



## **FORSYS METALS CORP**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2008**

**DATE OF REPORT: MARCH 31, 2009**

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This Management Discussion and Analysis of the financial condition and results of operation (“MD&A”) of Forsys Metals Corp and its subsidiary companies and joint ventures (collectively “Forsys” or the “Company”) should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2008. The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Additional continuous disclosure information related to Forsys, including press releases, quarterly and annual reports and Annual Information Form are available from the Company’s filings on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains “forward looking information”, within the meaning of securities laws. All statements included in this MD&A (other than statements of historical fact) which addresses activities, events or developments that management anticipates will or may occur in the future are forward-looking statements, including statements (but not limited to) such as: information with respect to the future prices of and demand for uranium and other metals, exploration and mine development plans, the estimation of mineral resources, timing of the development of the Company’s mineral projects, exploration results, budgets, capital and operating cost estimates and forecasts, results of mining operations, mining extraction and recovery rates, the conversion of mineral resources to mineral reserves, estimations of mine life, sales of uranium, negotiation of uranium sales contracts, success of exploration activities, permitting time lines, requirements for additional capital, strategies of the Company, Namwater’s plans to build desalination plants and ability to do so in a timely fashion, the Company’s demand for water, the Company’s expectation regarding completion of the Valencia Uranium Project, Nampower’s expectations regarding the supply of electricity, the Company’s intentions regarding standby electricity, the Company’s projections for electricity requirements at the Valencia Uranium Project, the Company’s expectations concerning production at the Valencia Uranium Project, the Company’s policies to manage substances that have the potential to be harmful to the environment, the impact of exchange rates, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage and the timing and possible outcome of pending and future regulatory applications and other information which are not historical facts. Forward-looking statements are often, but not always, identified by the use of words such as “plans”, “expects” or “does not expect”, “is

expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “will”, “can”, “could”, “would”, “should”, “might” or “will be taken”, “occur” or “be achieved” and similar other expressions, including the negative variation of such phrases.

With respect to forward looking information contained in this MD&A, the Company has made assumptions regarding, among other things, the availability of water in Namibia, the Company’s rights to water, Namwater’s plans to build desalination plants and ability to do so in a timely fashion, the Company’s ability to obtain electricity in sufficient quantities, Nampower’s expectations regarding the supply of electricity, future prices for uranium, future currency and interest rates, the Company’s ability to generate sufficient cash flow from operations and access existing credit facilities and capital markets to meet its future obligations, the regulatory framework governing royalties, taxes and environmental matters in Namibia and the Company’s ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company’s demand.

The Company believes that its expectations reflected in forward looking information are reasonable and are based on reasonable factors, assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, such forward looking information involves known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or the Company’s mineral projects, or any of them, to be materially different from any future results, performance or achievements expressed or implied by the forward looking information. Such factors include, among others, future prices of uranium, grade or recovery rates, unexpected increases in capital or operating costs, uncertainties relating to the availability and costs of financing that may be needed in the future, risks related to failure to convert estimated mineral resources to reserves, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, changes in the availability of water and electricity due to human or environmental factors, possible variations in mineral resources, failure of equipment or processes to operate as anticipated, accidents, labour disputes and other risks of the mining industry, delays in obtaining governmental consents, permits, licences and registrations or financing or in the completion of development or construction activities, political risks arising from operating in Africa, changes in equity markets, inflation, changes in exchange rates, fluctuations in commodity prices and uninsured risks and the other factors discussed under “Risk Factors”.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking information, these factors are not exhaustive and there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. The forward looking information contained herein is made as of the date of MD&A, and while the forward looking information contained in this MD&A is believed to be reasonable as of the current date, readers should not place undue reliance on any forward looking information and should not rely upon such information as of any other date. The Company takes no responsibility to update or to revise such information to reflect new events or circumstances, except as required by law.

The mineral resource and mineral reserve figures referred to in this MD&A are estimates and no assurances can be given that the indicated levels of minerals will be produced. Such estimates are expressions of judgement based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the resource and reserve estimates referred to in this MD&A are well established, by their nature resource and reserve estimates are imprecise and depend, to a certain extent, upon statistical inferences which

may ultimately prove unreliable. If such estimates are inaccurate or are reduced in the future, this could have a material adverse impact on the Company. Due to the uncertainty that may be attached to inferred mineral resources, it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration.

## EXECUTIVE SUMMARY

At March 31, 2009 the Company has cash and cash equivalents in excess of \$37.5 million after receiving proceeds of \$5.5 million from warrants and stock options and making expenditures from the first quarter of 2009.

At December 31, 2008 the Company had cash and cash equivalents of \$12.8 million in short-term deposits which matured on January 5, 2009 of \$21.9 million. The total of cash and cash equivalents plus short-term deposits was \$33.3 million.

During the year, the Company invested \$13.2 million for additions to mineral properties and deferred exploration expenditures and \$4.2 million for additions to capital assets. This activity was financed by opening cash and cash equivalent balances at the beginning of the year of \$51.8 million.

During 2008, the Company spent \$7.9 million advancing Valencia on infill drilling and an additional \$3.9 million was spent on lead time items consisting of installations on crusher and mills as well as initial funding on power infrastructure. In addition \$0.4 million was spent on exploration on other uranium projects.

The Company increased its interest in the Ondundu Gold Project from 32% to 100% and spent \$0.7 million on exploration activities at Ondundu. In addition, \$0.1 million was spent at the Company's other non-uranium projects.

Subsequent to the year end, on January 28, 2009, the Company released an updated resource estimate and activities are now focused on completing an upgraded reserve estimate. Construction of the road commenced in March 2009. Subject to a final Board decision, and dependent on completion of water and power infrastructure, Valencia is expected to commence production in 2011.

## CURRENCY

The Canadian dollar is the reporting currency and currency of measurement of the Company. All dollar amounts are expressed in Canadian dollars unless otherwise explicitly indicated.

On December 31, 2008, the noon rate of exchange as reported by the Bank of Canada for conversion of Namibian dollars into Canadian Dollars was NAM\$1 = CAD\$0.1311. On March 31, 2009, the noon rate of exchange as reported by the Bank of Canada for conversion of Namibian dollars into Canadian Dollars was NAM\$1 = CAD\$0.1322.

## NUCLEAR ENERGY TRENDS

Uranium is the fuel for 436 nuclear power plants operating worldwide and currently produces 15% of the world's electricity generation. The low operating cost of nuclear power generation and the increasing concern for the environment and climate change are driving a nuclear renaissance. This can be seen today in the recent announcements of ambitious plans for new nuclear plants in China, India and Russia. There are currently 43 nuclear reactors under construction and 108 reactors are planned worldwide (Source: World Nuclear Association, February 5, 2009). With the only significant commercial use for uranium being fuel for nuclear reactors, it follows that the nuclear renaissance will have a significant effect on future uranium demand.

The uranium spot price has risen from approximately USD\$10/lb in 2003 to USD\$136/lb in 2007 and is currently at USD\$42/lb (as quoted by UxC Consulting on March 30, 2009). Sales based on spot price comprise roughly 7% of global uranium sales in 2007 and 26% in 2008. Long term contract prices for uranium are currently at USD\$70/lb (as quoted by UxC Consulting on March 23, 2009), comprising 93% of global uranium sales in 2007 and 74% in 2008. It is expected that the price of uranium will rise again in the near term future in recognition of a fundamental and potentially long lasting shift in supply-demand dynamics for this commodity.

The volatility described above in the spot uranium price is possibly linked to increased speculative trading by non traditional market participants (Hedge Funds, Private Equity and Public Participation Unit Structures) and subsequent deleveraging due to the current global credit crisis.

The existing as well as planned nuclear fleet worldwide faces continued nuclear fuel supply constraints. Reactor new build and planning for facility construction continues in China, India and other major Asian countries. It appears that demand for uranium in the medium to long term will remain robust.

## COMPETITION

Uranium production is international in scope and is characterized by a relatively small number of companies operating in only a few countries. In 2008, four western companies, Cameco, Areva, Rio Tinto and BHP Billiton produced approximately 56% of total world output. Most of the world's production was from Canada and Australia which produced a combined 40% of global uranium output in 2008. In 2008, Kazakhstan, Russia and Uzbekistan produced a combined 26% of worldwide uranium while supplying significant quantities of uranium into western world markets. The Canadian uranium industry has in recent years been the leading world supplier, producing over 21% of the world supply. 7% of worldwide uranium supply comes from Namibia.

