



(An Exploration Stage Company)

## **Unaudited Interim Consolidated Financial Statements**

**For the quarter ended October 31, 2008**

**These unaudited interim consolidated financial statements of Forsys Metals Corp. for the nine months ended October 31, 2008 have been prepared by management and approved by the Board of Directors of the Company.**

**Filed on December 10, 2008**

# Forsys Metals Corp.

(An Exploration Stage Company)

## Consolidated Balance Sheets

(unaudited and expressed in Canadian dollars)

	As at October 31, 2008	As at Jan 31, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 36,720,751	\$ 51,836,054
Amounts receivable	800,223	311,646
Prepaid expenses	58,483	48,177
Restricted deposits (Note 5(e))	-	2,143,698
	<b>37,579,457</b>	<b>54,339,575</b>
<b>Mineral Properties and Deferred Exploration Expenditures (Note 5)</b>	<b>51,396,844</b>	<b>43,379,787</b>
<b>Capital Assets (Note 6)</b>	<b>5,360,508</b>	<b>1,268,134</b>
	<b>\$94,336,809</b>	<b>\$ 98,987,496</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,279,649	\$ 387,094
<b>Shareholders' Equity</b>		
<b>Share Capital (Note 7)</b>	<b>125,245,964</b>	<b>124,587,015</b>
<b>Contributed Surplus (Note 8)</b>	<b>40,663,927</b>	<b>38,582,156</b>
<b>Deficit</b>	<b>(72,852,731)</b>	<b>(64,568,769)</b>
	<b>93,057,160</b>	<b>98,600,402</b>
	<b>\$94,336,809</b>	<b>\$ 98,987,496</b>

### Commitments and contingencies (Note 10)

The accompanying notes are an integral part of these consolidated financial statements

## Forsys Metals Corp.

(An Exploration Stage Company)

### Consolidated Statements of Operations, Comprehensive Loss and Deficit

(unaudited and expressed in Canadian dollars, except loss per share)

	3 months ended October 31,		9 months ended October 31,	
		Restated Note 12		Restated Note 12
	2008	2007	2008	2007
<b>Other Income</b>				
Interest income	\$ 317,758	\$ 553,052	\$1,290,089	\$ 1,481,543
<b>Expenses</b>				
Stock option compensation	401,800	7,409,380	2,167,227	10,562,730
Consulting fees and salaries	513,176	457,254	1,693,963	1,329,255
General and administrative	570,184	348,709	1,479,788	1,290,258
Mineral property acquisition costs (Note 5(d))	4,143,659	-	4,143,659	-
Amortization	66,148	43,359	213,332	95,934
Write-down of mineral properties	-	-	-	45,312,602
Foreign exchange (gain) loss	(127,288)	38,553	(123,918)	207,668
	5,567,679	8,297,255	9,574,051	58,798,447
Loss before income taxes	(5,249,921)	(7,744,203)	(8,283,962)	(57,316,904)
Income tax expense	-	-	-	2,658
<b>Net Loss and Comprehensive Loss for the Period</b>	<b>(5,249,921)</b>	<b>(7,744,203)</b>	<b>(8,283,962)</b>	<b>(57,319,562)</b>
<b>Deficit at Beginning of Period</b>	<b>(67,602,810)</b>	<b>(55,582,747)</b>	<b>(64,568,769)</b>	<b>(6,007,388)</b>
<b>Deficit at End of Period</b>	<b>\$72,852,731</b>	<b>\$(63,326,950)</b>	<b>\$72,852,731</b>	<b>\$(63,326,950)</b>
<b>Net Loss per share (basic and diluted)</b>	<b>(0.07)</b>	<b>(0.10)</b>	<b>(0.11)</b>	<b>(0.80)</b>
<b>Weighted average number of common shares outstanding</b>	<b>77,093,592</b>	<b>74,610,315</b>	<b>76,984,484</b>	<b>71,606,999</b>

The accompanying notes are an integral part of the consolidated financial statements

# Forsys Metals Corp.

(An Exploration Stage Company)

## Consolidated Statements of Cash Flow

(unaudited and expressed in Canadian dollars)

