

GRAYNIC METALS LIMITED
ACN 112 898 825

TO BE RENAMED
XANADU RESOURCES LIMITED

ENTITLEMENT ISSUE PROSPECTUS

For a pro-rata non-renounceable entitlement issue of one (1) new Option for every two (2) Shares held by Shareholders at an issue price of \$0.005 per Option, to raise up to approximately \$138,714 (**Offer**).

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the Options being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The Options offered by this Prospectus should be considered speculative.

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1. IMPORTANT DATES AND IMPORTANT NOTICES

TIMETABLE AND IMPORTANT DATES*

Lodgement of Prospectus with the ASIC	27 January 2010
Announcement of Offer and lodgement of Appendix 3B	27 January 2010
Notice sent to Shareholders	29 January 2010
Ex date	1 February 2010
Record Date for determining Shareholder entitlements	5 February 2010
Prospectus despatched to Shareholders and Opening Date	9 February 2010
Closing Date of Offer	26 February 2010
Securities quoted on a deferred settlement basis	1 March 2010
Notify ASX of under-subscriptions	3 March 2010
Despatch of holding statements and Options entered into Shareholders' security holdings	9 March 2010

* These dates are determined based upon the current expectations of the Directors. The Directors may extend the Closing Date by giving six Business Days' notice to ASX. Such an extension would have a consequential effect on subsequent dates.

IMPORTANT NOTICES

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisors.

This Prospectus is dated 27 January 2010 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus. The expiry date of the Prospectus is 13 months after the date the Prospectus was lodged with the ASIC (**Expiry Date**). No Options will be allotted or issued on the basis of this Prospectus after the Expiry Date.

Applications for Options offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form which accompanies this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on, and observe, any of these restrictions. Failure to comply with these restrictions may violate applicable securities laws. Applicants who are resident in countries other than Australia and New Zealand should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers

whom potential investors may consult. This Prospectus is being issued pursuant to Section 713 of the Corporations Act. Section 713 allows the issue of a more concise prospectus in relation to an offer of continuously quoted securities, or options to acquire continuously quoted securities. This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all information that would be included in a prospectus for an initial public offering of securities.

ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the Company's website at: www.graynicmetals.com.au. The offer constituted by an electronic version of this Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia. There is no facility for application forms to be received electronically or by applying online. The Corporations Act prohibits any person passing onto another person an Entitlement and Acceptance Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

RISK FACTORS

Shareholders should read this Prospectus in its entirety and, in particular, before deciding whether to apply for Options under this Prospectus, consider the key risk factors to which the Company is exposed, as summarised in Section 7 of this Prospectus. The key risk factors affecting the proposed business and operations of the Company include:

- (a) The Company is party to a joint venture agreement with Nichromet Extraction Inc. pursuant to which it has the right to earn up to a 50% joint venture interest in two exploration projects in Guatemala by spending \$2.4 million on the projects within three years of the commencement of the joint venture. The Company can then elect to spend a further \$4 million within an additional three year period to increase its JV interest to 75%. Upon completion of the Offer, the Company will not have sufficient funds to enable it to earn an interest in the projects. The Company will therefore be required to raise additional equity and/or debt capital in order to earn an interest in the projects. There can be no assurance that the Company will be able to raise finance on acceptable terms or within the specified timeframe. If the Company is unable to obtain the necessary finance in a timely manner, the Company will not earn an interest in the Guatemalan projects and will be deemed to have withdrawn from the joint venture agreement.
- (b) The Guatemalan projects comprise some tenements that remain in the application stage. There is a risk that certain tenement applications may not be granted in which case the Company will not be able to undertake exploration activities on those tenements.
- (c) Mineral exploration is speculative and involves significant degrees of risk. There is no guarantee that exploration of the Company's projects will lead to the discovery of mineral resources which can be economically exploited.

2. CORPORATE DIRECTORY

Directors

Mr Clive Jones – *Non-Executive Chairman*
Mr Adrian Byass – *Managing Director*
Mr Jonathan Downes – *Non-Executive Director*

Company Secretary

Mr David Round

Registered Office

Suite 5, Level 1
350 Hay Street
SUBIACO WA 6008

Contact information

Telephone: +61 8 6364 0518

Facsimile: +61 8 6210 1872

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Share Registry*

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NEDLANDS WA 6009

Telephone: +61 8 9389 8033

Facsimile: +61 8 9389 7871

Lead Manager*

Indian Ocean Capital Pty Ltd
Level 1
11 Mounts Bay Road
PERTH WA 6000

Auditor*

Mack & Co.
Level 2
35 Havelock Street
WEST PERTH WA 6005

Solicitors

Steinepreis Paganin
Lawyers and Consultants
Level 4, The Read Buildings
16 Milligan Street
PERTH WA 6000

* These parties have been included for information purposes only. They have not been involved in the preparation of this Prospectus.