## NATURE OF THE BUSINESS

The Company is engaged in the business of acquiring, exploring and developing mineral properties, either independently, or through joint ventures, as appropriate. The Company has interests in projects located in Namibia, Africa. Currently, the main focus of the Company is on uranium, with the Valencia Uranium Project ("Valencia" or "Valencia Uranium Project"). The recoverability of the amounts shown for mineral properties and related expenditures is dependent upon: the selling price of uranium at the time the Company intends to mine its properties; the existence of economically recoverable reserves; the ability of the Company to obtain the necessary financing to complete exploration and development; government policies and regulations; and future profitable production or proceeds from disposition of such properties.

## **PROPOSED SALE OF THE COMPANY**

On November 14, 2008 the Company and George Forrest International Afrique S.P.R.L. (“GFI”) (entered into a definitive arrangement agreement (which was amended by way of a an amendment agreement on January 28, 2009) (an “Arrangement Agreement”) pursuant to which it is intended that GFI (or its nominee) will effectively acquire, by way of a court-approved plan of arrangement (“Arrangement”), all of the outstanding Common Shares in the capital of the Company (the “Common Shares”) on the basis of \$7.00 per Common Share in cash for each Common Share, plus the “in the money” amount of any outstanding options and warrants. The \$7.00 per share consideration represented a 55% premium to the average closing price of Common Shares on the Toronto Stock Exchange for the 20 trading days ending November 13, 2008 and a premium of 51% to the closing price on the Toronto Stock Exchange on November 13, 2008. On November 14, 2008, the Board approved the Arrangement and resolved to recommend to the securityholders of the Company that they vote in favour of the Arrangement. Prior to recommending the transaction to the securityholders of the Company, the Board considered a number of factors and has relied in part on an opinion from CIBC World Markets Inc., financial advisors, to the effect that, subject to the assumptions and conditions set forth in such opinion, the consideration to be received by the shareholders pursuant to the Arrangement is fair, from a financial point of view, to such shareholders. In addition, the Board established a special committee on October 21, 2008 to review and consider the proposed terms of the Arrangement transaction, and on November 14, 2008, the special committee unanimously resolved to recommend that the Board approve the Arrangement and that the Board recommend to the securityholders the Company that they vote in favour of the Arrangement.

The directors, senior officers and certain other securityholders of the Company entered into support agreements with GFI, pursuant to which they irrevocably agreed to vote their Common Shares (including any Common Shares issuable upon the exercise of options and warrants) and their options and warrants, representing approximately 20.4% of the outstanding Common Shares (calculated on a fully diluted basis) at that time in favour of the Arrangement at the special meeting convened for the purposes of approving the Arrangement ( the “Meeting”).

On January 28, 2009 the Company announced that the Superior Court of Justice of Ontario (Commercial List) issued an interim order (the “Interim Order”) in connection with the Arrangement which, if approved by the Company’s securityholders, would implement the proposed Arrangement. The Interim Order provided for the calling of the Meeting to consider the Arrangement. The Arrangement was subject to, among other things, the approval of the Superior Court of Justice of Ontario (Commercial List), receipt of all necessary regulatory approvals, the approval by not less than 66 2/3% of the votes cast by holders of Common Shares and by not less than 66 2/3% of the votes cast by holders of options and warrants of the Company and holders of Common Shares (voting together) and the satisfaction or waiver of other conditions precedent to the Arrangement. Pursuant to the terms of the Interim Order, the hearing in respect of the final order to approve the Arrangement was to take place on March 3, 2009, with completion of the Arrangement to occur no later than March 18, 2009. The Meeting was to be held on February 27, 2009 at the Toronto offices of McCarthy Tétrault LLP at 10:00 a.m. (EST). Forsys securityholders of record as of January 26, 2009 would be entitled to attend and vote at the Meeting. Forsys stated to the court that it intended to mail the notice of the Meeting and a management information circular relating to the Meeting on January 30, 2009.

On February 27, 2009 the Company announced that at the Meeting, Forsys’ shareholders, optionholders and warrant holders approved Arrangement. The final certified results of the vote at the Meeting showed that:

- 99.96% of Common Shares voted in favour of the Arrangement, 0.04% voted against. A total of 23,095,959 votes were cast, representing 29.93% of eligible outstanding Common Shares.

- 97.83% of eligible options voted in favour of the Arrangement. A total of 5,413,000 votes were cast, representing all eligible outstanding options.
- 100% of warrants voted in favour of the Arrangement. A total of 7,500,000 votes were cast, representing all outstanding warrants.

These totals exceeded the required two-thirds of the votes cast on the arrangement resolution by shareholders present in person or represented by proxy at the Meeting, and shareholders, optionholders and warrant holders present in person or represented by proxy at the Meeting voting together. The Arrangement was, thereafter, to be submitted to the Ontario Superior Court of Justice (Commercial List) for a final order of approval on March 3, 2009. No registered shareholders exercised dissent rights with respect to the proposed Arrangement.

On March 3, 2009 the Company received a final order from the Ontario Superior Court of Justice (Commercial List) approving the Arrangement under the Business Corporations Act (Ontario) to effect the Arrangement. At this time, the closing of the Arrangement transaction was expected to occur after the satisfaction and/or waiver of all conditions precedent to the Arrangement Agreement, which was, at that time, expected to occur on or about March 12, 2009 but no later than March 18, 2009.

On March 13, 2009 the Company agreed in principle with a written proposal from GFI to extend the closing date of the Arrangement to a date still to be determined but not later than July 31, 2009. Under the terms of this in principle agreement, the purchase price was to remain at \$7.00 per Common Share and all of the Company's outstanding "in-the-money" options and warrants, but the reverse break fee for which GFI would be liable in the event that it breaches the Arrangement Agreement would increase from \$11,412,000 to \$20,000,000. The in principle agreement also provided that by March 31, 2009 GFI would have to provide security for the entire amount of such increased reverse break fee in the form of a cash escrow deposit or letter of credit or other form agreed by the Company. The Company would also have an opportunity to terminate the arrangement agreement and collect the existing reverse break fee of \$11,412,000 if GFI were not able to demonstrate by March 31, 2009 that it would be able to complete the plan of arrangement by the extended date.

The Company announced on March 31, 2009 that it is still in discussions with GFI concerning an extension and other amendments to the Arrangement Agreement entered into between the parties on November 14, 2008 (and as amended on January 28, 2009). A further update will be provided as developments warrant but whether or not such discussions will ultimately lead to the execution of a definitive second amendment agreement cannot be assured by Forsys.

## **MINERAL PROPERTIES**

The Company's flagship project and only material property is the Valencia Uranium Project Mining License ("ML") (ML 149). Information concerning this project is discussed further below.

In addition, the Company has five other uranium exploration projects including the Namibplaas Uranium Project Exclusive Prospecting License ("EPL") (EPL 3638), Ancash Uranium Project (EPL 3632), Ancash Uranium Project (EPL 3635), Ancash Uranium Project (EPL 3636), Ancash Uranium Project (EPL 3637).

The Company also has non-uranium exploration projects including the Ondundu Gold Project (EPL 3195), Omaruru Gold Project (EPL 3166), Elbe Base Metal Project (EPL 3136) and Sperrgebiet (EPL 2797).

## Valencia Uranium Project

### *General*

In July 2005 Forsys acquired 90% interest in the Valencia Uranium Deposit. In March 2007 the Company acquired the remaining 10% interest in the Valencia Uranium Project. The wholly-owned Valencia property is situated on the farm Valencia 122, which is located approximately 75 km south-west of the town of Usakos in central-west Namibia. Valencia sits 35 km along strike to the world class Rössing Uranium Mine and 40 km north of the Langer Heinrich Uranium Mine. The Valencia property is located within Mining License (ML) 149 and covers an area of 735.6 ha, and is registered in the name of Valencia Uranium (Pty) Ltd (“VUL”). ML 149 is valid for 25 years from the date of issue (August 2008) by the Ministry of Mines and Energy, Republic of Namibia (“MME”) and is renewable.

