

# **Forsys Metals Corp.**

## **Consolidated Financial Statements**

**For the 9 months ended October 31, 2007**

**(unaudited)**

### **Management's Comments on Unaudited Interim Consolidated Financial Statements**

These unaudited interim consolidated financial statements of Forsys Metals Corp. (the "Company") for the 9 months ended October 31, 2007 have been prepared by management and approved by the Board of Directors of the Company.

These unaudited interim consolidated financial statements have not been reviewed by the Company's external auditors.

# Forsys Metals Corp.

## Consolidated Balance Sheets

	As at October 31, 2007 \$ (unaudited)	As at January 31, 2007 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	54,947,077	11,930,262
Foreign sales tax recoverable	442,282	249,164
Prepaid expenses	106,759	51,549
	55,496,118	12,230,975
Investment in Mega Diamond Development Ltd. (note 4)	-	300,000
Mineral properties (notes 4, 5 and 7)	43,753,265	10,006,752
Capital assets (note 6)	1,180,907	233,204
	100,430,290	22,770,931
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	287,918	91,654
Non-controlling interest	146,663	-
<b>Shareholders' equity</b>		
Capital stock (note 8)	97,278,459	24,119,318
Warrants exercised, shares not issued	-	45,000
Contributed surplus (note 9)	20,731,599	4,522,347
Deficit	(18,014,349)	(6,007,388)
	99,995,709	22,679,277
	100,430,290	22,770,931

See accompanying notes to interim consolidated financial statements

Duane Parnham  
**Director**

# Forsys Metals Corp.

## Consolidated Statements of Loss and Deficit

	3 months ended		9 months ended	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenue</b>				
Consulting fees	-	66,046	-	74,959
Interest	553,052	78,325	1,481,543	207,319
Other	-	29,908	-	29,908
	553,052	174,279	1,481,543	312,186
<b>Expenses</b>				
Professional fees	85,348	6,748	167,250	29,790
Consulting fees	399,940	170,585	1,251,488	496,120
Salaries and benefits	57,314	-	77,767	-
Stock-based compensation	7,409,380	666,389	10,562,730	1,353,111
General and administrative	89,324	34,921	244,335	85,758
Investor relations	25,472	48,572	309,862	127,875
Public company costs	21,822	129,738	182,829	192,400
Travel	126,743	49,533	385,982	108,304
Depreciation	43,359	5,592	95,934	24,427
Foreign exchange loss	38,553	219,653	207,668	362,975
	8,297,255	1,331,731	13,485,845	2,780,760
Net loss before income taxes	(7,744,204)	(1,157,452)	(12,004,303)	(2,468,574)
Income taxes	-	-	2,658	-
<b>Net loss</b>	(7,744,204)	(1,157,452)	(12,006,961)	(2,468,574)
Deficit, beginning of period	(10,270,145)	(4,106,761)	(6,007,388)	(2,795,639)
<b>Deficit, end of period</b>	(18,014,349)	(5,264,213)	(18,014,349)	(5,264,213)
<b>Net loss per share</b>	(0.10)	(0.02)	(0.17)	(0.05)
<b>Weighted average number of shares</b>	74,610,315	46,925,965	71,606,999	45,760,626