	3 months ended October 31,		9 months ended October 31,	
		Restated Note 12		Restated Note 12
	2008	2007	2008	2007
<b>Operating Activities</b>				
Net loss and comprehensive loss for the period	\$(5,249,921)	\$ (7,744,203)	\$(8,283,962)	\$(57,319,562)
Items not involving cash:				
Stock option compensation	401,800	7,409,380	2,167,227	10,562,730
Amortization	66,148	43,359	213,332	95,934
Write-down of mineral properties	-	-	-	45,312,602
Changes in non-cash working capital items:				
Amounts receivable	(184,725)	227,172	(488,577)	146,864
Prepaid expenses	(29,449)	(70,231)	(10,306)	(55,210)
Accounts payable and accrued liabilities	227,154	(512,231)	165,672	(188,720)
Cash Flow Used in Operating Activities	(4,768,993)	(646,755)	(6,236,614)	(1,445,362)
<b>Financing Activities</b>				
Exercise of options	40,749	50,000	97,557	620,000
Exercise of warrants	-	2,927,188	-	5,512,149
Private placement of units	-	-	-	47,500,000
Share issue costs	-	2,902	-	(2,120,076)
Cash Flow from Financing Activities	40,749	2,980,090	97,557	51,512,073
<b>Investing Activities</b>				
Purchase of mineral properties	-	-	(107,240)	(3,200,501)
Increase in deferred exploration costs	(2,736,715)	(883,076)	(6,768,985)	(2,805,758)
Purchase of capital assets	(39,034)	(754,741)	(282,393)	(1,043,637)
Increase in construction in process	(1,694,594)	-	(4,006,683)	-
Decrease in restricted deposits (Note 5(e))	2,009,730	-	2,143,698	-
Cash Flow from Investing Activities	(2,460,613)	(1,637,817)	(9,021,603)	(7,049,896)
Exchange gain on cash held in foreign currency	20,619	-	45,357	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(7,168,238)</b>	<b>695,518</b>	<b>(15,115,303)</b>	<b>43,016,815</b>
Cash and cash equivalents at beginning of period	43,888,989	54,251,559	51,836,054	11,930,262
<b>Cash and cash equivalents at end of period</b>	<b>\$ 36,720,751</b>	<b>\$ 54,947,077</b>	<b>\$ 36,720,751</b>	<b>\$ 54,947,077</b>

The accompanying notes are an integral part of these consolidated financial statements

# **Forsys Metals Corp.**

(An Exploration Stage Company)

## **Notes to Consolidated Financial Statements**

**For the Quarter Ended October 31, 2008**

(Unaudited, all numbers in Canadian dollars)

### **1. Nature of Operations**

Forsys Metals Corp. ("Forsys" or the "Company") is an Ontario based, Exploration Stage Company engaged in the acquisition, exploration and development of mineral properties. The Company's principal focus is on bringing the Valencia Uranium Project into production and exploring its other mineral properties located in Namibia, Africa.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP"). The recoverability of the amounts shown for mineral properties and related deferred costs is dependent upon, but not limited to, the dependence on key individuals, the ability of the Company to obtain necessary permits and financing to complete the exploration and development and upon future profitable production or proceeds from the disposition of properties.

The underlying value of the Company's mineral properties is dependent upon the ability to obtain all necessary permits, the existence and economic recovery of mineral reserves in the future and the ability of the Company to raise funds required to complete the development of the properties. The Company may be adversely affected by governmental amendments or changes to mining laws, regulations and requirements in Namibia. The Company does not have sufficient cash to fund the development of its Namibian properties and therefore will require additional funding which if not raised would result in the curtailment of activities and result in development delays and/or a review of strategic alternatives. While the Company has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the future.

### **2. Summary of Significant Accounting Policies**

#### **a) Basis of Presentation**

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements that are consistent with the policies used in preparing the Company's annual consolidated financial statements for the year ended January 31, 2008, except as noted under the "New Accounting Standards Adopted" section below. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended January 31, 2008, since they do not contain all disclosures required by GAAP annual financial statements. The unaudited interim consolidated financial statements include all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented. These financial statements include the accounts of Forsys and its subsidiaries Valencia Uranium (Pty) Limited, Westport Resources Namibia (Pty) Limited and Mega Diamond Development Ltd. All inter-company transactions and balances have been eliminated. Outlined below is a summary of significant accounting policies.

#### **b) Mineral Properties and Deferred Exploration Costs**

The exploration activities of the Company are directed towards the search, evaluation and development of mineral properties. Major expenditures are required to locate and establish ore reserves to develop metallurgical processes and to construct mining and processing facilities at a particular site.

The recoverability of values assigned to mineral interests is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition.