### *Geological Setting*

The Valencia project area is situated in the central zone of the intra-continental branch of the Damara Orogenic belt which belongs to the late Pre-Cambrian, early Palaeozoic, Pan-African Mobile Belt system that transects the African continent. It consists of two branches, the north-trending coastal branch and the north-easterly trending intracontinental branch.

The central zone of the intracontinental branch is characterized by medium to high grades of metamorphism and voluminous granitic intrusions. The central zone is separated from the southern zone by a pronounced change in structural style, demarcated by the Okahandja lineament (Rössing, 2002). The northern boundary of the central zone is demarcated by the Omaruru lineament and demarcates the boundary between two markedly different magnetic and depositional and/or tectonic regimes.

The Valencia Deposit is an “intrusive type” of uranium deposit that is associated with alaskite intrusives that comprise massive stock-like bodies, dykes of varying thickness, sill-like bodies and veins and veinlets, which can be either conformable with or transgressive to the Damara Sequence metasedimentary host rocks.

### *History*

The Valencia uranium property area was explored by Gold Fields of South Africa Limited (now Gold Fields Ltd.), which held a Prospecting Grant on the property in 1972, but there is very little information on the Valencia uranium property area prior to 1972. In 1973, Gold Fields transferred its Valencia Prospecting Grant to its wholly owned subsidiary, Trekkopje Exploration and Mining Company Ltd. (“Trekkopje Exploration”). Trekkopje Exploration carried out a detailed helicopter radiometric survey in the Valencia uranium property area that identified a radiometric anomaly, which led to the discovery of the Valencia deposit. Between 1973 and 1983, exploration in the form of geological mapping and diamond drilling was conducted by Trekkopje Exploration. A feasibility study carried out by Trekkopje Exploration in 1981 did not result in a favorable economic outcome and no further work was carried out. It is believed that Gold Fields (Trekkopje Exploration) held the Valencia uranium property until the early 1990s. In 1992, the MME changed the country’s uranium mining legislation. The MME also decided that Gold Field’s Prospecting Grant, which contained the Valencia project, was too large. The MME suggested a smaller area of 500 ha and included a waiver of any expenditure or work obligation on the condition that Gold Fields submitted a project prospectus, actively promoted third party interest in the project and kept the government informed on any progress in the matter. In late November 1990, the MME approved the extension of the Prospecting Grant for a further two years. It was not indicated whether or not this was the grant of the reduced area. Eventually, the prospecting grant became converted into MDRL 1496 covering an area of 500 ha. It is unclear as to when exactly Gold Fields abandoned the Valencia

property. MDRL 1496 was granted to Tsumeb Company in November 1994 for a period of five years, which was subsequently transferred to Ongopolo Mining Limited in March 2000, and again in 2005 to Tsumeb (now Valencia). MDRL 1496 was converted by Tsumeb Exploration Company Limited (“TECO”) to Exclusive Prospecting License 1496 on February 20, 2007. TECO’s name was later changed to VUL.

*2007 Pre-Feasibility Report with Resource and Reserve Estimate*

Concluding the exploration and drilling campaign conducted in 2006 and 2007, Snowden Mining Industry Consultants (Pty) Ltd (“Snowden”) was contracted to perform a pre-feasibility study. A pre-feasibility technical report was delivered in March 2007. In June 2007, Snowden delivered a National Instrument (“NI”) 43-101 compliant Technical Report (“Pre-Feasibility Technical Report”) which described the Valencia Uranium Mineral Resource and the Uranium Mineral Reserve as shown in the following table:

**Summary of Valencia Uranium Mineral Resource \*, June 2007**

Category	Cut-off U <sub>3</sub> O <sub>8</sub> (kg/t)	Tonnes (M)	U <sub>3</sub> O <sub>8</sub> (kg/t)	U <sub>3</sub> O <sub>8</sub> (Mlbs)
Measured	0.06	18.2	0.14	5.6
Indicated	0.06	146.0	0.11	35.8
<b>Total Measured and Indicated</b>	<b>0.06</b>	<b>164.2</b>	<b>0.11</b>	<b>41.4</b>
Inferred	0.06	92.4	0.10	20.7

\*All tabulated data has been rounded to one decimal place for tonnage and two decimal places for U<sub>3</sub>O<sub>8</sub> grades.

**Summary of Valencia Uranium Reserve, June 2007**

Category	Cut-off U <sub>3</sub> O <sub>8</sub> (kg/t)	Tonnes (M)	U <sub>3</sub> O <sub>8</sub> (kg/t)	U <sub>3</sub> O <sub>8</sub> metal (tonnes)
Measured	0.06	16.9	0.14	2,400
Indicated	0.06	99.9	0.12	11,600
<b>Probable</b>	<b>0.06</b>	<b>117</b>	<b>0.12</b>	<b>13,900</b>

*2008 Drilling and Exploration*

The 2008 drill program had several objectives as follows:

- Complete infill drilling with spacing of 40 m x 40 m over the center section of the deposit
- Investigate higher grade zones not well understood from past diamond drilling conducted in 2006 and 2007, namely the eastern section, the West Zone and the Southwest Zone
- Investigate a radiometric anomaly identified in the North Zone
- Investigate the alaskite dyke identified to the east of the East Arm
- Drill a deep vertical hole near the center of the deposit to verify the potential to add resources
- Embark on a step-out drilling campaign to define the boundaries of the deposit

Compilation of existing diamond drill holes and assay results, confirmed that the uranium mineralization was restricted to the “D” alaskite (same rock type this is found at the nearby producing Rössing uranium deposit). Drilling early in the year targeted four strategic locations, based on compilations of cross-sections and a plan view of the deposit. The original geological assessment has now been reinterpreted. Subsequent drilling has

confirmed the new geological interpretation by Dr. Roger Laine, the Company's Chief Geologist and a Qualified Person as defined in NI 43-101 ("QP"), replacing the original interpretation of an alaskitic body limited in space by the metamorphic rocks (anticline dipping south) considering that the mineralized alaskite was intrusive. Additionally, the drilling investigated whether there might be some continuity between the Transition Zone (originally drilled at 20 m x 20 m spacing shallow RC holes, to outline initial production) alaskite and the North Zone anomaly.

General results from the 2008 Valencia percussion drill program include the following:

- Higher grade mineralization than has been previously encountered at Valencia was found at depth below 200 m to at least 350 m in the South Zone and the Southwest Zone
- Higher grade mineralization has been confirmed at the boundary between the Transition Zone and the East Arm down to a depth of 350 m
- The North Zone anomaly drilling confirms the presence of mineralized alaskite at depth from 180 m to 350 m
- Drilling of the Transition Zone towards the north pit confirms continuity of the mineralized alaskite at depth
- Drilling of the area between the Transition Zone and the East Arm encountered higher grade mineralization
- The alaskite dyke east of the East Arm is outcropping and mineralized
- The West Zone is well mineralized almost from surface down to 200 m or deeper and it joins with the North Zone anomaly

#### *2009 Drilling and Exploration*

The 2009 drill program commenced in early February. The program consists of 120-150 holes totaling 40,000 m of percussion drilling aimed at bringing the drill spacing in the critical areas to 40 m x 40 m. Based on 2008 percussion drilling results, the new drilling will target the west side, east of the east arm, and the north pit anomaly as well as the center and transition zones. This is a requirement to bring the Inferred category resources and reserves into the Indicated category. At the end of March, 28 drill holes have been completed for a total of 8,500 m.

#### *Activities Subsequent to December 31, 2008*

Subsequent to the end of the year, on January 28, 2009 the Company received an independent mineral resource estimate update at Valencia from Snowden Mining Industry Consultants ("Snowden"). The total Measured Mineral Resource ("Measured") and Indicated Mineral Resource ("Indicated") was upgraded to 61 million lbs of uranium oxide (" $U_3O_8$ ") using a cut-off grade of 60 ppm  $U_3O_8$ . Measured and Indicated resource increased by 47% to 61 million lbs  $U_3O_8$  from 41 million lbs. Measured and Indicated resource grade increased by 18% to 130 ppm  $U_3O_8$ . Measured and Indicated resource grades range from 151 ppm  $U_3O_8$  to 157 ppm  $U_3O_8$  at the anticipated selective mining unit scale. The updated resource estimate is based on results from infill drilling at Valencia since mid-2007.