See accompanying notes to interim consolidated financial statements

# Forsys Metals Corp.

## Consolidated Statements of Cash Flows

	3 months ended		9 months ended	
	2007	2006	2007	2006
	\$	\$	\$	\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	(7,744,204)	(1,157,452)	(12,006,961)	(2,468,574)
Items not affecting cash				
Stock-based compensation	7,409,380	666,389	10,562,730	1,353,111
Depreciation	43,359	5,592	95,934	24,427
Changes in non-cash working capital items:				
Foreign sales tax recoverable	227,172	-	146,864	-
Interest receivable	-	(73,355)	-	(43,704)
Prepaid expenses	(70,231)	-	(55,210)	-
Accounts payable and accrued liabilities	(512,231)	(124,370)	(188,720)	6,981
	(646,756)	(683,196)	(1,445,364)	(1,127,759)
<b>Financing activities</b>				
Exercise of options	50,000	4,166	620,000	35,291
Exercise of warrants	2,927,188	31,050	5,512,149	2,126,455
Private placement of Class A common shares	-	-	47,500,000	-
Share issue costs	2,902	-	(2,120,076)	-
	2,980,090	35,216	51,512,073	2,161,746
<b>Investing activities</b>				
Acquisition of Tsumeb Exploration Company Limited	-	-	(2,367,925)	-
Acquisition of Mega Diamond Development Ltd.	-	-	(832,576)	-
Acquisition of Discovery Health and Medical Services (Proprietary) Limited	(655,000)	-	(655,000)	-
Mineral resource properties	(883,076)	(944,302)	(2,805,757)	(2,511,251)
Purchase of capital assets	(99,741)	-	(388,637)	(58,660)
	(1,637,817)	(944,302)	(7,049,895)	(2,569,911)
<b>Net increase in cash</b>	695,518	(1,592,282)	43,016,815	(1,535,924)
<b>Cash and cash equivalents, beginning of period</b>	54,251,559	10,720,089	11,930,262	10,663,731
<b>Cash and cash equivalents, end of period</b>	54,947,077	9,127,807	54,947,077	9,127,807

See accompanying notes to interim consolidated financial statements

# **Forsys Metals Corp.**

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

### **October 31, 2007**

(unaudited)

#### **1. Nature of operations**

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

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

#### **2. Accounting presentation and disclosures**

These interim consolidated financial statements of the Company have been prepared using accounting policies that are consistent with the policies used in preparing the Company's annual consolidated financial statements for the year ended January 31, 2007. Generally accepted accounting principles for interim financial statements do not conform in all respects to the disclosures required for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements.

#### **Accounting changes**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook") Section 1506, "Accounting Changes" which requires that voluntary changes in accounting policy be made only if the changes result in financial statements that provide more reliable and more relevant information. It also requires prior period errors to be corrected retrospectively. The adoption of the standard had no effect on the Company's consolidated financial statements.

#### **Financial instruments**

On January 1, 2007, the Company adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" which requires that financial instruments are classified as financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities.

##### *Financial assets and liabilities held for trading*

Financial assets and liabilities held for trading are accounted for at fair value with the change in fair value recognized in earnings.

##### *Held-to-maturity investments*

Held-to-maturity investments are recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. These financial instruments are written down to fair value by a charge to earnings when impaired.

##### *Loans and receivables*

Loans and receivables are initially recognized at fair value with any premium or discount from face value being amortized to earnings using the effective interest rate method. These financial instruments are written down to fair value by a charge to earnings when impaired.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are accounted for at fair value with the change in fair value recorded in other comprehensive earnings. These financial instruments are written down to fair value by a charge to earnings when impaired.

#### *Other financial liabilities*

Other financial liabilities are initially recognized at cost or amortized cost depending on the nature of the financial instrument with any premium or discount from face value being amortized to earnings using the effective interest method.

#### *Transaction costs*

Transaction costs incurred in connection with the issuance of financial liabilities are capitalized recorded as a deduction of the carrying value of the related financial liabilities and amortized using the effective interest method.

#### *Effect of adoption*

As a result of the adoption of the standards, the Company has classified its cash and cash equivalents as held for trading; foreign sales tax receivable as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities. On February 1, 2007, cash and cash equivalents previously reported as \$11,892,604 was restated to \$11,930,262 to reflect the reclassification of interest receivable of \$37,658 as cash and cash equivalents.

#### **Comprehensive income and equity**

On January 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income" which requires disclosure of comprehensive income and CICA Handbook Section 3251, "Equity" which requires presentation of the components of equity, including retained earnings (deficit) accumulated other comprehensive income, contributed surplus, share capital and reserves and the changes therein. Comprehensive earnings is composed of the Company's net earnings and other comprehensive earnings, including unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The Company does not have any other comprehensive income and the adoption of the standard had no effect on the Company's consolidated financial statements.

#### **Hedges**

On January 1, 2007, the Company adopted CICA Handbook Section 1530, "Hedges" which allows optional treatment providing that hedges be designated as either fair value hedges, cash flow hedges or hedges of a self-sustaining foreign operation. The Company does not have hedging programs in place which qualify for hedge accounting and the adoption of the standard had no effect on the Company's consolidated financial statements.

