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### ***Registration Effective August 27<sup>th</sup> and Now Operational***

#### **FNX MINING (FNXMF \$29.00, rated Overweight) FAVORABLE COMMENTS FROM SEPTEMBER 6<sup>TH</sup> VISITS DOWN LEVACK AND PODOLSKY MINES**

	2007E	2008E	2009E	2010E
Earnings per Share revised Sept. 9	\$1.20	\$1.78	\$1.49	\$2.40
Earnings Per Share revised Aug.5	\$1.09	\$1.45	\$1.47	\$2.38

JT Very Independent Research, LLC estimates in US \$ while FNX reports in C \$.

- The tunnel from Xstrata's Craig mine nears 200 feet from the Levack Footwall mineral envelope, which it should enter in 3 to 5 weeks. FNX Mining will not host tours from the access via the neighbor's producing shaft, but will be able to issue press releases describing the findings.
- The pair of tunnels from the Levack mine shaft are roughly 1,190 feet from their targets with the goal of entering the mineral envelopes by year-end. The upper drift aims at the "Rob's Footwall" and the lower drift the Levack Footwall.
- FNX Mining's senior geologists have no way to infer or guess whether 1% or 20% of the Levack Footwall "mineral envelope" enjoyed mineral fluids to retain the super high grade values of the May 29, 2007 press release that averaged 7.8% cu, 1.94% ni and 0.4 oz per total precious metals within portions of 23 drill holes. A reasonable expectation would be for 5% to 15% of the 5.7+ million metric ton mineral envelope to contain the very high grade values, and for the remainder of the background material in the mineral envelope to be roughly one-tenth as rich.
- FNX Mining encountered a beautiful bronze, brassy or almost orange mass of 25.6% copper, 1.6% ni and 0.6 oz per ton pt, pd and au ore (about \$2,125 per ton at today's prices) in over 60 feet or up to 87 feet of the Podolsky 2000 level exploration and development tunnel. FNX made reference to this as a "visual assay" in its August 2<sup>nd</sup> press release as it first encountered it. The zone is the most beautiful or rich ore we have ever seen equivalent to over 4 oz of gold per ton at today's prices. FNX does not have enough data to estimate whether this tunnel intercepted 20,000 or 100,000 or more tons of such massive sulphide mineralization, but it already has hoisted 2,400 tons to surface containing almost \$5 mm "in situ" before recovery or smelter deducts.
- While the pocket of Podolsky 2000 ore is sensational, there is not enough data yet to attribute even \$1 per share of value to it and we retain our US \$50 target.
- FNX Mining is shipping the first 2,400 tons of this Podolsky 2000 high copper ore directly to CVRD Inco this week, and we estimated FNX sells 10,000 tons in the final four months of 2007 and 30,000 tons in 2008 containing 25% copper or 20 mm lbs, which would permit full year 2007 and 2008 copper sales to be 40% to 50% higher each. Thus, we increased our 2007 and 2008 estimates to \$1.20 and \$1.78, respectively, from

\$1.09 and \$1.45, respectively, to reflect the benefits of this unanticipated commercial ore within what had been planned as “development waste.”

- We increased our 2009 and 2010 estimates by \$0.02 per share each owing to the larger cash balances from the 20 mm lbs of extra copper output.
- Capital spending in the final four months of 2007 and in 2008 could be less since some of the planned-to-be-capitalized development ore will be sold commercially instead with the costs expensed in costs of sales rather than capitalized. Our estimate of 40,000 tons from this bronze-like 25% copper Podolsky “jewel box” is a midpoint of a perhaps 25,000-100,000 ton range.
- We are very encouraged at the September 4<sup>th</sup> announcements naming long-time industry veteran John W. Lill as President and CEO while retaining founder Terry MacGibbon, still very able and in good health, as Executive Chairman. John Lill has played past prominent roles at Dynatec, Barrick Gold in Nevada and Chile, the Antamina joint venture in Peru, BHP Billiton and Rio Tinto. We infer that FNX has NO INTENT to sell out in the next year and expects to enjoy upwards of a decade of continued dramatic exploration success. It expects to maximize shareholder value in developing its properties for the long-term and attracts talent accordingly.