By way of follow-up, on March 12, 2009 the Company received a National Instrument 43-101 ("NI 43-101") compliant technical report substantiating the resource upgrade ("**Resource Update Technical Report**") from Snowden. Each of the individuals who contributed to the Resource Update Technical Report was, or was supervised by a QP. Mr. Michael Andrew was the QP who authored the Resource Update Technical Report and

is independent of the Company. The Resource Update Technical Report was filed on SEDAR and can be found at [www.sedar.com](http://www.sedar.com). The upgraded resource is shown in the following table:

**Summary of Valencia Uranium Deposit Mineral Resources, as at January 2009**

Category	Cut-off U <sub>3</sub> O <sub>8</sub> (ppm)	Tonnes (K)	Grade U <sub>3</sub> O <sub>8</sub> (ppm)	U <sub>3</sub> O <sub>8</sub> (Mlbs)
Measured	60	24,500	149	8.0
Indicated	60	188,700	128	53.0
<b>Total Measured and Indicated</b>	<b>60</b>	<b>213,200</b>	<b>130</b>	<b>61</b>
Inferred	60	76,900	119	20

Work continues on detailed engineering designs and planning. These technical studies will contribute towards an updated reserve estimate which is anticipated to be completed shortly.

*Environment*

Between March 31, 2008 and April 21, 2008, the draft Valencia Environmental Impact Assessment (“EIA”) and Environmental Management Plan (“EMP”) were submitted for public review. Comments received on the documents were incorporated and addressed, where possible, and the final documents were submitted to the Ministry of Environment and Tourism, Republic of Namibia (“MET”) and MME on April 25, 2008. The Company also contracted the Southern African Institute for Environmental Assessment (“SAIEA”) to conduct an independent review of the EIA and EMP reports on behalf of the Company. SAIEA satisfactory review document accompanied the EIA and EMP reports and specialist studies that were submitted to MET and MME. On June 4, 2008, the Company received approval and clearance from the MET which was a prerequisite towards satisfying the Company’s application for a Mining License. Work continues on developing the Environmental Management System (“EMS”) which will be in place for when Valencia commences production.

*Mining License*

On August 21, 2008, MME granted Mining Licence ML 149 to VUL allowing full scale development of the Valencia Uranium Project to proceed. This Licence is for a 25 year term.

*Development of Valencia*

In order to achieve production, the Company has identified certain critical items requiring a purchase commitment in advance of a formal production decision for Valencia being made by the Company’s board. In April 2008, the Company placed a deposit on a primary gyratory crusher and three rod mills.

Construction of an industrial grade road linking Valencia to the main highway (B2) is proceeding. This new road will significantly improve access to the site and is critical for the remaining construction activities.

Subject to a final Board decision, and dependent on completion of water and power infrastructure, Valencia is expected to commence production in 2011.

**Other Uranium Exploration Projects**

Considerable progress was made in 2008 to advance target generation on the Company’s uranium projects. Throughout 2008, \$337,001 was spent on exploration activities with the goal to generate targets for follow-up

field sampling and drilling. Initial airborne geological and geophysical interpretation, geological reconnaissance mapping and drilling results were performed at Namibplaas and over the entire Ancash block of licenses. Results from drilling are currently being interpreted. Field exploration programs consisting of ground reconnaissance mapping, rock sampling, ATV-mounted geophysical surveys and, in some locations, initial drilling has been performed. Information gathered thus far is in the process of being interpreted and additional work is being recommended to follow-up on the more prospective uranium anomalies.

### **Other Non-Uranium Exploration Projects**

Significant progress was made in 2008 to advance the Ondundu Gold Project (“Ondundu”). The Company had expenditures of \$678,672 relating to an initial field exploration program that consisted of mapping, soil and stream sampling, trench rock sampling and geological interpretation. Work performed in 2008 concentrated on strike extension of gold mineralization to the south. The Company’s goal is to produce an NI 43-101 compliant resource and reserve estimate.

The Company had 2008 expenditures of \$64,719 for exploration activities at the Omaruru Gold Project (“Omaruru”). In Q4 of 2008, the Company has expensed amounts previously capitalized (\$133,594) at Omaruru. Recommendations for ongoing exploration are currently being evaluated.

The Company had 2008 expenditures of \$11,622 for exploration activities at the Sperrgebiet Zinc Project (“Sperrgebiet”). In Q4 of 2008 the Company has expensed amounts previously capitalized (\$22,933) at Sperrgebiet. No further spending is planned for Sperrgebiet and the Company does not intend to pursue the renewal of this license.

The Company had 2008 expenditures of \$24,728 for exploration activities at the Elbe Base Metals Project (“Elbe”). In Q4 of 2008 the Company has expensed amounts previously capitalized (\$217,835) at Elbe. Recommendations for ongoing exploration are currently being evaluated.

## SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information was obtained from the Company's financial statements for the eleven months ended December 31, 2008 and year ended January 31, 2008.

Summary of Consolidated Results	For the 2 Months Ended Dec 31, 2008 \$	*For the 3 Months Ended Jan 31, 2008 \$	For the 11 Months Ended Dec 31, 2008 \$	For the Year Ended Jan 31, 2008 \$	For the Year Ended Jan 31, 2007 \$
<b>Results of Operations:</b>					
Loss before incomes taxes	(601,010)	(1,242,323)	(8,884,972)	(58,559,227)	(3,237,266)
Net income (loss) and comprehensive income (loss)	1,055,765	(1,241,819)	(7,228,197)	(58,561,381)	(3,211,749)
Loss per share and fully diluted loss per share	0.02	(0.00)	(0.09)	(0.80)	(0.07)
			As at Dec 31, 2008 \$	As at Jan 31, 2008 \$	As at Jan 31, 2007 \$
<b>Financial Position:</b>					
Working Capital			34,456,994	53,952,481	12,139,321
Mineral properties, deferred exploration expenditures and capital assets			79,519,797	65,691,407	10,239,956
Total assets			114,660,391	120,030,982	22,770,931
Total long-term liabilities			19,736,617	21,043,486	-

\* Results for the three months ended January 31, 2008 have been restated as discussed below.

## SUMMARY OF UNAUDITED QUARTERLY RESULTS

A summary of selected financial information for the eight most recently completed quarters is provided below:

	*For the quarter ended April 30, 2007 \$	*For the quarter ended July 31, 2007 \$	*For the quarter ended Oct 31, 2007 \$	*For the quarter ended Jan 31, 2008 \$	For the quarter ended April 30, 2008 \$	For the quarter ended July 31, 2008 \$	For the quarter ended Oct 31, 2008 \$	For the 2 months ended Dec 31, 2008 \$
<b>Total other income from continuing operations</b>	410,503	517,988	553,052	724,984	553,517	418,814	317,758	193,207
<b>Income (loss) before and after discontinued operations</b>								
- Loss before tax	(47,202,206)	(2,370,495)	(7,774,203)	(1,242,323)	(2,119,942)	(816,605)	(5,147,191)	(601,010)
- Per share	(0.72)	(0.03)	(0.10)	(0.02)	(0.03)	(0.01)	(0.07)	(0.01)
<b>Net income (loss)</b>	(47,202,206)	(2,373,153)	(7,774,203)	(1,241,819)	(2,119,942)	(816,605)	(5,147,191)	1,055,765
- Per share	(0.72)	(0.03)	(0.10)	(0.02)	(0.03)	(0.01)	(0.07)	0.02

\* Figures for these quarters have been retroactively restated to record the write-down of mineral properties of \$45.3 million in the quarter ended April 30, 2007 rather than the quarter ended January 31, 2008

The Company is an exploration and development stage mineral resources company. At this time any issues of seasonality or commodity market fluctuations have no impact. The Company currently defers its exploration expenditures to deferred exploration and development expenditures. Over the past eight quarters, variations in the quarterly loss are caused by fluctuations in interest income on cash and short-term deposits, consulting fees and salaries, general and administrative expense, stock-based compensation and write down of mineral properties. General and administrative expense has increased due to the Company's significant growth and reorganization expenses in the two most recent quarters. Stock-based compensation expense varies from quarter to quarter depending on the number of stock options granted in a quarter, their vesting periods, and assumptions used in the Black-Scholes Option Pricing Model, which is used to calculate the fair value of the stock options. The write-down or impairment of mineral properties for the quarter ended April 30, 2007 totalled \$45,312,602. In the third quarter of 2008 \$4,143,659 was written down and in the fourth quarter of 2008 \$374,362 was written down.