# **Forsys Metals Corp.**

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## **Notes to Consolidated Financial Statements**

**For the Quarter Ended October 31, 2008**

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### **2. Summary of Significant Accounting Policies (Continued)**

Management reviews the carrying value of the Company's interest in each property on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, where necessary, these properties are written down to their estimated fair value. It is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the need for, as well as the amount of, provision for impairment in the carrying value of mineral interests and related assets.

The cost of acquisition of mineral interests and related exploration costs are deferred until the properties to which they relate are placed into production, sold or allowed to lapse. These costs will be amortized over the estimated useful life of the properties following commencement of commercial production or written off if the properties are sold or allowed to lapse. The Company does not accrue future costs to keep the properties in good standing. Administrative expenditures, not directly related to property maintenance, are charged to operations as incurred.

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

#### ***c) Asset Retirement Obligations***

As the Company currently has no projects requiring remediation, there is no provision accrued for asset retirement obligations. However, as the development of any project commences, senior management will assess whether an asset retirement obligation ("ARO") liability will arise. At the point where such liability arises, the financial statement adjustment required will be to increase the project's property value and related ARO liability by the discounted value of the total liability. Thereafter, the Company will be required to record a charge to earnings each year to accrete the discounted ARO to the final expected liability.

#### ***d) Basic and diluted earnings (loss) per share***

Earnings (loss) per share are calculated using the weighted-average number of common shares outstanding during the period. Basic earnings per share (EPS) is determined as net income (loss) divided by the weighted average number of shares outstanding for the period. Diluted earnings per share is calculated using the treasury stock method, whereby proceeds deemed to be received on the exercise of options and warrants in the per-share calculation are deemed to be applied to reacquire common shares. In a loss per share calculation the effect of potential issuance of shares under options and warrants would be anti-dilutive, accordingly basic and diluted loss per share are the same.

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## **Notes to Consolidated Financial Statements**

**For the Quarter Ended October 31, 2008**

(Unaudited, all numbers in Canadian dollars)

### **2. Summary of Significant Accounting Policies (Continued)**

#### ***e) Comparative amounts***

Certain comparative amounts have been reclassified to conform to the current year's presentation.

#### **New Accounting Standards Adopted**

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 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.
- (b) 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,

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

The CICA has issued the following accounting standard which is effective for the Company's fiscal year commencing on or after October 1, 2008.

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

### **3. Capital Management**

The Company's objective when managing capital is to ensure that it has sufficient capital to maintain its ongoing operations, to provide adequate returns for shareholders and benefits for other stakeholders and to maintain a sufficient level of funds to support continued exploration and development of its operations in Namibia.

The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its exploration and development activities. In order to maintain or adjust its capital structure, the Company expects that it will be able to obtain financing sufficient to

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## **Notes to Consolidated Financial Statements**

### **For the Quarter Ended October 31, 2008**

(Unaudited, all numbers in Canadian dollars)

maintain and expand development activities. There are no assurances that these initiatives will be successful.

As of October 31, 2008 the Company is not subject to externally imposed capital requirements and there has been no change during the year with respect to the overall capital risk management strategy.

#### **4. Financial 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.

##### ***(a) Credit Risk***

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.

The majority (October 31, 2008 \$36.6 million) of the Company's cash and cash equivalents are on deposit with a Canadian Chartered Bank. The remainder (October 31, 2008 \$0.1 million) is held in a local bank in Namibia to meet immediate cash requirements.

##### ***(b) Liquidity***

The Company has sufficient funds (October 31, 2008 \$36.7 million and January 31, 2008 \$51.8 million) to settle existing liabilities.

##### ***(c) Currency Risk***

The Company's expenses are incurred in Canadian, US and Namibian dollars and therefore the Company is subject to gains and losses due to fluctuations in these currencies. The Company maintains US dollar bank accounts in each of Namibia and Canada for operating and administrative purposes.