#### EARNINGS ESTIMATE INCREASES DUE TO 25% COPPER ORE

The benefit to earnings from the beautiful Podolsky 2000 bronze-like “jewel box” ores will be significant. We had previously budgeted a 1.3% copper ore grade in 2007 and 2.1% for 2008. The impact of “sprinkling” a little 25% copper ores into the mix is large. Financially it is similar to a gold mine having a 2 oz per ton high grade stockpile to sprinkle into a 0.1 oz per ton mill. Further, we literally saw 2,400 tons on surface that had been encountered just in the past several weeks, which means our estimates of 10,000 tons sold in the final four months of 2007 and 30,000 tons in 2008 are conservative if FNX Mining can extract more than 100 tons per calendar day or 700 tons per week of such material. Moreover, our use of a 25% copper grade estimate ignores the 1.6% nickel and 0.6 oz per ton combined pt, pd and gold within the ore.

Thus, it is likely that we may raise our earnings estimate again owing to Podolsky 2000 either after Sept. 30 or December 31 earnings reports when more is known. We try to be conservative when we “stab in the dark.” This is one of the most impressive visual ores we ever seen since we first visited a mine in 1980. A security guard at Toronto’s Pearson Airport x-rayed and noticed the density of the ore inside my carry-on bag, and almost detained me for carrying a weapon!

- FNX Mining is shipping the first 2,400 tons of this Podolsky 2000 high copper ore directly to CVRD Inco this week, and we estimated FNX sells 10,000 tons in the final four months of 2007 and 30,000 tons in 2008 containing 25% copper or 20 mm lbs, which would permit full year 2007 and 2008 copper sales to be 40% to 50% higher each. Thus, we increased our 2007 and 2008 estimates to \$1.20 and \$1.78, respectively, from \$1.09 and \$1.45, respectively, to reflect the benefits of this unanticipated commercial ore within what had been planned as “development waste.” We raised our 3Q estimate to

\$0.23 from \$0.20 and our fourth-quarter estimate to \$0.28 from \$0.20 per share to reflect these higher grades.

- We increased our 2009 and 2010 estimates by \$0.02 per share each owing to the larger cash balances from the 20 mm lbs of extra copper output. Capital spending in the final four months of 2007 and in 2008 could be less since some of the planned-to-be-capitalized development ore will be sold commercially instead with the costs expensed in costs of sales rather than capitalized. Our estimate of 40,000 tons from this bronze-like 25% copper Podolsky “jewel box” is a midpoint of a perhaps 25,000-100,000 ton range.

