

**CHALICE GOLD MINES LIMITED**

**ABN 47 116 648 956**

**Annual Financial Report  
30 June 2010**

# Chalice Gold Mines Limited

## Corporate Directory

### Directors

|               |                        |
|---------------|------------------------|
| T R B Goyder  | Executive Chairman     |
| D A Jones     | Managing Director      |
| A W Kiernan   | Non-executive Director |
| S P Quin      | Non-executive Director |
| M R Griffiths | Executive Director     |

### Company Secretary

R K Hacker

### Principal Place of Business & Registered Office

Level 2 1292 Hay Street  
WEST PERTH WA 6005  
Tel: +618 9322 3960  
Fax: +618 9322 5800  
Web: [www.chalicegold.com](http://www.chalicegold.com)  
Email: [info@chalicegold.com](mailto:info@chalicegold.com)

### Auditors

HLB Mann Judd  
Level 4, 130 Stirling Street  
PERTH WA 6005

### Share Registry

Computershare Investor Services Pty Limited  
Level 2 Reserve Bank Building  
45 St Georges Terrace  
PERTH WA 6000  
Tel: 1300 557 010

### Home Exchange

Australian Securities Exchange Limited  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

### ASX Code

Share Code: CHN

# Chalice Gold Mines Limited

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# Chalice Gold Mines Limited

## Directors' Report

The Directors present their report together with the financial report of the Chalice Gold Mines Limited ('Chalice') and its subsidiaries (together 'the Group') for the financial year ended 30 June 2010 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

### 1. Directors

The Directors of Chalice at any time during or since the end of the financial year are:

**T R B Goyder**

Executive Chairman

Tim has over 30 years experience in the resource industry. Tim has been involved in the formation and management of a number of publicly-listed and private companies and is currently a Director of Uranium Equities Limited and Chairman of Lontown Resources Limited.

**D A Jones**

PhD, AusIMM, CPGeo  
Managing Director

Doug is a Geologist with over 30 years experience in international mineral exploration, having worked extensively in Australia, Africa, South America and Europe. His career has covered exploration for gold in a wide range of geological settings, volcanic and sediment-hosted zinc-copper-lead, and IOCG style copper-gold. He is also a director of Lontown Resources Limited and TSX- and AIM-listed Minera IRL Limited.

**A W Kiernan**

LLB  
Non-executive Director

Tony is a lawyer and general corporate advisor with extensive experience in the administration and operation of listed public companies. Tony is Chairman of BC Iron Limited, Uranium Equities Limited, Venturex Resources Limited and is a director of Lontown Resources Limited. Tony was formerly a director of North Queensland Metals Limited and Solbec Pharmaceuticals Limited (now named FYI Limited) in the previous 3 years.

**M R Griffiths**

Executive Director  
(appointed 26 August 2009)

Mike is a Geologist with considerable experience in the minerals exploration sector in both Eritrea and Africa generally. Mike previously held the position of Managing Director of Sub-Sahara Resources NL.

**S P Quin**

Non-executive Director  
(appointed 3 May 2010)

Stephen is a Mining Geologist with over 30 years experience in the mining and exploration industry. Stephen is based in Vancouver, Canada and is the President of TSX listed copper producer Capstone Mining Corp. Stephen has extensive experience in the resources sector, and in the development and operation of production companies.

# Chalice Gold Mines Limited

## Directors' Report

### 2. Company Secretary

#### R K Hacker

B.Com, ACA, ACIS

Richard has significant professional and corporate experience in the energy and resources sector in Australia and the United Kingdom. Richard has previously worked in senior finance roles with global energy companies including Woodside Petroleum Limited and Centrica Plc. Prior to this, Richard worked with leading accounting practices. Richard is a Chartered Accountant and Chartered Secretary and is also Company Secretary of Lontown Resources Limited.

### 3. Directors' meetings

During the year six Directors' meetings were held. The number of meetings attended by each of the Directors of Chalice during the year are:

| Director      | Number of board meetings attended | Number of meetings held during the time the director held office during the year |
|---------------|-----------------------------------|----------------------------------------------------------------------------------|
| T R B Goyder  | 6                                 | 6                                                                                |
| D A Jones     | 6                                 | 6                                                                                |
| A W Kiernan   | 6                                 | 6                                                                                |
| M R Griffiths | 6                                 | 6                                                                                |
| S P Quin      | 2                                 | 2                                                                                |

### 4. Principal activities

The principal activities of the Group during the course of the period were mineral exploration and evaluation.

### 5. Review of Operations

#### 5.1 Koka Gold Deposit Feasibility Study

Chalice achieved a major milestone towards its goal of becoming a significant African gold producer with the completion of a positive Feasibility Study on the Koka Gold Deposit ("Koka"), part of its 100% owned Zara Project in Eritrea, East Africa. (the Eritrean government has a statutory 10% non-contributing interest with their share of pre-production and capital expenditure being repaid from production cash flows).

The results of the study have confirmed Koka as a potentially robust gold project with forecast average annual gold production of 104,000 ounces over an initial mine life of 7 years and life of mine cash operating costs of US\$338 per ounce of gold. Capital costs are expected to be US\$122 million.

# Chalice Gold Mines Limited

## Directors' Report

Chalice is currently working on delivering the remaining key recommendations from the Feasibility Study to allow the mine permitting process and negotiation of a mining agreement with the Government of Eritrea to commence. Chalice is optimistic that mine development may get the green light in 2011.

### 5.2 Exploration Eritrea

Chalice recognises the potential to further improve the economics of Koka by expanding the near-mine resource base. Since completion of the merger with Sub-Sahara Resources NL ("Sub-Sahara") efforts have initially focussed on delivering a completed feasibility study for Koka. However, in the latter half of the year attention turned to evaluating the significant exploration potential at the Zara Project.

Initial results from drilling at Koka South and regional BLEG geochemical sampling at the Zara Project have generated encouraging results which warrant immediate follow-up. One cluster of BLEG gold anomalies define a highly anomalous trend some 10 km long to the north of the Koka deposit and this high priority target is currently being followed up.

Drilling has also commenced approximately 5 kms south of the Koka Deposit at the Konate prospect which has a geological setting similar to that of Koka.

A first-pass seven hole, 2000 m diamond drilling program commenced early July 2010 and is expected to be completed by the middle of August 2010 with initial results forthcoming during September 2010.

In addition to the 615 square km Zara Project, the Group has made applications for five prospecting licences and two exploration licences for an area of 19,570 square km in Eritrea. At the date of this report these tenements have not been granted.

### 5.3 Exploration Australia

Chalice has sold its interest in the Wilga joint venture to AngloGold Ashanti Australia Limited for A\$20,000. In addition, Chalice has elected to dilute its 30% interest in the Gnaweeda Project by not contributing to the proposed exploration program to be undertaken in 2010.

### 5.4 Mergers and Acquisitions

In August 2009, Chalice merged with Sub-Sahara, holder of a 69% interest in the Zara Project through a scheme of arrangement which provided that shareholders of Sub-Sahara received one Chalice share for every 10.73 Sub-Sahara shares held by them. Sub-Sahara shareholders collectively gained an interest of approximately 39% in the merged group. Sub-Sahara became a wholly-owned subsidiary of Chalice and was de-listed from the ASX.

At the time of the merger with Sub-Sahara, Chalice acquired a further 11.12% interest in the Zara Project for A\$1.2 million from Africa Wide Resources Ltd. The acquisition of this further interest, coupled with the 69% interest acquired through the merger with Sub-Sahara, resulted in Chalice having an 80% interest in the Zara Project.

Chalice has since exercised an option to acquire all the shares in Dragon Mining (Eritrea) Limited and Dragon Mining Limited's 20% interest in the Zara Project taking Chalice's interest to 100% (subject to Eritrean Government project participation rights). The consideration paid to acquire the interest was A\$8 million and 2 million ordinary shares in Chalice. There is a further payment of A\$4 million upon delineation of a 1 million ounce gold mineral reserve directly within the Zara Project.

# Chalice Gold Mines Limited

## Directors' Report

### 5.5 Corporate

During the year, Chalice placed approximately 57.9 million shares to sophisticated and institutional investors to raise gross proceeds of \$20.7 million.

