

Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

Consolidated Financial Statements

Years Ended
January 31, 2006 and 2005

parker simone LLP

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Auditors' Report

To the Shareholders of
Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

We have audited the consolidated balance sheets of Forsys Metals Corp. *(formerly Forsys Technologies Inc.)* as at January 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flow for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2006 and 2005 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

May 5, 2006

parker simone LLP

Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

Consolidated Balance Sheets

<i>As at January 31,</i>	2006	2005
Assets		
Current Assets		
Cash	\$ 10,663,731	\$ 565,840
Interest and other receivables	37,308	20,278
Prepaid expenses	-	4,000
	10,701,039	590,118
Investment in 1400596 Ontario Inc. (Note 4)	-	825,000
Loan to Westport Resources (Namibia) (Proprietary) Limited (Note 6)	-	150,000
Mineral Properties (Note 8)	6,702,093	57,600
Capital Assets (Note 7)	77,827	12,031
	\$ 17,480,959	\$ 1,634,749
Liabilities		
Current		
Accounts payable and accruals	\$ 76,517	\$ 21,981
	76,517	21,981
Future Income Tax Liability (Note 11)	-	36,000
	76,517	57,981
Shareholders' Equity		
Capital Stock (Note 9)	14,112,399	2,543,224
Contributed Surplus (Note 10)	6,087,682	357,500
Deficit	(2,795,639)	(1,323,956)
	17,404,442	1,576,768
	\$ 17,480,959	\$ 1,634,749

See accompanying notes to Consolidated Financial Statements

Approved by the Board:

(“Signed”) Duane Parnham, Director

(“Signed”) Wayne Isaacs, Director

Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

Consolidated Statements of Operations and Deficit

<i>Years Ended January 31,</i>	2006	2005
Revenues		
Interest	\$ 77,072	\$ -
Consulting fees	74,684	-
Other	15,413	-
	167,169	-
Expenses		
Consulting fees	469,857	173,700
Stock-based compensation	403,055	24,500
Investor relations	219,904	-
Promotion	82,595	12,485
General and administrative	81,861	16,780
Shareholder information	79,051	42,879
Travel	78,330	56,297
Professional fees	36,153	23,852
Foreign exchange gain	(28,061)	-
Amortization	9,485	-
	1,432,230	350,493
	1,265,061	350,493
Loss from equity-accounted investment	79,122	-
Write-down of mineral properties	158,500	-
Loss from continuing operations	1,502,683	350,493
Income from discontinued operations (Note 2)	-	19,324
Gain on sale of discontinued operations (Note 2)	-	67,761
Net loss before income taxes	1,502,683	263,408
Income tax recovery (Note 11)	(31,000)	-
Net loss	1,471,683	263,408
Deficit at beginning of year	1,323,956	1,060,548
Deficit at End of Year	\$ 2,795,639	\$ 1,323,956
Net Loss per Share From:		
Continuing operations	(0.07)	(0.09)
Discontinued operations	-	0.02
Loss per Share	(0.07)	(0.07)
Weighted Average Number of Shares	21,422,429	4,124,529

See accompanying notes to Consolidated Financial Statements

Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

Consolidated Statements of Cash Flow

<i>Years Ended January 31,</i>	2006	2005
Operations		
Net loss	\$ (1,471,683)	\$ (263,408)
Adjustments to reconcile net loss to cash flow from operating activities:		
Income from discontinued operations	-	(19,324)
Amortization	9,485	-
Loss from equity-accounted investment	79,122	-
Write-down of mineral properties	158,500	-
Unrealized foreign exchange	34,410	-
Gain on sale of discontinued operations	-	(67,761)
Stock-based compensation	403,055	24,500
Future income tax recovery	(36,000)	-
Net change in non-cash working capital items:		
Interest and other receivables	(25,339)	(20,278)
Prepaid expenses	4,000	(4,000)
Accounts payable and accruals	56,127	(753)
Cash Flow from Operating Activities	(788,323)	(351,024)
Financing Activities		
Exercise of warrants	1,702,875	-
Private placement of units	13,224,915	1,000,000
Private placement of flow-through shares	-	100,100
Share issue costs	(1,098,488)	(19,556)
Repayments to subsidiaries forming part of discontinued operations	-	(135,649)
Cash Flow from Financing Activities	13,829,302	944,895
Investing Activities		
Cash acquired upon acquisition of 1400596 Ontario Inc. (Note 4)	21,636	-
Investment in 1400596 Ontario Inc.	-	(15,000)
Loan to Westport Resources (Namibia) (Proprietary) Limited	(100,000)	(150,000)
Acquisition of Namibian Metals Ltd. (Note 5)	(2,347,808)	-
Additions to mineral properties	(485,027)	(6,000)
Purchases of capital assets	(31,889)	(12,031)
Proceeds on sale of discontinued operations	-	155,000
Cash Flow from Investing Activities	(2,943,088)	(28,031)
Net Increase in Cash	10,097,891	565,840
Cash at beginning of year	565,840	-
Cash at End of Year	\$10,663,731	\$ 565,840