Table 1: Estimated Income Statement (\$ Mil.)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Nickel	203.20	225.00	200.00	240.00	243.00	243.00	243.00	243.00	243.00
Copper	51.20	150.00	130.00	200.00	260.00	260.00	260.00	260.00	260.00
Precious and other	29.60	74.01	105.73	158.59	158.59	158.59	158.59	158.59	158.59
Interest and other	19.57	3.75	8.94	15.07	28.56	43.27	58.04	74.10	90.22
Total Sales	303.57	452.75	444.66	613.66	690.15	704.86	719.63	735.69	751.81
Cost of Mining	94.49	161.68	184.92	216.45	267.38	280.75	294.79	309.53	325.00
Deprn. and amort.	16.41	28.07	33.64	41.24	53.38	53.91	54.45	54.99	55.54
Administration	9.00	11.25	14.06	17.58	17.58	17.58	17.58	17.58	17.58
Stock-based comp.	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Capital taxes	2.00	2.50	3.13	3.91	3.91	3.91	3.91	3.91	3.91
Other expense, net	8.60								
Pretax Income	168.08	245.25	204.92	330.48	343.91	344.71	344.91	345.69	345.78
Income Taxes	59.67	85.84	71.72	115.67	120.37	120.65	120.72	120.99	121.02
Minority Interest									
Net Income	108.41	159.41	133.20	214.81	223.54	224.06	224.19	224.70	224.76
Avg. Shares Outstg.	90.00	89.40	89.40	89.40	89.40	89.40	89.40	89.40	89.40
<b>EPS</b>	<b>\$ 1.20</b>	<b>\$ 1.78</b>	<b>\$ 1.49</b>	<b>\$ 2.40</b>	<b>\$ 2.50</b>	<b>\$ 2.51</b>	<b>\$ 2.51</b>	<b>\$ 2.51</b>	<b>\$ 2.51</b>
Cash Flow per share	\$ 1.90	\$ 2.83	\$ 2.48	\$ 3.85	\$ 4.12	\$ 4.13	\$ 4.14	\$ 4.15	\$ 4.16
Book Value per share	\$ 7.23	\$ 9.10	\$ 10.64	\$ 13.08	\$ 15.63	\$ 18.18	\$ 20.73	\$ 23.29	\$ 25.85
<b>Underlying Factors</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
C\$ Exchange Rate	0.92	0.90	0.85	0.80	0.80	0.80	0.80	0.80	0.80
Total Ore Sold (000)	900.0	1400.0	1525.0	1700.0	2000.0	2000.0	2000.0	2000.0	2000.0
CGS per ton (US \$/t)	105.0	115.5	121.3	127.3	133.7	140.4	147.4	154.8	162.5
Total Precious (000)	28.0	70.0	100.0	150.0	150.0	150.0	150.0	150.0	150.0
Nickel Ore Sold (000)	475.0	550.0	600.0	700.0	700.0	700.0	700.0	700.0	700.0
Grade Ni	1.3%	1.6%	1.7%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%
Contained Ni(mm lbs)	12.7	18.0	20.0	24.0	27.0	27.0	27.0	27.0	27.0
Copper Ore Sold(000)	435.0	880.0	925.0	1000.0	1300.0	1300.0	1300.0	1300.0	1300.0
Copper Grade	1.8%	2.8%	3.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Payable Cu (mm lbs)	16.0	50.0	65.0	100.0	130.0	130.0	130.0	130.0	130.0
Spot Ni Price	16.00	12.50	10.00	10.00	9.00	9.00	9.00	9.00	9.00
Spot Cu Price	3.20	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00

Source: FNX Mining; JT Very Independent Research, LLC Estimates

Table 2: FNX Mining Estimated Sources and Uses of Funds (\$ Mil.)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
<b>Sources:</b>									
Net Income	108.4	159.4	133.2	214.8	223.5	224.1	224.2	224.7	224.8
Depreciation	16.4	28.1	33.6	41.2	53.4	53.9	54.4	55.0	55.5
Deferred Taxes	44.8	64.4	53.8	86.8	90.3	90.5	90.5	90.7	90.8
Other Noncash Charge	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Minority Interest									
Common Stock	-10.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Asset Sales	15.0								
Other, net									
<b>Total Sources</b>	<b>175.6</b>	<b>256.9</b>	<b>225.6</b>	<b>347.8</b>	<b>372.2</b>	<b>373.5</b>	<b>374.2</b>	<b>375.4</b>	<b>376.1</b>
<b>Uses:</b>									
Capital Spending	159.2	150.0	100.0	75.0	75.0	75.0	50.0	50.0	50.0
Investments and Acq.	42.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Reclamation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Deferred pay.& depo.									
Change noncash WC	20.0	10.0		10.0					
Change in cash	-26.6	103.9	122.6	269.8	294.2	295.5	321.2	322.4	323.1
<b>Total Uses</b>	<b>175.6</b>	<b>256.9</b>	<b>225.6</b>	<b>347.8</b>	<b>372.2</b>	<b>373.5</b>	<b>374.2</b>	<b>375.4</b>	<b>376.1</b>