### Restatement of Comparative Quarterly Numbers for the Year Ended January 31, 2008

In 2008 the Company was selected for a full review of its continuous disclosure record by the Ontario Securities Commission (the "OSC") in accordance with OSC Staff Notice 51-703, Implementing of Reporting Issuer Continuous Disclosure Review Program, Corporate Finance Branch. Forsys has responded to comments raised in the OSC's letter. On December 10, 2008, the Company filed a restated MD&A for the year ended January 31, 2008 together with restated quarterly financial statements and MD&A for the quarters ended April 30 and July 31, 2008 to address the requirements of the continuous disclosure review. Specifically, for the year-ended January 31, 2008 the Company restated comparative figures for the quarters ended April 30, July 31, Oct 31, 2007 and January 31, 2008 to correct its accounting for the acquisition of Mega Diamond Development Ltd. and reflect a write-down of mineral properties in the quarter ended April 30, 2007 rather than in the quarter ended January 31, 2008. This restatement had no impact on total earnings for the year ended January 31, 2008. The effect of this restatement is shown below:

Period Ended	For the quarter ended April 30, 2007	For the quarter ended July 31, 2007	For the quarter ended Oct 31, 2007	For the quarter ended Jan 31, 2008
Restated for the quarter (Unaudited)	\$	\$	\$	\$
Net loss previously reported	(1,889,604)	(2,373,153)	(7,744,203)	(46,524,421)
Write-down of mineral properties	(45,312,602)	-	-	45,312,602
Restated net loss	(47,202,206)	(2,373,153)	(7,744,203)	(1,241,819)
Basic and Fully diluted loss previously reported	(0.03)	(0.03)	(0.10)	(0.64)
Restated Basic and Diluted Loss per Share	(0.72)	(0.03)	(0.10)	(0.02)

## RESULTS OF OPERATIONS

### Eleven Months Ended December 31, 2008 Compared to Year Ended January 31, 2008

The Company's loss from operations for the eleven months ended December 31, 2008 was \$7.2 million compared with a loss of \$58.6 million in the prior year.

- Other income, consisting of interest income on cash and short-term deposits, for the most recent 11 month period was \$1.5 million (previous year \$2.2 million). The decrease can be attributed to lower

average cash balances in the most recent period, and also significantly lower interest rates available recently on cash and short-term deposits.

- Stock based compensation expensed decreased to \$2.0 million (previous year \$11.9 million) due to the granting of significantly fewer option and generally longer vesting periods. In the most recent eleven months, \$0.2 million of stock options costs were capitalized as the recipients are directly involved in exploration and development activities. No stock options were granted in the current period.
- Consulting fees and salaries increased slightly to \$2.0 million for the most recent eleven months (previous year \$1.7 million) as a result of additional staff as the Company hired more professional staff as it moves into production at Valencia.
- General and administration expenses were \$1.7 million for the eleven months (previous year \$1.7 million) included \$0.6 million related to legal costs related to the GFI Arrangement.
- During the eleven month period ended December 31, 2008 the Company expensed mineral property costs of \$4.1 million (previous year \$45.3 million) and wrote off deferred exploration costs of \$0.4 million related to non uranium exploration costs previously capitalized as a result of a thorough review by the Company of all of its properties in light of current market conditions. The review took into account exploration results to date, and the Company's 2009 exploration program which focuses on those properties which management believes are most likely to provide positive results in a shorter timeframe and general market conditions.
- The Company has recorded a future tax recovery of \$1.7 million (previous year Nil). Further information on the Company's future taxes is contained in note 9 to the Company's consolidated financial statements.

### **Two Months Ended December 31, 2008 Compared With Three Months Ended January 31, 2008**

The Company recorded a net loss before taxes for the two months ended December 31, 2008 of \$1.1 million which compares with a loss before taxes of \$1.2 million for the three months ended January 31, 2008.

- Other income, consisting of interest income on cash and cash equivalents, for the two months ended December 31, 2008 was \$0.2 million compared with \$0.7 million for the three months ended January 31, 2008.
- No stock options were granted during the two months ended December 31, 2008.
- Consulting fees and salaries expensed in the two months ended December 31, 2008 were \$0.3 million (three months ended January 31, 2008 \$0.4 million) which represents an increase of 13% on a prorate basis.
- General and administration expense in the two months ended December 31, 2008 was \$0.3 million (three months ended January 31, 2008 \$0.5 million).
- In the two months ended December 31, 2008 \$0.2 million of administration expensed relates to legal costs in connection with the GFI reorganization.
- The Company has recorded a future tax recovery of \$1.7 million (previous year Nil). Further information on the Company's future taxes is contained in note 9 to the Company's consolidated financial statements.

### Mineral Properties and Deferred Exploration Expenditures

A summary of the Company's expenditures on the acquisition of mineral properties and deferred development expenditure during the eleven months ended December 31, 2008 is as follows:

Mineral Properties	Balance as at January 31, 2008 (2)	Deferred Exploration Expenditures	Reclassification	Balance as at December 31, 2008
Valencia	21,662,078	-	12,997,247	34,659,235
Other Uranium Properties	12,000,000	-	7,200,000	19,200,000
Westport Resources	1,410,398	-	846,239	2,256,637
Acquisition of a remaining 68% of Omatjete Gold Project		933,082		933,082
Future tax liability attributable to mining properties	21,043,486	-	(21,043,486)	
	56,115,962	933,082	-	57,049,044

	Balance as at January 31, 2008	Deferred Exploration Expenditures	Amounts Expensed	Stock Based Compensation Capitalized	Balance as at December 31, 2008
<b>Uranium Properties</b>					
Valencia	7,673,202	7,918,414	-	70,925	15,662,541
Dunefield/Namibplaas		113,088	-	-	113,088
Ancash	65,585	223,913	-	-	289,498
<b>Non-Uranium Properties</b>					
Omatjete/Ondundu	295,231	678,672	-	146,844	1,120,747
Sperrgebiet	11,311	11,622	-22,933	-	-
Omaruru	68,875	64,719	-133,594	-	-
Elbe	193,107	24,728	-217,835	-	-
	8,307,311	9,035,156	-374,362	217,769	17,185,874
	64,423,273				74,234,918

- (1) Recognition of future tax liability on non deductible mineral property acquisition costs  
 (2) After reclassification of \$21,083,486 to future tax liability

### LIQUIDITY

Forsys has not begun production on any of its exploration properties and the Company does not generate cash from operations. Working capital as at December 31, 2008 has declined by \$17.3 million to \$34.5 million from \$51.8 million excluding restricted deposits at January 31, 2008, as a result of the spending of \$15.3 million on exploration and development. The Company had cash and cash equivalents and short-term deposits December 31, 2008 of \$34.3 million which were invested in bank notes and banker's acceptances of Canadian Chartered Banks and no amount was invested in asset-backed commercial paper.

During Q1 2009, the Company has received \$5.5 million from the exercise of options and warrants. Working capital will be used by the Company to advance development of Valencia including advance ordering of long-

lead time items and equipment required for the project. In addition, cash will be used for exploration and development of the Company's other properties.

The Company's principal requirements for cash over the next twelve months will be for the development of Valencia, including construction of a processing plant, other infrastructure, minimal pre-stripping of the deposit and working capital. Prior to the announcement on November 14, 2008 (summarized above) that GFI has made an offer to acquire all of the shares of Forsys, the Company was reviewing various financing options for Valencia with an emphasis on maximizing the use of debt since the Company already has substantial equity, and thereby minimizing dilution of existing shareholder base.

There are significant uncertainties regarding the trends in U<sub>3</sub>O<sub>8</sub> prices and the availability of equity for project financing. The current world economic situation has created a difficult environment for companies to access project financing. The Company is currently reviewing the Valencia project development timing and financing with GFI. The success and pricing of any future financing will be dependent on the prevailing market conditions at the time.

