

Graynic Metals Limited
(ACN 112 898 825)
and Controlled Entities

Annual Financial Report

*For the year ended
30 June 2006*

<i>Corporate Directory</i>	<i>1</i>
<i>Directors' Report</i>	<i>2</i>
<i>Auditor Independence Statement</i>	<i>16</i>
<i>Income Statement</i>	<i>17</i>
<i>Balance Sheet</i>	<i>18</i>
<i>Cashflow Statement</i>	<i>19</i>
<i>Statement Of Changes in Equity</i>	<i>20</i>
<i>Notes to the Financial Statements</i>	<i>21</i>
<i>Directors' Declaration</i>	<i>43</i>
<i>Independent Audit Report To The Members Of Graynic Metals Limited</i>	<i>44</i>
<i>Additional Shareholder Information</i>	<i>46</i>

CORPORATE DIRECTORY

CHAIRMAN

Ivan Hoffman

MANAGING DIRECTOR

Ronald Thom

NON-EXECUTIVE DIRECTORS

Nathan McMahon

Clive Jones

Jonathan Downes

COMPANY SECRETARY

Kent Hunter

PRINCIPAL & REGISTERED OFFICE

Level 2, 22 Oxford Close

Leederville WA 6008

Telephone: (08) 9381 1436

Facsimile: (08) 9381 1068

AUDITORS

Ord Partners Chartered Accountants

Level 2, 47 Colin Street

WEST PERTH WA 6005

SHARE REGISTRAR

Advanced Share Registry Services

110 Stirling Highway

NEDLANDS WA 6009

Telephone: (08) 9389 8033

Facsimile: (08) 9389 7871

STOCK EXCHANGE LISTING

Australian Stock Exchange

(Home Exchange: Perth, Western Australia)

Code: GYN, GYNO

BANKERS

National Australia Bank

50 St Georges Terrace

PERTH WA 6000

DIRECTORS' REPORT

The directors of Graynic Metals Limited submit herewith the financial report of the Company and its controlled entities for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

1. DIRECTORS

The names and particulars of the directors of the company during or since the end of the financial year are:

Ivan Hoffman	Non-Executive Chairman (appointed 28 October 2005)
Ronald Thom	Managing Director
Nathan McMahon	Non-Executive Director
Clive Jones	Non-Executive Director
Jonathan Downes	Non-Executive Director (appointed 10 April 2006)
Kent Hunter	Company Secretary

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Ivan Hoffman Non-Executive Chairman

Qualifications **CPA, FCIS**

Experience Mr Ivan Hoffman is a Certified Practicing Accountant and a Fellow of the Institute of Corporate Managers, Secretaries and Administrators. For about 18 years, Mr Hoffman was a corporate advisory consultant specialising in mergers and acquisitions and company reconstructions, during which period he served on the boards of several public listed companies, including mineral exploration and mining companies. Before that, Mr Hoffman worked several years with local and international financial institutions, including four years in investment management and project financing with Lloyds Bank International. Mr Hoffman is currently chairman of the Fortron group of companies and a non-executive director of Saracen Mineral Holdings Limited.

Interest in Shares nil

Interest in Options 1,000,000 \$0.30 options exercisable on or before 31/10/08

Ronald Thom	Managing Director	
Qualifications	B. Sc, Ph.D	
Experience	Ron has extensive experience in base metals, platinum, lateritic nickel and industrial mineral exploration with a strong track record of success. He has field experience in every State and Territory in Australia. Throughout 30 years in the minerals industry Ron has acquired extensive experience in exploration management, budgeting, and exploration strategy. Ron has previously been an Exploration Manager and has been involved in several profitable mining ventures including Davyhurst and Tuckabiana. Ron has been a director since 21 February 2005.	
Interest in Shares	524,000 Ordinary Shares	
Interest in Options	262,000 \$0.20 options exercisable on or before 31/10/07 1,000,000 \$0.30 options exercisable on or before 31/10/08	
Nathan McMahon	Non-Executive Director	
Qualifications	B.Comm (UWA)	
Experience	Nathan is currently Managing Director — Corporate and Administration, for Cazaly Resources Limited (appointed 15 August 2003) which is listed on the ASX. Nathan was the founding director of Hamill Resources Ltd which listed on the ASX in June 2001 and which acquired significant exploration success and increase in market capitalization during his tenure. Nathan has demonstrated extensive skills in project acquisition and management. Nathan has been a director of Cazaly Resources Limited since the company's incorporation on 10 February 2005. Nathan was also a director of International Goldfields Limited from 10 November 2000 to 15 August 2003)	
Interest in Shares	1,260,150	Ordinary Shares
Interest in Options	1,000,000	\$0.30 Options expiring 30/4/08

Clive Jones	Non-Executive Director	
Qualifications	B. App. Sc (Geol)	
Experience	Clive is currently Managing Director for Cazaly Resources Ltd (appointed 15 September 2003) which is listed on the ASX. Clive is also a Non-Executive Director of the Australian exploration company Jackson Gold Limited and was appointed on 25 March 2005. Clive has formerly been a director of Mount Burgess Mining Ltd and ASX Listed Hamill Resources Limited and International Goldfields Limited (from 14 December 2000 to 19 December 2003), which both experienced significant market capitalisation growth during his tenure as a director. Clive has been involved in mineral exploration for over 20 years and has worked on the exploration for a range of commodities including gold, base metals, mineral sands, diamonds and industrial minerals. Clive was also previously a Director of Mount Burgess Mining Ltd where he oversaw the discovery of the high grade Red October gold deposit situated in the Eastern Goldfields of Western Australia.	
Interest in Shares	1,057,689	Ordinary Shares
Interest in Options	1,000,000	\$0.30 Options expiring 30/4/08
	528,845	\$0.20 options exercisable on or before 31/10/07

Jonathan Downes	Non-Executive Director	
Qualifications	B.Sc Geol, MAIG	
Experience	Mr Downes has over ten years experience in the minerals industry and has specialised in exploration geology, acquisitions, project management, project valuation, project development and financial modelling. Mr Downes was a director of Siberia Mining Corporation Limited between 2004 and 2006. Mr Downes is currently a director of Ironbark Gold Limited from its incorporation..	
Interest in Shares	97,000	Ordinary Shares

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

<i>Name</i>	<i>Company</i>	<i>Period of directorship</i>
Nathan McMahon	Cazaly Resources Limited	Appointed 15 August 2003
Clive Jones	Cazaly Resources Limited	Appointed 15 September 2003
	Jackson Gold Limited	Appointed 25 March 2002
	International Goldfields Limited	From 14 December 2000 to 19 December 2003
Ivan Hoffman	Cortona Resources Limited	Appointed 12 January 2006
	Saracen Mineral Holding Ltd	Appointed 13 May 2005
Jonathan Downes	Ironbark Gold Limited	Appointed 4 May 2006

DIRECTORS' REPORT

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Kent Hunter

Mr Hunter is a Chartered Accountant with over 15 years corporate and company secretarial experience. He has been involved in the listing of 20 junior gold and mineral exploration companies on ASX in the past five years. He has experience in capital raisings, ASX compliance and regulatory requirements and is currently a non-executive director of Cazaly Resources Limited, Gryphon Minerals Limited, Elixir Petroleum Limited and Scimitar Resources Limited and is company secretary of three other ASX listed entities. Mr Hunter was appointed as Company Secretary on the incorporation of the Company.

2. PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity during the financial year was mineral exploration.

There were no significant changes in the nature of the Consolidated Entity's principal activities during the financial year.

3. RESULT

The loss of the Consolidated Entity after providing for income tax amounted to \$2,859,113 (2005:\$145,362).

4. FINANCIAL POSITION

On 20 December 2005 the Company issued 2,500,000 ordinary shares at \$0.20 each to raise \$500,000.

As at 30 June 2006 the Consolidated Entity has \$1.4 million cash on hand

The Directors believe that the Consolidated Entity currently has sufficient capital to effectively explore its current landholdings.

5. REVIEW OF OPERATIONS

The Company has base metal projects in WA at Quartz Circle and in NSW at Gulf Creek near Tamworth, as well as at Yanco Glen, Wertago and Copper Ridge in the Broken Hill area. During the year the Company relinquished its interest in the Jutson Rocks and Northampton projects, WA. Several tenements such as Walgidee Hills and Brockman Creek in WA are not yet granted.

Most of the exploration focus during the year was at Quartz Circle where a near-surface copper oxide deposit could provide a near-term cash flow and outstanding drill results point to the prospect of a substantial new discovery. Under the terms of an agreement with Cazaly Resources Limited, Graynic has now earned an 80% interest in the Quartz Circle project by the expenditure of \$1M on exploration on that project.

