common Share issued. FNX is not required to issue or deliver Rights, or securities upon the exercise of Rights, outside Canada or the United States, where such issuance or delivery would be unlawful without registration of the relevant Persons or securities. If the Rights Plan would require compliance with securities laws or comparable legislation of a jurisdiction outside

Canada and the United States, the Board of Directors may establish procedures for the issuance to a Canadian resident fiduciary of such securities, to hold such Rights or other securities in trust for the Persons beneficially entitled to them, to sell such securities and to remit the proceeds to such Persons.

*(iv) Rights Exercise Privilege.* The Rights will separate from the FNX Common Shares and will be exercisable 10 trading days (the "Separation Time") after a person has acquired, or commences a take-over bid to acquire, 20% or more of the FNX Common Shares, other than by an acquisition pursuant to a takeover bid permitted by the Rights Plan (a "Permitted Bid"). The exercise price is \$100 per FNX Common Share, subject to anti-dilution adjustments. The acquisition by any person (an "Acquiring Person") of 20% or more of the FNX Common Shares, other than by way of a Permitted Bid, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, each Right (other than those held by the Acquiring Person), will permit the purchase of \$200 worth of FNX Common Shares for \$100, subject to anti-dilution adjustments.

*(v) Certificates and Transferability.* Prior to the Separation Time, the Rights are evidenced by a legend imprinted on certificates for the FNX Common Shares issued from and after the Effective Date and are not to be transferable separately from the FNX Common Shares. From and after the Separation Time, the Rights will be evidenced by separate certificates that will be transferable and traded separately from the FNX Common Shares.

*(vi) Permitted Bid Requirements.* The requirements for a Permitted Bid include the following: (a) the take-over bid must be made by way of a take-over bid circular; (b) the take-over bid must be made to all shareholders, other than the bidder; (c) the take-over bid must be outstanding for a minimum period of 60 days and FNX Common Shares tendered pursuant to the take-over bid may not be taken up prior to the expiry of the 60 day period and only if at such time more than 50% of the FNX Common Shares held by shareholders, other than the bidder, its affiliates and persons acting jointly or in concert and certain other persons (the "Independent Shareholders"), have been tendered to the take-over bid and not withdrawn; (d) if more than 50% of the FNX Common Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of FNX Common Shares for an additional 10 days from the date of such public announcement; (e) the take-over bid must permit FNX Common Shares to be deposited pursuant to the take-over bid, unless such take-over bid is withdrawn, at any time prior to the date FNX Common Shares are first taken up and paid for; and (f) the take-over bid must provide that any FNX Common Shares deposited pursuant to the take-over bid may be withdrawn until taken up and paid for. A Permitted Bid need not be a bid for all outstanding FNX Common Shares not held by the bidder, i.e., a Permitted Bid may be a partial bid. The Rights Plan also allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that a Competing Permitted Bid is only required to remain open until a date that is not earlier than the later of 35 days after the Competing Permitted Bid is made and 60 days after the date of the earliest Permitted Bid that is in existence when the Competing Permitted Bid is made.

*(vii) Waiver.* The Board of Directors may, prior to the occurrence of a Flip-in Event which has not been waived, waive the application of the Rights Plan to a particular Flip-in Event (an "Exempt Acquisition") where the take-over bid is made by a take-over bid circular to all the holders of FNX Common Shares. Where the Board of Directors exercises this waiver power in respect of a take-over bid, the waiver will also be deemed to apply to any other take-over bid for the Corporation made by a take-over bid circular to all holders of FNX Common Shares prior to the expiry of any bid in respect of which the Rights Plan has been waived or deemed to have been waived.

*(viii) Redemption.* Prior to the occurrence of a Flip-in Event which has not been waived, the Board of Directors, with the approval of a majority of the votes cast by Independent Shareholders (or by the holders of Rights if the Separation Time has occurred) voting in person or by proxy at a meeting duly called for that purpose, may redeem the Rights at \$0.00001 per Right. Rights will be deemed to be redeemed by the Board of Directors without such approval following completion of a Permitted Bid, Competing Permitted Bid or Exempt Acquisition in respect of which the Board of Directors has waived, or is deemed to have waived, the application of the Rights Plan.

*(ix) Amendment.* The Board of Directors may amend the Shareholder Rights Plan with the approval of a majority of the votes cast by Independent Shareholders (or the holders of Rights if the Separation Time has occurred) voting in person or by proxy at a meeting duly called for that purpose. The Board of Directors may, without such approval, correct clerical or typographical errors and, subject to approval by a majority of the votes cast by Independent Shareholders voting in person or by proxy at the next meeting of the shareholders (or by holders of Rights, as the case may be), may make amendments to the Rights Plan to maintain its validity due to changes in applicable laws or a decision of a court or regulatory authority.