#### *Contractual Obligations and Commitments*

In order to achieve production as early as possible, the Company has identified certain critical items requiring a purchase commitment in advance of a formal production decision for Valencia being made by the Company's Board of Directors. In April 2008, the Company placed a deposit on a primary gyratory crusher and three rod mills, with progress payments scheduled over the next two years. At December 31, 2008 the Company had outstanding commitments of \$15.1 million for this equipment. The Company made a deposit of NAD\$5,000,000 (approximately CAD\$625,000) with NamPower as an advance payment of capital costs for power supply infrastructure, which will be applied by NamPower to their costs of project design.

The Company has various commitments under operating leases primarily for office facilities requiring minimum payments as follows:

2009	\$ 164,000
2010	111,000
2011	97,000
2012	8,000
2013	-
	\$380,000

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as of the date of this document.

### **TRANSACTIONS WITH RELATED PARTIES**

During the eleven months ended December 31, 2008 consulting fees of \$1,010,000 (Year ended January 31, 2008 \$704,000) were paid to three directors of the Company or companies controlled by them in accordance with the consultant's contracts.

General and administrative expenses include \$584,000 (prior year Nil) for legal fees paid to a firm, of which a partner is also a Director of the Company.

These payments have been recorded at the exchange amounts agreed to by the parties and have been paid.

## **PROPOSED TRANSACTIONS**

For details pertaining to the proposed acquisition of all of the shares of the Company, please refer above to the section “Proposed Sale of the Company”.

The Company, through its subsidiary Westport Resources Namibia (Pty) Ltd (“Westport”), has an option to earn a 60% interest in EPL 3136 for the Elbe copper, gold, zinc and silver project. In order to earn this interest the Company must issue 300,000 common shares and must incur exploration and development expenditures totaling NAD\$5,000,000 (approximately CAD\$640,000) before March 12, 2010.

## **OUTSTANDING SHARE DATA**

On March 31, 2009 there were 78,935,231 Common Shares issued and outstanding, 6,238,000 stock options entitling the holder to acquire 6,238,000 Common Shares and 4,000,000 warrants outstanding entitling the holder to acquire 4,000,000 Common Shares, for a total of 89,173,231 Common Shares on a fully-diluted basis.

## **CHANGES IN ACCOUNTING POLICIES**

The Company adopted the following new accounting standards, issued by the Canadian Institute of Chartered Accountants (“CICA”), effective February 1, 2008.

- a) CICA Handbook Section 1400 “General Standards of Financial Statement Presentation” which was amended to include a requirement that management make an assessment of an entity’s ability to continue as a going concern when preparing financial statements.
- b) CICA Handbook Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” which requires disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the Company’s financial position and performance; the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date and how the Company manages those risks.
- c) CICA Handbook Section 1535 “Capital Disclosures” which requires the disclosure of both qualitative and quantitative information that enable users to evaluate the Company’s objectives, policies and processes for managing capital.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

CICA has issued the following accounting standard which is effective for the Company's fiscal year commencing on or after January 1, 2009.

### **Accounting Standards Issued But Not Yet Adopted**

- a) ***CICA Handbook Section 3064:*** Effective January 1, 2009 Forsys will adopt the new Canadian standard Handbook Section 3064, "Goodwill and Intangible Assets". This standard provides guidance on the recognition, measurement and disclosure of goodwill and intangible assets other than the initial recognition of goodwill or intangible assets acquired in a business combination. This standard is effective for fiscal years beginning on or after October 1, 2008 and requires retroactive application to prior period financial statements. The Company has evaluated the impact of this new standard for adoption on January 1, 2009 and does not expect any significant impact on its consolidated statements.
- b) ***CICA Handbook Section 1582: Business Combinations:*** The CICA has adopted the new Canadian standard Handbook Section 1582 Business Combinations. This section specifies a number of changes including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure noncontrolling interests at fair value and a requirement to recognize acquisition-related costs as expenses. Section 1582 applies prospectively to business combinations occurring on or after January 1, 2011. The Company is currently reviewing the impact of this standard and does not expect any significant impact on its consolidated financial statements.
- c) ***CICA Handbook Section 1601: Consolidated Financial Statements:*** The CICA has issued the new Canadian standard Handbook Section 1601 Consolidated Financial Statements, which replaces the existing standard. This section establishes the standards for preparing consolidated financial statements and is effective for periods beginning on or after January 1, 2011 although earlier adoption is permitted. Forsys does not expect the adoption of this standard will have a material impact on its consolidated financial statements. The Company is currently reviewing the impact of this standard and does not expect any significant impact on its consolidated financial statements.
- d) ***CICA Handbook Section 1602: Noncontrolling Interests in Consolidated Financial Statements:*** The CICA has issued the new Canadian standard, Handbook Section 1602 Noncontrolling Interests in Consolidated Financial Statements. This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. Forsys does not expect the adoption of this standard will have a material impact on its financial statements. The Company is currently reviewing the impact of this standard and does not expect any significant impact on its consolidated financial statements.
- e) ***Emerging Issues Committee Abstract 173: "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities":*** The CICA Emerging Issues Committee has issued this Canadian emerging issues committee abstract which requires the Company to consider its own credit risk and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities. EIC 173 is effective for years beginning after January 1, 2010. The Company is currently reviewing the impact of this standard and does not expect any significant impact on its consolidated financial statements.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In February 2008 the Canadian Accounting Standards Board (“AcSB”) announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The Company has completed an initial assessment of the impact of IFRS on the Company. The Company’s Namibian subsidiary financial statements are currently prepared in accordance with IFRS for local statutory purposes. To implement IFRS in its consolidated financial statements, the Company will be required to during 2009 to carry out a planning process which addresses key system and business process areas as part of the conversion process. These include: the development of an accounting policy manual that defines the Company’s IFRS accounting policies; identification of the significant financial data required from the Company’s financial systems in order to define the transition adjustments and produce the IFRS financial statements on an on-going basis; possible system modification; and maintenance of effective disclosure controls and controls over financial reporting throughout the IFRS transition period.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the financial statements in conformity with generally accepted Canadian accounting principles (“Canadian GAAP”) in Canada requires management to make judgments with respect to certain estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expense and the disclosure of contingent liabilities at the date of the financial statements. Actual amounts, however, could differ significantly from those based on such estimates and assumptions.

Significant areas where management has been required to make judgements and estimates in the preparation of the Company’s financial statements including estimates with respect to the critical accounting policies are discussed below.

### **Mineral Properties and Deferred Exploration Expenditures**

The Company’s policy is to capitalize expenditures related to the acquisition, exploration and development of its exploration properties net of recoveries and carry these expenditures as assets until production commences. Mineral properties and the deferred exploration expenditures are recorded at cost and do not necessarily reflect present or future values. If an exploration property is successful, the related mineral properties and deferred exploration expenditures will be amortized over the estimated economic life of the project. If an exploration project is abandoned, continued exploration is not planned in the foreseeable future or when other events and circumstances indicate that the carrying amount may not be recovered, the accumulated costs and expenditures are written down to the net recoverable amount at the time the determination is made. Deferred expenditures relating to exploration projects represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular projects. Development expenditures include those projects where development alternatives are being considered and/or studies have been completed suggesting that the properties are economically viable.

Mineral properties and related expenditures are recorded at cost. These net costs are deferred until the mineral properties to which they relate are placed into production, sold or abandoned. These costs will be amortized using the unit-of-production method over the useful lives of the mineral properties following the commencement of production, or written off, or if the mineral properties are sold, impaired or abandoned.

At each quarter end senior management reviews the carrying value of the mineral properties and deferred exploration expenditures 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 future cash flows. Where estimates of the future cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered and provides for impairment, if so indicated. As a result of this review in the fourth quarter of 2008 the Company expensed deferred exploration expenditures of \$374,362.

### **Environmental and Land Reclamation Costs**

The fair value of liabilities for asset retirement obligations will be recognized in the period in which they are incurred. Currently there are no asset retirement obligations. As the development of any project progresses, the Company will assess whether an asset retirement obligation (“ARO”) has arisen. At the point where such a liability arises, the financial statement adjustment required will be to increase the project’s carrying value and ARO obligation by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to income each year to accrete the discounted ARO obligation amount to the final expected liability.