Source: FNX Mining, JT Very Independent Research, LLC estimates

Table 3: Estimated Balance Sheet (\$ Mil.)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
<b>Cash</b>	74.9	178.8	301.4	571.2	865.4	1160.8	1482.0	1804.5	2127.5
Accounts Receivable	65.9	75.9	75.9	85.9	85.9	85.9	85.9	85.9	85.9
Inventory	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Prepaid Items	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total Current Assets	143.0	256.9	379.5	659.3	953.5	1249.0	1570.1	1892.6	2215.6
PPE, net	694.4	816.3	882.7	916.5	938.1	959.2	954.7	949.7	944.2
Investments	27.9	27.3	25.8	24.3	24.3	24.3	24.3	24.3	24.3
Reclamation dep.	5.6	5.5	5.2	4.9	4.9	4.9	4.9	4.9	4.9
<b>Total Assets</b>	<b>871.0</b>	<b>1106.1</b>	<b>1293.2</b>	<b>1605.0</b>	<b>1920.8</b>	<b>2237.3</b>	<b>2554.1</b>	<b>2871.5</b>	<b>3189.0</b>
Accounts Payable	46.1	56.1	56.1	66.1	66.1	66.1	66.1	66.1	66.1
Current defd payment	-18.2	-20.9	-24.6	-28.3	-30.3	-32.3	-34.3	-36.3	-38.3
L.t. defd payment									
L.t. reclamation	2.4	2.4	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Minority interest									
Deferred taxes	190.4	254.7	308.5	395.3	485.5	576.0	666.6	757.3	848.1
Common Equity	650.3	813.8	951.0	1169.8	1397.3	1625.4	1853.6	2082.3	2311.0
<b>Total Liabilities</b>	<b>871.0</b>	<b>1106.1</b>	<b>1293.2</b>	<b>1605.0</b>	<b>1920.8</b>	<b>2237.3</b>	<b>2554.1</b>	<b>2871.5</b>	<b>3189.0</b>

Source: FNX Mining; JT Very Independent Research, LLC estimates

## FNX MINING'S VOLUME FORECASTS

FNX Mining has not updated its ore tonnage volume forecasts since October 2006. It will make new budgets in October 2007. It is possible that "development wastes" from Rob's Footwall, Levack Footwall or other zones may contain large economic values that are additive to the FNX Mining budgets and our earnings models as their tunneling progresses.

Slide #11 of the FNX Mining slideshow contains the volume forecasts not updated for eleven months. We encourage you to go to

[www.fnxmining.com/presentations/2007/sept062007\\_Sitetour.pdf](http://www.fnxmining.com/presentations/2007/sept062007_Sitetour.pdf).

## FNX MINING'S PRESENTATION

The slideshow handout FNX Mining's "executive chairman" Terry MacGibbon presented on September 6<sup>th</sup> was very valuable, and contains too much good info for us to concisely repeat herein. In the interest of finishing my notes from visiting CVRD on August 29-31 in Brazil, we simply are mentioning herein the particular slides within the 48 slide presentation that especially impressed us.

We encourage you to go to [www.fnxmining.com/presentations/2007/sept062007\\_Sitetour.pdf](http://www.fnxmining.com/presentations/2007/sept062007_Sitetour.pdf) . We encourage you to particularly study slides # 7, 9, 11, 12, 13, 18, 19, 21, 22, 25-28, 32-34, 38, 40-46. There is a great deal of valuable information particularly about various exploration extensions, all of which encourages us.

## JOHN W. LILL'S APPOINTMENT

We expect Terry MacGibbon to work just as hard for the company as he did in the past. Further, Dr. Catherine E. G. Farrow, the Vice President of Exploration and Gold Morrison, the Senior V. P. of Corporate Development, are very capable. On September 6<sup>th</sup> Terry discussed taking a world tour. His idea of travel did not involve any sort of personal holiday, but rather his urgent interest in visiting the Goro and Koniambo competing nickel development projects in New Caledonia, Ambatovy in Madagascar, Skye Resources in Guatemala and other important nickel-related sites around the world. We expect Terry to focus on issues of "long-term vision," and not daily details.

We do not consider FNX Mining to be an appropriate stock for "short-term investors" who speculate that virtually ever stock in the stock market will be taken over, or those seeking to identify next week's takeover situation. Terry MacGibbon clearly believes that massive exploration opportunities exist within FNX Mining's Sudbury mineral holdings, and that it will require several years to fully identify the company's upside potential.