See accompanying notes to Consolidated Financial Statements

Forsys Metals Corp.
(formerly Forsys Technologies Inc.)

Notes to Consolidated Financial Statements

Years Ended January 31, 2006 and 2005

General

Forsys Metals Corp. (formerly Forsys Technologies Inc.) (Forsys or the "Company") is incorporated under the laws of Ontario. Its principal business activity is exploration and development of mineral properties and extraction of precious metals in Namibia. The Company has not yet determined whether its properties contain ore reserves that are economically recoverable.

1. Nature of Operations

The Company is in the exploration stage, as such, the continued operations of the Company and the recoverability of amounts shown for mineral properties is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of its properties and upon future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its interests. The amounts shown for mineral properties represent costs to date, less amounts written off, and do not necessarily represent present or future values. Changes in future conditions could require a material change in the amount recorded for mineral properties.

These consolidated financial statements have been prepared on a going-concern basis, which assumes the continuity of operations and realization of assets and the settlement of liabilities in the normal course of business. If the going concern assumption is not appropriate then material adjustments may be necessary in the carrying amount and/or classifications of assets and liabilities in these consolidated financial statements.

2. Discontinued Operations

On March 31, 2004, the Company completed the sale of its discontinued operations consisting of all of the issued and outstanding common shares of all of the Company's wholly-owned subsidiaries, SilverWare POS Inc. (Ontario), Silverware POS Inc. (Illinois), SilverWare POS Inc. (Florida), which was inactive, SilverWare POS Inc. (California), which was also inactive and Forsys Software Corporation (collectively, the "Subsidiaries") to a non-arm's length party for \$155,000, resulting in a gain on sale of discontinued operations of \$67,761. The Subsidiaries constituted all of the Company's operations, at the time, which were involved in the development, marketing, and distribution of point-of-sale and management information systems for the hospitality industry. These consolidated financial statements include the results of operations of the discontinued operations from February 1, 2004 to March 31, 2004, during which period, revenues were \$544,000.

3. Summary of Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries 1400596 Ontario Inc. (1400596) and Namibia Metals Ltd. (NML). 1400596 owns 100% of the common shares of Westport Resources (Namibia) (Proprietary) Limited. NML owns 90% of the shares of Tsumeb Exploration Company Ltd.

On July 26, 2005, Forsys increased its ownership interest in 1400596 from 25% of the investee company's common shares to 100% ownership (see Note 4). As a result, these consolidated financial statements include the accounts of 1400596 on a consolidated basis since acquisition of control on July 26, 2005 to January 31, 2006. For the period from December 29, 2004 to July 25, 2005, the equity method was applied.

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3. Summary of Significant Accounting Policies (Continued)

On December 9, 2005, Forsys completed the acquisition of NML (see Note 5). As a result, these consolidated financial statements include the accounts of NML on a consolidated basis from December 9, 2005 to January 31, 2006.

The consolidated financial statements for the year ended January 31, 2005 include the accounts of the Company and the results of its subsidiaries from February 1, 2004 to March 31, 2004 when the company completed the sale of its former subsidiaries (see Note 2).

Foreign Currency Translation

Forsys uses the temporal method of foreign currency translation in accounting for its foreign currency operations. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date, while non-monetary assets and liabilities are translated into Canadian dollars at the exchange rate prevailing on the date of the transaction. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses arising from the translation of transactions denominated in foreign currencies are reflected in operations for the year.