3. LETTER FROM THE CHAIRMAN

27 January 2010

Dear Shareholder

On behalf of the Board of Directors of Graynic Metals Limited, I am pleased to offer you the opportunity to participate in a pro-rata non-renounceable entitlement issue of Options on the basis of one new Option for every two Shares held at an issue price of \$0.005 per Option (**Offer**). Each Option is exercisable at \$0.20 each on or before 5.00 pm (WST) on 30 April 2013.

Shareholders registered at 5.00 pm (WST) on 5 February 2010 will be entitled to participate in the Offer under this Prospectus. The Closing Date for acceptances is 5.00 pm (WST) on 26 February 2010.

The Company will apply for quotation of the Options on ASX within seven days of the date of this Prospectus. Fund raised from the Offer of approximately \$138,714 will be used for working capital purposes and to meet the expenses of the Offer.

In conjunction with the Offer, the Company will, subject to Shareholder approval at an upcoming general meeting, undertake a placement of up to 20,000,000 Options at \$0.005 each to sophisticated and institutional clients of Indian Ocean Capital (**Placement**). The Options to be issued under the Placement will be equivalent in all respects with those offered under this Prospectus.

The Company has recently despatched a notice of meeting to convene a general meeting of Shareholders on 2 March 2010. At the meeting, Shareholders will be asked to approve the Placement and the change the name of the Company from Graynic Metals Limited to Xanadu Resources Limited. Additional information in respect of the Placement and the proposed change of name is set out in the notice of meeting sent to Shareholders.

The Board recommends all Shareholders take up their entitlements under the Offer and advises that each of the Directors will take up their respective entitlements in full.

The Board takes this opportunity to thank all Shareholders for their support and looks forward to your support in the future.

Yours faithfully

Mr Clive Jones
Chairman
Graynic Metals Limited

4. DETAILS OF THE OFFER

4.1 Offer

By this Prospectus, the Company offers for subscription approximately 27,742,708 new Options pursuant to a pro-rata non-renounceable entitlement issue to Shareholders of one (1) new Option for every two (2) Shares held on the Record Date at an issue price of \$0.005 per Option. Fractional entitlements will be rounded up to the nearest whole number.

Based on the capital structure of the Company, the maximum number of Options to be issued pursuant to the Offer is approximately 27,742,708. The Offer will raise approximately \$138,714. The purpose of the Offer and the use of funds raised are set out in Section 5 of this Prospectus.

4.2 Terms of Options

Each Option issued under this Prospectus will give the holder the right to subscribe for one Share at an exercise price of \$0.20 at any time up to 5.00 pm (WST) on 30 April 2013. The exercise price of the Options and the number of Shares issued may be adjusted in accordance with the terms and conditions of the Options.

The full terms and conditions on which the Options will be issued are set out in Section 6.1 of this Prospectus.

4.3 How to Accept the Offer

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:

- (a) if you wish to accept your Entitlement in full:
 - (i) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided; and
 - (ii) attach your cheque for the amount indicated on the Entitlement and Acceptance Form; or
- (b) if you only wish to accept part of your Entitlement:
 - (iii) fill in the number of Options you wish to accept in the space provided on the Entitlement and Acceptance Form; and
 - (iv) attach your cheque for the appropriate application monies (at \$0.005 per Option); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to "Graynic Metals Limited – Option Issue Account" and crossed "Not Negotiable".

Your completed Entitlement and Acceptance Form and cheque must reach the Company's share registry no later than 5.00pm (WST) on the Closing Date.

4.4 Non-Renounceable Issue

The Offer is non-renounceable. Accordingly, a Shareholder may not sell or transfer all or part of their Entitlement.

4.5 Minimum Subscription

There is no minimum subscription in respect of the Offer.

4.6 Underwriting

The Offer is not underwritten.