Some attention was also directed towards a promising tungsten occurrence within the Yanco Glen project area, and an airborne EM survey was flown over a large part of the Wertago project area to advance the search for a base metal deposit in what could be a large-deposit geological setting adjacent to a major crustal fault structure.

5. **REVIEW OF OPERATIONS (Cont.)**

WESTERN AUSTRALIAN PROJECTS

Quartz Circle base metal project, Nullagine, East Pilbara, WA (Graynic 80%)

Introduction

The Quartz Circle area has been intermittently explored for base metals since about 1970 and some exciting mineralisation was found during the early period up to 1995. An apparent lack of continuity in the mineralization discouraged previous explorers but excellent drilling results obtained by Graynic in the past year using a new exploration model has increased hopes for a substantial base metal discovery.

The geological setting is consistent with a volcanic-hosted massive sulphide (VMS) system, in which the target minerals (copper, lead, and zinc accompanied by significant gold and silver) were exhaled on to an ancient sea floor from a submarine volcanic vent. Most of the VMS deposits known in the Pilbara region occur within the felsic volcanic rocks of the Duffer Formation or its stratigraphic equivalent, and this host sequence is widespread throughout Graynic's project area.

In addition to exploration for a large ore body Graynic is assessing a small, near-surface copper oxide deposit discovered by a previous explorer in 1992. The Igloo Copper Deposit consists mainly of chalcocite, native copper and malachite occurring as a discrete pod of mineralisation at a depth of between 25m and 50m from surface. At current copper prices this small deposit could yield a useful cash flow and the economics of a short-term mining and treatment operation are currently being evaluated.

Project area

The project area consists of two blocks of tenements, a southern block consisting of P46/1360-1366, P46/1385 and 1386, P46/1441 and 1442, and E46/541, and a northern block consisting of a single exploration licence E 45/2602 separated by about 2.5km from the southern block. All of these are granted tenements.

Igloo Copper Deposit

Within P46/1361 is small copper oxide deposit discovered in 1992 by a previous explorer but not exploited at that time. At current copper prices this small deposit could yield a useful cash flow in the short to medium term and the Company has commenced a scoping study to assess the viability of a small mining operation.

The Company has just completed redrilling the deposit with 10 vertical diamond drill holes each about 50m deep. These drill holes will provide new assay data for a JORC-compliant resource estimate and will also provide material for preliminary metallurgical testing.

The main minerals chalcocite, native copper, and malachite are probably amenable to heap leaching and the Company will consider an on-site heap leaching operation as well as the alternative of trucking the copper ore to an existing copper processing facility for custom milling.

Emperor Zinc Prospect

Exploration at this prospect commenced in the early 1970s and some exciting results were obtained by Alcoa. Good results were also obtained by Pancontinental in the early 1990s but the apparent discontinuity of the mineralization discouraged further exploration.

5. REVIEW OF OPERATIONS (Cont.)

Graynic's drill holes GM 5 to GM 9 completed in July 2005 gave the first significant results at this prospect in more than a decade. These results were reported last year on the basis of 4m composite samples and when later reassayed using 1m samples the results were significantly better. Drill holes GM 5 and GM 8 contain significant Pb as well as Zn.

The Company has since drilled another 24 RC drill holes, although the results from GM 33 to GM 40 are still awaited. The best hole so far is GM 21 with two thick intervals of mineralisation - 16m @ 3.51% Zn from 49m and 27m @ 4.98% Zn from 71m. A twin diamond drill hole GMD 21 intersected bedding laminations nearly normal to the core axis, suggesting that drill hole GM 21 is perpendicular to the deposit and that the widths of the mineralized zones in GM 21 approximate to true thickness.

Hole ID	Depth	Thickness	Zn %	Pb %	Ag g/t	Au g/t
GM 5	49-50	1m	3.98			
	61-62	1m	3.19	0.76	20	0.2
	67-71	4m	3.98	3.00	36	0.7
	99-101	2m	3.57			
GM 6	59-60	1m	10.33		12	
	74-76	2m	2.95		18	0.28
GM 7	56-58	2m	7.43			0.23
GM 8	14-16	2m	1.75	3.38	65	0.75
GM 9	28-30	2m	3.49			0.26
	58-66m	8m	2.29			
GM 21	49-65	16m	3.51			
	(inc 52-56m	4m	5.42)			
	71-98m	27m	4.98			
	(inc 72-80m	8m	7.59)			

The drill core from GMD 21 also showed that the zinc sulphide (sphalerite) occurs in the matrix of a volcanic breccia, a texture which is consistent with a typical VMS deposit. This core is currently being assayed as a routine check on the assays from RC hole GM21.

NEW SOUTH WALES PROJECTS

Acquisition of projects in NSW

During the year the Company bought a private company, Resource Investment Group Pty Ltd, in order to acquire three high quality projects near Broken Hill and at another at Gulf Creek near Tamworth in New South Wales. The consideration was 10 million Graynic shares and 4 million options exercisable at 30 cents, and \$50,000 in cash. The projects, which are described in more detail below, include an identified scheelite (tungsten) resource, as well as two highly prospective copper projects. Other targets include Cu-Pb-Zn-Ag mineralization in a Broken Hill setting, porphyry copper, tin, and shear zone hosted gold.

The Company believes that these projects are a substantial and exciting addition to its existing portfolio, and that evaluation drilling at the scheelite prospect could well lead to an early cash flow for the Company in the current buoyant tungsten market.

5. REVIEW OF OPERATIONS (Cont.)

Yanco Glen Project, NSW (Graynic 100%)

Scheelite

The identified scheelite resources at Yanco Glen occur in the south of the tenement at a distance of about 30km north of Broken Hill. Scheelite was mined on a small scale in the 1930s and the small workings define the line of lode over a distance of about 2km. Between 1980 and 1984 CRA Exploration (CRAE) investigated the scheelite potential and estimated that there could be a significant scheelite resource present.

The prospect was tested in April 2005 in a program of 19 RC drill holes totaling 2100m. Most holes contained significant mineralization, and these are shown in the table below.

Hole ID	From	To	WO3 (calc)
			%
BHRC0002	32	34	2m @ 0.26
BHRC0003	81	83	2m @ 0.41
BHRC0005	11	15	4m @ 0.31
BHRC0005	34	35	1m @ 0.29
BHRC0005	69	71	2m @ 0.35
BHRC0006	26	27	1m @ 0.26
BHRC0006	39	41	2m @ 1.42
BHRC0007	119	122	3m @ 0.32
BHRC0008	77	78	1m @ 0.40
BHRC0011	97	98	1m @ 0.58
BHRC0012	2	4	2m @ 0.26
BHRC0012	16	17	1m @ 0.38
BHRC0013	3	6	3m @ 0.24
BHRC0013	6	7	1m @ 0.29
BHRC0013	30	33	3m @ 0.26
BHRC0013	36	37	1m @ 0.38
BHRC0014	5	9	4m @ 0.69
BHRC0015	30	31	1m @ 0.29
BHRC0015	63	64	1m @ 0.25
BHRC0016	15	19	4m @ 0.48
BHRC0019	102	103	1m @ 0.35

The occurrence of scheelite is believed to be stratigraphically controlled and in most of the drill holes there are several zones of tungsten enrichment representing slightly different stratigraphic horizons. Results so far suggest a tendency for one of these mineralised zones to be of a higher grade than the others. The assay results are currently being modeled to give a resource estimate.

Initial assays were done by fusion XRF, and the mineralized intervals were checked using ICP MS. Correlation between these methods has been excellent. Some checks have been made using pressed powder XRF, again with excellent correlation. The assays provided a W content, from which a WO3 equivalent was calculated. Tungsten prices are quoted in units of WO3.

Gold

A line of small gold workings including the historic Anaconda mine occur in the northern part of the tenement. They have not been explored in recent times and will be investigated in 2006.

5. REVIEW OF OPERATIONS (Cont.)

Wertago Cu-Pb-Zn Project, NSW (Graynic 100%)

The Wertago project encompasses an area of historical copper mining as well as the Silverfields silver and lead workings. Previous limited drilling by CRA has intersected some good grades including 2m @ 4.6% Cu below old copper workings but there is potential for a large deposit such as a Cu-Au porphyry or a Century-style zinc deposit.

The regional-scale Koonenberry Fault immediately to the east of the known mineralization could have been the conduit for substantial fluid flow and the project area is believed to have the ideal geological setting for a large deposit. The Grasmere copper deposit about 40km to the southwest of Wertago also lies immediately east of the Koonenberry Fault. Recent drilling at Grasmere by Black Range Minerals targeting EM conductors from a recent survey has returned some exciting copper intersections and has dramatically improved that project's prospectivity.