Long-Term Investment

The Company accounts for its long-term investment over which significant influence exists, using the equity method. Under this method the investment is initially recorded at cost and is adjusted to recognize the Company's share of earnings or losses, reduced by dividends and distributions received.

Mineral Properties

Costs relating to the acquisition, exploration and development of mineral properties are deferred until the properties are brought into commercial production, at which time, they are amortized over the estimated useful life of the related property on a unit-of-production basis. When a property is determined to be non-commercial, non-productive, or its value impaired, those costs in excess of estimated recoveries are charged to operations.

The cost of mineral properties includes the cash consideration and the fair value of shares issued on the date the property is acquired. The proceeds from options granted on properties are credited to the cost of the related property.

Asset Retirement Obligations

As the Company currently has no projects under construction, there is no legal obligation requiring remediation.

However, as the development of any project commences, senior management will assess whether an asset retirement obligation ("ARO") liability will arise. At the point where such liability arises, the financial statement adjustment required will be to increase the project's property value and related ARO liability by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to earnings each year to accrete the discounted ARO obligation to the final expected liability.

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Years Ended January 31, 2006 and 2005

3. Summary of Significant Accounting Policies (Continued)

Impairment of Long-lived Assets

Senior management periodically reviews the carrying value of mineral properties and deferred exploration costs to consider whether there are any conditions that may indicate impairment. Where estimates of future cash flows are available, a reduction in the carrying value is recorded to the extent the net book value of the investment exceeds the estimated fair value which is normally the discounted value of future cash flows. Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses if carrying value can be recovered and provides for impairment if so indicated, by reducing the carrying value of the property to its estimated fair value.

Capital Assets

Capital asset are recorded at cost less accumulated amortization. Amortization is provided on the declining balance basis at the following annual rates:

Office furniture	20%
Equipment	20%
Vehicles	33.3%

Flow-Through Shares

The Company finances a portion of its exploration and development activities through the issue of flow-through share issued pursuant to the Income Tax Act (Canada). Under the terms of these share issues, the deductions for income tax purposes of the related expenditures are renounced to the subscriber of the flow-through shares. Share capital is reduced and future income taxes are increased by the estimated income tax benefits renounced by the Company to the subscribers.

Income Taxes

Income taxes are recorded using the asset and liability method of income tax allocation. Future income taxes relate to the expected consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates of the date of enactment or substantive enactment.

Revenue Recognition

Revenue from consulting services is recognized upon completion of the work performed. Interest income is recognized on a time proportion basis.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Financial Instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts. The fair values of cash, interest and other receivables and accounts payable and accruals approximate their fair values because of the short period to receipt or payment of cash.

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3. Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation Plan

Forsys uses the fair value method in accounting for stock-based compensation. Under this method, stock-based payments are measured at the fair value of the equity instruments issued, and are amortized over the vesting period. The offset of the recorded cost is to contributed surplus.

Loss per Share

Loss per share has been calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share has been calculated reflecting the issuance of warrants and assuming the full exercise of stock options. Diluted loss per share has not been presented as the factors referred to above are anti-dilutive.

Reclassification

Certain of the prior years accounts have been reclassified in order to conform with the presentation adopted in the current year.

4. Acquisition of 1400596 Ontario Inc.

On December 29, 2004, the Company acquired a 25% interest in 1400596 Ontario Inc. ("1400596") for \$15,000 in cash and the issuance of 1,500,000 Class A common shares of the Company at a market value of \$810,000. On July 26, 2005, the Company acquired the remaining 75% of the common shares of 1400596 through the issuance of 6,500,000 Class A common shares.

1400596 owns a 100% interest in Westport Resources (Namibia) (Proprietary) Limited ("Westport"), based in Windhoek, Namibia.

The total value of the issuance of the Class A common shares pursuant to the acquisition was valued based on the market price of the Class A common shares at the date the transaction was announced.