### **Stock Based Compensation**

Forsys has recorded stock based compensation calculated in accordance with section 3870 of the CICA handbook using the Black-Scholes option pricing model that requires input of management’s assumptions on the expected volatility of the Company’s share price, expected option life, a risk-free rate of return and expected dividend yield. The use of different assumptions regarding these factors could have a significant impact on the amount of stock based compensation expense recorded over time. Changes in these assumptions will only apply to future grants of options and the amount amortized over the vesting period will not change as a result. While changes in these assumptions could have a material impact on stock-based compensation expense and hence the results of operations, stock based compensation is a non-cash based expense and there would be no impact on the Company’s financial condition.

## **FINANCIAL INSTRUMENTS AND RISK FACTORS**

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and price risk.

### **Credit Risk**

The Company’s credit risk primarily relates to short-term deposits and accounts receivable. The Company manages its credit risk over short-term deposits by purchasing short-term investment grade securities, such as bankers acceptances and bank deposit notes issued by top tier Canadian banks. The Company’s receivables

currently consist primarily of value-added taxes receivable from the Namibian government the collectability of which is dependent on tax policy not changing.

### **Liquidity**

The Company's approach to managing liquidity risk is to provide reasonable assurance that it can provide sufficient capital to meet liabilities when due. The Company's approach to managing liquidity risk is to provide reasonable assurance that it can provide sufficient capital to meet its liabilities when due. The Company maintains sufficient cash and cash equivalents to meet short-term business requirements. At December 31, 2008 the Company had Cash and cash equivalents of \$12,835,801 together with short-term deposits of \$21,457,526, which matured on January 5, 2009.

### **Foreign Currency Risk**

The Company's functional currency is the Canadian dollar. Expenses are incurred in Canadian, United States dollars, Namibian dollars and Euros. The Company is subject to gains and losses due to fluctuations in these currencies. The Company maintains a Canadian and US dollar bank account in Canada and maintains a Namibian dollar bank account for local operating expenses in Namibia.

The majority (December 31, 2008 \$34.0 million) of the Company's cash and cash equivalents and short-term deposit are held in Canadian dollars with a Canadian Chartered Bank. The remainder (December 31, 2008 \$0.3 million) is held in a Namibian dollar bank account in Namibia to meet immediate cash requirements.

### **Interest Rate Risk**

The Company's cash and cash equivalents and short-term investments primarily include highly liquid investments, which earn interest at market rates that are fixed to maturity. At December 31 these investments included bankers acceptances and bank deposit notes issued by top tier Canadian banks. The Company reviews the credit ratings of these banks from time to time and its investment decisions are focused on preservation of capital and liquidity. The Company also holds cash and cash equivalents in bank accounts that earn variable interest rates. Because of the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2008. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations.

### **Commodity Price Risk**

The future profitability of the Company is directly related to the market price of uranium. The feasible development of such properties is highly dependent upon the price of metals. A sustained and substantial decline in commodity prices could result in the write-down, termination of exploration work or loss of its interests in identified resource properties. The Company does not hedge any of its purchase commitments given the short term nature of its current commitments.

### **Sensitivity Analysis**

As of December 31, 2008, management estimates that if interest rates changed had changed by 1%, (i.e. 100 basis points), assuming all other variables remained constant, the impact the net loss would have been approximately \$327,000 (2007 \$518,000).

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is communicated to senior management, to allow timely decisions regarding required disclosure.

Management including the Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedure as of December 31, 2008. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified within the time periods specified in those rules.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles. The Company's internal controls over financial reporting include policies and procedures that:

- Pertain to the maintenance of records that accurately and fairly reflect the transactions of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP;
- Ensure the Company's receipts and expenditures are made only in accordance with authorization of management and the Company's directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized transactions that could have a material affect on the annual or interim financial statements.

An evaluation of the effectiveness of the Company's internal control over financial reporting was conducted for the year ended December 31, 2008 by the Company's management, including the Chief Executive Officer and the Chief Financial Officer. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) control framework entitled "*Internal Control over Financial Reporting – Guidance for Smaller Companies*" (COSO-SPC) to assess the effectiveness of the Company's internal control over financial reporting. Based on this assessment management has concluded that the Company's internal controls over financial reporting were effective.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## Limitations on Internal Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

## RISK FACTORS

### The Arrangement

The Company entered into the Arrangement Agreement between GFI on behalf of a corporation that has yet to be incorporated under the laws of the Province of Ontario (the "Acquiror") and the Company, pursuant to which it is intended that the Acquiror will acquire, all of the outstanding Common Shares, plus the "in the money" amount of any outstanding options and warrants of the Company (see "Material Contracts" for a further description). There are some potential risks relating to the Arrangement, which include:

- the risks to the Company if the Arrangement is not completed, including the costs incurred to the Company in pursuing the Arrangement and the diversion of management attention away from the conduct of the Company's business in the ordinary course;
- following the Arrangement, the Company will not longer exist as an independent public company and shareholders will forgo any future increase in value that might result from future growth and the potential achievement of the Company's long-term plans;
- the conditions to GFI and GFI's obligation to complete the Arrangement and the right of GFI and the Acquiror to terminate the Arrangement Agreement under certain limited circumstances; and
- the prohibition contained in the Arrangement Agreement that prevents the Company from soliciting additional interest from third parties, the Acquiror's right to match a superior proposal and the requirement to pay a termination fee in the amount of \$25,360,000 may discourage other parties from offering to acquire the Common Shares and lead to the Company incurring the financial costs associated with termination.

### Current global financial conditions

Current global financial conditions have been subject to increased volatility and numerous financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both sub-prime mortgages and the liquidity crisis affecting the asset-

backed commercial paper market. These factors may impact the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the value and the price of the Common Shares and other securities could continue to be adversely affected.

### **The Company currently depends significantly on a single project, the Valencia Uranium Project**

The Company's activities are focused primarily on the Valencia Uranium Project. Any adverse changes or developments affecting this project would have a material and adverse effect on the Company's business, financial condition and results of operations.

### **The Company's future revenues are highly dependent on and sensitive to the price of uranium**

The majority of the Company's revenues will be derived from the sale of uranium products. The Company's financial condition, results of operations, earnings and operating cash flow are closely related and sensitive to fluctuations in the long and short term market price of uranium. Historically, these prices have fluctuated widely. Between 1970 and 2008 the price of uranium has fluctuated between approximately USD\$10 per pound and approximately USD\$135 per pound. The current spot price is USD\$42 per pound.

Uranium prices are and will continue to be affected by numerous factors beyond the Company's control. Such factors include, among others, the demand for nuclear power; political and economic conditions in uranium producing and consuming countries such as Canada, the United States, China, Russia and other former Soviet republics; reprocessing of used reactor fuel and the re-enrichment of depleted uranium tailings; sales of excess civilian and military inventories (including from the dismantling of nuclear weapons) by governments and industry participants; and production levels and costs of production in countries such as Canada, Russia and former Soviet republics, Africa and Australia. The effect of these factors, individually or in the aggregate, is impossible to predict with accuracy. However, any adverse change in such factors could have a material and adverse impact on the Company, its financial position and results of operations. If, after the commencement of commercial production, uranium prices fall below the costs of production at the Company's uranium mines for a sustained period, it may not be economically feasible to continue production at such sites. This would materially and adversely affect production, profitability and the Company's results of operation and financial position. A decline in uranium prices may also require the Company to write down the book value of its mineral reserves and mineral resources, which would have a material adverse effect on its earnings and profitability. Should any significant write-down in reserves and resources be required, material write downs of the Company's investment in the affected mining properties and increased amortization, reclamation and closure charges may be required.

### **The development of the Valencia Uranium Project into commercial operation on time and budget and its economic viability cannot be guaranteed**

In general, development projects have no operating history upon which to base estimates of future cash operating costs. For development projects such as the Valencia Uranium Project, estimates of mineral resources and mineral reserves are, to a large extent, based upon the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies. This information is used to calculate estimates of the capital costs and cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors.

Operating costs are dependent on the costs of various reagents, supplies, spares and labour. While open pit mining costs can sometimes be better estimated than underground mining costs, they are also very dependent on fuel and maintenance costs, foreign currency exchange rates and availability of skilled labour.

There can be no assurance that the Company will be able to complete the development of the Valencia Uranium Project on time or on budget due to, among other things, changes in the economics, the scope of the pre-stripping and the size of the open pit, delays in the delivery of plant and cost overruns.