#### **3. Termination of disposition of Namibian Westport Ltd.**

On July 9, 2007, the Company entered into an agreement ("Agreement") to sell the issued and outstanding shares of Namibian Westport Ltd. (formerly Namibian Minerals Ltd.) ("Namibian") to Beta Minerals Inc. ("Beta"). Namibian, through its wholly owned subsidiary, Westport Resources Namibia (Pty.) Limited, owns a 100% interest in the Sperrgebiet Zinc Project, a 100% interest in the Omaruru Gold Project, an option to earn up to a 60% interest in the Elbe Zinc Project and a 32% interest in the Ondundu Gold Project, all of which are located in Namibia, Africa.

As the closing of the Agreement had not occurred by September 30, 2007, the Agreement was terminated and there are no obligations on the part of any parties under the Agreement.

#### **4. Acquisition of Mega Diamond Development Ltd.**

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. Mega owns 70% of the issued and outstanding common shares of Ancash Investments (PTY) Ltd. ("Ancash"), a company incorporated in Namibia that is the 100% registered holder of the interests in Exclusive Prospecting Licences 3632, 3635, 3636, and 3637 and has a 30% interest in Exclusive Prospecting Licence 3638, all uranium projects. As at January 31, 2007, cash of \$300,000 had been paid as a good faith payment prior to the completion of the acquisition.

#### **Purchase price**

Cash	997,150	\$
4,750,000 Class A common shares	7,932,500	
4,000,000 Class A common share purchase warrants entitling the holder to acquire one Class A common share at a price of \$6.66 per Class A common share until March 13, 2010	3,624,667	
Finders fee of 300,000 Class A common shares	501,000	
Acquisition costs	135,427	
	<hr/> 13,190,744	
<b>Net assets acquired</b>		<b>\$</b>
Mineral properties		13,190,744

The fair value of the warrants of \$3,624,667 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of warrants	3 years
Risk-free interest rate	4.11%
Volatility	128%
Dividend yield	0%

The Company has an option to acquire an additional 20% of the issued and outstanding common shares of Ancash until March 14, 2010 at a price to be determined on the date of exercise of the option based on the then current valuation of Ancash, provided that the consideration shall not be less than the amount paid for the initial acquisition of 70% of the issued and outstanding common shares of Ancash on a pro rata basis.

## 5. Acquisition of Tsumeb Exploration Company Limited

On December 9, 2005, the Company acquired all of the issued and outstanding shares of Namibian Metals Ltd. ("Namibian Metals"), a private company incorporated in the British Virgin Islands, the registered and beneficial holder of 90% of the issued and outstanding shares in Tsumeb Exploration Company Limited ("Tsumeb"), a private company incorporated in Namibia, whose primary asset is the Valencia Uranium Licence (EPL1496) in Namibia, Africa. On March 14, 2007, the Company acquired the remaining 10% of the common shares of Tsumeb.

<b>Purchase price</b>	\$
<b>90% interest acquired on December 9, 2005</b>	
Cash of US\$1,980,000	2,347,808
5,000,000 Class A common shares	1,500,000
3,000,000 Class A common share purchase warrants entitling the holder to acquire one Class A common share at a price of \$0.375 per Class A common share until November 23, 2007	597,000
Finders fee of 650,000 Class A common shares	195,000
Net income for the period December 9, 2005 to March 14, 2007	116,197
<b>10% interest acquired on March 14, 2007</b>	
Cash of US\$2,000,000	2,336,800
3,000,000 Class A common shares	10,500,000
3,000,000 Class A common share purchase warrants entitling the holder to acquire one Class A common share at an price of \$3.50 per Class A common share 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	3,685,422
Finders fee of 300,000 Class A common shares	1,050,000
Acquisition costs	31,126
	22,359,353

<b>Net assets acquired</b>	\$
Cash	1,495,065
Non-cash working capital	275,841
Mineral properties	26,142,315
Accounts payable to Westport	(1,161,432)
Loan payable to the Company	(4,392,436)
	22,359,353

The fair value of the warrants of \$3,685,422 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of warrants	1 year
Risk-free interest rate	4.09%
Volatility	87%
Dividend yield	0%

## 6. Acquisition of Discovery Health and Medical Services (Proprietary) Limited

On October 15, 2007, the Company acquired all of the issued and outstanding common shares of Discovery Health and Medical Services (Proprietary) Limited ("Discovery"), a private company incorporated in Namibia which owns real estate property in Namibia.