4.7 Shortfall

If you do not wish to take up any part of your Entitlement you are not required to take any action. The part of your Entitlement not taken up will form part of the Shortfall. The Shortfall may be placed at the discretion of the Board in conjunction with Indian Ocean Capital, the lead manager to the Offer, within three months of the Closing Date and Options issued under the Shortfall will be issued on the same terms as they are being offered to Shareholders pursuant to this Prospectus.

New Options not taken up by Shareholders will not be placed to Directors or any associates of Directors.

4.8 Corporate Adviser Fees

The Company has entered into a mandate with Indian Ocean Capital pursuant to which it has engaged Indian Ocean Capital to act as lead manager to the Offer and the Placement. The Company will pay a fee of 5% of the amount raised under the Offer and the Placement to Indian Ocean Capital in consideration for its services. Refer to Section 8.2 for additional information in respect of the mandate.

4.9 Allotment of Options

Options issued pursuant to the Offer will be allotted as soon as practicable after the Closing Date. The Company will allot the Options on the basis of a Shareholder's Entitlement. Where the number of Options issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

Pending the allotment and issue of the Options or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

4.10 ASX Listing

Application for official quotation by ASX of the Options offered pursuant to this Prospectus will be made within seven days after the date of this Prospectus. If approval is not obtained from ASX before the expiration of three months after

the date of issue of the Prospectus (or such period as modified by the ASIC), the Company will not issue any Options and will repay all application monies for the Options within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the Options is not to be taken in any way as an indication of the merits of the Company or the Options now offered for subscription.

4.11 Overseas Shareholders

The Offer is only available for acceptance by Shareholders with a registered address as at the Record Date in Australia or New Zealand.

This Offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Options those Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Options will not be issued to Shareholders with a registered address which is outside Australia or New Zealand.

4.12 Taxation Implications

The Directors do not consider that it is appropriate to give Applicants advice regarding the taxation consequences of applying for Options under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Applicants. Potential Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Options offered pursuant to this Prospectus.

4.13 Clearing House Electronic Sub-Register System (CHES) and Issuer Sponsorship

The Company will not be issuing Option holding certificates. The Company will apply to ASX to participate in CHES, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHES will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Options allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number or Security Holder Reference Number and explain, for future reference, the sale and purchase procedures under CHES and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

4.14 Privacy Act

If you complete an application for Options, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information to assess your application, service your needs as an Option holder, facilitate distribution payments and corporate communications to you as a Shareholder or Option holder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (Cth) (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for Options, the Company may not be able to accept or process your application.

4.15 Enquiries

This document is important and should be read in its entirety. Shareholders who are in any doubt as to the course of action to be followed should consult their stockbroker, solicitor, accountant or other professional adviser without delay.

Questions relating to the terms of the Offer can be directed to the Company at the contact details set out in the Corporate Directory.

Questions relating to the completion of the Entitlement and Acceptance Form can be directed to the Company's share registry at the contact details set out in the Corporate Directory.

5. EFFECT OF THE OFFER

5.1 Use of Funds

The Company will issue approximately 27,742,708 Options under this Prospectus (assuming the Offer is fully subscribed, either by Shareholders accepting the Offer or by the placement of any Shortfall) at an issue price of \$0.005 each to raise approximately \$138,714 (before expenses). Funds raised from the Offer will be applied as follows:

Item	\$
Expenses of the Offer	25,000
Working Capital	113,714
Total	138,714

Note:

1. Refer to Section 8.6 of this Prospectus for further details regarding the estimated expenses of the Offer.

In the event the Company raises less than the full subscription under the Offer, it shall apply the proceeds first towards the estimated expenses of the Offer, with the balance, if any, applied towards working capital.

5.2 Effect of the Offer

The principal effect of the Offer (assuming the Offer is fully subscribed) will be to:

- (a) increase the cash reserves of the Company by approximately \$113,714 immediately after completion of the Offer after deducting the estimated expenses of the Offer; and
- (b) increase the number of Options on issue from nil to approximately 27,742,708 Options following completion of the Offer. (Subject to Shareholder approval at the upcoming general meeting, the Company will issue an additional 20,000,000 Options pursuant to the Placement.)

5.3 Pro-Forma Balance Sheet

The audited Balance Sheet as at 30 June 2009 and the unaudited Pro-Forma Balance Sheet as at 30 June 2009 set out on the following page have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared on the assumption that all Options pursuant to the Offer in this Prospectus are issued.