##### ***(d) Interest Rate Risk***

The Company's current policy is to invest excess cash in bankers acceptances issued by top tier Canadian banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

##### ***(e) 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 current commitments.

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### Notes to Consolidated Financial Statements

For the Quarter Ended October 31, 2008

(Unaudited, all numbers in Canadian dollars)

#### 5. Mineral Properties and Deferred Exploration Expenditures

	October 31, 2008	January 31, 2008
<b>Mineral properties located in Namibia, Africa</b>		
Balance of beginning of period	\$ 35,072,476	\$ 6,413,101
Purchase of remaining 68% interest in Omatjete Mining Company (Pty) Limited	583,176	-
Purchase of remaining 10% interest in Valencia	-	16,659,375
Purchase of Mega Diamond Development Ltd. net of write-down of \$45,312,625	-	12,000,000
Balance at end of period	35,655,652	35,072,476
<b>Deferred exploration expenditures</b>		
Balance at beginning of period	8,307,311	3,593,651
Additions to		
Deferred exploration costs-Valencia	5,263,404	4,461,556
Deferred exploration costs-other permits	2,170,477	252,104
Balance at end of period	15,741,192	8,307,311
	<b>\$51,396,844</b>	<b>\$ 43,379,787</b>

The Company holds the following Licences for mineral properties in Namibia, Africa.

a) Licence ML 149

Mining Licence ML149 for the Valencia Uranium Project was issued on August 20, 2008 for a period of 25 years until June 22, 2033. This Licence replaces Exclusive Prospecting Licence 1496.

b) Exploration Licences

The Company's exploration permits include:

- i. A 70% interest in Exclusive Prospecting Licences 3632, 3635, 3636 and 3637 held by Ancash Investments which was renewed for a period of two years until November 5, 2009.
- ii. A 91% interest in the Exclusive Prospecting Licence 3638 held by Dunefield Mining Company (Pty) Limited, which was renewed for a period of two years until November 6, 2009
- iii. A 100% interest in the Exclusive Prospecting Licence 3195 for the Ondundu gold project, which was renewed for a period of two years until May 30, 2009.
- iv. A 100% interest in the Exclusive Prospecting Licence 2797 for the Sperrgebiet zinc project for which renewal is pending.
- v. A 100% interest in the Exclusive Prospecting Licence 3166 for the Omaruru gold project for which renewal is pending.

In addition, the Company, through its Westport subsidiary, has an Option agreement to earn a 60% interest in the Exclusive Prospecting Licence 3136 for the Elbe copper, gold, zinc and silver project. In order to earn its interest in the property, the Company must issue 300,000 Class A common

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### Notes to Consolidated Financial Statements

#### For the Quarter Ended October 31, 2008

(Unaudited, all numbers in Canadian dollars)

shares and incur exploration and development expenditures totalling NAD\$5 million before March 12, 2010.

- (c) The Company has increased its interest in Omatjete Mining Company (Pty) Limited, the holder of Exclusive Prospecting Licence 3195 known as the Ondundu gold exploration project, from 32% to 100%, for total consideration of \$583,176 through:
- the acquisition of a 58% interest in March 2008 for a payment of \$100,000 and the issue of 130,000 Class A common shares with a fair value of \$405,600 in March 2008 and
  - the acquisition in May 2008 of the remaining 10% interest for a payment of \$7,240 plus the issue of 22,400 Class A common shares with a fair value of \$70,336.
- (d) During the quarter, the Company acquired mineral properties for \$4,143,659. These properties have been expensed as they have no definable uranium reserves.
- (e) At January 31, 2008 the Company's lawyers were holding \$2,000,000 in an interest bearing escrow deposit account pursuant to an agreement dated August 30, 2007 which provided the Company with an option, exercisable until March 14, to increase, by up to 20%, its ownership of Ancash Investments (Pty) Limited, which holds an interest in four uranium exploration permits in Namibia. In September 2008, the Company gave notice that it did not intend to exercise this option, at which time the funds in this escrow account were released.

## 6. Capital Assets

	October 31, 2008			January 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land and buildings	\$ 655,000	\$ -	\$ 655,000	\$ 655,000	\$ -	\$ 655,000
Vehicles	529,144	167,977	361,167	283,430	69,252	214,178
Equipment	358,580	157,152	201,428	303,272	55,955	247,317
Office furniture	131,138	49,596	81,542	137,372	65,715	71,657
Leasehold improvements	98,440	43,753	54,687	98,440	18,458	79,982
Construction in process	4,006,683	-	4,006,683	-	-	-
	<b>\$5,778,986</b>	<b>\$ 418,478</b>	<b>\$5,360,507</b>	<b>\$1,477,514</b>	<b>\$ 209,380</b>	<b>\$1,268,134</b>

Construction in process consists of amounts advanced for the construction of a crusher and three rod mills for the Valencia Uranium Project, plus cash advanced for the design of electricity infrastructure.