<b>Purchase price</b>	<b>\$</b>
Cash	655,000

<b>Net assets acquired</b>	<b>\$</b>
Capital assets	655,000

## 7. Mineral properties

As a result of the acquisition of remaining 10% of the common shares of Tsumeb, the Company holds a 100% interest in Exclusive Prospecting Licence 1496 for the Valencia uranium project, which is subject to renewal on February 19, 2009.

The Company has the option to earn a 60% interest in the Exclusive Prospecting Licence 3136 for the Elbe copper, gold, zinc and silver project, which expired on June 29, 2007 and the Company is awaiting approval of its renewal application. On March 13, 2007, the option was amended so that the Company has until March 12, 2010 to issue 300,000 Class A common shares and incur exploration and development expenditures of Namibian\$5,000,000.

The Company holds Exclusive Prospecting Licence 3166 for the Omaruru gold project, which expired on June 10, 2007 and the Company is awaiting approval of its renewal application.

The Company has a 32% interest in Exclusive Prospecting Licence 3195 for the Ondundu gold project, which is subject to renewal on May 30, 2009. The Company has agreements to acquire the remaining 68% interest in the Ondundu gold project for \$107,240 which has been paid; other consideration to be negotiated to replace the proposed issuance of common shares and warrants in a new company which was to be incorporated as part of the Company's terminated plan to dispose of Namibian (see note 2); and a 2% management fee on production, of which, the Company has the option to purchase 1% at any time for \$1,000,000.

The Company held Exclusive Reconnaissance Licence 95 for the Rundu diamond project, which expired on April 22, 2007 and was not renewed by the Company.

The Company has a 70% interest in Exclusive Prospecting Licences 3632, 3635, 3636, and 3637 and has a 30% interest in Exclusive Prospecting Licence 3638, all uranium projects, which expired on November 5, 2007 and the Company is awaiting approval of its renewal applications.

## 8. Share capital

### Issued and outstanding Class A common shares

	<b>Number of shares</b>	<b>\$</b>
<b>Balance as at January 31, 2006</b>	42,890,288	14,112,399
Issued for cash:		
Exercise of options	870,333	572,616
Exercise of warrants	9,711,134	5,935,079
Fair value assigned to options exercised	–	514,172
Fair value assigned to warrants exercised	–	2,985,052
<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 options	1,182,500	620,000
Exercise of warrants	3,684,743	5,512,152
Issued as payment for:		
Acquisition of Mega Diamond Development Ltd. (note 4)	4,750,000	7,932,500
Finder's fee for acquisition of Mega Diamond Development Ltd. (note 4)	300,000	501,000
Acquisition of Tsumeb Exploration Company Limited (note 5)	3,000,000	10,500,000
Finder's fee for acquisition of Tsumeb Exploration Company Limited (note 5)	300,000	1,050,000
Fair value assigned to warrants issued	–	(1,727,218)
Fair value of options exercised	–	722,586
Fair value of warrants exercised	–	2,668,199
Share issue costs	–	(2,120,076)
<b>Balance as at October 31, 2007</b>	76,688,988	97,278,460

On February 27, 2007, the Company completed a private placement of 10,000,000 Class A common shares for gross cash proceeds of \$47,500,000. Agents were paid a cash commission of 4% of the gross proceeds of the private placement and certain out of pocket expenses totaling \$1,954,670. In addition, the Company issued 500,000 warrants, with each warrant entitling the holder to acquire a Class A common share at a price of \$4.75 until February 27, 2009. The fair value of the warrants of \$1,727,218 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of warrants	2 years
Risk-free interest rate	4.02%
Volatility	105%
Dividend yield	0%

### Stock options

Due to the change in listing of the Company's Class A common shares from the TSX Venture Exchange to the Toronto Stock Exchange ("TSX"), the Company amended its stock option plan to comply with the rules of the TSX. Effective June 28, 2007, the Company's stock option plan was amended to permit stock options to have a maximum term of 10 years and to permit the Board of Directors to determine the vesting provisions of stock options granted. Previously granted stock options vest in six equal instalments over 18 months, with the first instalment vesting immediately, and the remaining options vesting upon 6 months, 9 months, 12 months 15 months and 18 months after the date of grant.