The Balance Sheets have been prepared to provide Shareholders with information on the assets and liabilities of the consolidated Company and pro-forma assets and liabilities of the consolidated Company following completion of the Offer (assuming full subscription). The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

Consolidated Balance Sheet and Pro Forma Balance Sheet as at 30 June 2009

	30 June 2009 Actual \$	30 June 2009 Pro-forma \$
CURRENT ASSETS		
Cash and cash equivalents	1,284,531	1,398,245
Trade and other receivables	18,958	18,958
TOTAL CURRENT ASSETS	1,303,489	1,417,203
NON-CURRENT ASSETS		
Financial assets	1,010,048	1,010,048
Property, plant and equipment	43,730	43,730
Exploration and evaluation expenditure	3,800,023	3,800,023
TOTAL NON-CURRENT ASSETS	4,853,801	4,853,801
TOTAL ASSETS	6,157,290	6,271,004
CURRENT LIABILITIES		
Trade and other payables	52,161	52,161
Provisions	14,673	14,673
TOTAL CURRENT LIABILITIES	66,834	66,834
TOTAL LIABILITIES	66,834	66,834
NET ASSETS	6,090,456	6,204,170
EQUITY		
Issued capital	12,825,841	12,939,555
Reserves	2,689,238	2,689,238
Retained profit/(losses)	(9,424,623)	(9,424,623)
TOTAL EQUITY	6,090,456	6,204,170

5.4 Effect on Capital Structure

A comparative table of changes in the capital structure of the Company as a consequence of the Offer is set out below, assuming that the Offer is fully subscribed.

Shares	Number
Shares on issue at date of Prospectus	55,485,415
Shares offered pursuant to this Prospectus	Nil
Total Shares on issue after completion of the Offer	55,485,415

Options	Number
Options on issue at date of Prospectus	Nil
Options offered pursuant to this Prospectus	27,742,708
Options offered pursuant to the Placement ¹	20,000,000
Total Options on issue after completion of the Offer and the Placement	47,742,708

Note:

1. The Placement is subject to Shareholder approval at the upcoming general meeting.

6. RIGHTS ATTACHING TO OPTIONS AND UNDERLYING SECURITIES

6.1 Rights Attaching to Options

The Options offered pursuant to this Prospectus entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Option gives the Option holder the right to subscribe for one Share. To obtain the right given by each Option, the Option holder must exercise the Options in accordance with the terms and conditions of the Options.
- (b) The Options will expire at 5.00pm (WST) on 30 April 2013 (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The amount payable upon exercise of each Option will be \$0.20 (**Exercise Price**).
- (d) An Option holder may exercise their Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Options specifying the number of Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Options being exercised,

(Exercise Notice).

- (e) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (f) Within 10 business days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Options specified in the Exercise Notice.
- (g) The Company will apply for quotation of the Options on ASX and the Options will be freely transferable on ASX subject to the ASX Listing Rules.
- (h) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares. The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 business days after the date of allotment of those Shares.
- (i) If at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (j) There are no participating rights or entitlements inherent in the Options and Option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least seven business days after the issue is announced. This will give Option holders

the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

- (k) In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to Shareholders after the date of issue of the Options, the exercise price of the Options may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.
- (l) In the event the Company proceeds with a bonus issue of securities to Shareholders after the date of issues of the Options, the number of securities over which an Option is exercisable may be increased by the number of securities which the Option holder would have received if the Option had been exercised before the record date for the bonus issue.

6.2 Rights Attaching to Shares

The following is a summary of the more significant rights and liabilities attaching to Shares issued on exercise of the Options offered pursuant to this Prospectus. Full details of the rights attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

The rights, privileges and restrictions attaching to Shares issued on exercise of the Options can be summarised as follows:

(a) Notice of Meetings

Each Shareholder is entitled to receive notice of general meetings of the Company. Shareholders are entitled to be present in person, or by proxy, attorney or representative to speak or to vote at general meetings of the Company or to join in demanding a poll. Shareholders may requisition general meetings in accordance with the Corporations Act.

(b) Voting

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of Shareholders or classes of Shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid shares, shall have a fraction of a vote for each partly paid share. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited).

(c) **Dividends**

Subject to the rights of persons (if any) entitled to shares with special rights to dividend, the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the Shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the Shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company.

(d) **Winding Up**

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company and may for that purpose set such value as the liquidator considers fair on any property to be so divided and may determine how the division is to be carried out as between the Shareholders or different classes of shareholders.