There can be no assurance that the current personnel, systems, procedures and controls will be adequate to support the Company's operations. Should any of the disruptions, changes and events referred to above occur, they would have a material adverse effect on the Company's business, financial condition and results of operations.

### **Water and electrical power supply is scarce in Namibia**

The availability of water and electricity is critical to the mining operations of the Company. The only water in the Valencia Uranium Project area is found beneath the beds of large streams (e.g. the Khan River, 4.5 km to the north). Historical drill operations at the Valencia by TECO required that water be transported over distances reaching 27 km. Electricity is also scarce in Namibia. Although the Company has made efforts to obtain adequate quantities of water and electricity to proceed with exploration and development of the Projects, there is no guarantee that these efforts will be successful or that third parties on which the Company is dependent for its supply of water and electricity will meet their obligations in a timely fashion, or at all. The failure by the Company to secure any or all of the water and electrical power required for the Projects may have a material adverse effect on the Company's business, financial condition and results of operations.

### **The capital and operating cost estimates for the Valencia Uranium Project are estimates only and may not reflect the actual capital and operating costs incurred by the Company**

There can be no assurance that final capital costs for the construction of the open pit mine and related processing facilities at the Valencia Uranium Project will not be greater than estimated. In addition, there can be no assurance that the actual mining costs incurred by the Company will not be greater than estimated. Previous capital and operating cost estimates include supplies and inputs, the cost of which the Company has little control over. These include, but are not limited to, transportation and handling charges, the cost of fuel, the cost of electricity, labour costs, reagent costs, the price of construction materials including steel, and the cost of mining equipment and spares. A material increase in one or more of these supplies and inputs may materially increase the actual capital and/or operating costs incurred by the Company. Any material increase may cause the Valencia Uranium Project to become economically unviable or delay the development of the project, either of which would have a material adverse effect on the Company's business, financial condition and results of operations.

### **No assurance can be given that additional capital, if required, will be available at all or available on terms acceptable to the Company**

The Company will require additional financing (including a working capital facility) for the Valencia Uranium Project and to continue the exploration of its other properties. Failure to obtain such financing, and/or sufficient financing for completing, commencing and continuing open pit operations, the exploration and development of the Company's other properties or any future projects, may result in suspension of operations or a delay or indefinite postponement of exploration, development or production on such properties or even a loss of a property interest. The Company's only sources of additional funds currently available until the Valencia

Uranium Project reaches commercial production are its current cash balances, possible exercise of warrants and share options, project finance alternatives and the equity markets. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders.

**The Company's mineral resource estimates are only estimates and may not reflect the actual deposits or the economic viability of uranium or other metal extraction**

The figures for mineral resources presented in this MD&A are estimates and no assurance can be given that the anticipated tonnage and grades will be achieved or that the indicated level of recovery will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Establishment of a uranium reserve and development of a uranium mine does not assure a profit on the investment or recovery of costs. In addition, geological complexity, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels.

The quantity of a given mineral tends to vary in all types of deposits. Due to the nature of drilling and building reserves, small variances both positive and negative must be anticipated. Inferred resources are estimated and must account for large sections of ore bodies that are believed to contain what the average overall results demonstrate.

**Future production will be subject to the normal risks of mining operations**

The Company's future mining operations are subject to all of the hazards and risks normally incidental to exploration, development and the production of uranium. The Company's future mining activities may be subject to prolonged disruptions due to weather conditions, hazards such as unusual or unexpected geologic formations, flooding or other conditions that may be encountered in the drilling and removal of material.

There may be a higher than normal risk of sourcing and hiring suitably trained plant management, operating and maintenance staff and these people may not be readily available in Namibia or not otherwise easily employed from within the Namibia region. This situation could also be impacted by delays in obtaining necessary work and other labour permits to allow expatriate expertise to be utilized to the extent necessary.

**The Company's current and proposed exploration and mining activities are situated entirely in a single country**

The Company is conducting its exploration and development activities in the Republic of Namibia. The Company believes that the Government of Namibia supports the development of natural resources by foreign operators. There is no assurance that future political and economic conditions in Namibia will not result in the Government of Namibia adopting different policies respecting foreign development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, land tenure and mineral concessions, taxation, royalties, rates of exchange, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the Company's ability to undertake exploration and development activities in respect of future properties as well as its ability to continue to explore and develop those properties in respect of which it has obtained mineral exploration rights to date.

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## **The Company's properties are subject to environmental regulation and the risks associated therewith**

The Projects and the Company's operations generally, are subject to environmental regulation in all of the jurisdictions in which the Company operates. Such regulation covers a wide variety of matters, including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations, health and safety, and mine closure and reclamation. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and permitting requirements are likely to evolve 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 a heightened degree of responsibility for companies and their directors and employees. In recent years, a number of mining projects in various parts of the world have been stopped due to intense lobbying and protests initiated by either local or international environmental groups. Any failure by the Company to comply with applicable environmental regulations or the stoppage of mining projects due to lobbying or protest could have a material adverse effect on the Company's business, financial condition and results of operations.

## **The Company cannot assure that its title and mineral licences will not be challenged, revoked or adversely altered**

The Company has investigated the mineral rights and licences held by its subsidiaries in respect of the Projects and, to the best of its knowledge, those rights are in good standing at the date of this Annual Information Form, but no assurance can be given that such rights will not be challenged, revoked, or significantly altered, to the detriment of the Company. There can also be no assurance that the Company's (and its subsidiaries') rights will not be challenged or impugned by third parties, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects should such challenges be successful.

## **Insurance and uninsured risks**

Although the Company maintains liability insurance against certain risks in an amount that it considers consistent with industry practice for a company in the exploration and development stage, the nature of these risks is such that liabilities could exceed policy limits or could be excluded from coverage, in which event the Company could incur significant costs that could have a material adverse effect upon the Company's business, financial condition and/or results of operation. Also, there are risks against which the Company cannot insure or against which it may elect not to insure. The potential costs that could be associated with any liabilities not covered by insurance which may be taken out or in excess of insurance coverage may cause substantial delays and require significant capital outlays, adversely affecting the Company's financial condition and/or results of operation.

The Company will require significant additional insurance to cover operating risks, as applicable. There can be no assurance that such insurance will be available or that the terms and costs of such insurance will not adversely affect the anticipated profitability of the Valencia Uranium Project and, therefore, the Company's business, financial condition and/or results of operation.

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**The Company has no operating history and a history of losses and there can be no assurance that the Company will ever be profitable**

The Company has no mineral properties from which any ore has ever been extracted and sold and its ultimate success will depend on its ability to generate cash flow from producing properties in the future. The Company has not earned profits to date and there is no assurance that it will do so in the future.

**The success of current and future exploration activities cannot be assured**

The exploration and development of mineral deposits involves significant financial risks over a prolonged period of time, which even a combination of careful evaluation, experience and knowledge cannot eliminate. While discovery of a mineral structure may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenditure may be required to establish mineral reserves by drilling and to construct mining and processing facilities at a site. It is impossible to ensure that pre-feasibility studies or full feasibility studies on the Projects or the current or proposed exploration programmes for the Projects will ever result in the discovery of an economically viable mineral deposit or in a profitable commercial mining operation.

Whether a uranium deposit will be commercially viable depends on a number of factors, some of which are the particular attributes of the deposit, such as its size and grade, proximity to infrastructure, financing costs and governmental regulations, including regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of uranium and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Projects not being, or ceasing to be, viable, which would have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**The Company's share price may be volatile and its shares illiquid**

The Common Shares are listed and quoted on the Toronto, Frankfurt and Namibian stock exchanges. The share prices of publicly traded companies can be volatile as the price of shares is dependent upon a number of factors, some of which are general or market or sector specific and others that are specific to the Company.

The market for shares in small public companies is less liquid than for large public companies. Therefore an investment in Common Shares may be difficult to realize and the share price may be subject to greater fluctuations than might otherwise be the case.

The market price of Common Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their securities may be influenced by a number of factors, some of which may pertain to the Company and others of which are extraneous. On any disposal of their Common Shares, investors may realize less than the original amount invested.

**ADDITIONAL INFORMATION**

Additional information relating to the Company, including the Company's Annual Information Form is available under the Company's filings on SEDAR at [www.sedar.com](http://www.sedar.com).