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**Notes to Consolidated Financial Statements**  
**For the Quarter Ended October 31, 2008**  
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**7. Share Capital**

**Authorized**

The Company is authorized to issue:

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

**Issued and Outstanding Class A Common Shares**

	Number of Shares	\$
<b>Balance as at January 31, 2007</b>	53,471,755	24,119,318
Issued for cash:		
Private placement	10,000,000	47,500,000
Exercise of warrants	3,684,743	5,307,152
Exercise of options	1,332,500	1,150,000
Share issue costs	-	(2,120,078)
Issued as payment for:		
Acquisition of Mega Diamond Development Ltd.	5,050,000	35,148,000
Acquisition of Valencia Uranium Ltd.	3,300,000	11,550,000
Fair value of warrants exercised	-	2,668,199
Fair value of options exercised	-	974,836
Fair value of warrants issued	-	(1,710,412)
<b>Balance as at January 31, 2008</b>	76,838,998	124,587,015
Issued for cash:		
Exercise of options	178,833	97,557
Issued as payment for:		
Acquisition of 58% interest in Omatjete (Note 5(c))	130,000	405,600
Acquisition of 10% interest in Omatjete (Note 5(c))	22,400	70,336
Fair value of options exercised	-	85,456
<b>Balance as at October 31, 2008</b>	77,170,231	125,245,964

**Stock Options**

	Number of Options	Weighted Average Exercise Price \$
<b>Outstanding as at January 31, 2007</b>	3,283,500	1.43
Granted	4,110,000	4.13
Exercised	(1,332,500)	0.86
Cancelled	(482,500)	5.07
<b>Outstanding as at January 31, 2008</b>	6,118,500	3.08
Granted	810,000	3.51
Exercised	(178,833)	0.55
Cancelled	(146,667)	3.58
<b>Outstanding as at October 31, 2008</b>	6,603,000	3.19

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### **Notes to Consolidated Financial Statements**

#### **For the Quarter Ended October 31, 2008**

(Unaudited, all numbers in Canadian dollars)

On March 7, 2008 the Company granted 450,000 options to acquire Class A common shares at a price of \$3.11 per share until March 7, 2013 which vest one third on each of March 7, 2008, 2009 and 2010. The fair value of these options of \$869,024 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	2.67%
Volatility	98%
Dividend yield	0%

On May 2, 2008 the Company granted 40,000 options to acquire Class A common shares at a price of \$3.25 per share until May 2, 2013 which vest immediately. The fair value of these options of \$80,625 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	3.00%
Volatility	98%
Dividend yield	0%

On May 22, 2008 the Company granted 15,000 options to acquire Class A common shares at a price of \$4.11 per share until May 22, 2013 which vest one third on each of May 7, 2008, 2009 and 2010. The fair value of the options of \$38,451 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	3.19%
Volatility	98%
Dividend yield	0%

On June 13, 2008 the Company granted 80,000 options to acquire Class A common shares at a price of \$4.09 per share until June 13, 2013 which vest one half on each of June 13, 2009 and 2010. The fair value of the options of \$202,426 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	4.09%
Volatility	97%
Dividend yield	0%

On August 1, 2008 the Company granted 100,000 options to acquire Class A common shares at a price of \$3.80 per share until August 1, 2013 which vest immediately. The fair value of the options of \$225,627 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	3.15%
Volatility	90%
Dividend yield	0%

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#### For the Quarter Ended October 31, 2008

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On August 6, 2008 the Company granted 75,000 options to acquire Class A common shares at a price of \$3.65 per share until August 6, 2013 which vest one third on each of August 6, 2008, 2009 and 2010. The fair value of the options of \$159,565 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	3.04%
Volatility	90%
Dividend yield	0%

On September 19, 2008 the Company granted 50,000 options to acquire Class A common shares at a price of \$5.40 per share until September 19, 2013 which vest one third on each of September 19, 2008, 2009 and 2010. The fair value of the options of \$156,250 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	3.16%
Volatility	89%
Dividend yield	0%

A summary of the Company's options outstanding and exercisable at October 31, 2008 is presented below:

Grant Date	Exercise Price	Options Outstanding	Options Exercisable	Expiry Date
July 7, 2005	\$0.50	350,000	350,000	July 7, 2010
September 6, 2005	\$0.75	100,000	100,000	September 6, 2010
March 23, 2006	\$1.15	440,000	440,000	March 23, 2011
April 11, 2006	\$2.00	270,000	270,000	April 11, 2011
September 27, 2006	\$2.20	788,000	788,000	September 27, 2011
January 5, 2007	\$5.69	110,000	110,000	January 5, 2012
February 21, 2007	\$7.74	660,000	660,000	February 21, 2012
July 31, 2007	\$5.40	100,000	100,000	July 31, 2007
September 4, 2007	\$3.80	100,000	100,000	September 4, 2007
October 25, 2007	\$3.00	3,000,000	3,000,000	October 25, 2012
March 7, 2008	\$3.11	450,000	150,000	March 7, 2013
May 22, 2008	\$4.11	10,000	3,333	May 22, 2013
August 1, 2008	\$3.80	100,000	100,000	August 1, 2013
August 6, 2008	\$3.65	75,000	25,000	August 6, 2013
September 19, 2008	\$5.40	50,000	16,667	September 19, 2013
		6,603,000	6,213,000	

The total amount remaining to be expensed in respect of options granted that have not yet vested is \$621,240.

#### Warrants

	Number of Warrants	Weighted Average Exercise Price \$
<b>Outstanding as at January 31, 2007</b>	3,684,745	1.44
Issued	7,500,000	5.27
Exercised	(3,684,745)	1.44
<b>Outstanding as at January 31 and October 31, 2008</b>	7,500,000	5.27

# Forsys Metals Corp.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

For the Quarter Ended October 31, 2008

(Unaudited, all numbers in Canadian dollars)

A summary of the Company's warrants outstanding and exercisable at July 31, 2008 is presented below:

Grant Date	Expiry Date	Number of Warrants	Exercise Price
February 27, 2007	February 27, 2009	500,000	\$4.75
March 13, 2007	March 13, 2010	4,000,000	\$6.66
March 14, 2007	March 14, 2009 (a)	3,000,000	\$3.50
		7,500,000	

(a) These warrants expire at the earlier of (i) March 14, 2009 and (ii) 60 business days after the date that the Company notifies the holder that the closing price for the Class A common shares on the Toronto Stock Exchange has exceeded \$5.50 per Class A common share for 20 consecutive trading days.

### 8. Contributed Surplus

<b>Balance as at January 31, 2007</b>	\$ 4,522,347
Stock-based compensation	11,856,063
Fair value of warrants issued pursuant to private placement	1,710,412
Fair value of warrants issued on acquisition of Mega Diamond Development Ltd.	21,032,025
Fair value of warrants issued on acquisition of Valencia Uranium Limited	3,103,344
Transferred to share capital on exercise of warrants	(2,668,199)
Transferred to share capital on exercise of options	(974,836)
<b>Balance as at January 31, 2008</b>	<b>\$38,582,156</b>
Stock-based compensation	2,167,227
Transferred to share capital on exercise of options	(85,456)
<b>Balance as at October 31, 2008</b>	<b>\$40,663,927</b>

### 9. Related Party Transactions

During the 3 months ended October 31, 2008, consulting fees of \$285,750 (2007-\$294,000) (9 months ended October 31, 2008 \$819,750, 2007-\$869,100) were paid to three directors or companies controlled by them in accordance with the consultant's contracts. These amounts have been recorded at the exchange amounts agreed to by the parties and have been paid.

### 10. Commitments and Contingencies

- (a) The Company is involved from time to time in various legal actions and claims in the ordinary course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse effect on the Company's financial position or results.
- (b) 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, with progress payments scheduled over the next two years with a total estimated cost of \$15,500,000. To October 31, 2008 the Company has incurred costs of \$3,400,000.

## Forsys Metals Corp.

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### Notes to Consolidated Financial Statements

#### For the Quarter Ended October 31, 2008

(Unaudited, all numbers in Canadian dollars)

(c) The Company has operating lease commitments over the next five years as follows:

2008	\$ 30,000
2009	157,000
2010	126,000
2011	68,000
2012	5,000
	<u>\$ 386,000</u>

## 11. Segmented Information

The Company has one operating segment in the mining and mineral exploration industry in Namibia. Mining properties, deferred exploration expenditures and substantially all of the company's capital assets, and working capital with the exception of cash and cash equivalents relate to Namibia. The total assets located by geographic area are located as follows:

	October 31, 2008	January 31, 2008
Namibia	\$57,374,739	\$ 51,955,529
Canada	36,962,070	47,031,967
	<u>\$94,336,809</u>	<u>\$ 98,987,496</u>

## 12. Restatement of Prior Year Results

On March 13, 2007, the Company acquired all of the issued and outstanding common shares of Mega Diamond Development Ltd. ("Mega") a private company incorporated in the British Virgin Islands which owns 70% of the issued and outstanding common shares of Ancash Investments (PTY) Ltd., a company incorporated in Namibia that is the 100% registered holder of the interests in Exclusive Prospecting Licences 3632, 3635, 3636 and 3637.