The liquidator may, with the sanction of a special resolution of the Company, vest the whole or any part of any such property in trustees on such trusts for the benefit of the contributories as the liquidator thinks fit, so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

(e) **Transfer of Shares**

A Shareholder may transfer all or any of his or her Shares by:

- (i) a market transfer in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating dealings in Shares, including a transfer that may be effected pursuant to the ASTC Settlement Rules or some other computerised or electronic transfer process; and
- (ii) an instrument which is:
 - (A) in writing in any usual or common form or in any other form that the Directors approve;
 - (B) a sufficient instrument or transfer of marketable securities under Section 1101 of the Corporations Act;
 - (C) in a form approved by the ASX; or
 - (D) in any other usual or common form.

(f) **Allotment of Shares**

Without prejudice to any special rights previously conferred on the holders of any existing Shares or class of shares but subject to the Corporations Act and the Listing Rules, Shares in the Company are under the control of the Directors who may allot or dispose of all or any of the same to such person at such times at such price and on such terms and conditions and having attached to them such preferred, deferred or other special rights or such restrictions, whether with regard

to dividend, voting, return or capital or otherwise and whether as preference shares that are at the option of the Company likely to be redeemed as the Directors think fit.

(g) **Variation of Rights**

If at any time the share capital is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, be varied or abrogated in any way with the consent in writing of the holders of three-quarters of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. Any variation under this clause shall be subject to the Corporations Act.

7. RISK FACTORS

Applicants should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Options pursuant to the Offer. Potential Applicants should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Options.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

7.1 Risks Specific to the Company's Projects

(a) Guatemala Joint Venture

(i) Contract Risk

The Company is party to a joint venture agreement with Nichromet Extraction Inc. (**Nichromet**) pursuant to which it holds the right to earn up to a 75% joint venture (**JV**) interest in a prospective tenement package in Guatemala hosting nickel laterite mineralisation (**Guatemala JV Agreement**). Shareholders are referred to the Company's announcement to ASX on 10 July 2009 which details the terms of the Guatemala JV Agreement.

The Company is reliant on Nichromet complying with the terms and conditions of the Guatemala JV agreement and the conditions attaching the tenements the subject of the Guatemala JV Agreement. Should Nichromet fail to comply with the terms of the Guatemala JV Agreement, the Company's interest in the projects the subject of the agreement will be adversely affected.

(ii) Status of Tenements

Exploration on the properties the subject of the Guatemala JV Agreement is proposed to extend over two main project areas, Izabal and Baja Verapaz. Shareholders should note that some of the tenements comprising the projects have been granted and are held by Nichromet, whilst other tenements are in the application stage. There is a risk that certain tenement applications may not be granted in which case the Company will not be able to undertake exploration activities on these tenements.

(iii) Future Capital Needs

The Company has the right to earn a 50% JV interest in the Izabal and Baja Verapaz projects by spending \$2.4 million in exploration on the projects within three years of the commencement of the joint venture. The Company can then elect to spend a further \$4 million within a further three years to increase its JV interest to 75%. Upon completion of the Offer, the Company will not have sufficient funds to enable it to earn an interest in the projects. The Company will therefore be required to raise additional equity and/or debt capital in excess of the funds raised pursuant to this Prospectus in order to earn

an interest in the projects. There can be no assurance that the Company will be able to raise finance on acceptable terms or within the specified timeframe. Any additional equity financing may be dilutive to Shareholders and any debt financing, if available, may involve restrictive covenants, which may limit the Company's operations and business strategy. If the Company is unable to obtain the necessary finance in a timely manner, the Company will not earn an interest in the Guatemalan projects and will be deemed to have withdrawn from the Guatemala JV Agreement.

(iv) **Future Intentions**

Whilst the company is continuing to explore the benefits of the Guatemala JV Agreement, any decision to maintain its potential interest is conditional upon suitable funding being secured. Whilst the Company intends to maintain its right to the potential JV interest, there is a risk it will not be able to continue to retain this right in the future. It is also possible that the Board may elect to withdraw from the Guatemala JV Agreement if they believe it is in the best interests of Shareholders to do so.

(b) **Western Australian Projects**

The Company holds the rights to a number of prospective tenements in the Quartz Circle Project in Western Australia. Significant funds have been spent in the recent past in developing and expanding the Company's interest in this project. Whilst the Company intends to continue to develop the Quartz Circle Project, there is no guarantee it will not divest itself of this project, or part thereof, if, in the opinion of the Board, it is in the best interest of Shareholders to do so.