*(x) Board of Directors.* The Rights Plan will not detract from or lessen the duty of the Board of Directors to act honestly and in good faith with a view to the best interests of the Corporation and its shareholders. The Board of Directors, when a Permitted Bid is made, will continue to have the duty and power to take such actions and make such recommendations to shareholders as are considered appropriate.

(xi) *Exemptions for Fund Managers, etc.* Mutual fund and investment fund managers, trust companies (acting in their capacities as trustees and administrators), statutory bodies whose business includes the management of funds and administrators of registered pension plans acquiring greater than 20% of the FNX Common Shares are exempted from triggering a Flip-in Event, provided that they are not making, or are not part of a group making, a take-over bid.

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#### LEGAL PROCEEDINGS

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FNX is not the subject of any material legal proceedings, to which it is a party or to which any of its properties is subject and management is not aware of any such contemplated proceedings.

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#### TRANSFER AGENT AND REGISTRAR

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The transfer agent and registrar for the common shares of FNX is CIBC Mellon Trust Company in Toronto, Ontario.

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#### EXPERTS

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FNX's consolidated financial statements for the year ended December 31, 2008 are incorporated by reference in this AIF and have been audited by KPMG LLP. In connection with FNX's annual financial statements for the year ended December 31, 2008, the auditors confirmed that they are independent within the meaning of the Rules of Professional Conduct of Ontario.

The qualified persons, as defined by NI 43-101 – Standard of Disclosure for Mineral Projects, who have prepared or supervised the preparation of the mineral reserve and resource estimates as at December 31, 2008, are identified under the heading "*Sudbury Basin Properties – Technical Report*" starting on page 8 of this AIF.

No person or company named under Experts above, beneficially owns, directly or indirectly, or exercises control or direction over more than one percent of the issued and outstanding FNX common shares.

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#### AUDIT COMMITTEE

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##### **Composition of Audit Committee**

The Audit Committee is comprised of three directors:

Donald M. Ross (Chair). Mr. Ross is Chairman of the board of directors of Jones, Gable & Company Limited and has over 50 years of experience in the investment industry and service on various committees of the TSX (including the Stock List Committee). Mr. Ross has an undergraduate degree from the University of Toronto.

Duncan Gibson. Mr. Gibson has over 27 years of experience as a senior bank executive with the Toronto-Dominion Bank, including nine years in Corporate Banking, USA Business, and as Vice-Chairman with responsibility for the Commercial Banking Business. Mr. Gibson has a Bachelor of Commerce degree and a Masters of Business Administration degree.

James Wallace. Mr. Wallace is the owner, CEO and active leader of a number of family owned private corporations including in the heavy construction, real estate and investment business. He has dedicated time and financial support to medical, educational, cultural and sports related community efforts. Mr. Wallace possesses a broad experience in mining, finance and heavy construction. He also has extensive merger and acquisition experience chairing the Independent Committee for CTV, Rio Algom, Falconbridge and Osprey Media. Mr. Wallace previously was a director of Rio Algom, Baton Broadcasting Corporation, CTV, Falconbridge, Noranda and Board Chairman of Osprey Media Group. Mr. Wallace has a B.Sc., M.B.A., C.M.A. and F.C.A..

Each member of the Audit Committee is "independent" and "financially literate" (as such terms are defined in Multilateral Instrument 52-110 - Audit Committees).

##### **Audit Committee Mandate**

The Audit Committee's main function is to assist the Board in fulfilling its obligations relating to the integrity of the Corporation's internal controls and financial reporting. The Mandate of the Audit Committee is reproduced as Exhibit "A" and is available on the Corporation's website at [www.fnxmining.com](http://www.fnxmining.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

##### **Reliance on Certain Exemptions**

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on any exemption described in items 4, 5 and 6 of Form 52-110F1.

### **Audit Committee Oversight**

At no time since the commencement of the Corporation's most recently completed financial year have any recommendations by the Audit Committee with respect to the appointment and/or compensation of the Corporation's external auditors not been adopted by the Board.

### **Pre-Approval Policies and Procedures**

The Audit Committee has adopted a policy that requires any services to be performed by the external auditors to be pre-approved by the Audit Committee.

### **External Auditor Service Fees (By Category)**

The following chart summarizes the aggregate fees billed to date by the external auditors of the Corporation for professional services rendered to the Corporation during the fiscal years ended December 31, 2008 and 2007:

<b>Type of Work</b>	<b>Year Ended Dec. 31, 2008</b>	<b>Year Ended Dec. 31, 2007</b>
Audit <sup>(1)</sup>	\$208,800	\$225,000
Audit Related <sup>(2)</sup>	\$nil	\$10,950
Tax <sup>(3)</sup>	\$nil	\$nil
All Other	\$nil	\$nil
<u>Total</u>	<u>\$208,800</u>	<u>\$235,950</u>

#### Notes

- (1) Aggregate fees billed for the Corporation's annual financial statements and services normally provided by the auditor in connection with the Corporation's statutory and regulatory filings.
- (2) Aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not reported as "Audit fees", including: assistance with aspects of tax accounting, attest services not required by state or regulation and consultation regarding financial accounting and reporting standards.
- (3) Aggregate fees billed for tax compliance, advice, planning and assistance with tax for specific transactions.