### 5.6 Investments

During the year, Chalice acquired a 20% interest in London Africa Limited ("London Africa") which holds an exploration license south of Chalice's Zara Project in Eritrea. London Africa is an unlisted United Kingdom public company.

## 6. Financial

The net loss after tax of the Group for the year ended 30 June 2010 was \$5,575,878. The increase in the loss in comparison to prior years reflects the increased level of activity being undertaken since the completion of the merger with Sub-Sahara in August 2009 combined with a number of one-off costs.

Significant items included in the loss for the year include:

- An impairment write down of the Group's Australian based exploration assets of approximately \$1,172,000 following the change in strategic focus to the Group's newly acquired Zara Project in Eritrea.
- Costs incurred in relation to the merger with Sub-Sahara of \$655,400.
- Personnel costs of \$2,094,734 which includes \$883,432 of non cash equity settled payments for share options issued to two directors. The valuation of the options was measured at the date of grant (which was shortly after shareholder approval at the Company's 2009 Annual General Meeting). If the options had been valued at the date that the Board resolved to issue the options, the amount expensed to the profit and loss would have been a significantly lower amount of \$441,536.

During the year the Company issued 57,913,080 shares as follows:

| Date              | Number issued | Issue price<br>(\$) | Total consideration<br>before costs of issue<br>(\$) |
|-------------------|---------------|---------------------|------------------------------------------------------|
| 10 September 2009 | 16,300,000    | 0.27                | 4,401,000                                            |
| 26 March 2010     | 20,000,000    | 0.36                | 7,200,000                                            |
| 31 May 2010       | 21,613,080    | 0.42                | 9,077,494                                            |

Cash outflows used in investing activities was \$18,767,107 which included \$8,203,270 for exploration and evaluation costs incurred on the Zara Project in Eritrea, \$8,000,000 paid to Dragon Mining Limited for the acquisition of its 20% interest in the Zara Project and \$1,210,000 paid to Africa Wide Resources Limited for an 11% interest in the Zara Project.

### 6.1 Financial Position

As at 30 June 2010, the Group had net assets of \$34,547,711, including \$7,688,905 in cash and cash equivalents, and an excess of current assets over current liabilities of \$5,374,182.

### 6.2 Dividends

No dividend has been paid or declared since the commencement of the period and no dividends have been recommended by the Directors.

# Chalice Gold Mines Limited

## Directors' Report

### 7. Significant changes in the state of affairs

Other than as referred to in section 5, there are no significant changes in the state of affairs of the Group.

### 8. Remuneration report - audited

This report outlines remuneration arrangements in place for directors and executives of Chalice Gold Mines.

#### 8.1 Principles of compensation

The broad remuneration policy of the Group is to ensure that remuneration levels for executive directors, secretaries, officers and other key management personnel are set at competitive levels to attract and retain appropriately qualified and experienced personnel.

This is particularly important in view of the significant impact that each individual can make within a relatively small executive team for an exploration and development company such as Chalice. The recently appointed Remuneration Committee is to take an active role in setting executive remuneration levels; however, the board has not yet established formal objectives and criteria in relation to executive remuneration. Remuneration offered by Chalice is geared to attracting talented employees through a combination of fixed remuneration and long term incentives, calibrated and individually tailored to be competitive in the external market to offer incentive to join and remain with the Group.

Given the stage of development of the Group and the fact that it has not yet attained commercial production, compensation of directors and executives to date has emphasised base salary and meaningful share option awards. In the event that the Group achieves commercial production in the future, this policy may be re-evaluated to instead emphasise increased base salaries and cash bonuses with a reduced reliance on share option awards.

#### ***Fixed compensation***

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any tax charges related to employee benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually through a process that considers the person's responsibilities, expertise, duties and personal performance.

#### ***Cash incentives***

Chalice currently has no formal performance-related remuneration policy which governs the payment of annual cash bonuses upon meeting pre-determined performance targets. Due to the size and nature of the Group, the need to conserve cash is a priority and therefore long term incentives issued under the Option Plan is the preferred method of incentivising directors and executives.

#### ***Long-term incentives***

Options may be issued at the board's discretion under the Option Plan to directors, employees and consultants of the Group and must be exercised within three months of termination, although directors have discretion to waive this obligation to exercise within three months of termination. The ability to exercise the options is usually based on the option holder remaining with the Group for at least one year; however, the vesting period may be tailored depending on specific circumstances at the discretion of the board. Other than the vesting period which is usually based on a period of service, there is no performance hurdle required to be achieved by the Group to enable the options, which are outstanding, to be exercised. The board of directors, in exercising its discretion, will take into account previous grants when determining the number of options to be issued.



## Chalice Gold Mines Limited

### Directors' Report

The exercise price for the options is such price as determined by the board provided that the exercise price shall be not less than the weighted average sale price of shares sold on ASX during the five business days prior to the date of issue or such other period as determined by the board (in its discretion). All options issued have a defined expiry date and if not exercised prior to that date, the options will lapse.

Chalice believes that the issue of options aligns the interests of directors, employees and shareholders alike.

#### ***Non-executive directors***

The board recognises the importance of attracting and retaining talented non-executive directors and aims to remunerate these directors in line with fees paid to directors of companies in the mining and exploration industry of a similar size and complexity.

As approved by shareholders, total compensation for the non-executive directors is not to exceed A\$150,000 per annum (in the aggregate).

# Chalice Gold Mines Limited

## Directors' Report

### 8.2 Directors' and executive officers' remuneration (audited)

| Key Management Personnel                    |      | Short-term payments |                       |               | Post-employment payments |                      | Share-based payments   | Value of options as proportion of remuneration |                  |
|---------------------------------------------|------|---------------------|-----------------------|---------------|--------------------------|----------------------|------------------------|------------------------------------------------|------------------|
|                                             |      | Salary & fees       | Non-monetary benefits | Total         | Superannuation benefits  | Termination benefits | Options (A)            |                                                | Total            |
|                                             |      | \$                  | \$                    | \$            | \$                       | \$                   | \$                     |                                                | \$               |
| Directors                                   |      |                     |                       |               |                          |                      |                        |                                                |                  |
| T R B Goyder                                | 2010 | 137,615             | 3,062                 | 140,677       | 12,385                   | -                    | -                      | 153,062                                        | -%               |
|                                             | 2009 | 73,394              | 5,137                 | 78,531        | 6,605                    | -                    | -                      | 85,136                                         | -%               |
| D A Jones <sup>(1)</sup>                    | 2010 | 172,018             | 3,062                 | 175,080       | 15,482                   | -                    | 741,062 <sup>(2)</sup> | 931,624                                        | 80%              |
|                                             | 2009 | -                   | -                     | -             | -                        | -                    | -                      | -                                              | -%               |
| A W Kiernan                                 | 2010 | 33,027              | 3,062                 | 36,089        | 2,973                    | -                    | -                      | 39,062                                         | -%               |
|                                             | 2009 | 30,275              | 5,137                 | 35,412        | 2,725                    | -                    | -                      | 38,137                                         | -%               |
| M R Griffiths<br>(appointed 26 August 2009) | 2010 | 229,357             | 2,584                 | 231,941       | 20,643                   | -                    | 138,127                | 390,711                                        | 35%              |
|                                             | 2009 | -                   | -                     | -             | -                        | -                    | -                      | -                                              | -%               |
| S Quin<br>(appointed 3 May 2010)            | 2010 | 5,833               | 487                   | 6,320         | -                        | -                    | -                      | 6,320                                          | -%               |
|                                             | 2009 | -                   | -                     | -             | -                        | -                    | -                      | -                                              | -%               |
| <b>Executive</b>                            |      |                     |                       |               |                          |                      |                        |                                                |                  |
| R K Hacker                                  | 2010 | 206,422             | 3,256                 | 209,678       | 18,578                   | -                    | 2,555                  | 230,811                                        | 1%               |
|                                             | 2009 | 178,899             | 4,701                 | 183,600       | 16,101                   | -                    | 37,559                 | 237,260                                        | 16%              |
| <b>Former Director</b>                      |      |                     |                       |               |                          |                      |                        |                                                |                  |
| A R Bantock<br>(resigned 11 November 2008)  | 2010 | -                   | -                     | -             | -                        | -                    | -                      | -                                              | -%               |
|                                             | 2009 | 27,141              | 1,887                 | 29,028        | 2,443                    | 92,367               | -                      | 123,838                                        | -%               |
| <b>Former Executive</b>                     |      |                     |                       |               |                          |                      |                        |                                                |                  |
| A M Reynolds<br>(resigned 1 August 2008)    | 2010 | -                   | -                     | -             | -                        | -                    | -                      | -                                              | -                |
|                                             | 2009 | 12,232              | 450                   | 12,682        | 1,101                    | 41,404               | (1,284)                | 53,903                                         | (2%)             |
| <b>Total Compensation</b>                   |      | <b>2010</b>         | <b>784,272</b>        | <b>15,513</b> | <b>799,785</b>           | <b>70,061</b>        | <b>-</b>               | <b>881,744</b>                                 | <b>1,751,590</b> |
|                                             |      | <b>2009</b>         | <b>321,941</b>        | <b>17,312</b> | <b>339,253</b>           | <b>28,975</b>        | <b>133,771</b>         | <b>36,275</b>                                  | <b>538,274</b>   |