Purchase price

25% interest acquired on December 29, 2004

Cash	\$	15,000
1,500,000 Class A common shares, of which 378,700 Class A common shares were issued to a director		810,000
Equity loss in earnings of 1400596 for the period December 29, 2004 to July 25, 2005		(79,122)

75% interest acquired on July 26, 2005

6,500,000 Class A common shares, of which, 1,676,250 Class A shares were issued to a director and an associate		775,000
	\$	1,520,878

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4. Acquisition of 1400596 Ontario Inc. (Continued)

Net assets acquired	
Cash	\$ 21,635
Non-cash working capital	(6,718)
Mineral properties	1,698,976
Capital assets	56,985
Loan payable to Forsys (<i>Note 6</i>)	(250,000)
	<hr/> \$ 1,520,878 <hr/>

5. Acquisition of Namibian Metals Ltd.

On December 9, 2005, the Company completed the acquisition of all of the issued and outstanding shares in the capital of Namibian Metals Ltd. ("NML"), a private company incorporated in the British Virgin Islands from Vestment Securities Limited ("Vestment"), an arm's length party to the Company.

Purchase price	
Cash of US\$1,980,000	\$ 2,347,808
5,000,000 Class A common shares at a market value of \$0.30 per share	1,500,000
3,000,000 Class A common share purchase warrants entitling the holder to acquire one Class A common share for each whole warrant at an exercise price of \$0.375 until November 23, 2007	597,000
Finder's fee of 650,000 Class A common shares at a market price of \$0.30 per Class A common share	195,000
	<hr/> \$ 4,639,808 <hr/>

NML is the registered and beneficial holder of 90% of the issued shares in Tsumeb Exploration Company Limited, a Namibian registered company whose sole asset is the Valencia Uranium Licence (MDRL 1496) in Namibia, Africa. As such, 100% of the purchase price has been allocated to mineral properties.

6. Loan to Westport Resources (Namibia) (Proprietary) Limited

The Company has committed to advance a loan up to \$10,000,000 to Westport, provided, however, that the Company has no obligation to make advances unless the request for an advance by Westport is made on or before December 31, 2008. The Company has advanced a loan of \$755,000 to Westport as at January 31, 2006. The loan bears interest at the rate of LIBOR plus 2% per annum payable monthly in arrears and is secured by all present and after acquired personal property of Westport. The loan is not repayable until Westport achieves positive cash flow from continued operations for two consecutive quarters, however, Westport may prepay the loan at any time without notice, bonus or penalty. The repayment of the principal amount of the loan is subject to the prior approval of the Bank of Namibia.

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6. Loan to Westport Resources (Namibia) (Proprietary) Limited (Continued)

Westport, which is a wholly-owned subsidiary of 1400596, was acquired by the Company upon its acquisition of 1400596 (see Note 4). As a result, all intercompany balances at January 31, 2006 are eliminated upon consolidation.

7. Capital Assets

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office furniture	\$ 67,519	\$ 24,451	\$ 12,031	\$ -
Equipment	21,584	3,620	-	-
Vehicles	50,385	33,590	-	-
	\$ 139,488	\$ 61,661	\$ 12,031	\$ -
Net Book Value	\$ 77,827		\$ 12,031	

8. Mineral Properties

	2006	2005
Mineral Properties		
Balance at beginning of year	\$ 51,600	\$ -
Acquisition costs	6,413,101	51,600
Write-down of mineral properties	(51,600)	-
	6,413,101	51,600
Deferred Explorations Expenditure		
Balance at beginning of year	6,000	-
Exploration costs	389,892	6,000
Write-down of deferred exploration expenditures	(106,900)	-
	288,992	6,000
Balance at end of year	\$ 6,702,093	\$ 57,600

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Notes to Consolidated Financial Statements

Years Ended January 31, 2006 and 2005

8. Mineral Properties (Continued)

A summary of mineral properties by geographic location is as follows:

	Year Ended January 31, 2006			
	Beginning Balance	Expenditures	Write-down	Ending Balance
Canadian property				
Albert Creek	\$ 57,600	\$ 100,900	\$ 158,500	\$ -
Namibia, Africa	-	6,702,093	-	6,702,093
	\$ 57,600	\$ 6,802,993	\$ 158,500	\$ 6,702,093

	Year Ended January 31, 2005			
	Beginning Balance	Expenditures	Write-down	Ending Balance
Albert Creek	\$ -	\$ 57,600	\$ -	\$ 57,600
	\$ -	\$ 57,600	\$ -	\$ 57,600

The Company holds the following licenses to explore mineral properties in Namibia, Africa:

- a) 90% interest in the Mineral Deposit Retention Licence 1496 for the Valencia uranium project, which is subject for renewal on January 4, 2007.
- b) Exclusive Prospecting Licence 2797 for the Sperrgebeit zinc project which is subject for renewal on October 5, 2007.
- c) Exclusive Prospecting Licence 3166 for the Omaruru gold project which is subject for renewal on June 10, 2007.
- d) a 32% interest in the Exclusive Prospecting Licence 3195 for the Ondundu gold project which is subject to renewal in July 2006.
- e) Exclusive Reconnaissance Licence 54 for the Rundu diamond project, which expired on December 13, 2005 and for which an application for a six month extension period has been made. Forsys is awaiting approval of this extension from the Namibian government.