For further information on the Audit Committee, please see the Corporation's management information circular in respect of its upcoming annual meeting of shareholders.

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### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information that appears in FNX's 2008 Annual Report under "*Management's Discussion and Analysis*" is incorporated by reference in this AIF under "*Management's Discussion and Analysis*".

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### **ADDITIONAL INFORMATION**

The following documents will be provided at no charge:

- FNX's 2008 Annual Report
- FNX's consolidated annual financial statements, auditor's report and management's discussion and analysis
- Interim consolidated financial statements and management's discussion and analysis
- FNX's most recent Annual Information Form
- FNX's most recent Management Information Circular

A request for documents should be sent to the Vice-President, Investor Relations, FNX Mining Company Inc., 15th Floor, 145 University Avenue, Toronto, Ontario, M5H 1J8 by calling (416) 628-5929 or by sending a fax to (416) 360-0550.

These documents are available on FNX's website at [www.fnxmining.com](http://www.fnxmining.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## EXHIBIT "A": AUDIT COMMITTEE MANDATE



### Mandate of the Audit Committee

#### Purpose

1. The Audit Committee (the "**Committee**") is appointed by the Board of Directors (the "**Board**") of FNX Mining Company Inc. (the "**Corporation**") to assist the Board in fulfilling its obligations relating to the integrity of the Corporation's internal controls and financial reporting.

#### Composition

2. The Committee shall be composed of three or more directors as designated by the Board from time to time.
3. The Chair of the Committee shall be designated by the Board from among the Committee members.
4. The Committee and its membership shall meet all applicable securities law and listing requirements relating to independence and financial literacy. Each member shall be independent and financially literate as defined by applicable securities law and listing requirements.
5. Each member of the Committee shall serve during the pleasure of the Board and only so long as he or she is independent.
6. The Board may fill vacancies in the Committee by appointment from among the directors of the Corporation.

#### Meetings

7. The Committee shall meet at least quarterly, and otherwise at the discretion of the Chair or a majority of its members or as may be required by applicable legal or listing requirements.
8. A majority of the members of the Committee shall constitute a quorum.
9. The Committee shall hold *in camera* sessions without management present at each meeting.
10. The time and place at which meetings of the Committee are to be held, and the procedures at such meetings, will be determined from time to time by the Committee. A meeting of the Committee may be called by notice, telephone, facsimile, email or other communication equipment, by giving at least 48 hours notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.
11. Committee members may participate in a meeting of the Committee by means of conference telephone or other communication equipment.
12. The Committee shall keep minutes of its meetings which shall be available for review by the Board.
13. The Committee may appoint any person who need not be a member, to act as the secretary at any meeting.
14. The Committee may invite such officers, directors and employees of the Corporation and such other advisors and persons as it may see fit, from time to time, to attend at meetings of the Committee.
15. Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose.
16. The Committee shall report its determinations to the Board at the next scheduled meeting of the Board, or earlier if the Committee deems necessary.

#### Resources and Authority

17. The Committee has the authority to:
  - (a) engage, at the expense of the Corporation, independent counsel and other experts or advisors as it determines necessary to carry out its duties;
  - (b) set and pay the compensation for any independent counsel and other experts and advisors retained by the Committee;
  - (c) communicate directly with the independent auditors of the Corporation (the "**Independent Auditors**");
  - (d) conduct any investigation appropriate to its responsibilities, and request the Independent Auditors as well as any officer of the Corporation, or outside counsel for the Corporation, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee; and
  - (e) have unrestricted access to the books and records of the Corporation.

## **Responsibilities**

### ***Financial Accounting, Internal Controls and Reporting Process***

18. The Committee is responsible for:
- (a) assessing the integrity of internal controls and financial reporting procedures of the Corporation and ensuring implementation of such controls and procedures;
  - (b) reviewing and approving the quarterly financial statements and management's discussion and analysis ("**MD&A**") of the Corporation's financial position and operating results;
  - (c) reviewing and reporting to the Board on the annual financial statements and related MD&A;
  - (d) reviewing management's report on internal controls;
  - (e) satisfying itself that the audit function has been effectively carried out;
  - (f) discussing and meeting with, when it deems appropriate to do so and no less frequently than annually, the Independent Auditors, the Chief Financial Officer ("**CFO**") and any other member of management it wishes to, to review accounting principles, practices, judgments of management, internal controls and such other matters as the Committee deems appropriate; and
  - (g) reviewing any post-audit or management letter containing the recommendations of the Independent Auditors and management's response and subsequent follow-up to any identified weaknesses.