An airborne VTEM survey has now been completed over the eastern part of the exploration licence to encompass virtually all of the known mineralization and a large part of the Koonenberry fault. An image of the preliminary data has now been received and the final data is currently being interpreted by Southern Geoscience Consultants.

Gulf Creek Copper Project (Graynic 100%)

The Gulf Creek copper mine represents the largest copper mine of its type in the New England region of NSW and was primarily mined between 1889 and 1912. Over 35,000 tonnes of Cu ore was mined at an average grade of 5% Cu over the mine life. Higher grades were recovered from some areas such as the Fishers Mine, with head grades exceeding 15% Cu. Mine records estimate that ore reserves up to 50,000 tonnes of ore grading 2.7% copper, and 4.5% zinc could remain in the known ore lenses.

A drilling program has been planned for later this year, as soon as heritage clearance can be obtained.

Copper Ridge Project (Graynic 100%)

No exploration was carried out by the Company during the year to June 2006 but a preliminary field evaluation is planned later this year.

6. BUSINESS STRATEGIES AND PROSPECTS FOR THE FORTHCOMING YEAR

The Company remains committed to adding to shareholder wealth and whilst the current focus is on base metals, nickel and platinum group elements, all wealth generating opportunities will be examined.

As exploration progresses the Consolidated Entity may decide to add projects to or divest projects from its current portfolio.

7. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year:

On 18 August 2005 the Company issued a prospectus offering shareholders the opportunity to participate in a 1 for 2 non-renounceable entitlements issue for a total of 12,250,002 options at 1 cent each to raise a total of \$122,500 before the costs of the issue. The offer was closed fully subscribed on 16 September 2005.

7. SIGNIFICANT CHANGES IN STATE OF AFFAIRS (Cont.)

On 28 October 2005 Mr Ivan Hoffman was appointed as Non-Executive Chairman of Graynic Metals.

On 14 December 2005 the Company lodged a Short Form Prospectus for the issue of 2,500,000 Shares at an issue price of \$0.20 to raise \$500,000

The placement was completed on 16 January 2006 and 2,500,000 shares issued at \$0.20 to raise \$500,000 pursuant to the short form prospectus lodged with ASIC on 14 December 2005.

On 17 February 2006 a General Meeting of Members approved the acquisition of a private company, Resource Investment Group Pty Ltd, the holder of three high quality projects near Broken Hill and at another at Gulf Creek near Tamworth in New South Wales by issuing to the vendors 10 million Graynic shares and 4 million options exercisable at 30 cents, together with a payment of \$50,000 in cash.

On 10 April 2006 the Company appointed Mr Jonathan Downes as Non-Executive Director.

8. SUBSEQUENT EVENTS

On 1 September 2006 the Consolidated Entity issued 3,235,294 ordinary shares to various Brokers to raise \$1.1 million.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

9. FUTURE DEVELOPMENTS

The Consolidated Entity will continue its mineral exploration activity at and around its exploration projects with the object of identifying commercial resources.

10. ENVIRONMENTAL ISSUES

The Consolidated Entity is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

11. DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

12. REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Graynic Metals Limited.

Remuneration Policy

The remuneration policy of Graynic Metals Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The board of Graynic Metals Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

12. REMUNERATION REPORT (Cont.)

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed by the managing director and approved by the board after seeking professional advice from independent external consultants.

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits.

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions, within the same industry. The Board however does not endorse the use of incentive and bonus payments for directors and senior executives at this point in time. Mr Ron Thom however was issued shares as part of the terms of the Initial Public Offer and Mr Nathan McMahon and Mr Clive Jones received shares as part of the in-specie distribution to Cazaly Resources Ltd shareholders. Board members have largely retained these securities which assist in aligning their objectives with overall shareholder value.

Performance incentives will be issued in the event that the entity moves from an exploration to a producing entity, and key performance indicators such as profits and growth will be used as measurements for assessing Board performance.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The managing director in consultation with independent advisors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. This has been achieved by the issue of options to the majority of the directors and executives to encourage the alignment of personal and shareholder interest.

12. REMUNERATION REPORT (Cont.)

The names of directors in office at any time during the year are:

Ivan Hoffman	Non-Executive Chairman (appointed 28 October 2005)
Ronald Thom	Managing Director
Jonathan Downes	Non-Executive Director (appointed 10 April 2006)
Nathan McMahon	Non-Executive Director
Clive Jones	Non-Executive Director

Details of the nature and amount of emoluments of key management personnel are as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SHARE-BASED PAYMENT		TOTAL
	Salary, Fees & Superannuation	Cash Bonus	Non-Monetary	Superannuation	Retirement Benefits	Equity	Options (i)	\$
Directors								
Ivan Hoffman - Chairman								
2006	27,957	-	-	2,516	-	-	36,332	66,805
2005	-	-	-	-	-	-	-	-
Ron Thom - Managing Director								
2006	116,591	-	-	10,493	-	-	36,332	163,416
2005	30,328	-	-	2,730	-	-	-	33,058
Nathan McMahon - Non Executive Director								
2006	36,000	-	-	-	-	-	-	36,000
2005	6,000	-	-	-	-	-	17,816	23,816
Clive Jones - Non Executive Director								
2006	36,000	-	-	-	-	-	-	36,000
2005	6,000	-	-	-	-	-	17,816	23,816
Jonathan Downes - Non-Executive Director								
2006	6,000	-	-	-	-	-	-	6,000
Total Remuneration Directors								
2006	222,548	-	-	13,009	-	-	72,664	308,221
2005	42,328	-	-	2,730	-	-	35,632	80,690

There were no other directors or executives employed by the Company during the financial year.

(i) The fair value of the Options is calculated at the date of grant using a Black-Scholes model.

The following factors and assumptions were used in determining the fair value of options issued to Directors on grant date:

Grant Date	Expiry Date	Fair Value Per Option	Exercise Date	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
12.12.05	30.04.08	\$0.036	30.04.08	\$0.19	50%	5.33%	-

Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company.

12. REMUNERATION REPORT (Cont.)***Options Granted to Directors and Executives***

During and since the end of financial year, an aggregate of 2,000,000 options over unissued shares were granted to various parties. The total amount granted was issued to the following directors and executives as disclosed in the table below:

Director/Executive	Number	Exercise Price	Vesting Date	Expiry Date
Ivan Hoffman	1,000,000	\$0.30	12 December 2005	30 April 2008
Ron Thom	1,000,000	\$0.30	12 December 2005	30 April 2008

The options were issued free of charge, and were valued using the Black & Scholes valuation model. These options vest upon issue and are not performance related.

Value of Options Granted to Directors and Executives

The following table sets out the value of options granted, exercised and lapsed during the year:

Director/Executives	Options granted	Options exercised	Options lapsed	Total value of options granted, exercised, lapsed	Value of options included in remuneration for the year	Percentage of remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
	\$	\$	\$	\$	\$	%
Ivan Hoffman	36,332	-	-	36,332	36,332	54.39%
Ron Thom	36,332	-	-	36,332	36,332	22.23%

Employment Contracts of Directors and Senior Executives

The employment conditions of the managing director, Ronald Thom was resolved by the Board on 14 July 2006 and a salary of \$160,000 per annum including superannuation was agreed. Other than the managing director, all executives are permanent employees of Graynic Metals Limited. Ron Thom's new employment contract commenced on 14 July 2006.

The employment may be terminated by the Company or Mr Thom by giving the other 4 weeks notice in writing. Alternatively, the employment may be terminated by the Company providing compensation instead of the period of notice required. Termination payments due are four weeks lieu of notice if the termination period is not worked out. Termination payments are not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options issued as remuneration not exercised before or on the date of termination will lapse.

13. MEETINGS OF DIRECTORS

Directors	Board of Directors	
	Held	Attended
Ivan Hoffman	8	8
Ronald Thom	8	8
Nathan McMahon	8	8
Clive Jones	8	8
Jonathan Downes	3	3

In accordance with the Company's Corporate Governance Policies, the Company does not have a separate audit committee or nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

14. INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the Constitution, except as may be prohibited by the Corporations Act 2001 every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

15. OPTIONS***Unissued Shares Under Option***

At the date of this report unissued ordinary shares of the company under option are:

Expiry Date	Exercise Price	Number of Shares
31 October 2007	20 cents	12,220,514
28 March 2007	20 cents	2,000,000
28 March 2008	30 cents	2,000,000
30 April 2008	30 cents	6,000,000
31 October 2008	30 cents	2,000,000

There have been no issue of ordinary shares as a result of the exercise of options during or since the end of the financial year.

16. AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 16 of the financial report.

17. NON AUDIT SERVICES

The board of directors is satisfied that the provision of non-audit services performed during the year by the Consolidated Entity's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reason:

- The nature of the services provided do not compromise the general principles relating to auditors independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.
- No fees were paid or payable to the auditors for non-audit services performed during the year to 30 June 2006.

Signed in accordance with a resolution of the Board of Directors.



Nathan McMahon
Director

Perth, 27 September 2006

27th September 2006

To the Board of Directors of Graynic Metals Limited

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

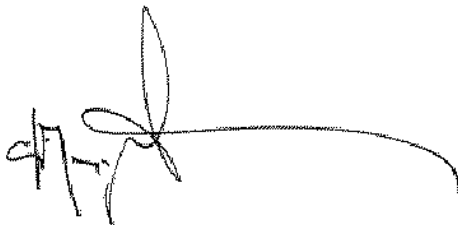
Dear Sirs

**AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001**

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Yours sincerely
ORD PARTNERS



Ian Keith Macpherson
Partner

Level 2, 47 Colin Street
West Perth WA 6005

PO Box 359
West Perth WA 6872

☎ +61 8 9321 3514

☎ +61 8 9321 3523

ord@ordgroup.com.au
www.ordgroup.com.au



INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated Entity 2006	The Company 2006	10 February 2005 to 30 June 2005
	Note	\$	\$	\$
Revenue from continuing activities	2	110,741	110,041	8,489
Administrative expense		(144,975)	(144,291)	(28,724)
Employee benefits expense		(71,676)	(71,676)	(9,264)
Borrowing costs expense		-	-	(540)
Consultancy expenses		(43,426)	(43,426)	(31,461)
Compliance and regulatory expenses		(47,707)	(47,707)	(16,765)
Occupancy expenses		(18,860)	(18,860)	(4,157)
Directors fees		(95,333)	(95,333)	(56,805)
Insurance expenses		(2,085)	(2,085)	(4,722)
Depreciation expense		(4,109)	(4,109)	(1,413)
Exploration expenditure written off		(51,993)	(51,993)	-
Diminution in value of investments		(51,262)	(51,262)	-
Exploration expenditure written off - intangible		(2,438,428)	-	-
Write down of investments to recoverable amount		-	(2,438,428)	-
Loss before income tax expense	3	(2,859,113)	(2,859,129)	(145,362)
Income tax expense		-	-	-
Loss for the year		(2,859,113)	(2,859,129)	(145,362)
Basic loss per share (cents per share)	20	9.92		3.94
Diluted loss per share (cents per share)	20	5.80		3.39

The accompanying notes form part of these financial statements.

BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Consolidated Entity 2006	The Company	
			2006	10 February 2005 to 30 June 2005
		\$	\$	\$
CURRENT ASSETS				
Cash and cash equivalents	7	1,397,135	1,382,075	2,216,933
Trade and other receivables	8	33,377	33,372	48,913
TOTAL CURRENT ASSETS		1,430,512	1,415,447	2,265,846
NON CURRENT ASSETS				
Loans to associated companies	8	-	321,974	-
Other financial assets	9	64,458	2,117,177	-
Plant and equipment	10	6,935	6,935	8,587
Exploration and evaluation expenditure	11	5,267,961	2,895,987	2,350,877
TOTAL NON CURRENT ASSETS		5,339,354	5,342,073	2,359,464
TOTAL ASSETS		6,769,866	6,757,520	4,625,310
CURRENT LIABILITIES				
Trade and other payables	12	129,811	129,811	228,769
Provisions	13	16,456	4,126	3,008
TOTAL CURRENT LIABILITIES		146,267	133,937	231,777
TOTAL LIABILITIES		146,267	133,937	231,777
NET ASSETS		6,623,599	6,623,583	4,393,533
EQUITY				
Issued capital	14	8,631,979	8,631,979	4,371,565
Option reserve	15	996,095	996,095	167,330
Accumulated losses	16	(3,004,475)	(3,004,491)	(145,362)
TOTAL EQUITY		6,623,599	6,623,583	4,393,533

The accompanying notes form part of these financial statements.

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

		Consolidated Entity 2006	The Company	
	Note		2006	10 February 2005 to 30 June 2005
		\$	\$	\$
Cash Flows from Operating Activities				
- Payments to suppliers and employees		(357,710)	(361,930)	(48,311)
- Interest received		93,778	93,778	8,489
- Other revenue		16,962	16,263	-
- Payments for exploration and evaluation		(982,615)	(610,637)	(250,516)
<i>Net cash used in operating activities</i>	21	(1,229,585)	(862,526)	(290,338)
Cash Flows From Investing Activities				
- Acquisition of controlled entity		-	(57,547)	-
- Payment for investment securities		(115,722)	(173,269)	-
- Purchase of plant and equipment		(2,457)	(2,457)	(10,000)
- Payment for business	21iii	(54,949)	-	-
<i>Net cash used in investing activities</i>		(173,128)	(233,273)	(10,000)
Cash Flows from Financing Activities				
- Proceeds from issue of shares		623,422	623,422	2,650,503
- Payment for costs of issue of shares		(40,507)	(40,507)	(147,240)
- Proceeds from borrowings		-	-	14,008
- Loan to controlled entity		-	(321,974)	-
<i>Net cash provided by financing activities</i>		582,915	260,941	2,517,271
Net (decrease)/increase in cash held		(819,798)	(834,858)	2,216,933
Cash and cash equivalents at beginning of reporting period				
		2,216,933	2,216,933	-
Cash and cash equivalents at end of reporting period	7	1,397,135	1,382,075	2,216,933

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2006**

Consolidated Entity	Issued Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2005	4,371,565	(145,362)	167,330	4,393,533
Loss for the year	-	(2,859,113)	-	(2,859,113)
Contributions of equity	4,300,921	-	756,101	5,057,022
Transaction costs	(40,507)	-	-	(40,507)
Employee equity settled transactions	-	-	72,664	72,664
Balance at 30 June 2006	8,631,979	(3,004,475)	996,095	6,623,599

Balance at incorporation

Loss for the year	-	-	-	-
Contributions of equity	-	-	-	-
Transaction costs	-	-	-	-
Employee equity settled transactions	-	-	-	-
Balance at 30 June 2005	-	-	-	-

The Company	Issued Capital	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2005	4,371,565	(145,362)	167,330	4,393,533
Loss for the year	-	(2,859,129)	-	(2,859,129)
Contributions of equity	4,300,921	-	756,101	5,057,022
Transaction costs	(40,507)	-	-	(40,507)
Employee equity settled transactions	-	-	72,664	72,664
Balance at 30 June 2006	8,631,979	(3,004,491)	996,095	6,623,583

Balance at incorporation

Loss for the year	-	(145,362)	-	(145,362)
Contributions of equity	4,650,503	-	-	4,650,503
Transaction costs	(278,938)	-	-	(278,938)
Employee equity settled transactions	-	-	167,330	167,330
Balance at 30 June 2005	4,371,565	(145,362)	167,330	4,393,533

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Graynic Metals Limited and controlled entities, and Graynic Metals Limited as an individual parent entity. Graynic Metals Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Graynic Metals Limited and controlled entities, and Graynic Metals Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity Graynic Metals Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 26 to the financial statements. All controlled entities have a 30 June financial year-end.

All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(b) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity are not in the Income Statement.

(c) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- (ii) exploration and evaluation activities in the area have not, at balance date, reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(d) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Impairment

The carrying amounts of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the Income Statement in the cost of sales line item.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Depreciation

The depreciable amount of all plant and equipment is depreciated on a diminishing value basis over their useful lives to the Company commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate	
	2006	2005
Plant and equipment	40.0%	40.0%
Office Furniture & Equipment	18.0%	18.0%

(e) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Loss Per Share

Basic loss per share is calculated by dividing the net loss attributable to members for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

(g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and other income

Revenue is recognised as the income accrues.

(h) Cash and cash equivalents

Cash and short-term deposits in the Balance Sheet comprise cash at bank and in hand and short-term deposits.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(j) Joint Venture Operations

Graynic has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policy are determined by the participants such that the operation itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that the policies are those of the participants, not a separate entity carrying on a trade or a business of its own.

(k) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the Income Statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(m) Share-based payment transactions

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using Black-Scholes model, further details of which are given in note 4.