Terry MacGibbon is a most articulate corporate spokesman in describing FNX Mining's business prospects. However, he cancelled a one-week June 2007 roadshow to the West Coast and Midwest in May 2007 that my former colleagues at Prudential Equities Group had organized prior to Prudential Equities Group's June 6<sup>th</sup> shutdown announcement. He probably will delegate these sorts of commitments to Dave Constable, the most able investor relations spokesperson, or other colleagues, as FNX Mining enjoys more speaking invitation opportunities than it can accept.

In this context the appointment of John Lill injects a full-time president and CEO who is a mining engineer able to oversee mining operations. It is a major building block in establishing the company for the long-term.

## DYNATEC UNDERGROUND MINING SERVICES DIVISION

Sherritt International and FNX Mining were not able to agree upon a price, and their separate independent valuations were over 10% apart. They retained a third expert valuation in an effort to settle.

Three “changes in mix” make the historic revenues and operating income not relevant. First, Newmont Mining fired Dynatec in Nevada several quarters ago. Second, FNX Mining will absorb contractually the employees of Dynatec serving it at year-end 2007. Third, Dynatec won Tennessee Zinc as a new customer. Finally, underground miner turnover makes Dynatec’s staff more valuable even if some get hired away all the time.

Its remaining “jobs” are Goldcorp in Ontario, Mosaic Potash in Saskatchewan and Tennessee Zinc.

We expect the price to be settled relatively soon, or else the transaction to be “called off.” That is, Sherritt International and FNX Mining could just agree to let Sherritt International keep the underground mining contracts if they cannot agree on a price.

#### EXPLORATION DRIFTS PROGRESSING WELL

FNX Mining continues tracking towards the Levack Footwall zones. The drift from Xstrata’s Craig mine is just over 200 feet away, and should penetrate the mineral envelope in October and possibly within three weeks. Its progress depends on the work schedules at the Xstrata Craig mine, where the first priority goes to production, development and safety within the Craig complex.

FNX Mining pays Xstrata an agreed upon contractual amount for permitting FNX Mining to use the shaft and tunnels of Xstrata’s Craig mine for the FNX Mining exploration drift. FNX Mining says that Xstrata is a “good neighbor,” and that the amount it pays is nominal and less than Xstrata’s cost.

FNX Mining is about 1,190 feet away from the Rob’s Footwall on an upper and Levack Footwall on a lower exploration drift from the Levack mine. They should reach their target zones in December or January.

#### MILL CONSTRUCTION A POSSIBILITY

FNX Mining believes it is possible that its platinum group minerals recovery rates could be improved upon from the 75% level obtained at the CVRD Inco mill. It studies and considers construction of its own mill with the objective of improving platinum and palladium recoveries towards 90%-95% from 75%.

The planned 2010 ore tonnage for FNX Mining currently is near 4,000 tons per day. It is not clear whether FNX Mining would run all of its ore through a new mill or just a subset that is especially platinum rich. It is unknown whether FNX Mining would build a bigger mill in anticipation of future growth from exploration success.

It is also possible that CVRD Inco will build its own larger new mill to improve its own platinum group minerals recovery rates for its own ores as well as custom ores milled on behalf of others like FNX Mining.

We estimate FNX Mining might spend \$100 to \$300 million should it choose to build a 2,000 to 6,000 ton per day mill. Of course, this would be a mill and not a smelter or refinery, for which FNX Mining would continue to rely on the facilities of CVRD Inco or another company like Xstrata should CVRD Inco not have room or capability.

#### ACID ROCK DRAINAGE

Virtually all of the FNX Mining ores contain over 0.25% sulphides, and would generate future acid runoffs if proper care is not taken. CVRD Inco is responsible for tailings disposal and treatment since it mills the FNX Mining ores.

FNX Mining is acutely aware of this issue, and wants to plan its future configuration in such a way that does not require a future acid mine water treatment plant to operate in perpetuity.

#### NICKEL MARKET

The accuracy of our \$12.50 per pound LME nickel spot price estimate for 2007 is not certain. LME nickel inventories now exceed 25,000 tonnes, and continue to rise 1,000-3,000 tonnes per week. The spot price closed just over \$12 last week.