7.2 Risks Specific to Mineral Exploration and Development

(a) **Exploration Success**

Mineral exploration is speculative and involves significant degrees of risk. There is no guarantee that exploration of the Company's existing projects, or any other tenements in which the Company may acquire an interest, will lead to the discovery of mineral resources which can be economically exploited.

Exploration activities may be delayed or disrupted by the availability of drilling rigs or other technical contractors, adverse weather conditions, difficulties in gaining access to the desired exploration sites, delays in approvals from authorities or technology providers or technical issues such as unexpected geological formations or process test work results.

(b) **Resource and Reserve Estimates**

The Company may, in the future, report mineral resource and reserve estimates on its projects, or any other tenements in which it acquires an interest. Mineral resource and reserve estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and

depend to some extent on interpretations, which may prove to be inaccurate.

Estimates of mineral resources which were reasonable when made may change significantly when new information from additional drilling and analysis becomes available. The Company adheres to the JORC Code for the reporting of mineral resources.

(c) **Operating Risks**

The proposed operations of the Company may be adversely affected by various factors, including failure to achieve predicted grades in exploration, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated metallurgical problems, adverse weather conditions, industrial and environmental accidents, industrial disputes, delays due to government actions, infrastructure availability and unexpected shortages or increases in the costs of consumables, spare parts, labour, plant and equipment.

No assurances can be given that the Company will achieve commercial viability through the successful exploration of its proposed project interests. Until the Company is able to realise value from its interest in its projects, it will incur ongoing operating losses.

(d) **Environmental Risks**

The Company's project interests in Australia will be subject to Commonwealth and State laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mining projects these projects would be expected to have a variety of environmental impacts should development proceed.

The Company intends to conduct its activities in an environmentally conscious manner and in accordance with applicable laws and industry standards. Areas disturbed by the Company's activities will be rehabilitated as required by the conditions attaching to the tenements.

(e) **Native Title and Title Risks**

Both the *Native Title Act 1993* (Cth), related State Native Title legislations and Aboriginal Land Rights and Aboriginal Heritage legislation may affect the Company's ability to gain access to prospective exploration areas in Australia.

Compensatory obligations may be necessary in settling Native Title claims if lodged over any tenements in which the Company holds an interest. The existence of outstanding registered Native Title means the grant of a tenement in respect of a particular tenement application may be significantly delayed or thwarted pending resolution of future act procedures in the Native Title Act. The level of impact of these matters will depend, in part, on the location and status of tenements acquired by the Company.

The Directors closely monitor the potential effect of Native Title claims involving tenements in which the Company has or may have an interest.

(f) **Insurance**

Insurance against all risks associated with mineral exploration is not always available or affordable. The Company intends to maintain insurance where it is considered appropriate for its needs. However, it will not be insured against all risks either because appropriate cover is not available or because the Directors consider the required premiums to be excessive in the circumstances.

(g) **Commodity Price Volatility**

If the Company achieves exploration success leading to commencement of commercial mining operations on any of its projects, it is anticipated that revenues from mining will primarily be derived from the sale of mineral commodities. Consequently, any future earnings are likely to be closely related to the price of certain mineral commodities. Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include low barriers to entry, transparency of market structure, history of uncontrolled production programs and the majority of production occurring in countries with strong political influences on mining and production programs.

(h) **Currency Risk**

Currency fluctuations will affect the cash flow the Company may realise from, or expend on, exploration and mining operations. International prices of various commodities are denominated in United States dollars, whereas the income and expenditure of the Company will be taken into account in Australian currency, exposing the Company to the fluctuations and volatility in the rate of exchange between the United States dollar and the Australian dollar as determined in international markets. Fluctuations in exchange rates to which the Company are exposed will cause fluctuations in the potential income of the Company.

(i) **Legislative changes, Government policy and approvals**

Changes in government regulations and policies may adversely affect the financial performance of the Company. For example, any increased rentals under the relevant Mining Acts may impact on the Company's financial performance. The Company's capacity to explore its projects may be affected by changes in government policy, which are beyond the control of the Company.

(j) **Future Capital Requirements**

The Company's ongoing activities will require substantial expenditure. The funds raised under the Offer will not be sufficient to successfully achieve all the objectives of the Company's exploration programmes. There can be no assurances that the Company will be able to obtain additional fundraising on terms acceptable to the Company or at all. Any additional equity financing may be dilutive to Shareholders and any debt financing, if available, may involve restrictive covenants, which may limit the Company's operations and business strategy.