In valuing equity-settled transactions, there are no performance conditions relating to the exercise of the equity share based payments.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

	Consolidated Entity 2006	The Company 2006	10 February 2005 to 30 June 2005
	\$	\$	\$
2. REVENUE FROM CONTINUING ACTIVITIES			
Revenue			
- interest received	94,478	93,778	8,489
- other income	16,263	16,263	-
	<u>110,741</u>	<u>110,041</u>	<u>8,489</u>

3. EXPENSES

Loss before income tax includes the following specific expenses:

	Consolidated Entity 2006	The Company 2006	10 February 2005 to 30 June 2005
	\$	\$	\$
Borrowing costs			
- other persons	-	-	540
Write down of investment to recoverable amount	-	2,438,428	-
Exploration expenditure written off - intangible	2,438,428	-	-
Exploration expenditure written off	51,993	51,993	-
Minimum lease payments			
- Operating lease	8,036	8,036	3,140
Employee benefit expense			
- equity settled transactions	72,665	72,665	35,632

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

4. KEY PERSONNEL REMUNERATION AND RETIREMENT BENEFITS

The names of directors in office at any time during or since the end of the year are:

Ivan Hoffman	Non-Executive Chairman (appointed 28 October 2005)
Ronald Thom	Managing Director
Jonathan Downes	Non-Executive Director (appointed 10 April 2006)
Nathan McMahon	Non-Executive Director
Clive Jones	Non-Executive Director
Kent Hunter	Company Secretary

a) Details of the nature and amount of compensation paid, payable or otherwise made available to directors are as follows:

	SHORT-TERM BENEFITS			POST EMPLOYMENT		SHARE-BASED PAYMENT		TOTAL
	Salary, Fees & Superannuation	Cash Bonus	Non-Monetary	Superannuation	Retirement Benefits	Equity	Options (i)	\$
Directors								
Ivan Hoffman - Chairman								
2006	27,957	-	-	2,516	-	-	36,332	66,805
2005	-	-	-	-	-	-	-	-
Ron Thom – Managing Director								
2006	116,591	-	-	10,493	-	-	36,332	163,416
2005	30,328	-	-	2,730	-	-	-	33,058
Nathan McMahon – Non Executive Director								
2006	36,000	-	-	-	-	-	-	36,000
2005	6,000	-	-	-	-	-	17,816	23,816
Clive Jones – Non Executive Director								
2006	36,000	-	-	-	-	-	-	36,000
2005	6,000	-	-	-	-	-	17,816	23,816
Jonathan Downes – Non-Executive Director								
2006	6,000	-	-	-	-	-	-	6,000
Kent Hunter – Non-Executive Director								
2005	(ii)	-	-	-	-	-	-	-
Total Remuneration Directors								
2006	222,548	-	-	13,009	-	-	72,664	308,221
2005	42,328	-	-	2,730	-	-	35,632	80,690

(i) The fair value of the Options is calculated at the date of grant using a Black-Scholes model.

(ii) Kent Hunter resigned as a director on 22 February 2005, however retained his role as Company Secretary, for which he was paid \$18,600 for IPO compliance and accounting assistance via Mining Corporate Advisory Services Pty Ltd, an entity controlled by Mr Hunter.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

4. KEY PERSONNEL REMUNERATION AND RETIREMENT BENEFITS (Cont.)

b) Compensation options granted during the year:

During the financial year ended 30 June 2006, the following options were granted to the following key management personnel:-

Key Management Personnel	Granted Number	Vested Number	Grant Date	Value per Option at Grant Date \$	Exercise Price \$	First Exercise Date	Last Exercise Date
I Hoffman	1,000,000	1,000,000	12.12.2005	36,332	\$0.30	12.12.2005	30.04.2008
R Thom	1,000,000	1,000,000	12.12.2005	36,332	\$0.30	12.12.2005	30.04.2008
	<u>2,000,000</u>	<u>2,000,000</u>					

The following factors and assumptions were used in determining the fair value of options issued to Directors on grant date:

Grant Date	Expiry Date	Fair Value Per Option	Exercise Date	Price of Shares on Grant Date	Estimated Volatility	Risk Free Interest Rate	Dividend Yield
12.12.2005	30.04.2008		30.04.2008	\$0.19	50%	5.33%	-

Estimated volatility approximates historic volatility. Each option entitles the holder to purchase one ordinary share in the Company.

c) Shares issued on exercise of compensation options:

During the financial year ended 30 June 2006, no shares were issued on exercise of compensation options.

d) Share and option holdings

(i) Shares held by key management personnel

2006	Balance 01.07.05	Granted as Remuneration	Received on Exercise of Options	Net Change - Other	Balance 30.06.06
I Hoffman	-	-	-	-	-
R Thom	524,000	-	-	-	524,000
N McMahon	1,260,150	-	-	-	1,260,150
C Jones	1,057,689	-	-	-	1,057,689
J Downes	47,000	-	-	50,000(i)	97,000
	<u>2,888,839</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>2,938,839</u>

(i) 50,000 ordinary share were purchase on market by Mr Jonathan Downes during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

4. KEY PERSONNEL REMUNERATION AND RETIREMENT BENEFITS (Cont.)

(i) Shares held by key management personnel (Cont.)

2005	Balance on Incorporatio n	Granted as Remuneration	Received on Exercise of Options	Net Change - Other	Balance on resig- nation	Balance 30.06.05
R Thom	-	-	-	524,000(a)	-	524,000
N McMahon	-	-	-	1,260,150(b)	-	1,260,150
C Jones	-	-	-	1,057,689(b)	-	1,057,689
K Hunter	1	-	-	192,829(b)	192,830	-
	1	-	-	3,034,668	192,830	2,841,839

- a) Mr R Thom received 500,000 ordinary shares at \$0.001 on the Initial Public Offer, the remaining 24,000 ordinary share were purchased on-market.
- b) These ordinary shares were received as part of the Cazaly Resources Ltd in-specie distribution.

(ii) Options held by key management personnel

2006	Balance at 01.07.05	Received as remuneration	Exercised	Bought/ (sold)	Held at retirement	Balance at 30.06.06	Total Vested	Total Exercisable
I Hoffman	-	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
R Thom	-	1,000,000	-	262,000	-	1,262,000	1,262,000	1,262,000
N McMahon	1,000,000	-	-	-	-	1,000,000	1,000,000	1,000,000
C Jones	1,000,000	-	-	528,845	-	1,528,845	1,528,845	1,528,845
J Downes	-	-	-	-	-	-	-	-
	2,000,000	2,000,000	-	790,845	-	4,790,845	4,790,845	4,790,845

2005	Balance on Incorpor- ation	Received as remuneratio n	Exercised	Bought/ (sold)	Held at retirement	Balance at 30.06.05	Total Vested	Total Exercisable
R Thom	-	-	-	-	-	-	-	-
N McMahon	-	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
C Jones	-	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
K Hunter	-	-	-	-	-	-	-	-
	-	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

	Consolidated Entity 2006 \$	The Company 2006 \$	10 February 2005 to 30 June 2005 \$
5. AUDITORS' REMUNERATION			
Remuneration of the auditor (Ord Partners) for:			
- Auditing or reviewing the financial report	16,000	16,000	5,275
- Other services	-	-	3,500
	16,000	16,000	8,275
6. INCOME TAX EXPENSE	2006	2006	2005
The components of the tax expense comprise:			
Current tax	-	-	-
Deferred tax	-	-	-
	-	-	-
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax (benefit) on loss from ordinary activities before income tax at 30% (2005: 30%)	(857,734)	(857,739)	(43,609)
Add:			
Tax effect of:			
Other non-allowable items	21,874	21,874	-
Tax benefit of revenue losses not recognised	838,291	838,296	43,609
	838,291	838,296	43,609
Less:			
Tax effect of:			
Tax benefit of equity raising costs not recognised	(2,431)	(2,431)	-
	(2,431)	(2,431)	-
Income tax attributable to entity	-	-	-
	2006	2006	2005
The following deferred tax balances at 30% (2005: 30%) have not been recognised			
Deferred Tax Assets:			
Carry forward revenue losses	98,485	98,485	34,649
Capital raising costs	9,722	9,722	-
Provisions and accruals	5,901	5,901	36,798
Other	748,812	748,812	2,540
	862,920	862,920	73,987

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

	Consolidated 2006	The Company 2006	2005
The tax benefits of the above Deferred Tax Assets will only be obtained if:			
(a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;			
(b) the company continues to comply with the conditions for deductibility imposed by law; and			
(c) no changes in income tax legislation adversely affect the company in utilising the benefits.			
Deferred Tax Liabilities:			
Exploration expenditure	853,198	853,198	73,987
Other	9,722	9,722	-
	<u>862,920</u>	<u>862,920</u>	<u>73,987</u>