Note: <sup>(1)</sup> In 2008-09, Dr Jones' remuneration was paid by Liontown Resources Limited. Liontown Resources recharged Chalice at cost for the services provided by Dr Jones to Chalice. Refer to note 23 for further details.

<sup>(2)</sup> The value of D A Jones' options has been calculated from the date of shareholder approval (16 November 2009). The value of D A Jones' options at date of announcement (as opposed to the actual date of approval) is \$441,536 based on a fair value of \$0.18, share price of \$0.25 at date of announcement and a risk free rate of 4.47%.

# Chalice Gold Mines Limited

## Directors' Report

### Notes in relation to the table of directors' and executive officers' remuneration

- A. The fair value of the options are calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. The following factors and assumptions were used in determining the fair value of options on grant date:

| Grant Date       | Expiry Date      | Fair value per option \$ | Exercise price \$ | Price of ordinary shares on grant date \$ | Expected volatility | Risk free interest rate | Dividend yield |
|------------------|------------------|--------------------------|-------------------|-------------------------------------------|---------------------|-------------------------|----------------|
| 16 November 2009 | 31 March 2014    | 0.41                     | 0.35              | 0.55                                      | 89%                 | 4.74%                   | 0              |
| 16 November 2009 | 31 March 2014    | 0.39                     | 0.45              | 0.55                                      | 89%                 | 4.74%                   | 0              |
| 16 November 2009 | 1 September 2012 | 0.33                     | 0.50              | 0.55                                      | 89%                 | 4.74%                   | 0              |

### Details of performance-related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance-related are discussed at 8.1 above.

## 8.3 Equity instruments

### 8.3.1 Options and rights over ordinary shares granted as compensation

Details of options over ordinary shares in the Group that were granted as compensation to key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

|                        | Number of options granted during 2010 | Grant date       | Number of options vested during 2010 | Fair value per option at grant date \$ | Exercise price \$ | Expiry date      |
|------------------------|---------------------------------------|------------------|--------------------------------------|----------------------------------------|-------------------|------------------|
| <b>Directors</b>       |                                       |                  |                                      |                                        |                   |                  |
| D A Jones <sup>1</sup> | 1,250,000                             | 16 November 2009 | 1,250,000                            | 518,576                                | 0.35              | 31 March 2014    |
|                        | 1,250,000                             | 16 November 2009 | -                                    | 492,225                                | 0.45              | 31 March 2014    |
| M R Griffiths          | 375,000                               | 16 November 2009 | -                                    | 122,499                                | 0.50              | 1 September 2012 |
|                        | 375,000                               | 16 November 2009 | -                                    | 122,499                                | 0.50              | 1 September 2012 |
| <b>Executive</b>       |                                       |                  |                                      |                                        |                   |                  |
| R K Hacker             | -                                     | -                | 375,000                              | 30,085                                 | 0.20              | 31 July 2013     |

# Chalice Gold Mines Limited

## Directors' Report

1. The value of D A Jones' options has been calculated from the date of shareholder approval (16 November 2009). The value of D A Jones' options at date of announcement (as opposed to the actual date of approval) is \$441,536 based on a fair value of \$0.18, share price of \$0.25 at date of announcement and a risk free rate of 4.47%.
2. Subject to shareholder approval at Chalice's next general meeting, Mr Stephen Quin (who was appointed to the board on 3 May 2010) will be issued 750,000 options expiring 30 April 2014 as follows:
  - Tranche 1: 187,500 options with an exercise price of A\$0.55, vesting on issue;
  - Tranche 2: 187,500 options with an exercise price of A\$0.65, vesting on 30 April 2011;
  - Tranche 3: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2012; and
  - Tranche 4: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2013.

### 8.3.2 Exercise of options granted as compensation

During the reporting year and the prior year, no shares were issued on the exercise of options previously granted as compensation.

### Analysis of options and rights over ordinary shares granted as compensation

Details of the vesting profile of the options granted as remuneration to each director of the Group and each of the named Company executives are outlined below.

|                 | Number granted | Date granted     | % vested in year | Forfeited in year | Date on which grant vests |
|-----------------|----------------|------------------|------------------|-------------------|---------------------------|
| <b>Director</b> |                |                  |                  |                   |                           |
| D A Jones       | 1,250,000      | 16 November 2009 | 100%             | -                 | -                         |
|                 | 1,250,000      | 16 November 2009 | -                | -                 | 31 March 2011             |
| M R Griffiths   | 375,000        | 16 November 2009 | -                | -                 | 1 September 2010          |
|                 | 375,000        | 16 November 2009 | -                | -                 | 1 September 2011          |

The movement during the reporting period, by value, of options over ordinary shares in the Group held by each Company director and each of the named Company executives is detailed below.

|               | Value of options granted in year<br>(A)<br>\$ | Value of options exercised in year<br>(B)<br>\$ | Value of options lapsed in year<br>(C)<br>\$ |
|---------------|-----------------------------------------------|-------------------------------------------------|----------------------------------------------|
| D A Jones     | 1,010,801                                     | -                                               | -                                            |
| M R Griffiths | 244,998                                       | -                                               | -                                            |

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using a binomial option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (C) The value of options that lapsed during the year represents the benefit foregone and is calculated at the date the option lapsed using a binomial option-pricing model with no adjustments for whether the performance criteria have or have not been achieved.

## 9. Dividends

No dividends were declared or paid during the period and the directors recommend that no dividend be paid.

# Chalice Gold Mines Limited

## Directors' Report

### 10. Likely developments

The Group will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business.

Depending on the results of the current first-pass drilling at the Konate prospect, it is anticipated that drilling will continue at this site in coming months. Follow-up drilling is also planned to investigate narrow but very high grade intersections encountered in recent drilling at the Koka South. In addition a deep penetration 3D Induced Polarisation survey over the highly prospective Koka-Konate corridor will commence in October 2010.

The Company plans to fly a detailed aeromagnetic and radiometric survey over the entire Zara tenement block to investigate its structural architecture and alteration signatures. This survey is planned to commence in October 2010.

Follow-up sampling over the gold anomalies identified in the regional BLEG survey at Zara has already commenced and it is anticipated this work will define new targets for drilling in the coming months. The BLEG sampling program, which has proven to be so effective at Zara, will also be extended to the areas currently under application assuming they are progressively granted over the next 12 months.

### 11. Subsequent events

On 9 August 2010 Chalice announced to the ASX that it intends to undertake a fully underwritten non-renounceable rights issue on the basis of one share for every six shares held at an issue price of 42 cents per share to raise approximately \$12.6 million before issue costs.