The Allegheny Technologies nickel surcharge for October will be \$1.01 per pound or just over \$2,000 per ton less than for July. Distributors and manufacturers delay stainless steel deliveries until such pass throughs “wash through” at the lower values. We are confident that stainless steel shipments worldwide and nickel procurement from steel producers will improve after January 1<sup>st</sup>. An uptick is possible after the markets stabilize.

#### NICKEL PIG IRON COULD REPRESENT UP TO 5% OF SUPPLY

Insufficient iron ore deliveries constrain Chinese steelmakers, who have excess blast furnace capacity.

However, iron ore reduction is an “inherently benign” process as iron oxide, or “rust,” is not toxic and carbon dioxide is not toxic. Occasional malfunctions do cause carbon monoxide deaths in blast furnaces, however, but those have occurred just two or three times in Indiana in the past decade in the U.S.

The nickel pig iron blast furnaces are toxic, however. They produce large amounts of sulphur dioxide gas and emit nickel and other heavy metals in the form of toxic effluents.

IT IS VITAL FOR SUCH CHINESE BLAST FURNACES TO INSTALL AIR POLLUTION CONTROL DEVICES, SUCH AS BAGHOUSES, TO OPERATE ON A CONTINUING BASIS. Such technology is “evolving.”

In the first five months of 2007 Chinese nickel output within pig iron approached 10,000 tonnes per month or up to 5% of world supply including nickel scrap. China uses electric arc steel or blast furnaces to pyrometallurgically treat lateritic (tropical vegetation acid decay of bedrock) ores from Indonesia, New Caledonia or the Philippines.

We regard this as a hugely clever idea. China has built way too many steel furnaces, and needs to find new ways to use them. We’ve spent hours trying to imagine new consumer products, such as ultra thin less than 0.01 inch high ductile, deep drawing, vacuum degassed super soft cold-rolled from shoes. After all, the Dutch used wood.

Moreover, it is thermodynamically practical to mix 5% to 10% nickel ores into carbon steelmaking raw materials. After all, the molten bath needs to be upwards of 3,000 degrees Fahrenheit anyway. And it does not require building a \$2 to \$4 billion plant somewhere in New Caledonia where environmentalists or local residents object. Nor does it require multi-year metallurgical pilot plant constructions to test new laterites.

We are not convinced that such supplies are entirely “new” or “incremental” supplies. It is possible that nickel pig iron is an alternative to exporting ores to Japanese smelters or some other more expensive custom smelting method. For erratic plant operations, situations with labor unrest or plants with expensive energy sources, it is possible that Chinese nickel pig has emerged as a cheaper way of bypassing existing treatment alternatives. Some of the nations or mines exporting the feed to China have inconsistent output records. And it is very possible that steel furnaces are much cheaper to operate than nickel plants.

For this reason we conclude that at least 2.5% of this supply is “new incremental supply” but that not necessarily all of it is additional supply.

### THIRD-QUARTER OUTLOOK

An adverse provisional pricing charge for nickel, another foreign currency charge due to C\$ appreciation and the C\$4 mm further gain on the final sales of Sherritt International shares should be present in third-quarter results. We expect a more normal 37%-38% income and resource combined tax rate.

Depending on the size of the nickel provisional pricing charge, these combined factors may have an adverse impact of \$0.01 to \$0.05 per share in the third-quarter. We regard the \$3.25 per pound June quarter provisional pricing charge as large. The charge will be influenced by the amount by which the September 30 daily close or early November price just prior to earnings reporting varies from the average September quarter price or price at time of shipment for the deliveries FNX Mining makes to CVRD Inco within the final

60 day of the quarter. Once again, this hinges on whether stainless distributors and customers resume buying and whether the LME rebounds.

We estimate the third- and fourth-quarters each at \$0.23 and \$0.28 per share, respectively, for a total sequence of \$0.31, \$0.38, \$0.23 and \$0.28 per share. The unfavorable changes in nickel prices, provisional pricing adjustments and the C\$ suggest lower earnings. It is possible our model is too harsh, and we have attempted to be rigorous at each juncture.