The Company's failure to raise capital if and when needed could delay or suspend the Company's business strategy and could have a material adverse effect on the Company's activities.

(k) **Reliance on Key Personnel**

The success of the Company in part will depend on the ability of the Directors, the management team and other executive personnel (employed by the Company or its business partners) to manage and undertake exploration activities on its projects. Should one or more of the key personnel cease to be involved, for whatever reason, then the capability of the Company may be expected to be impaired pending a suitable replacement being identified and retained by the Company or its business partners.

7.3 General Securities Risks

(a) **Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's proposed exploration activities, as well as on its ability to fund those activities.

Further, market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

(b) **Market Conditions**

The market price of the Company's securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. These factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Options offered under the Prospectus.

Potential investors should consider the investment in the Company to be speculative and should consult their professional advisers before deciding whether to apply for Options.

8. ADDITIONAL INFORMATION

8.1 Continuous Disclosure Obligations

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company’s securities.

This Prospectus is a “transaction specific prospectus”. In general terms “transaction specific prospectuses” are only required to contain information in relation to the effect of the issue of securities on the Company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:
 - (i) the financial statements of the Company for the financial year ended 30 June 2009 being the last financial statements for a financial year of the Company lodged with the ASIC before the issue of this Prospectus;
 - (ii) any half year financial statements of the Company lodged with ASIC since the lodgement of the last financial statements for

the year ended 30 June 2009 lodged with ASIC before the issue of this Prospectus; and

- (iii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the financial statements referred to in paragraph (i) above until the issue of the Prospectus in accordance with the ASX Listing Rules as referred to in Section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of the 2009 audited financial statements on 25 September 2009:

Date	Description of Announcement
21/01/2010	Revised Quarterly Activity Report
15/01/2010	Quarterly Activities Report
15/01/2010	Quarterly Cashflow Report
27/11/2009	Results of AGM
10/11/2009	GNI Increases Jutson Rocks Portfolio
29/10/2009	Quarterly Activities Report
29/10/2009	Quarterly Cashflow Report
23/10/2009	Notice of Annual General Meeting/Proxy Form
02/10/2009	Koonenberry Copper Project – Exploration Farm-In

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

The announcements are also available through the Company's website: www.graynicmetals.com.au.

8.2 Material Contract – Lead Manager Mandate

The Company has entered into a mandate with Indian Ocean Capital pursuant to which it has engaged Indian Ocean Capital to act as lead manager to the Offer and the Placement (**Mandate**). The key terms of the Mandate are as follows:

- (a) Indian Ocean Capital will act as sole and exclusive lead manager to the Offer and the Placement.
- (b) Indian Ocean Capital will provide the Company with all necessary assistance in managing and arranging the Offer and the Placement as is customary and appropriate in offers of securities of a similar nature.

- (c) The Company will pay a fee of 5% of the amount raised under the Offer and the Placement to Indian Ocean Capital in consideration for its services.

The Mandate contains other terms and conditions as are customary for agreements of this type.

8.3 Directors' interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within two years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer pursuant to this Prospectus; or
- (c) the Offer pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or Offer pursuant to this Prospectus.

Directors' expected remuneration for the year ending 30 June 2010 (exclusive of superannuation) and their respective interests in securities of the Company at the date of this Prospectus are as follows:

Director	Shares	Entitlement	Remuneration
Mr Clive Jones	2,225,237	1,112,619	\$28,000
Mr Adrian Byass	2,797,696	1,398,848	\$20,000
Mr Jonathan Downes	491,541	245,771	\$20,000

Notes:

1. Mr Clive Jones, Mr Adrian Byass and Mr Jonathan Downs have indicated that they intend to accept their full Entitlement under the Offer.

The Constitution of the Company provides that the non-executive Directors may be paid for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and in default of agreement then in equal shares.

Directors, companies associated with the Directors or their associates are also reimbursed for all reasonable expenses properly incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

8.4 Interests and Consents of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within two years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities pursuant to this Prospectus; or
- (c) the Offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Offer pursuant to this Prospectus.

In accordance with Section 716 of the Corporations Act, Steinepreis Paganin has given, and has not withdrawn, its consent to being named as Solicitors to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Steinepreis Paganin has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

Steinepreis Paganin has acted as solicitors to the Offer providing general advice to the Company and assisting in the preparation of this Prospectus and the due diligence process associated with the Prospectus. Steinepreis Paganin will be paid approximately \$10,000 for these services. In the past two years, Steinepreis Paganin has been paid approximately \$33,950 (excluding GST and disbursements) by the Company.