### 12. Directors' interests

The interest of each Director in the shares, rights or options over such instruments issued by Chalice and other related bodies corporate, as notified by the Directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

|               | Ordinary shares | Options over ordinary shares |
|---------------|-----------------|------------------------------|
| T R B Goyder  | 19,951,206      | 2,000,000                    |
| D A Jones     | 235,000         | 2,500,000                    |
| M R Griffiths | 600,960         | 750,000                      |
| S Quin        | -               | -                            |
| A W Kiernan   | 820,074         | 500,000                      |

### 13. Share options

#### Options granted to directors and officers of the Group

During or since the end of the financial year, Chalice granted options for no consideration over unissued ordinary shares in the company to the following directors and officers of the Group as part of their remuneration.

|                         | Number of options granted |
|-------------------------|---------------------------|
| <b>Directors</b>        |                           |
| D A Jones               | 2,500,000                 |
| M Griffiths             | 750,000                   |
| S P Quin <sup>(1)</sup> | 750,000                   |

## Chalice Gold Mines Limited

### Directors' Report

(1) Subject to shareholder approval at Chalice's next General Meeting, S Quin will be issued 750,000 unlisted share options expiring on 30 April 2014 as follows:

- 187,500 options with an exercise price of \$0.55, vesting on issue
- 187,500 options with an exercise price of \$0.65 vesting on 30 April 2011
- 187,500 options with an exercise price of \$0.75 vesting on 30 April 2012
- 187,500 options with an exercise price of \$0.75 vesting on 30 April 2013

#### Unissued shares under option

At the date of this report 13,075,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

| Expiry date      | Exercise price<br>(\$) | Number of shares |
|------------------|------------------------|------------------|
| 21 March 2011    | 0.25                   | 5,575,000        |
| 1 December 2012  | 0.25                   | 500,000          |
| 11 December 2012 | 0.20                   | 250,000          |
| 31 July 2013     | 0.20                   | 500,000          |
| 31 March 2014    | 0.35                   | 1,250,000        |
| 31 March 2014    | 0.45                   | 1,250,000        |
| 1 September 2012 | 0.50                   | 750,000          |
| 16 November 2011 | 0.35                   | 2,000,000        |
| 31 March 2012    | 0.36                   | 1,000,000        |

These options do not entitle the holder to participate in any share issue of Chalice or any other body corporate.

# Chalice Gold Mines Limited

## Directors' Report

### Shares issued on exercise of options

During or since the end of the period, Chalice has not issued any ordinary shares as a result of the exercise of options.

### 14. Indemnification and insurance of directors and officers

Chalice has agreed to indemnify all the directors and officers who have held office during the year, against all liabilities to another person (other than Chalice or a related body corporate) that may arise from their position as directors and officers of Chalice, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that Chalice will meet the full amount of any such liabilities, including costs and expenses.

During the year the Group paid insurance premiums of \$15,319 in respect of directors and officers indemnity insurance contracts, for current and former Directors and officers. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The amount of insurance paid is included in Directors and executives remuneration on page 9.

### 15. Non-audit services

During the year HLB Mann Judd, the Company's auditors, performed no other services in addition to their statutory duties.

### 16. Auditor's independence declaration

The auditor's independence declaration is set out on page 15 and forms part of the Directors' report for the year ended 30 June 2010.

This report is made in accordance with a resolution of the Directors:



Tim R B Goyder  
Executive Chairman

Dated at Perth this 16 August 2010

### Competent Person's Statement

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and consents to the release of information in the form and context in which it appears here.

**Auditor's Independence Declaration**

As lead auditor for the audit of the financial report of Chalice Gold Mines Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Chalice Gold Mines Limited.



Perth, Western Australia  
16 August 2010

**L DI GIALONARDO**  
Partner, HLB Mann Judd



Chalice Gold Mines Limited  
**Statement of comprehensive Income**  
For the year ended 30 June 2010

|                                                                           |      | Consolidated |             |
|---------------------------------------------------------------------------|------|--------------|-------------|
|                                                                           | Note | 2010<br>\$   | 2009<br>\$  |
| Continuing Operations                                                     |      |              |             |
| Net gain/ (loss) on sale of exploration and evaluation assets             | 3(a) | (146,677)    | 674,486     |
| Fair value of options held through profit and loss                        |      | (11,732)     | 12,463      |
| Other income                                                              | 3(b) | 658,509      | 880,336     |
| Share of loss of associate                                                | 11   | (1,508)      | -           |
| Project transaction costs expensed                                        |      | (655,400)    | (527,434)   |
| Impairment of exploration and evaluation assets                           | 10   | (1,172,071)  | (129,862)   |
| Corporate administrative expenses                                         | 3(c) | (4,246,999)  | (1,474,525) |
| Loss before tax                                                           |      | (5,575,878)  | (564,536)   |
| Income tax expense/benefit                                                | 5    | -            | -           |
| Loss for the period attributable to owners of the parent                  |      | (5,575,878)  | (564,536)   |
| Other comprehensive income                                                |      |              |             |
| Net change in fair value of available for sale investments                |      | (34,000)     | 36,000      |
| Exchanges differences on translation of foreign operations                |      | 70,084       | -           |
| Total comprehensive income after tax attributable to owners of the parent |      | (5,539,794)  | (528,536)   |
| Basic and diluted earnings per share                                      | 6    | (0.40)       | (0.01)      |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Chalice Gold Mines Limited  
**Statement of financial position**

As at 30 June 2010

|                                      | Note  | Consolidated      |                   |
|--------------------------------------|-------|-------------------|-------------------|
|                                      |       | 2010<br>\$        | 2009<br>\$        |
| <b>Current assets</b>                |       |                   |                   |
| Cash and cash equivalents            | 7     | 7,688,905         | 9,623,637         |
| Trade and other receivables          | 8     | 329,587           | 162,000           |
| <b>Total current assets</b>          |       | <b>8,018,492</b>  | <b>9,785,637</b>  |
| <b>Non-current assets</b>            |       |                   |                   |
| Financial assets                     | 9     | 214,255           | 174,827           |
| Exploration and evaluation assets    | 10    | 27,056,158        | 1,950,775         |
| Investments in associates            | 11    | 684,934           | -                 |
| Property, plant and equipment        | 12    | 1,257,494         | 232,566           |
| <b>Total non-current assets</b>      |       | <b>29,212,841</b> | <b>2,358,168</b>  |
| <b>Total assets</b>                  |       | <b>37,231,333</b> | <b>12,143,805</b> |
| <b>Current liabilities</b>           |       |                   |                   |
| Trade and other payables             | 13    | 2,534,272         | 151,640           |
| Employee benefits                    | 14    | 110,038           | 18,196            |
| Other                                | 15    | -                 | 3,182             |
| <b>Total current liabilities</b>     |       | <b>2,644,310</b>  | <b>173,018</b>    |
| <b>Non-current liabilities</b>       |       |                   |                   |
| Other                                | 15    | 39,312            | 47,207            |
| <b>Total non-current liabilities</b> |       | <b>39,312</b>     | <b>47,207</b>     |
| <b>Total liabilities</b>             |       | <b>2,683,622</b>  | <b>220,225</b>    |
| <b>Net assets</b>                    |       | <b>34,547,711</b> | <b>11,923,580</b> |
| <b>Equity</b>                        |       |                   |                   |
| Share capital                        | 16    | 41,254,947        | 13,974,454        |
| Accumulated losses                   | 17(a) | (8,280,770)       | (2,704,892)       |
| Reserves                             | 17(b) | 1,573,534         | 654,018           |
| <b>Total Equity</b>                  |       | <b>34,547,711</b> | <b>11,923,580</b> |

The above statement of financial position should be read in conjunction with the accompanying notes.

Chalice Gold Mines Limited  
**Statement of changes in equity**

For the year ended 30 June 2010

|                                                           | Issued capital    | Accumulated losses | Consolidated<br>Share based payments reserve | Investment revaluation reserve | Foreign currency translation reserve | Total              |
|-----------------------------------------------------------|-------------------|--------------------|----------------------------------------------|--------------------------------|--------------------------------------|--------------------|
|                                                           | \$                | \$                 | \$                                           | \$                             | \$                                   | \$                 |
| <b>Balance at 1 July 2009</b>                             | <b>13,974,454</b> | <b>(2,704,892)</b> | <b>618,018</b>                               | <b>36,000</b>                  | <b>-</b>                             | <b>11,923,580</b>  |
| Revaluation of available for sale investments             | -                 | -                  | -                                            | (34,000)                       | -                                    | (34,000)           |
| Exchange differences on translation of foreign operations | -                 | -                  | -                                            | -                              | 70,084                               | 70,084             |
| Loss for the year                                         | -                 | (5,575,878)        | -                                            | -                              | -                                    | (5,575,878)        |
| <b>Total Comprehensive income for the year</b>            | <b>-</b>          | <b>(5,575,878)</b> | <b>-</b>                                     | <b>(34,000)</b>                | <b>70,084</b>                        | <b>(5,539,794)</b> |
| Share issue – merger by scheme of arrangement             | 6,802,388         | -                  | -                                            | -                              | -                                    | 6,802,388          |
| Share placement (net after costs)                         | 19,578,105        | -                  | -                                            | -                              | -                                    | 19,578,105         |
| Share issue – consideration                               | 900,000           | -                  | -                                            | -                              | -                                    | 900,000            |
| Share based payments                                      | -                 | -                  | 883,432                                      | -                              | -                                    | 883,432            |
| <b>Balance at 30 June 2010</b>                            | <b>41,254,947</b> | <b>(8,280,770)</b> | <b>1,501,450</b>                             | <b>2,000</b>                   | <b>70,084</b>                        | <b>34,547,711</b>  |