There is some uncertainty as to whether FNX Mining produces a larger amount of high nickel or high copper grade ores. In the first-quarter copper was much lower, bottoming at \$2.40 in early February and averaging \$2.74 for the first-quarter. Now copper has been higher, and nickel prices have fallen from the May peak month that averaged \$23.67 per pound. It is possible that managers “flex” between high nickel or high copper ores with a reasonable time lag.

In early 2007 the outlook was for 900,000 tonnes of total ore output that we had estimated as 475,000 tonnes of nickel and 425,000 tonnes of copper ores. First half outputs were more skewed to two-thirds nickel and one-third copper, but this may revert to our actual expectations now that copper has trended better and nickel worse. The copper ore grade in the first-half was 1.4% or 0.1% above our estimate. We have estimated nickel output at 12.7 mm lbs.

#### PRICE OBJECTIVE AND INVESTMENT VIEW

We rate FNX Mining Overweight and our price target is \$50. We use \$30 for the "existing mines" described in the May 28<sup>th</sup> resource update and \$20 for the "new zones" such as Levack Footwall, Rob's Footwall and Main Depth that we value at \$0 to \$90. FNX appears to be delineating commercial mineralization in numerous zones including Levack Footwall Deposit, Rob's Footwall, Main Depth and other new zones. The company defined a production profile in 2009 and 2010 for the Levack Footwall Deposit, and continues to focus on more generative exploration within its Sudbury land package.

#### BUSINESS RISKS

Nickel prices benefit from the robust global economic growth and the late arrival of every major nickel project in the world other than the Voisey's Bay deposit in Newfoundland in 2006. We estimate the world nickel market, including scrap, grows to 2.0 to 2.1 million metric tons (mmt) in 2007. We estimate that stainless alloy 201, which is 4% not 8% nickel, represents 6%-7% or 2 mmt of world stainless output displacing 80,000 tonnes of nickel. In the case of Allegheny Technologies the alloy 201 now represents over 15% of its stainless flat-rolled volumes, and it has been much more popular in China and elsewhere in Asia. Further, we estimate \$15-\$20 per pound nickel “prices out” another 1-2 mmt of “appearance application” stainless steels in architectural, home kitchens, home baths and appliance uses representing another 80,000 to 160,000 tonnes.

Thus, supply constraints may have suppressed as much as 160,000-240,000 tonnes or 8%-12% of potential nickel growth. We have assumed that functional strength, corrosion resistance, heat resistance and bacterial resistance has maintained the full position of nickel and stainless in high

temperature metals for aerospace, power generation and medical uses and high value-added stainlesses in industrial and commercial uses.

Copper prices suffer from sub par demand in 2005-07 after their meteoric rise to \$4.09 per pound in May 2006, higher scrap supplies and gradual delineation of new mining supplies in Mongolia, Pakistan, Congo, Zaire, Chile, Peru and elsewhere. We have estimated a gradual erosion to \$2.75 in 2008, \$2.00 in 2009-15.

Mining costs have risen 50% to 100% across the world in the past three years. We have estimated FNX Mining's costs per ton rise 10% each year to 2015. We do not expect economies of scale as the company grows as the four separate shaft systems represent separate and distinct complexes. FNX Mining has little mill, refinery, administration or global exploration overheads upon which to derive economies of scale.

Capital cost overruns are possible, but should not represent a severe risk as the company is debt free and flush with cash.

It is always possible that FNX Mining does not invest its cash balances well enough to earn the 5% pretax return that we have estimated. In its young existence of less than five years the management team has created value with their fine judgment in sensing the turnaround potential of nickel markets, Inco's mines and the exploration upsides. By mid-2008 FNX Mining may be throwing off over \$15 mm per month or \$200 mm annually in free cash flows, whose reinvestment is a tougher problem.

Seismic events, rock falls or other underground technical problems always are possible. While every reasonable precaution may be taken, huge pressures deep in the earth pose inevitable risks and uncertainties.

## CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

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“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or

trusteeships were done for Thyphin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

#### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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