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

	Consolidated Entity	The Company	
	2006	2006	2005
	\$	\$	\$
7. CASH AND CASH EQUIVALENTS			
Cash at bank	302,922	287,862	2,216,933
Short-term deposits	1,094,213	1,094,213	-
	<u>1,397,135</u>	<u>1,382,075</u>	<u>2,216,933</u>
	Consolidated Entity	The Company	
	2006	2006	2005
	\$	\$	\$
8. TRADE AND OTHER RECEIVABLES			
Current			
Other receivables	23,370	23,365	48,913
Prepayments	10,007	10,007	-
	<u>33,377</u>	<u>33,372</u>	<u>48,913</u>
Non-Current			
Amounts receivable from:			
- Wholly-owned subsidiary	<u>-</u>	<u>321,974</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

9. OTHER FINANCIAL ASSETS

Non-Current

Shares in controlled entity-at cost	-	4,491,147	-
Less provision for impairment	-	(2,438,428)	-
	-	2,052,719	-
 Listed investments - at fair value	 64,458	 64,458	 -
	64,458	2,117,177	-

10. PLANT AND EQUIPMENT

Plant and Equipment	-		
At cost	11,012	11,012	8,555
Accumulated depreciation	(5,181)	(5,181)	(1,313)
	5,831	5,831	7,242
 Office Furniture and Equipment			
At cost	1,445	1,445	1,445
Accumulated depreciation	(341)	(341)	(100)
	1,104	1,104	1,345
 Total plant and equipment	6,935	6,935	8,587

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

Consolidated and Company

2006	Plant & Equipment \$	Office Furniture & Equip \$	Total \$
Balance at beginning of the year	7,242	1,345	8,587
Additions	2,457	-	2,457
Depreciation expense	(3,868)	(241)	(4,109)
Carrying amount at 30 June 2006	5,831	1,104	6,935

2005	Plant & Equipment \$	Office Furniture & Equipment \$	Total \$
Balance at beginning of the year	-	-	-
Additions	8,555	1,445	10,000
Depreciation expense	(1,313)	(100)	(1,413)
Carrying amount at 30 June 2005	7,242	1,345	8,587

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
11. EXPLORATION AND EVALUATION EXPENDITURE			
Non-Current			
Costs carried forward in respect of areas of interest in:			
- Exploration and evaluation phases – at cost	3,267,961	2,895,987	2,350,877
- Fair value of exploration assets acquired	4,438,428	-	-
- Less accumulated impairment losses	(2,438,428)	-	-
	<u>2,000,000</u>	<u>-</u>	<u>-</u>
Carried forward exploration, evaluation expenditure	<u>5,267,961</u>	<u>2,895,987</u>	<u>2,350,877</u>
Movement in carrying value:			
Brought forward	2,350,877	2,350,877	2,350,877
Consideration of the exploration assets acquired during the year - at valuation	4,438,428	-	2,000,000
Exploration expenditure capitalised during the year	969,077	597,103	350,877
Impairment losses charged to profit	(2,438,428)	-	-
Exploration expenditure written off	(51,993)	(51,993)	-
At reporting date	<u>5,267,961</u>	<u>2,895,987</u>	<u>2,350,877</u>

The value of the exploration expenditure is dependent upon:

- the continuance of the rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The Company has reviewed the carrying values of its exploration expenditure and has identified an impairment of \$2,438,428. This is based on the original valuation of \$2 million in the agreement dated 12 December 2005 which the directors believe is also the best indicator of the assets value at the year end.

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
12. TRADE AND OTHER PAYABLES			
Current (unsecured)			
Trade creditors	59,548	59,548	85,219
Other creditors and accruals	70,263	70,263	143,550
	<u>129,811</u>	<u>129,811</u>	<u>228,769</u>

Trade payables are non interest bearing and are normally settled on 28 day terms. Other payables are non interest bearing and have an average term of 60 days.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
13. PROVISIONS			
Current			
Employee benefits	16,456	4,126	3,008

14. ISSUED CAPITAL

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
37,004,607 (2005: 24,500,003) ordinary shares	8,631,979	8,631,979	4,371,565

	Consolidated Entity 2006 No	The Company 2006 No	2005 No	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
Ordinary shares	37,004,607	37,004,607	24,500,003	8,631,979	8,631,979	4,371,565

	Consolidated Entity 2006 No	The Company 2006 No	2005 No	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
Movement during the year						
Ordinary Shares						
Balance at beginning of reporting period	24,500,003	24,500,003	-	4,371,565	4,371,565	
Issue -- Incorporation	-	-	3	-	-	3
Issue -- Promoter shares	-	-	500,000	-	-	500
Issue -- Seed capital shares	-	-	1,500,000	-	-	150,000
Issue -- Exploration assets acquisition	-	-	10,000,000	-	-	2,000,000
Issue -- IPO	-	-	12,500,000	-	-	2,500,000
Issue -- Placement	2,500,000	2,500,000	-	500,000	500,000	-
Issue -- To acquire subsidiary	10,000,000	10,000,000	-	3,800,000	3,800,000	-
Issue -- Conversion of options	4,604	4,604	-	921	921	-
Capital raising costs	-	-	-	(40,507)	(40,507)	(278,938)
Balance at end of reporting period	37,004,607	37,004,607	24,500,003	8,631,979	8,631,979	4,371,565

Terms of Ordinary Shares

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

15. RESERVES

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
Option premium reserve (a)	122,501	122,501	-
Share based payments reserve (b)	873,594	873,594	167,330
	<u>996,095</u>	<u>996,095</u>	<u>167,330</u>

a) Option premium reserve

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
12,245,514 (2005: 12,245,514) listed option premium	122,501	122,501	-

	Consolidated Entity 2006 No	The Company 2006 No	2005 No	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
Movement during the year						
Options						
Balance at beginning of reporting period	-	-	-	-	-	-
Issue – Rights issue	12,250,118	12,250,118	-	122,501	122,501	-
Options converted	(4,604)	(4,604)	-	-	-	-
Balance at end of reporting period	<u>12,245,514</u>	<u>12,245,514</u>	-	<u>122,501</u>	<u>122,501</u>	-

As at 30 June 2006, there are options over unissued shares as follows:

Type	Expiry Date	Exercise Price	No. Issued
Listed	31 October 2007	\$0.20	12,245,514
Unlisted	28 March 2007	\$0.20	2,000,000
Unlisted	28 March 2008	\$0.30	2,000,000
Unlisted	30 April 2008	\$0.30	6,000,000
Unlisted	31 October 2008	\$0.30	2,000,000
			<u>24,220,514</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

During the financial year ended 30 June 2006, 4,604 ordinary shares were issued as a result of the exercise of 31 October 2007 \$0.20 options.

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
b) Share based payments reserve			
Balance at beginning of financial year	167,330	167,330	-
Employee equity-settled benefit payments	72,664	72,664	35,632
Consultant and advisor option consideration	-	-	131,698
Equity settled vendor consideration	633,600	633,600	-
Balance at end of financial year	<u>873,594</u>	<u>873,594</u>	<u>167,330</u>

This reserve is used to record the value of equity benefits provided to the employees and directors as part of their remuneration.

	Consolidated Entity 2006 \$	The Company 2006 \$	2005 \$
16. ACCUMULATED LOSSES			
Balance at the beginning of financial year	(145,362)	(145,362)	-
Loss for the year	(2,859,113)	(2,859,129)	(145,362)
Balance at the end of financial year	<u>(3,004,475)</u>	<u>(3,004,491)</u>	<u>(145,362)</u>

17. SHARE BASED PAYMENTS

Options are issued to vendors as part of purchase consideration and also to key management personnel as part of their compensation under the company's Employee Share Option Plan. The options issued are not subject to performance criteria and are issued to key management personnel of Graynic Metals Limited to increase goal congruence between key management personnel and shareholders.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2006		2005	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
At beginning of reporting period	6,000,000		-	
Granted during the period				
- Vendor consideration	4,000,000	\$0.30	-	
- Consultant and advisor options	-		4,000,000	\$0.20-\$0.30
- Director remuneration	2,000,000	\$0.30	2,000,000	\$0.30
Forfeited during the period	-		-	
Exercised during the period	-		-	
Expired during the period	-		-	
Balance the end of reporting period	<u>12,000,000</u>		<u>6,000,000</u>	
Exercisable at end of reporting period	<u>12,000,000</u>		<u>6,000,000</u>	

The options outstanding at 30 June 2006 had a weighted average exercise price of \$0.20 and \$0.30, and a weighted average remaining life between 0.74 year and 2.34 years.