As set out in note 5 to the Company's financial statements for the years ended January 31, 2008 and 2007 the consideration shares for this acquisition were accounted for using a price for the Company's common shares of \$6.96 which was the market price prevailing in February 2007 when a final agreement was reached. When preparing these year-end financial statements the Company reviewed the carrying value of \$57,312,602 resulting from the use of a common share price of \$6.96 and determined that a write-down of \$45,312,602 to a carrying value of \$12,000,000 for the underlying exploration permits was required and this write-down was recorded originally in the fourth quarter financial statements. When preparing its quarterly financial statements for the quarters ended April 30, July 31 and October 31, 2007 the Company had previously determined the carrying value for this acquisition using a price for its common shares of \$1.67 which was the common share price in September 2006 when the transaction was originally announced.

The Company has subsequently determined that the write-down of \$45,312,602, discussed above, should have been recorded in first quarter and not the fourth quarter. Accordingly, the Company has corrected its quarterly results for the year ended January 31, 2008 and has reissued its quarterly financial statements for the quarters ended April 30, and July 31 2008 to restate the comparative numbers for the quarters ended April 30, July 31 and October 31, 2007.

## Forsys Metals Corp.

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### Notes to Consolidated Financial Statements

#### For the Quarter Ended October 31, 2008

(Unaudited, all numbers in Canadian dollars)

This resulted in the following restatement of previously published results for the three months ended October 31, 2007. There restatement has no impact on cash flow.

	As Previously Stated 2007	Change	Restated 2007
<b>Consolidated Statements of Operations, Comprehensive Loss and Deficit</b>			
Write-down of mineral properties	-	-	-
Net loss and comprehensive loss for the period	(7,744,204)	-	(7,744,207)
Deficit at end of period	(18,014,348)	(45,312,602)	(63,326,950)
Loss per share	(0.10)	-	(0.10)

This resulted in the following restatement of previously published results for the nine months ended October 31, 2007. This restatement has no impact on cash flow.

	As Previously Stated 2007	Change	Restated 2007
<b>Consolidated Statements of Operations, Other Comprehensive Loss and Deficit</b>			
Write-down of mineral properties	-	45,312,602	45,312,602
Net loss and comprehensive loss for the period	(12,006,961)	(45,312,602)	(57,319,563)
Deficit at end of period	(18,014,348)	(45,312,602)	(63,326,950)
Loss per share	(0.17)	(0.63)	(0.80)

### 13. Subsequent Event

Subsequent to the end of the quarter, on November 14, 2008, George Forrest International Afrique S.P.R.L. ("GFI") and the Company entered into a definitive agreement pursuant to which GFI will effectively acquire, by way of a court-approved plan of arrangement, all of the outstanding common shares of Forsys (the "Offer") on the basis of \$7.00 per share in cash for each common share of Forsys, plus the "in the money" amount of any outstanding Forsys options and warrants. The Offer values Forsys at approximately \$579 million. The Board of Directors of Forsys has unanimously approved the Offer and resolved to recommend holders of Forsys shares, options and warrants that they vote in favour of the Offer. In determining to recommend the transaction to securityholders of Forsys, the Board of Directors considered a number of factors and has relied in part on an opinion from CIBC World Markets Inc, financial advisors to Forsys, to the effect that, subject to the assumptions and conditions set forth in such opinion, the consideration to be received by the holders of Forsys common shares pursuant to the Offer is fair, from a financial point of view, to such holders. In addition, the Directors, Senior Officers and certain other securityholders of Forsys have entered into support agreements with GFI, pursuant to which they have irrevocably agreed to vote their shares (including any shares issuable upon the exercise of options and warrants) and their options and warrants, representing 20.4% of the outstanding common shares of Forsys (calculated on a fully diluted basis) in favour of the Offer. In addition, Forsys will prepare and mail a proxy circular to the holders of Forsys securities in connection with a special meeting of securityholders to be held to approve the Offer. The Offer is expected to close in February 2009, subject to and shortly after receipt of the required securityholders and court approvals.