	Number of options	Weighted average exercise price \$
<b>Outstanding as at January 31, 2006</b>	2,285,500	0.46
Granted	2,425,000	2.06
Exercised	(870,333)	0.66
Cancelled	(16,667)	0.55
<b>Outstanding as at January 31, 2007</b>	3,283,500	1.43
Granted	4,110,000	4.13
Exercised	(1,182,500)	0.70
Cancelled	(257,500)	3.28
<b>Outstanding as at October 31, 2007</b>	6,493,500	3.20
<b>Exercisable as at October 31, 2007</b>	5,410,166	2.74

On February 21, 2007, the Company granted 910,000 options to acquire Class A common shares at a price of \$7.74 per share until February 21, 2012. The fair value of the options of \$5,236,845 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	4.03%
Volatility	128%
Dividend yield	0%

On July 31, 2007, the Company granted 100,000 options to acquire Class A common shares at a price of \$5.40 per share until July 31, 2012, which vested on the date of grant. The fair value of the options of \$361,350 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	4.59
Volatility	105%
Dividend yield	0%

On September 4, 2007, the Company granted 100,000 options to acquire Class A common shares at a price of \$3.80 per share until September 4, 2012, which vested on the date of grant. The fair value of the options of \$245,381 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	4.35
Volatility	103%
Dividend yield	0%

On October 22, 2007, the Company granted 3,000,000 options to acquire Class A common shares at a price of \$3.00 per share until October 25, 2012, which vested on the date of grant. The fair value of the options of \$5,793,332 was determined using the Black-Scholes valuation model with the following assumptions:

Expected life of options	3 years
Risk-free interest rate	4.21
Volatility	103%
Dividend yield	0%

A summary of the Company's options outstanding and exercisable at October 31, 2007 is presented below:

<b>Exercise price</b>	<b>Options outstanding</b>	<b>Options exercisable</b>	<b>Expiry date</b>
\$0.45	120,500	120,500	October 14, 2009
\$0.50	400,000	400,000	July 7, 2010
\$0.75	100,000	100,000	September 6, 2010
\$1.15	440,000	440,000	March 23, 2011
\$2.00	295,000	295,000	April 11, 2011
\$2.20	968,000	546,333	September 27, 2011
\$5.69	110,000	55,000	January 5, 2012
\$7.74	860,000	253,333	February 21, 2012
\$5.40	100,000	100,000	July 31, 2007
\$3.80	100,000	100,000	September 4, 2007
\$3.00	3,000,000	3,000,000	October 25, 2012
	<b>6,493,500</b>	<b>5,410,166</b>	

#### Warrants

	<b>Number of warrants</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding as at January 31, 2006</b>	13,395,879	0.97
Exercised	(9,711,134)	0.61
<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 October 31, 2007</b>	<b>7,500,000</b>	<b>5.27</b>

A summary of the Company's warrants outstanding and exercisable at October 31, 2007 is presented below:

<b>Exercise price</b>	<b>Number of warrants</b>	<b>Expiry date</b>
\$4.75	500,000	February 27, 2009
\$3.50	3,000,000	March 14, 2009
\$6.66	4,000,000	March 13, 2010
	<b>7,500,000</b>	

## 9. Contributed surplus

	\$
<b>Balance as at January 31, 2006</b>	6,087,682
Stock-based compensation	1,933,889
Fair value of options exercised	(514,172)
Fair value of warrants exercised	(2,982,052)
<b>Balance as at January 31, 2007</b>	4,522,347
Stock-based compensation	10,562,730
Fair value of warrants issued pursuant to private placement	1,727,218
Fair value of warrants issued on acquisition of Mega	3,624,667
Fair value of warrants issued on acquisition of Tsumeb	3,685,422
Fair value of options exercised	(722,586)
Fair value of warrants exercised	(2,668,199)
<b>Balance as at October 31, 2007</b>	20,731,598

## 10. Related party transactions

During the 9 months ended October 31, 2007, consulting fees and salaries of \$869,100 (2006 - \$222,471) were paid to directors of the Company.

## 11. Comparative figures

Certain of the prior period's comparative figures have been reclassified to conform to the presentation adopted in the current period.