In accordance with Section 716 of the Corporations Act, Advanced Share Registry Services has given, and has not withdrawn, its consent to being named as share registry to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Advanced Share Registry Services has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

In accordance with Section 716 of the Corporations Act, Mack & Co. has given, and has not withdrawn, its consent to being named as the auditor to the Company in the Corporate Directory of this Prospectus in the form and context in which it is named. Mack & Co. has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

In accordance with Section 716 of the Corporations Act, Ord Partners has given, and has not withdrawn, its consent to the inclusion of the audited balance sheet

of the Company as at 30 June 2009 as set out in Section 5.3 of this Prospectus. Ord Partners has not caused or authorised the issue of this Prospectus, does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus.

Indian Ocean Capital has given, and at the time of issue, has not withdrawn its consent to be named as lead manager to the Offer in the form and context in which it is named. Indian Ocean Capital was not involved in the preparation of any part of the Prospectus and did not authorise or cause the issue of the Prospectus. Indian Ocean Capital makes no express or implied representation or warranty in relation to the Company, the Prospectus or the Offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Indian Ocean Capital. To the maximum extent permitted by law, Indian Ocean Capital expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

Indian Ocean Capital has acted as lead manager to the Offer and the Placement. Indian Ocean Capital will be paid approximately \$12,000 for these services. The Company has not paid Indian Ocean Capital for the performance of any services to the Company in the past two years.

8.5 Legal Proceedings

There is no litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

8.6 Estimated Expenses of Offer

In the event that the Offer is fully subscribed, the estimated expenses of the Offer will be as follows:

	\$
ASIC fees	2,010
ASX fees	1,665
Lead manager	6,940
Legal expenses	10,000
Printing and miscellaneous expenses	4,385
Total	25,000

8.7 Market Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: \$0.076 between 26 October and 3 November 2009

Lowest: \$0.053 between 3 December and 9 December 2009

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was \$0.06 on 25 January 2010.

8.8 Electronic Prospectus

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the application form. If you have not, please phone the Company and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both.

The Company reserves the right not to accept an application form from a person if it has reason to believe that when that person was given access to the electronic application form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

9. AUTHORITY OF DIRECTORS

9.1 Directors' Consent

Each of the Directors of Graynic Metals Limited has consented to the lodgement of this Prospectus with the ASIC in accordance with Section 720 of the Corporations Act.

Dated the 27th day of January 2010.

**Mr Adrian Byass
Managing Director
Graynic Metals Limited**

10. DEFINITIONS

Applicant means a Shareholder who applies for Options pursuant to the Offer.

ASIC means the Australian Securities and Investments Commission.

ASTC Settlement Rules means the settlement rules of the securities clearing house which operates CHESS.

ASX means the ASX Limited (ACN 008 624 691).

Board means the board of Directors unless the context indicates otherwise.

Business Day means a day on which trading takes place on the stock market of ASX.

Closing Date means the closing date of the Offer, being 5.00pm (WST) on 26 February 2010 (unless extended).

Company means Graynic Metals Limited (ACN 112 898 825).

Constitution means the Company's Constitution as at the date of this Prospectus.

Corporations Act means the *Corporations Act 2001*(Cth).

Directors means the directors of the Company at the date of this Prospectus.

Entitlement means the entitlement of a Shareholder who is eligible to participate in the Offer.

Entitlement and Acceptance Form means the entitlement and acceptance form either attached to or accompanying this Prospectus.

Indian Ocean Capital means Indian Ocean Capital Pty Ltd (ACN 051 227 877), the lead manager to the Offer and the Placement.

Listing Rules or **ASX Listing Rules** means the Listing Rules of the ASX.

Offer means the offer pursuant to the Prospectus of one (1) new Option for every two (2) Shares held by a Shareholder on the Record Date.

Official List means the official list of ASX.

Option means an option to acquire a Share.

Placement means the placement of up to 20,000,000 Options at an issue price of \$0.005 each to be completed by the

Prospectus means this prospectus.

Quotation and **Official Quotation** means official quotation on ASX.

Record Date means 5.00pm (WST) on 5 February 2010.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

Shortfall means those Options under the Offer not applied for by Shareholders under their Entitlement.

WST means Western Standard Time.