|                                                  | Issued Capital    | Accumulated losses | Consolidated<br>Share based payments reserve | Investment revaluation reserve | Foreign currency translation reserve | Total             |
|--------------------------------------------------|-------------------|--------------------|----------------------------------------------|--------------------------------|--------------------------------------|-------------------|
|                                                  | \$                | \$                 | \$                                           | \$                             | \$                                   | \$                |
| <b>Balance at 1 July 2008</b>                    | <b>13,974,454</b> | <b>(2,140,356)</b> | <b>570,910</b>                               | <b>-</b>                       | <b>-</b>                             | <b>12,405,008</b> |
| Revaluation of available for sale investments    | -                 | -                  | -                                            | 36,000                         | -                                    | 36,000            |
| Loss for the period                              | -                 | (564,536)          | -                                            | -                              | -                                    | (564,536)         |
| <b>Total comprehensive income for the period</b> | <b>-</b>          | <b>(564,536)</b>   | <b>-</b>                                     | <b>36,000</b>                  | <b>-</b>                             | <b>(528,536)</b>  |
| Share based payments                             | -                 | -                  | 47,108                                       | -                              | -                                    | 47,108            |
| <b>Balance at 30 June 2009</b>                   | <b>13,974,454</b> | <b>(2,704,892)</b> | <b>618,018</b>                               | <b>36,000</b>                  | <b>-</b>                             | <b>11,923,580</b> |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Chalice Gold Mines Limited

## Statement of cash flows

For the year ended 30 June 2010

|                                                                                 | Note  | Consolidated        |                  |
|---------------------------------------------------------------------------------|-------|---------------------|------------------|
|                                                                                 |       | 2010<br>\$          | 2009<br>\$       |
| <b>Cash flows from operating activities</b>                                     |       |                     |                  |
| Cash receipts from operations                                                   |       | 181,323             | 288,734          |
| Cash paid to suppliers and employees                                            |       | (3,130,431)         | (1,388,115)      |
| Interest received                                                               |       | 320,575             | 522,328          |
| <b>Net cash used in operating activities</b>                                    | 22    | <b>(2,628,533)</b>  | <b>(577,053)</b> |
| <b>Cash flows from investing activities</b>                                     |       |                     |                  |
| Payments for mining exploration and evaluation                                  |       | (16,203,270)        | (320,890)        |
| Proceeds from sale of tenements                                                 |       | 270,000             | -                |
| Acquisition of property, plant and equipment                                    |       | (852,974)           | (94,329)         |
| Proceeds from sale of investments                                               |       | 154,416             | 897,003          |
| Proceeds from joint venture termination                                         |       | 164,509             | -                |
| Payments for investment in associates                                           |       | (686,442)           | -                |
| Proceeds from option fee received for sale of exploration and evaluation assets |       | -                   | 250,000          |
| Payments for acquisition of subsidiary                                          | 19(b) | (1,210,000)         | -                |
| Cash acquired on merger by scheme of arrangement                                | 19(a) | 252,054             | -                |
| Payments for costs of business combinations                                     |       | (655,400)           | (503,860)        |
| <b>Net cash from/(used) in investing activities</b>                             |       | <b>(18,767,107)</b> | <b>227,924</b>   |
| <b>Cash flows from financing activities</b>                                     |       |                     |                  |
| Lodgement of bank guarantee and security deposits                               |       | (50,000)            | -                |
| Proceeds from issue of shares                                                   |       | 20,678,494          | -                |
| Payments for share issue costs                                                  |       | (1,100,389)         | -                |
| Funds held on trust                                                             |       | 3,169               | -                |
| <b>Net cash from financing activities</b>                                       |       | <b>19,531,274</b>   | <b>-</b>         |
| Net decrease in cash and cash equivalents                                       |       | (1,864,366)         | (349,129)        |
| Cash and cash equivalents at the beginning of the period                        |       | 9,623,637           | 9,972,766        |
| Effect of exchange rate fluctuations on cash held                               |       | (70,366)            | -                |
| <b>Cash and cash equivalents at 30 June</b>                                     | 7     | <b>7,688,905</b>    | <b>9,623,637</b> |

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### 1. Significant Accounting Policies

Chalice Gold Mines Limited is an ASX listed public company domiciled in Australia at Level 2, 1292 Hay Street, Perth, Western Australia. The consolidated financial report comprises the financial statements of Chalice Gold Mines Limited ('Company') and its subsidiaries ('the Group') for the year ended 30 June 2010.

#### (a) Basis of Preparation and Statement of Compliance

The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. Chalice is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the Directors on 16 August 2010.

#### (b) Adoption of new and revised standards

In the year ended 30 June 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period beginning on or after 1 July 2009.

During the current period, certain accounting policies have changed as a result of new or revised accounting standards, which became operative for the annual reporting period commencing on 1 July 2009. The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segment reporting – new AASB 8 *Operating Segments*

The Group has also reviewed all new Standards and interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business, and therefore, no change is necessary to the Group's accounting policies.

#### Principles of Consolidation

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must be remeasured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to non-controlling interests in subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
For the year ended 30 June 2010

may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

**Business Combinations**

All payments to purchase a business are now recorded at fair value at the acquisition date, with any contingent payments included at their respective fair values. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial recognition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

**Segment Reporting**

The Group has applied AASB 8 'Operating Segments' from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief decision maker. The chief decision-maker has been identified as the Board of Chalice Gold Mines Limited.

**(c) Basis of Consolidation**

The consolidated financial statements comprise the separate financial statements of Chalice Gold Mines Limited ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group"). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Company controls another entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
For the year ended 30 June 2010

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.  
A change in ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

**(d) Significant accounting judgements, estimates and assumptions**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Group.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

- (i) Recoverability of exploration expenditure  
The recoverability of exploration and evaluation expenditure is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest.
- (ii) Share-based payment transactions  
The Group measures the cost of equity-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

**(e) Foreign Currency Translation**

The functional currency of the parent company is Australian dollars, and the functional currency of subsidiaries based in Eritrea is United States dollars (US\$). The presentation currency of the Group is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of the exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at exchange rates as at the date of the initial transaction.

As at the balance date the assets and liabilities of these subsidiaries are translated in the presentation currency of Chalice Gold Mines Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate of the year.

The exchange differences arising on the translation are taken directly to a separate component of recognised foreign currency translation reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

**(f) Segment reporting**

The Group has applied AASB 8 'Operating Segments' from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner consistent with the internal reporting provided to the chief

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
For the year ended 30 June 2010

decision maker. The chief decision-maker has been identified as the Board of Chalice Gold Mines Limited.

In August 2009, Chalice completed a merger by Scheme of Arrangement with Sub-Sahara Resources NL, 69% owners of the Zara Project in Eritrea, East Africa. Prior to this, the Group operated in one business and geographical segment being the mining and exploration industry in Australia. Upon completion of the merger, the Group has significantly reduced all Australian exploration activities and focused its efforts on exploration in Eritrea. Therefore, the Group now operates in only one material business and geographical segment being the mining and exploration industry in Eritrea.

**(g) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

**(i) Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the buyer.

**(ii) Services rendered**

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably.

**(iii) Interest received**

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest method.

**(h) Expenses**

**(i) Operating lease payments**

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

**(i) Depreciation**

Depreciation is calculated on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The depreciation rates used in the current and comparative periods are as follows:

- plant and equipment 7%-40%
- fixtures and fittings 11%-22%
- Motor Vehicles 18.75%- 25%

The residual value, if not insignificant, is reassessed annually.



