# QUARTERLY REPORT FOR THE PERIOD ENDING 30 JUNE 2008

## Highlights

- **Surface sampling identified a potential mineralized zone at the Emperor zinc prospect at the Quartz Circle Project in Western Australia**
- **Desktop review of Igloo copper prospect at the Quartz Circle Project is underway**
- **Drill program for Emperor zinc prospect and Igloo copper prospect finalised and expected to commence shortly**
- **Project generation activities identify potential new project opportunities to increase shareholder value**
- **Mark Fletcher appointed as Executive Director - Exploration**

## WA PROJECTS

### Quartz Circle, Nullagine WA (Graynic 80%)

During the quarter Graynic completed a detailed surface sample program over the Emperor zinc Prospect along with re-logging of diamond drill core from both the Emperor zinc and Igloo copper Prospects.

Results from the program and data compilation are particularly encouraging and have provided a new understanding of the Quartz Circle Project. The programme was the culmination of a comprehensive six month data compilation and interpretation of the Quartz Circle Project which has confirmed the potential for significant mineralisation at the Emperor zinc Prospect.

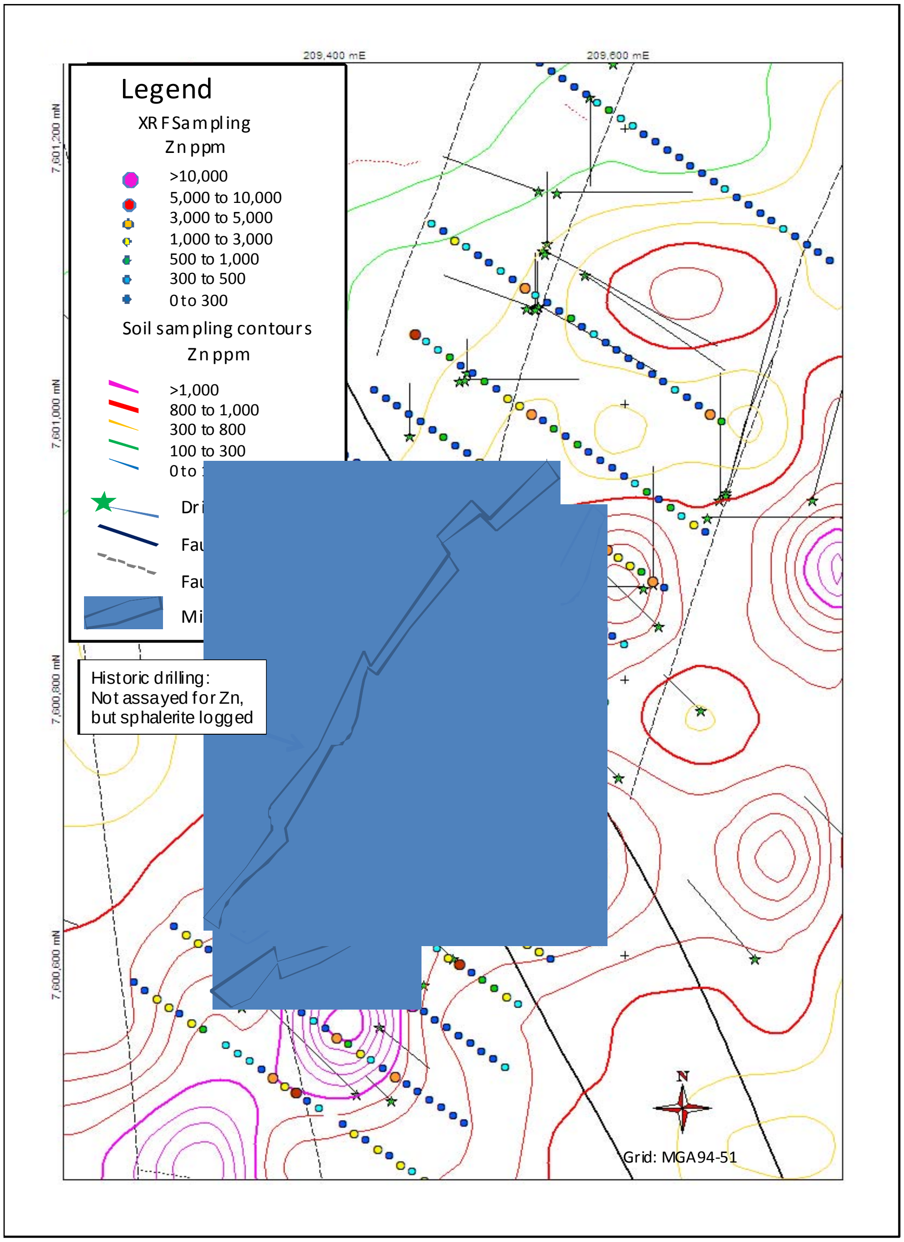
A close spaced surface sampling program (10m sample intervals on 100m spaced lines) was conducted at the Emperor Prospect in March 2008 over the broad surface geochemical anomaly using a Niton® XL3t portable "XRF" analyzer[1]. A number of strong northeast-trending anomalies were defined, with one extending over 5 lines. To ensure validity of the original survey, a second survey involving 50m infill lines was completed on 11 May 2008 and confirmed the target as real.