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8. Mineral Properties (Continued)

In addition, Forsys, through its Westport subsidiary, entered into an Option agreement to earn a 60% interest in the Exclusive Prospecting Licence 3136 for the Elbe copper, gold, zinc and silver project which is subject for renewal on June 29, 2007. In order to earn its interest in the property, the Company must issue 300,000 Class A common shares and incur exploration and development expenditures totaling Namibian\$5 million (the "Exploration Expenditures"). The issuance of the Class A Common Shares and the Exploration Expenditures are staged in 6-month increments over a two year period. Currently, the Company is not in compliance with the terms of the Option Agreement. However, the Company is working with the grantor of the Option to revise the timing of the Common Share and Exploration Expenditure commitments.

The Company entered into an option agreement dated April 15, 2004 (the "Agreement") with Logan Resources Ltd. ("Logan"), whereby the Company was granted an option to earn a 51% interest in the Albert Creek Property in British Columbia (the "Property"). The Company issued 150,000 Class A common shares to Logan with a deemed value of \$36,000 and 65,000 Class A common shares with a deemed value of \$15,600 in respect of a finder's fee to an arm's length party. The Company incurred an aggregate of \$106,000 in exploration expenditures. As at December 31, 2005, the Company wrote off all amounts related to the Property and cancelled the Agreement subsequent to the year end.

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9. Capital Stock

Authorized

The Company is authorized to issue:

- An unlimited number of Class A common shares without par value
- An unlimited number of redeemable, voting non-participating Class B shares
- An unlimited number of Class C shares with rights and privileges to be determined by the Board of Directors of the Company

Issued and outstanding Class A common shares

	Number of Shares		Amount
Balance at January 31, 2004	2,455,488	\$	970,080
Issued for cash:			
Private placement of units	5,000,000		1,000,000
Private placement of flow-through shares	182,000		100,100
Issued as payment for:			
Commissions on private placements	268,200		60,010
Acquisition of 1400596 Ontario Inc. (Note 4)	1,500,000		810,000
Acquisition of mineral property (Note 8)	150,000		36,000
Mineral property finder's fee	65,000		15,600
Share issue costs	-		(79,566)
Fair value assigned to warrants issued	-		(333,000)
Future tax benefits renounced pursuant to flow-through shares	-		(36,000)
Balance at January 31, 2005	9,620,688		2,543,224
Issued for cash:			
Private placement units	18,152,100		13,224,915
Exercise of warrants	2,967,500		1,702,875
Issued as payment for:			
Acquisition of 1400596 Ontario Inc. (Note 4)	6,500,000		775,000
Acquisition of Namibian Metals Ltd. (Note 5)	5,650,000		1,695,000
Fair value assigned to warrants issued	-		(5,156,226)
Fair value assigned to warrants exercised	-		426,099
Share issue costs	-		(1,098,488)
Balance at January 31, 2006	42,890,288	\$	14,112,399

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9. Capital Stock (Continued)

Details of the private placements completed during the year ended January 31, 2006 are as follows:

Month Issuance	Aug. 5, 2005		Oct. 31, 2005		Total
Number of units issued	9,000,000		9,152,100		18,152,100
Price of issue	\$ 0.30	\$	1.15		
Gross proceeds of issue	\$ 2,700,000	\$	10,524,915		\$13,224,915
Number of Class A common shares issued	9,000,000		9,152,100		18,152,100
Number of share purchase warrants	4,500,000		4,576,050		9,076,050
Excise price per warrant	\$ 0.45	\$	1.50		
Expiry date of warrant	Aug. 5, 2007		Oct. 31, 2007		
Number of agent's options for units	630,000		594,886		
Exercise price of unit	\$ 0.30	\$	1.15		
Number of agent's warrants per unit	315,000		297,443		
Exercise price of warrant	\$ 0.45	\$	1.50		
Expiry date of agent's option for unit	Aug. 5, 2007		Oct. 31, 2007		