### ***Public Disclosure***

19. The Committee shall:
- (a) review the annual and interim financial statements, related MD&A, annual and interim earnings press releases and any other public disclosure documents that are required to be reviewed by the Committee under any applicable laws and satisfy itself that the documents do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made and fairly present before the Corporation publicly discloses this information; and
  - (b) satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of these procedures.

### ***Risk Management***

20. The Committee shall inquire of management and the Independent Auditors about significant risks or exposures, both internal and external, to which the Corporation may be subject, and assess the steps management has taken to minimize such risks.

### ***Corporate Conduct***

21. The Committee shall ensure that there is an appropriate standard of corporate conduct including, if considered appropriate, adopting a corporate code of ethics for senior financial personnel.
22. The Committee shall establish procedures for:
- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

### ***Independent Auditors***

23. The Committee shall be responsible for recommending to the Board, for appointment by shareholders, a firm of external auditors to act as Independent Auditors and for monitoring the independence and performance of the Independent Auditors, including attending at private meetings with the Independent Auditors and reviewing and approving their remuneration.
24. The Committee shall ensure that in compliance with applicable law, the lead audit partner at the Independent Auditors is replaced every five years.
25. The Committee shall be responsible for resolving disagreements between management and the Independent Auditors regarding financial reporting.
26. The Committee shall pre-approve all audit and non-audit services not prohibited by law to be provided by the Independent Auditors.
27. The Committee shall review the Independent Auditor's audit plan, including scope, procedures and timing of the audit.
28. The Committee shall review the results of the annual audit with the Independent Auditors, including matters related to the conduct of the audit.
29. The Committee shall obtain timely reports from the Independent Auditors describing critical accounting policies and practices, alternative treatments of information within GAAP that were discussed with management, their ramifications, and the Independent Auditors' preferred treatment and material written communications between the Corporation and the Independent Auditors.

30. The Committee shall review fees paid by the Corporation to the Independent Auditors and other professionals in respect of audit and non-audit services on an annual basis.
31. The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Corporation.
32. The Committee shall monitor and assess the relationship between management and the Independent Auditors, and monitor the independence and objectivity of the Independent Auditors.

**Other Responsibilities**

33. The Committee shall review and assess the adequacy of this mandate from time to time and at least annually and submit any proposed revisions to the Board for approval.
34. The Committee shall perform any other activities consistent with this mandate and applicable law, as the Committee or the Board deems necessary or appropriate.

**Chair**

35. The Chair of the Committee should:
  - (a) provide leadership to the Committee with respect to its functions as described in this mandate and as otherwise may be appropriate, including overseeing the operation of the Committee;
  - (b) chair meetings of the Committee, unless not present, including *in camera* sessions, and report to the Board following each meeting of the Committee on the activities and any recommendations of the Committee;
  - (c) ensure that the Committee meets at least four times per year and otherwise as considered appropriate;
  - (d) in consultation with the Chairman of the Board and the Committee members, establish dates for holding meetings of the Committee;
  - (e) set the agenda for each meeting of the Committee, with input from other Committee members, the Chairman of the Board, the Lead Director and any other appropriate persons;
  - (f) ensure that Committee materials are available to any director upon request;
  - (g) act as liaison and maintain communication with the Chairman of the Board and the Board to optimize and co-ordinate input from directors, and to optimize the effectiveness of the Committee. This includes reporting to the Board on all decisions of the Committee at the first meeting of the Board after each Committee meeting and at such other times and in such manner as the Committee considers advisable;
  - (h) report annually to the Board on the role of the Committee and the effectiveness of the Committee in contributing to the effectiveness of the Board;
  - (i) ensure that the members of the Committee understand and discharge their duties;
  - (j) foster ethical and responsible decision making by the Committee and its members;
  - (k) together with the Corporate Governance and Nominating Committee, oversee the structure, composition and membership of, and activities delegated to, the Committee from time to time;
  - (l) provide to the Committee appropriate information from management to enable the Committee to function effectively and fulfil its mandate;
  - (m) ensure that resources and expertise are available to the Committee so that it may function effectively and efficiently (including the retention of any outside advisors);
  - (n) ensure that any outside advisors retained by the Committee are appropriately qualified and independent in accordance with applicable law;
  - (o) facilitate effective communication between members of the Committee and management, and encourage an open and frank relationship between the Committee and the Independent Auditor;
  - (p) attend each meeting of shareholders to respond to any questions from shareholders as may be put to the Chair; and
  - (q) perform such other duties as may be delegated to the Chair by the Board from time to time.

Approved March 2009