The best anomaly shows values of greater than 1000ppm Zn over every line, including persistent values above 5000ppm Zn. The anomalous values extend over 20-50m along the lines, with very

[1] The estimates of zinc grade at Emperor referred to in this release are based on multiple readings using a Niton XL3t portable analyser including a quality control procedure involving analysis of standards, duplicates and blanks to ensure validity of readings. While Graynic believes the Niton estimates are indicative of the grades contained within the prospect area the Company makes it clear that the Niton results are not based on formal assays and are therefore estimates of zinc grades.

high values (greater than 1%Zn) coincident with high manganese along cross-cutting north-northeast structures.

A drill program has been finalised for the project and is expected to commence shortly. The drilling programme will utilize the information gathered through the recent surveys and data review to test targets at the Emperor Prospect and provide further information on the Igloo copper Prospect. An announcement will be made in due course on the commencement of the drilling programme.




**Emperor Zinc Prospect**
**XRF Results over contours of historic soil sample results**

## Emperor Zinc Prospect – Data Compilation and Review

Three-dimensional integration of drilling, regional and project-scale magnetics, gravity (including a 3D inversion), Induced Polarisation (IP) and surface geochemical sampling has resulted in renewed confidence that there is the potential for a significant mineralized body at the Emperor Prospect.

The Emperor Prospect was originally defined in the 1970s by Alcoa as a strong northeast-trending surface geochemical anomaly. This anomaly was subsequently followed up with IP on northwest orientated lines which defined a number of broad chargeable anomalies. Drill testing of this prospect has continued periodically over the past 30 years with a number of significant results (including ALCO019 **17.74m@16.06% Zn** from 46m and GMRC068 **12m@5.48% Zn** from 76m). However the controls on the mineralization have never been well understood owing to conflicting geological data gained from drilling and outcrop, resulting in varying drill orientations.

Review of the longitudinal-section of this mineralized trend shows a number of mineralized intersections in drilling (including ALCOA19, ALCOA26, and GMD21) and coincident chargeable IP anomalies, but no holes that actually test the trend at the optimal angle (two historically drilled holes were drilled perpendicular to strike but were not assayed for zinc, even though geological logging noted the presence of sphalerite). The dip of the potential body remains uncertain as historic drilling provides obscure orientations, but there is indication that a dip to the northwest is possible, which has not been considered previously.

Graynic has previously completed drilling at the Emperor Prospect with the best previously announced down-hole intersections of **16m @ 5.19% Zn** from 50m in GMD21, **44m @ 2.1% Zn** including **12m @ 3.7% Zn** in GMRC34 and **4m @ 6.67% Zn, 39 g/t Ag and 0.47 g/t Au** from 176m in GMRC36.