The weighted average fair value of options granted during the year was between \$0.01 and \$0.15. Included under employee benefits expense in the income statement is \$72,664 (2005:\$35,632), which relates to employee equity-settled benefit payments.

Options Exercised

During the financial year ended 30 June 2006, no compensation options were exercised.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Consolidated Entity's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the entity. The Consolidated Entity also has other financial instruments such as trade debtors and creditors which arise directly from its operations.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest Rate Risk

The Consolidated Entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises. The Consolidated Entity does not have short or long term debt, and therefore this risk is minimal.

(b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any entity of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Consolidated Entity's maximum exposure to credit risk.

19. FINANCIAL INSTRUMENTS

The following table sets out the carrying amount by maturity, of the financial instruments that are exposed to interest rate risk:

2006	Floating interest rate \$	Fixed interest maturing in			Non- Interest bearing \$	Total \$
		1 year or less \$	over 1 year less than 5 \$	more than 5 years \$		
<i>Financial Assets</i>						
Cash at Bank	302,922	1,094,213	-	-	-	1,397,135
Receivables	-	-	-	-	33,377	33,377
Held for sale investments	-	-	-	-	64,458	64,458
Weighted Average Interest Rate	3.5%	5.85%	-			
<i>Financial Liabilities</i>						
Trade creditors & accruals	-	-	-	-	129,811	129,811

2005	Floating interest rate \$	Fixed interest maturing in			Non- Interest bearing \$	Total \$
		1 year or less \$	over 1 year less than 5 \$	more than 5 years \$		
<i>Financial Assets</i>						
Cash at Bank	2,216,933	-	-	-	-	2,216,933
Receivables	-	-	-	-	48,913	48,913
Weighted Average Interest Rate	2.6%					
<i>Financial Liabilities</i>						
Trade creditors & accruals	-	-	-	-	228,769	228,769

On-balance sheet financial instruments

The carrying value approximates the fair values of financial assets and liabilities at balance.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

20. LOSS PER SHARE		2006 \$	2005 \$
(a)	Earnings / (Loss) used in the calculation of basic and dilutive EPS	(2,859,113)	(145,362)
		Number of Shares	Number of Shares
(b)	Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share:	28,807,700	3,685,717
	Weighted average number of options	20,488,163	600,000
	Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share:	49,295,863	4,285,717
		Consolidated Entity 2006 \$	The Company 2006 10 February 2005 to 30 June 2005 \$
21. CASH FLOW INFORMATION			
(i) Reconciliation from the net loss to the net cash used in operating activities			
-	(Loss) after income tax	(2,859,113)	(2,859,129) (145,362)
Non-cash flows in loss			
-	Depreciation	4,109	4,109 1,413
-	Options issued to directors as remuneration	72,664	72,664 35,632
-	Exploration expenditure written off	51,993	51,993 -
-	Diminution in listed investments	51,262	51,262 -
-	Exploration expenditure written off - intangible	2,438,428	- -
-	Write down of investments to recoverable amount	-	- 2,438,428
Changes in assets and liabilities			
-	Increase in receivables and prepayments	15,536	15,541 (48,913)
-	Increase in exploration and evaluation expenditure	(982,615)	(610,637) (350,875)
-	Increase in trade and other creditors and accruals	(35,297)	(27,875) 214,709
-	Movement in provisions	13,448	1,118 3,008
Net cash used in operating activities		(1,229,585)	(862,526) (290,388)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006

(ii) Non cash financing and investing activities

Non cash financing and investing activities were disclosed in Note 23 (i)

(iii) Business Acquired

The net cash outflow on acquisition on Resources Investment Group Pty Ltd ("RIG") was:

Cash and cash equivalent consideration	57,547
Less cash balances acquired	(2,598)
	<u>54,949</u>

Further details of the acquisition of RIG is contained in Note 23.

22. ACQUISITION OF ENTITY

On 31 March 2006, the company acquired 100% interest in Resources Investment Group Pty Ltd. The principal activity of Resources Investment Group Pty Ltd was share trading and tenement acquisition. Details of this transaction are as follows:-

	Consolidated Entity 2006 \$	
Purchase consideration	<u>4,491,147</u>	
Cash consideration	57,547	
Equity consideration (a)		
- Ordinary shares	3,800,000	
- Options	<u>633,600</u>	
Total consideration	<u>4,491,147</u>	
	Book Value	Fair Value
Assets and liabilities held at acquisition date:		
Cash	2,598	2,598
Receivables	50,005	50,005
Intangibles	645	645
Exploration assets	50,000	4,488,428
Payables	<u>(50,529)</u>	<u>(50,529)</u>
Fair value of net assets	<u>52,719</u>	<u>4,491,147</u>
Goodwill on consolidation		<u>-</u>

(a) 10,000,000 ordinary shares were issued at \$0.38 being the share price on date of issue and 4,000,000 options exercisable at \$0.30 on or before 30/4/08 as part of the consideration for the purchase of Resources Investment Group Pty Ltd.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

23. COMMITMENTS

In order to maintain current rights of tenure to mining tenements, the Company has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	2006	2005
	\$	\$
Not longer than one year	82,200	1,246,059
Longer than one year, but not longer than five years	82,200	3,226,920
Longer than five years	82,200	-
	<u>246,600</u>	<u>4,472,979</u>

The Company has the right to earn an 80% interest in each or all of its three projects (Quartz Circle, Northampton and Jutson Rocks) by the expenditure of \$1 million on each or all of these projects within a 42 month period. The Company intends to carry out expenditure on each project in such a way that it could, if exploration results warranted, complete the necessary expenditure within the time frame to earn the interest. Future funding and/or farm-out options will be considered on an ongoing basis to ensure the Company has sufficient funds to comply with its commitments.

It should be noted that the right to earn an 80% as detailed above is not an obligation. Subject to results obtained from such exploration as carried out and ongoing assessment of each of the Company's projects, the Company may farm-out, or relinquish its rights to earn on any or all of its Projects, thereby reducing its level of commitments disclosed above.

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

24. SEGMENT INFORMATION

The Company operates predominantly in one geographical segment, being Australia, and in one industry, mineral mining and exploration.

25. EVENTS SUBSEQUENT TO REPORTING DATE

On 1 September 2006 the Consolidated Entity issued 3,235,294 ordinary shares to various Brokers to raise \$1.1 million.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

26. RELATED PARTY DISCLOSURES

- i) Equity interests in subsidiaries are disclosed in notes 9 and 29
- ii) Key management personnel equity holdings are disclosed in note 4.

27. CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the year.

28. CONTROLLED ENTITIES

	Consolidated Entity Interest 2006	Country of Incorporation
Parent Entity		
Graynic Metals Limited		
Controlled Entities		
Resources Investment Group Pty Ltd	100%	Australia

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with Accounting Standards and giving a true and fair view of the financial position and performance of the Company and Consolidated Entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Nathan McMahon
Director
Perth, 27 September 2006

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF
GRAYNIC METALS LIMITED**

O | R | D

PARTNERS

CHARTERED ACCOUNTANTS

Scope

The financial report and directors' responsibility

We have audited the financial report of Graynic Metals Limited ('the Company') for the financial year ended 30 June 2006, consisting of the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year.

The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*.

We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Audit approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Ian K Macpherson CA

Robert W Parker CA

Craig A Vivian CA

**Level 2, 47 Colin Street
West Perth WA 6005**

**PO Box 359
West Perth WA 6872**

☎ +61 8 9321 3514

☎ +61 8 9321 3523

**ord@ordgroup.com.au
www.ordgroup.com.au**



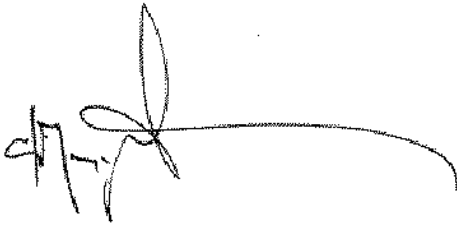
Chartered Accountants

Opinion

1. In our opinion, the financial report of Graynic Metals Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date, and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory professional reporting requirements in Australia.

ORD PARTNERS

Chartered Accountants

A handwritten signature in black ink, appearing to read 'I. Macpherson', with a long horizontal flourish extending to the right.

Ian Macpherson
Partner

Dated this 27th day of September 2006
Perth, WA

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is located at the end of this report.