**(j) Income tax**

Income tax in the statement of comprehensive income comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(k) Goods and Services Tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ('ATO') is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows 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.

**(l) Impairment**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income. Receivables with a short duration are not discounted.

**(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(n) Trade and other receivables**

Trade and other receivables are stated at cost less impairment losses (see accounting policy (l)).

**(o) Non-current assets held for sale and discontinued operations**

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held-for-sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

**(p) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(q) Financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value, through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

**(i) Financial assets at fair value through profit or loss**

Financial assets classified as held-for-trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognised in profit or loss.

**(ii) Held-to-maturity investments**

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

**(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**(iv) Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
For the year ended 30 June 2010

for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option-pricing models.

**(r) Exploration, evaluation, development and tenement acquisition costs**

Exploration, evaluation, development and tenement acquisition costs in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the statement of financial position so long as the following conditions are satisfied:

- 1) the rights to tenure of the area of interest are current; and
- 2) at least one of the following conditions is also met:
  - (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
  - (ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made. Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

**(s) Trade and other payables**

Trade and other payables are stated at cost.

**(t) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit and loss when the liabilities are derecognised.

**(u) Leases**

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments.

**(v) Provisions and Employee benefits**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

**Employee benefits**

**(i) Wages, salaries, and annual leave**

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as, workers' compensation insurance and payroll tax.

**(ii) Long service leave and other long term employee benefits**

The Group's net obligation in respect of long-term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. This benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit cost method.

**(iii) Superannuation**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

**(iv) Share-based payment transactions**

The Group currently provides benefits under an Employee Share Option Plan.

The cost of these equity-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). 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

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**Notes to the Financial Statements**  
For the year ended 30 June 2010

- (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at reporting 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.

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.

**(w) Share capital**

**(i) Ordinary share capital**

Ordinary shares and partly paid shares are classified as equity.

**(ii) Transaction costs**

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

**(x) Investments in associates**

The Group's investment in associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in the associate is not tested separately; rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of its associates' post acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables and loans, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
For the year ended 30 June 2010

**2. Segment Reporting**

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the allocation of costs; whether they are corporate related costs or exploration costs. Results of both segments are reported to the Board of Directors on at least a monthly basis. Exploration expenditure is reflected as a segment as exploration expenditure occurs in one geographical area – Eritrea.

| Year ended<br>30 June 2010                            | Exploration and<br>Evaluation<br>\$ | Corporate<br>\$    | Unallocated<br>\$ | Total<br>\$        |
|-------------------------------------------------------|-------------------------------------|--------------------|-------------------|--------------------|
| Other income                                          | 125,000                             | 533,509            | -                 | 658,509            |
| <b>Total segment revenue</b>                          | <b>125,000</b>                      | <b>533,509</b>     | <b>-</b>          | <b>658,509</b>     |
| <b>Segment net operating loss after tax</b>           | <b>(1,221,189)</b>                  | <b>(4,354,689)</b> | <b>-</b>          | <b>(5,575,878)</b> |
| <b>Segment net operating loss after tax includes:</b> |                                     |                    |                   |                    |
| Interest revenue                                      | -                                   | 347,770            | -                 | 347,770            |
| Depreciation                                          | (174,117)                           | (90,676)           | -                 | (264,793)          |
| Share of loss of associate                            | -                                   | (1,508)            | -                 | (1,508)            |
| Impairment of exploration and evaluation expenditure  | (1,172,071)                         | -                  | -                 | (1,172,071)        |
| Other non-cash expenses                               | -                                   | (894,160)          | -                 | (894,160)          |
| <b>Segment Assets</b>                                 | <b>27,913,362</b>                   | <b>1,629,066</b>   | <b>7,688,905</b>  | <b>37,231,333</b>  |
| Investment in associates                              |                                     | 684,934            | -                 | 684,934            |
| Capital expenditure                                   | 27,056,158                          | -                  | -                 | 27,056,158         |
| Other assets                                          | 857,204                             | 944,132            | 7,688,905         | 9,490,241          |
| <b>Segment Liabilities</b>                            | <b>(2,169,248)</b>                  | <b>(514,374)</b>   | <b>-</b>          | <b>(2,683,622)</b> |
| <b>Cashflow information</b>                           |                                     |                    |                   |                    |
| Net cash flow from operating activities               | -                                   | (2,628,533)        | -                 | 2,628,533          |
| Net cash flow from investing activities               | (17,576,198)                        | (1,190,909)        | -                 | (18,767,107)       |
| Net cash flow from financing activities               |                                     | (50,000)           | 19,581,274        | 19,531,274         |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

| Year ended<br>30 June 2009                                         | Exploration and<br>Evaluation<br>\$ | Corporate<br>\$    | Unallocated<br>\$ | Total<br>\$       |
|--------------------------------------------------------------------|-------------------------------------|--------------------|-------------------|-------------------|
| Profit on sale of exploration and<br>evaluation assets             | 674,486                             | -                  | -                 | 674,486           |
| Other income                                                       | -                                   | 892,799            | -                 | 892,799           |
| <b>Total segment revenue</b>                                       | <b>674,486</b>                      | <b>892,799</b>     | <b>-</b>          | <b>1,567,285</b>  |
| <b>Segment net operating profit/(loss) after<br/>tax</b>           | <b>544,624</b>                      | <b>(1,109,160)</b> | <b>-</b>          | <b>(564,536)</b>  |
| <b>Segment net operating profit/(loss) after<br/>tax includes:</b> |                                     |                    |                   |                   |
| Interest revenue                                                   | -                                   | 545,099            | -                 | 545,099           |
| Depreciation                                                       | 8,395                               | 63,148             | -                 | 71,543            |
| Impairment of exploration and evaluation<br>expenditure            | 129,862                             | -                  | -                 | 129,862           |
| Other non-cash expenses                                            | -                                   | 35,922             | -                 | 35,922            |
| <b>Segment Assets</b>                                              | <b>1,980,423</b>                    | <b>539,745</b>     | <b>9,623,637</b>  | <b>12,143,805</b> |
| Capital expenditure                                                | 1,950,775                           | -                  | -                 | 1,950,775         |
| Other assets                                                       | 29,648                              | 539,745            | 9,623,637         | 10,193,030        |
| <b>Segment Liabilities</b>                                         | <b>63,550</b>                       | <b>156,675</b>     | <b>-</b>          | <b>220,225</b>    |
| <b>Cashflow information</b>                                        |                                     |                    |                   |                   |
| Net cash flow from operating activities                            | -                                   | (577,053)          | -                 | (577,053)         |
| Net cash flow from investing activities                            | (71,970)                            | 299,894            | -                 | 227,924           |
| Net cash flow from financing activities                            | -                                   | -                  | -                 | -                 |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

|                                                                         |  | Consolidated |            |
|-------------------------------------------------------------------------|--|--------------|------------|
|                                                                         |  | 2010<br>\$   | 2009<br>\$ |
| <b>3. Revenue and Expenses</b>                                          |  |              |            |
| <b>(a) Net gain/(loss) on sale of exploration and evaluation assets</b> |  |              |            |
| Net gain/(loss) on sale of exploration and evaluation assets            |  | (146,677)    | 674,486    |
|                                                                         |  | (146,677)    | 674,486    |
| <b>(b) Other Income</b>                                                 |  |              |            |
| Corporate and administration service fees                               |  | 181,323      | 279,234    |
| Profit on sale of shares                                                |  | 4,416        | 56,003     |
| Net finance income                                                      |  | 347,770      | 545,099    |
| Other Income                                                            |  | 125,000      | -          |
|                                                                         |  | 658,509      | 880,336    |
| <b>(c) Corporate administrative expenses</b>                            |  |              |            |
| Depreciation and amortisation                                           |  | 264,793      | 71,543     |
| Insurance                                                               |  | 59,173       | 26,846     |
| Legal fees                                                              |  | 193,864      | 80,706     |
| Travel                                                                  |  | 292,789      | 25,094     |
| Office costs                                                            |  | 413,668      | 242,707    |
| Regulatory and compliance                                               |  | 507,270      | 117,908    |
| Personnel expenses (note 3(d))                                          |  | 2,094,734    | 745,200    |
| Other                                                                   |  | 420,708      | 164,521    |
|                                                                         |  | 4,246,999    | 1,474,525  |
| <b>(d) Personnel expenses</b>                                           |  |              |            |
| Wages and salaries                                                      |  | 877,932      | 490,086    |
| Directors' fees                                                         |  | 41,833       | 45,948     |
| Other associated personnel expenses                                     |  | 175,226      | 35,211     |
| Contributions to defined contribution plans                             |  | 109,341      | 132,665    |
| (Decrease)/increase in liability for annual leave                       |  | 2,877        | (5,818)    |
| (Decrease)/increase in liability for long service leave                 |  | 4,093        | -          |
| Equity-settled share- based payment transactions                        |  | 883,432      | 47,108     |
|                                                                         |  | 2,094,734    | 745,200    |
| <b>4. Auditors' remuneration</b>                                        |  |              |            |
| <b>Audit services</b>                                                   |  |              |            |
| HLB Mann Judd:                                                          |  |              |            |
| Audit and review of financial reports                                   |  | 31,215       | 24,370     |
|                                                                         |  | 31,215       | 24,370     |



# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

|                                                                                                                                                                                                                                                                                                           |  | Consolidated |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------|------------|
|                                                                                                                                                                                                                                                                                                           |  | 2010<br>\$   | 2009<br>\$ |
| <b>5. Income tax</b>                                                                                                                                                                                                                                                                                      |  |              |            |
| Current tax expense                                                                                                                                                                                                                                                                                       |  | (512,395)    | (64,548)   |
| Deferred tax expense relating to the origination and reversal of temporary differences                                                                                                                                                                                                                    |  | (62,726)     | 57,381     |
| Tax losses not brought to account as deferred tax assets                                                                                                                                                                                                                                                  |  | 580,121      | 7,167      |
| Total income tax expense reported in the income statement                                                                                                                                                                                                                                                 |  | -            | -          |
| <b>Numerical reconciliation of income tax expense to prima facie tax payable</b>                                                                                                                                                                                                                          |  |              |            |
| Profit/(Loss) from continuing operations before income tax expense                                                                                                                                                                                                                                        |  | (5,575,925)  | (564,536)  |
| Tax at the Australian corporate rate of 30%                                                                                                                                                                                                                                                               |  | (1,672,777)  | (169,361)  |
| Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:                                                                                                                                                                                                               |  |              |            |
| Non-deductible expenses                                                                                                                                                                                                                                                                                   |  | 1,029,931    | 30,619     |
| Blackhole expenditure tax deductible                                                                                                                                                                                                                                                                      |  | (161,206)    | (35,133)   |
| Origination and reversal of temporary differences                                                                                                                                                                                                                                                         |  | 62,726       | 57,381     |
|                                                                                                                                                                                                                                                                                                           |  | (741,326)    | (116,494)  |
| Current year tax benefits not recognised                                                                                                                                                                                                                                                                  |  | 741,326      | 116,494    |
| Income tax expense reported in the income statement                                                                                                                                                                                                                                                       |  | -            | -          |
| <b>Unrecognised deferred tax assets</b>                                                                                                                                                                                                                                                                   |  |              |            |
| Deferred tax assets have not been recognised in respect of the following items:                                                                                                                                                                                                                           |  |              |            |
| Deductible temporary differences                                                                                                                                                                                                                                                                          |  | 69,477       | 60,338     |
| Tax losses                                                                                                                                                                                                                                                                                                |  | 4,334,504    | 1,221,699  |
| The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereof. |  |              |            |
| <b>Unrecognised deferred tax liabilities</b>                                                                                                                                                                                                                                                              |  |              |            |
| Deferred tax liabilities have not been recognised in respect of the following items:                                                                                                                                                                                                                      |  |              |            |
| Taxable temporary differences                                                                                                                                                                                                                                                                             |  | 69,477       | 60,338     |
| Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future                   |  |              |            |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### 6. Earnings per share

#### Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 30 June 2010 was based on the loss attributable to ordinary shareholders of \$5,575,878 [2009: loss of \$564,536] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2010 of 133,806,990 [2009: 72,800,000].

|                                                      | Consolidated |           |
|------------------------------------------------------|--------------|-----------|
|                                                      | 2010         | 2009      |
|                                                      | \$           | \$        |
| <b>Loss attributable to ordinary shareholders</b>    |              |           |
| Loss attributable to ordinary shareholders           | (5,575,878)  | (564,536) |
| Loss attributable to ordinary shareholders (diluted) | (5,575,878)  | (564,536) |

#### Weighted average number of ordinary shares

Weighted average number of ordinary shares at 30 June  
Effect of share options on issue  
Weighted average number of ordinary shares (diluted) at 30 June

|                                                                 | No.         | No.        |
|-----------------------------------------------------------------|-------------|------------|
| Weighted average number of ordinary shares at 30 June           | 133,806,990 | 72,800,000 |
| Effect of share options on issue                                | 3,534,181   | -          |
| Weighted average number of ordinary shares (diluted) at 30 June | 137,341,171 | 72,800,000 |

### 7. Cash and cash equivalents

Bank balances  
Term deposits  
Petty cash  
Cash and cash equivalents in the statement of cash flows

|                                                          | Consolidated |           |
|----------------------------------------------------------|--------------|-----------|
|                                                          | 2010         | 2009      |
|                                                          | \$           | \$        |
| Bank balances                                            | 2,619,390    | 1,543,318 |
| Term deposits                                            | 5,060,542    | 8,079,930 |
| Petty cash                                               | 8,973        | 389       |
| Cash and cash equivalents in the statement of cash flows | 7,688,905    | 9,623,637 |

### 8. Trade and other receivables

Other trade receivables  
Prepayments

|                         |         |         |
|-------------------------|---------|---------|
| Other trade receivables | 239,844 | 101,763 |
| Prepayments             | 89,743  | 60,237  |
|                         | 329,587 | 162,000 |

### 9. Financial assets

#### Non-current

Available for sale investments  
Bond in relation to office premises  
Bank guarantee and security deposits

|                                      |         |         |
|--------------------------------------|---------|---------|
| Available for sale investments       | 48,977  | 94,709  |
| Bond in relation to office premises  | 84,325  | 51,624  |
| Bank guarantee and security deposits | 80,953  | 28,494  |
|                                      | 214,255 | 174,827 |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

|                                                                             |  | Consolidated      |                  |
|-----------------------------------------------------------------------------|--|-------------------|------------------|
|                                                                             |  | 2010              | 2009             |
|                                                                             |  | \$                | \$               |
| <b>10. Exploration and evaluation expenditure</b>                           |  |                   |                  |
| Costs carried forward in respect of:                                        |  |                   |                  |
| Exploration and evaluation phase – at cost                                  |  |                   |                  |
| Balance at beginning of year                                                |  | 1,950,775         | 2,033,937        |
| Expenditure incurred                                                        |  | 9,461,445         | 342,946          |
| Acquisitions through business combinations                                  |  | 7,790,911         | -                |
| Acquisition of exploration and evaluation assets from Dragon Mining Limited |  | 8,900,000         | -                |
| Reimbursement of exploration costs on merger                                |  | 455,304           | -                |
| Sale of tenements                                                           |  | (166,021)         | (296,246)        |
| Refund of tenement costs                                                    |  | (286,651)         | -                |
| Impairment of exploration and evaluation assets                             |  | (1,172,071)       | (129,862)        |
| Effects of movements in exchange rate                                       |  | 122,466           | -                |
| <b>Total exploration expenditure</b>                                        |  | <b>27,056,158</b> | <b>1,950,775</b> |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

### 11. Investments in associates

During the financial year, the Group acquired a 20% interest in unlisted United Kingdom based London Africa Limited ("London Africa"). London Africa is registered in England and Wales and the principle activity of the company is exploring and developing precious and base metal deposits in Eritrea. The initial interest acquired by the Group was 11.8% which was increased to a 20% interest on 21 May 2010.