## Igloo Copper Prospect – Data Compilation and Review

In addition to the exploration at the Emperor Prospect, Graynic is assessing a small, near-surface copper deposit at the Igloo Prospect. The mineralisation is mainly oxidised and includes chalcocite, native copper and malachite occurring as a discrete pod of mineralisation at a depth of between 25m and 50m from surface. A small zone of primary chalcopyrite also exists below the base of oxidation. This deposit, which was first recognized by Pancontinental in 1992, has returned historic drill results that include **2m @ 46%Cu, 1.5 g/t Au, 231 g/t Ag and 3m @ 47% Cu, 1.5 g/t Au, 298 g/t Ag**.

A desktop review is now being undertaken to determine the potential for an economic outcome with the upcoming drill programme planned to enable the calculation of a JORC compliant resource.

## Diamond Tenements

During the quarter Graynic was advised by King Leopard Diamonds Ltd that the planned Initial Public Offering (IPO) of King Leopard Ltd would not proceed and that King Leopard Diamonds Ltd were withdrawing from the agreement covering Graynic's diamond tenements in Western Australia.

The tenements the subject of the agreement with King Leopard Diamonds Ltd were Walgidgee Hills E04/1551, Nookanbah E04/1620, Boodallana E45/2788, and Napier Downs E04/1557 and E04/1558 that are currently held by Graynic.

Following the withdrawal of King Leopard Diamonds Ltd from the joint venture agreement, Graynic has conducted a review of the diamond tenement package and relinquished the Boodallana tenement E45/2788. Graynic continues to hold the remaining tenements and is reviewing its options for the future management of these tenements.

Exploration Licence 04/1551 hosts the entire *Walgidee Lamproite Intrusion* in the West Kimberley region of Western Australia. The Walgidee Lamproite is a known diamond-bearing intrusion from which 891 micro diamonds and 62 macro-diamonds have been recovered. The 11 macro-diamonds recovered by Diamond Rose NL in 1998 comprised 6 white (colourless) stones, 4 brown and 1 yellow, ranging in size from 0.8mm to 1.5mm.

The Walgidee Lamproite is reputedly the largest lamproite in the world, with a diameter of about 2.5km and an area of about 490ha. Various campaigns of bulk testing of pit samples as well as testing of drill samples have been carried out in previous years, but most of these trials have been confined to the eastern half of the intrusion. It is the Company's opinion that the amount of testing to date may has been inadequate for such a large intrusion and that there remains good potential for a commercial diamond deposit to be discovered.

## NSW PROJECTS

### Copper Ridge

Following review of the surface soil and rock chip sampling completed in late 2007 at the Copper Ridge project, and consideration of the project's geological setting to host significant mineralization, it was determined little potential remained for EL6435. Therefore, the tenement was allowed to expire in June 2008.

## CORPORATE

### Strategic Direction

Graynic's current projects focus is on base metals and diamonds in Western Australia and NSW, with an emphasis on copper and zinc.

Although we believe the project portfolio still provides value for the company, a strategic review and direction setting process has lead us to believe that the acquisition of a project within a broader range of base and precious metals on a global scale would add significant value to the Company.

Therefore, over the past six months we have targeted the favorable regions for our preferred deposit types and identified a number of opportunities that may fit within our strategy. Work in the next quarter will include due diligence on new country entry, further technical review of specific opportunities and assessment of sub-province prospectivity. We believe this proactive approach to project generation has effectively identified a number of high quality options for the Company to consider. In line with our strategy we continue to review other opportunities as they are presented.

**Director Appointment**

Mr Mark Fletcher was appointed to the Graynic Board of Directors during the quarter. Mr Fletcher was the Exploration Manager for Graynic and joined the Board as an Executive Director. Mr Fletcher's appointment to the Board represented a key step forward in the company's corporate development and his expertise will be of significant importance to Graynic's exploration and project development programs.

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Competent Person Statement: The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves was compiled by Mr. Mark Fletcher, who is a member of the Australian Institute of Geoscientists. Mr. Fletcher has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Mark Fletcher, who is a full-time employee of Graynic Metals Ltd, consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.