B. SHAREHOLDING

1. Substantial Shareholders

Shareholder	Number of Shares	Percentage
Westpac Custodian Nominees	6,625,000	16.454
Katrina Peta Downes	3,333,333	8.279
Megan Ruth Roberts	2,500,001	6.209
Fleur Lesley Schell	2,500,000	6.209

2. Number of holders in each class of equity securities and the voting rights attached

There are 664 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are 302 holders of listed options. There are no voting rights attached to these options.

On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

3. Distribution schedule of the number of holders in each class of equity security as at 4 September 2006.

By Class	Holders of Ordinary Shares	No. Of Ordinary Shares	%	Holders of Options	No. of Options	%
1-1,000	80	39,405	0.098	47	22,281	0.182
1,001 - 5,000	168	468,397	1.163	114	416,005	3.404
5,001 - 10,000	137	1,164,685	2.893	34	258,708	2.117
10,001 - 100,000	226	8,577,768	21.303	91	3,327,695	27.230
100,001 and over	53	30,014,646	74.543	16	8,195,825	67.066
TOTALS	664	40,264,901	100.00	302	12,220,514	100.00

4. Marketable Parcel

There are no shareholders with less than a marketable parcel.

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)**5. Twenty largest holders of each class of quoted equity security**

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 13 September 2006) is as follows:

Ordinary Shares

Name	No. Of Ordinary Shares	%
Westpac Custodian Nominees	6,625,000	16.454
Katrina Peta Downes	3,333,333	8.279
Megan Ruth Roberts	2,500,001	6.209
Fleur Lesley Schell	2,500,000	6.209
Margaret Anne Mullins	1,666,666	4.139
Nathan Bruce McMahon	1,069,893	2.657
Clive Bruce Jones	995,248	2.472
Pylara Pty Ltd	800,000	1.987
Cyril Alan Ryman	700,000	1.738
Mervyn Ian Leo Bassett & Shirley Ethel Bassett <Y-Z Superannuation Fund A/C>	650,000	1.614
Chaldane Pty Ltd	524,000	1.301
Mark Stephen Ghirardello	450,000	1.118
Kylee Lynne Keys	400,000	0.993
RAB Special Situations (Master Fund) Limited	375,000	0.931
Robin Scrimgeour	375,000	0.931
Peter Barnes	325,000	0.807
AFM Perseus Fund Limited	300,000	0.745
Alastair Rowland Brown <Hipiki Staff Fund A/C> C/- JDV Limited	300,000	0.745
Saxon Holdings Pty Ltd	300,000	0.745
Jeremy Robert Antill Pockley	300,000	0.745
TOTAL	24,489,141	60.820

Options exercisable at \$0.20 on or before 31 October 2007

Name	No. Of Options	%
Westpac Custodian Nominees Limited	3,500,000	28.640
CPA Financial Services Pty Ltd	878,400	7.188
Jezza Nominees Ltd	821,868	6.725
Clive Bruce Jones	497,624	4.072
Tricom Nominees Pty Ltd <LPG A/C>	400,000	3.273
Fortis Clearing Nominees P/L <Settlement A/C>	300,000	2.455
Chaldane Pty Ltd	262,000	2.144
Drake Resources Limited	250,000	2.046
David Halliday	250,000	2.046
Alastair Rowland Brown <Hipiki Staff Fund A/C>	225,000	1.841
Charmaine Marie Willoughby <Empire A/C>	183,600	1.502
M&M Media & Marketing Consultants Pty Ltd	165,000	1.350
Forbar Custodians Limited <Forsyth Barr Ltd- Nominees A/C>	150,000	1.227
Cyril Resources Pty Ltd	106,089	0.868
Deanna Demunka Mioceovich	105,000	0.859
Simon Wallington	101,244	0.828
Maincoast Pty Ltd	100,000	0.818
Bannerman Resources Pty Ltd	100,000	0.818
Peter Bowman C/- Stirling Partners	100,000	0.818
Melsim Pty Limited <superfund A/C>	100,000	0.818
TOTAL	8,595,825	70.339

C. OTHER DETAILS**1. Company Secretary**

The name of the company secretary is Kent Hunter.

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Level 2, 22 Oxford Close
West Leederville Western Australia 6008
Telephone: +(61) 8 9381 1436
Facsimile: +(61) 8 9381 1068

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Advanced Share Registry Services
110 Stirling Highway
NEDLANDS Western Australia 6009
Telephone: +(61) 8 9389 8033
Facsimile: +(61) 8 9389 7871

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange.

5. Restricted Securities

The Company has issued the following restricted securities:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Fully Paid Ordinary Shares	2,894,564	30 June 2007
\$0.30 Options expiring 30 April 2008	2,000,000	20 June 2007

6. Review of Operations

A review of operations is contained in the Directors' Report.

7. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at http://www.asx.com.au/about/CorporateGovernance_AA2.shtm.

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	1.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Security Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by CEO and CFO	1.4.11
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1.2
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2 Attestations by CEO and CFO	1.4.11
Recommendation 7.3 Reporting on Principle 7	2.1.3
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2.4
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5 Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1 Company Code of Conduct	3

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, the Chairman and other key executives in the performance of their roles.

1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr N McMahon and Mr C Jones are Non-Executive Directors, however are not independent directors as they do not meet the following criteria for independence adopted by the Company.

Mr I Hoffman and Mr J Downes are Non-Executive Director of the Company and meet the Company's criteria for independence. Their experience and knowledge of the Company makes their contribution to the Board such that it is appropriate for them to remain on the Board.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr I Hoffman, Mr N McMahon, Mr C Jones and Mr J Downes are Non-Executive Director of the Company and do not meet the Company's criteria for independence. However, their experience and knowledge of the Company makes their contribution to the Board such that it is appropriate for them to remain on the Board.

Mr R Thom is an Executive Director of the Company and meets the Company's criteria for independence.

1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.

- **Strategy Formulation:** to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- **Overseeing Planning Activities:** the development of the Company's strategic plan.
- **Shareholder Liaison:** ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- **Monitoring, Compliance and Risk Management:** the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- **Company Finances:** approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- **Ensuring the Health, Safety and Well-Being of Employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- **Delegation of Authority:** delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;

- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

Due to the size of the Company, the Board does not consider it appropriate to implement a Share Trading Policy. Rather, it reminds directors, officers and employees of the prohibition in the *Corporations Act* 2001 concerning trading in the Company's securities when in possession of "inside information".

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 30 June 2004 and will be implemented for the financial period ended 30 June 2005. The objective of this evaluation will be to provide best practice corporate governance to the Company.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CEO or CFO. Due to the size and scale of operations of the Company these roles are performed by the Board as a whole.

2. Board Committees

2.1 Audit Committee

Due to the size and scale of operations of the Company the full Board undertakes the role of the Audit Committee. Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of five (5) members, the Company does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. However, in accordance with the ASX

Listing Rules, the Company is moving towards establishing an audit committee consisting primarily of Independent Directors.

In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Company and the independence of the external auditor.

2.1.2 Responsibilities

The Audit Committee or as at the date of this report the full Board of the Company reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Company each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or as at the date of this report the full Board of the Company is also responsible for establishing policies on risk oversight and management.

2.1.3 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 20 September 2005 Mr Ron Thom (Managing Director) and Mr Kent Hunter (Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.2 Remuneration Committee

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of five (5) members, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy

Directors' Remuneration was approved by resolution of the Board on 21 February 2005.

2.2.3.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. During the year there were no Non-Director Executives.

The value of shares and options were they to be granted to senior executives would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of five (5) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Company Code Of Conduct

The Board has decided against the implementation of a code of conduct as it does not believe that it is in the best interests of its employees or other stakeholders to have what purports to be an exhaustive code of conduct. The Board feels that such a code may be too prescriptive and not allow the employees the discretion they need to best serve the Company's stakeholders.

SCHEDULE OF MINERAL TENEMENTS
AS AT 20 SEPTEMBER 2006

<i>Project</i>	<i>Tenement</i>		<i>Interest held by Graynic Metals Limited</i>
Quartz Circle	P46/1360		80%
Quartz Circle	P46/1361		80%
Quartz Circle	P46/1362		80%
Quartz Circle	P46/1363		80%
Quartz Circle	P46/1364		80%
Quartz Circle	P46/1365		80%
Quartz Circle	P46/1366		80%
Quartz Circle	E46/0541		80%
Quartz Circle	P46/1441		80%
Quartz Circle	P46/1442		80%
Quartz Circle	E45/2602		80%
Quartz Circle	P46/1385		80%
Quartz Circle	P46/1386		80%
Jutson Rocks	E38/1540		100%
Jutson Rocks	E38/1541		100%

P Prospecting Licence
E Exploration Licence
M Mining Licence