Details of the private placements completed during the year ended January 31, 2005 are as follows:

Month Issuance	Dec. 30, 2004 flow through	Sept. 20, 2004	Nov. 23, 2004	Total
Number of units issued		2,500,000	2,500,000	5,000,000
Price of issue	\$ 0.55	\$ 0.20	\$ 0.20	
Gross proceeds of issue	\$ 100,000	\$ 500,000	\$ 500,000	\$ 1,000,000
Number of Class A common shares issued	182,000	2,500,000	2,500,000	5,000,000
Number of share purchase warrants		1,250,000	1,250,000	2,500,000
Excise price per warrant		\$ 0.60	\$ 0.60	
Expiry date of warrant		Sept. 20, 2005	Nov. 23, 2005	
Issuance of Class A shares for commission	18,200	-	250,000	
Deemed proceeds for commission	\$ 10,010	-	50,000	

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9. Capital Stock (Continued)

Stock Options

During the year, the stock option plan was amended to increase the number of stock options that may be granted under the plan from 470,000 to 3,222,525. Under a fixed stock option plan, the Company is authorized to grant a maximum of 3,222,525 stock options to its directors, employees, consultants and management to acquire Class A common shares. The exercise price of any stock option granted shall not be lower than the market price of the Company's Class A common shares on the date on which the grant of the option is approved by the Board of Directors. Stock options granted vest in six equal instalments over a period of 18 months, with the first instalment vesting immediately and the remaining options vesting upon 6 months, 9 months, 12 months, 15 months and 18 months after the date of grant. All stock options granted shall be exercisable for a maximum period of five years from the date of grant.

A summary of the activity in the Company's stock option plan is presented below:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	470,000	\$ 0.24	-	\$ -
Transactions during the year:				
Granted	1,845,500	0.51	470,000	0.24
Cancelled	(30,000)	0.24	-	-
Outstanding at end of year	2,285,500	\$ 0.46	470,000	\$ 0.24
Exercisable at end of year	1,028,750	\$ 0.40	117,500	\$ 0.24

A summary of the Company's fixed stock options outstanding and exercisable at January 31, 2006 is presented below:

Range of Exercise Prices	Number of Options Outstanding	Remaining Life in Years	Currently Exercisable	
			Number of Options Exercisable	Weighted Average Exercise Price
\$0.24	440,000	3.7	366,667	\$ 0.24
0.45	431,500	4.1	215,750	0.45
0.50	1,264,000	4.4	421,333	0.50
0.75	150,000	4.6	25,000	0.75
	2,285,500		1,028,750	\$ 0.40

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9. Capital Stock (Continued)

Subsequent to the year end, the Company granted the following stock options:

- a) 600,000 stock options to directors and consultants of the Company entitling the holder to acquire one Class A common share at an exercise price of \$1.15 per Class A common share until March 23, 2011.
- b) 450,000 stock options to consultants of the Company entitling the holder to acquire one Class A common share at an exercise price of \$2.00 per Class A common share until April 11, 2011.

Stock-Based Compensation

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation for the stock options granted during the year ended January 31, 2006:

Date of grant	Mar. 2, 2005	July 7, 2005	Sept. 6, 2005	Total
Number of stock options	431,500	1,264,000	150,000	1,845,500
Exercise price	\$ 0.45	\$ 0.50	\$ 0.75	
Volatility	160%	151%	154%	
Expected life in years	3	3	3	
Risk free interest rate	3.16%	3.12%	3.13%	
Dividend yield	0.0%	0.0%	0.0%	
Vesting period in years	1.5	1.5	1.5	
Value of options granted	\$ 184,000	\$ 517,000	\$ 97,000	
Stock-based compensation	\$ 112,444	\$ 201,056	\$ 26,944	

Stock-Based Compensation Costs

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the stock-based compensation for the stock options granted during the year ended January 31, 2005:

Issue date	October 14, 2004
Number of options	470,000
Price	\$ 0.24
Volatility	169.0%
Expected life (years)	5
Risk free interest rate	3.9%
Dividend yield	0.0%
Vesting period in years	1.5
Value of options granted	\$ 98,000
Stock-based compensation	\$ 24,500

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9. Capital Stock (Continued)

Warrants

A summary of the activity in the Company's warrants is presented below:

		2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	
Outstanding, beginning of year	2,500,000	\$ 0.60	-	\$ -	
Transactions during the year:					
Issued	13,913,379	0.95	2,500,000	0.60	
Exercised	(2,967,500)	0.57	-	-	
Expired	(50,000)	0.60	-	-	
Outstanding at end of year	13,395,879	\$ 0.97	2,500,000	\$ 0.60	

The following table provides additional information about outstanding warrants at January 31, 2006:

Grant Date	Expiry Date	Number of Warrants	Exercise Price
August 5, 2005	August 7, 2007	3,982,500	\$ 0.45
August 5, 2005	August 7, 2007	630,000	0.30
August 5, 2005	August 7, 2007	315,000	0.45
October 31, 2005	October 31, 2007	4,576,050	1.50
October 31, 2005	October 31, 2007	594,886	1.15
October 31, 2005	October 31, 2007	297,443	1.50
November 23, 2005	November 23, 2007	3,000,000	0.375
		13,395,879	

Subsequent to January 31, 2006, the Company issued the following shares pursuant to the exercise of warrants as follows:

1. 630,000 broker warrants exercisable into 630,000 common shares at a price of \$0.30 per share and 315,000 broker warrants exercisable into 315,000 common shares at a price of \$0.45 per share,
2. 327,187 broker warrants exercisable into 327,187 common shares at a price of \$1.15 per share and 163,593 broker warrants exercisable into 163,593 common shares at a price of \$1.50 per share,
3. 1,950,000 common shares issued pursuant to the exercise of common share purchase warrants at an exercise price of \$0.45 per share, expiring August 5, 2007.
4. 37,500 common shares issued pursuant to the exercise of stock options at \$0.50 per share, and 16,500 common shares issued pursuant to the exercise of stock options at \$0.75 per share.

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Years Ended January 31, 2006 and 2005

10. Contributed Surplus

	2006	2005
Balance at beginning of year	\$ 357,500	\$ -
Value assigned to:		
Stock-based compensation	403,055	24,500
Fair value assigned to warrants issued pursuant to private placements	5,156,226	333,000
Fair value assigned to warrants issued pursuant to acquisition of Namibian Minerals Ltd. (Note 5)	597,000	-
Transferred to share capital on exercise of options	(426,099)	-
Balance at end of year	\$ 6,087,682	\$ 357,500

11. Income Taxes

The difference between the Company's income tax provision calculated using the statutory rate and the reported amount is as follows:

	2006	2005
Loss from operations	\$ (1,471,683)	\$ (263,408)
Statutory rates	36.1%	36.1%
Income taxes at statutory rate	(542,500)	(95,100)
Expenses not deductible for income tax purposes:		
Stock-based compensation	145,500	8,800
Write-down of mineral properties	57,200	-
Loss from equity accounted investment	28,600	-
Amortization	3,400	-
Non-capital loss carryforward	276,800	86,300
Income tax recovery	(31,000)	\$ -
The income tax recovery is comprised of the following:		
Income tax expense	5,000	-
Future income tax recovery	(36,000)	-
	\$ (31,000)	\$ -

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Years Ended January 31, 2006 and 2005

11. Income Taxes (Continued)

As at January 31, 2006, Forsys has non-capital losses carryforward of \$1,220,000 (2005 - \$263,000) which expire in 2015 and 2016.

The tax effect of temporary differences that give rise to significant portions of the future tax assets and liabilities at January 31, 2006 and 2005 are presented as follows:

	2006	2005
Resource deductions	\$ 57,060	\$ -
Offering costs	424,024	28,700
Non-capital losses carried forward	439,200	95,000
	920,284	123,700
Canadian mineral properties	-	(36,000)
	920,284	87,700
Valuation allowance	(920,284)	(123,700)
Net future income tax liability	\$ -	\$ (36,000)

12. Related Party Transactions

During the year, consulting fees included \$209,000 (2005 - \$103,000) paid to three directors of the Company or companies controlled by them. These amounts have been recorded at fair value.