Reconciliation of movements in investments in associate:

|                                   |                |   |
|-----------------------------------|----------------|---|
| <b>Balance at 1 July</b>          | -              | - |
| Payments made to acquire interest | 686,442        | - |
| Share of loss for the year        | (1,508)        |   |
| <b>Balance at 30 June</b>         | <b>684,934</b> |   |

Summary of financial information of associate:

#### Financial Position

|                                 |          |   |
|---------------------------------|----------|---|
| Total Assets                    | 705,428  | - |
| Total Liabilities               | (93,507) | - |
| Net Assets                      | 611,921  | - |
| Share of associate's net assets | 122,384  | - |

#### Financial Performance

|                           |         |   |
|---------------------------|---------|---|
| Total revenue             | 10      | - |
| Total loss for the year   | (7,541) | - |
| Share of associate's loss | (1,508) | - |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### 12. Property, plant and equipment

|                                                                   | Consolidated           |                                      |                                       |                   |             |
|-------------------------------------------------------------------|------------------------|--------------------------------------|---------------------------------------|-------------------|-------------|
|                                                                   | Plant and<br>Equipment | Office<br>Furniture and<br>Equipment | Computer<br>Equipment<br>and Software | Motor<br>Vehicles | Total       |
| <b>Year ended 30 June 2010</b>                                    |                        |                                      |                                       |                   |             |
| At 1 July 2009 net of accumulated<br>depreciation and impairment  | 29,648                 | 121,686                              | 81,232                                | -                 | 232,566     |
| Additions                                                         | 215,983                | 40,940                               | 176,244                               | 445,720           | 878,887     |
| Acquired through business<br>combinations                         | 211,905                | 95,412                               | -                                     | 118,844           | 426,161     |
| Exchange differences                                              | (9,433)                | (1,784)                              | (92)                                  | (4,018)           | (15,327)    |
| Depreciation charge for the year                                  | (103,227)              | (49,261)                             | (64,093)                              | (48,212)          | (264,793)   |
| At 30 June 2010 net of accumulated<br>depreciation and impairment | 344,876                | 206,993                              | 193,291                               | 512,334           | 1,257,494   |
| <b>At 1 July 2009</b>                                             |                        |                                      |                                       |                   |             |
| Cost at fair value                                                | 46,243                 | 174,930                              | 207,436                               | -                 | 428,609     |
| Accumulated depreciation and<br>impairment                        | (16,595)               | (53,244)                             | (126,204)                             | -                 | (196,043)   |
| Net carrying amount                                               | 29,648                 | 121,686                              | 81,232                                | -                 | 232,566     |
| <b>At 30 June 2010</b>                                            |                        |                                      |                                       |                   |             |
| Cost at fair value                                                | 717,874                | 486,164                              | 383,680                               | 677,006           | 2,264,724   |
| Accumulated depreciation and<br>impairment                        | (372,998)              | (279,171)                            | (190,389)                             | (164,672)         | (1,007,230) |
| Net carrying amount                                               | 344,876                | 206,993                              | 193,291                               | 512,334           | 1,257,494   |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

|                                                                   | Consolidated           |                                      |                                       |                   |                |
|-------------------------------------------------------------------|------------------------|--------------------------------------|---------------------------------------|-------------------|----------------|
|                                                                   | Plant and<br>Equipment | Office<br>Furniture and<br>Equipment | Computer<br>Equipment<br>and Software | Motor<br>Vehicles | Total          |
| <b>Year ended 30 June 2009</b>                                    |                        |                                      |                                       |                   |                |
| At 1 July 2008 net of accumulated<br>depreciation and impairment  | 20,083                 | 79,225                               | 108,473                               | -                 | 207,781        |
| Additions                                                         | 15,323                 | 61,003                               | 20,002                                | -                 | 96,328         |
| Depreciation charge for the year                                  | (5,758)                | (18,542)                             | (47,243)                              | -                 | (71,543)       |
| At 30 June 2009 net of accumulated<br>depreciation and impairment | 29,648                 | 121,686                              | 81,232                                | -                 | 232,566        |
| <b>At 1 Jul 2008</b>                                              |                        |                                      |                                       |                   |                |
| Cost at fair value                                                | 30,920                 | 113,927                              | 187,434                               | -                 | 332,281        |
| Accumulated depreciation and<br>impairment                        | (10,837)               | (34,702)                             | (78,961)                              | -                 | (124,500)      |
| Net carrying amount                                               | 20,083                 | 79,225                               | (108,473)                             | -                 | <b>207,781</b> |
| <b>At 30 June 2009</b>                                            |                        |                                      |                                       |                   |                |
| Cost at fair value                                                | 46,243                 | 174,930                              | 207,436                               | -                 | 428,609        |
| Accumulated depreciation and<br>impairment                        | (16,595)               | (53,244)                             | (126,204)                             | -                 | (196,043)      |
| Net carrying amount                                               | 29,648                 | 121,686                              | 81,232                                | -                 | <b>232,566</b> |

|                                     | Consolidated     |                |
|-------------------------------------|------------------|----------------|
|                                     | 2010             | 2009           |
|                                     | \$               | \$             |
| <b>13. Trade and other payables</b> |                  |                |
| Trade payables                      | 821,110          | 129,534        |
| Eritrean services tax payable       | 877,185          | -              |
| Accrued expenses                    | 835,977          | 22,106         |
|                                     | <b>2,534,272</b> | <b>151,640</b> |
| <b>14. Employee benefits</b>        |                  |                |
| Annual leave accrued                | 59,887           | 18,196         |
| Provision for long service leave    | 50,151           | -              |
|                                     | <b>110,038</b>   | <b>18,196</b>  |

### Share based payments

#### (a) Employee Share Option Plan

The Group has an Employee Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer options for no consideration to full-time or part-time employees (including persons engaged under a consultancy agreement), executive and non-executive Directors. In the case of the Directors, the issue of options under the ESOP requires shareholder approval.

Each option entitles the holder, on exercise, to one ordinary fully paid share in the Group. There is no issue price for the options. The exercise price for the options is determined by the Board.

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**Notes to the Financial Statements**

**For the year ended 30 June 2010**

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise satisfied. The Board may determine the vesting period, if any.

The number and weighted average exercise prices of share options is as follows:

|                                            | Weighted<br>average exercise<br>price<br>\$ | Number<br>of options |
|--------------------------------------------|---------------------------------------------|----------------------|
|                                            | 2010                                        | 2010                 |
| Outstanding at the beginning of the period | 0.25                                        | 6,825,000            |
| Forfeited during the period                | -                                           | -                    |
| Exercised during the period                | -                                           | -                    |
| Granted during the period                  | 0.42                                        | 3,250,000            |
| Outstanding at the end of the period       | 0.30                                        | 10,075,000           |
| Exercisable at the end of the period       | 0.26                                        | 8,450,000            |

|                                            | Weighted<br>average exercise<br>price<br>\$ | Number<br>of options |
|--------------------------------------------|---------------------------------------------|----------------------|
|                                            | 2009                                        | 2009                 |
| Outstanding at the beginning of the period | \$0.25                                      | 6,725,000            |
| Forfeited during the period                | \$0.23                                      | 400,000              |
| Exercised during the period                | -                                           | -                    |
| Granted during the period                  | \$0.20                                      | 500,000              |
| Outstanding at the end of the period       | \$0.25                                      | 6,825,000            |
| Exercisable at the end of the period       | \$0.25                                      | 6,325,000            |

The options outstanding at 30 June 2010 have an exercise price of \$0.30 [2009: \$0.25] and a weighted average contractual life of 5 years.

During the period, no share options were exercised.

The fair value of the options is estimated at the date of grant using the binomial option-pricing model.

The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2010.

| Fair value of share options and assumptions                                                                               | 2010    | 2009    |
|---------------------------------------------------------------------------------------------------------------------------|---------|---------|
| Share price at grant date                                                                                                 | \$0.55  | \$0.12  |
| Exercise price                                                                                                            | \$0.42  | \$0.20  |
| Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model) | 89%     | 85%     |
| Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)                | 5 years | 5 years |
| Expected dividends                                                                                                        | -       | -       |
| Risk-free interest rate                                                                                                   | 4.74%   | 7.5%    |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

Share options are granted under service conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

|                                                       | 2010<br>\$     | 2009<br>\$    |
|-------------------------------------------------------|----------------|---------------|
| Share options granted in 2009 - equity settled        | 4,244          | 47,108        |
| <b>Share options granted in 2010 – equity settled</b> | 879,188        | -             |
| <b>Total expense recognised as personnel expenses</b> | <b>883,432</b> | <b>47,108</b> |

|                              |  | Consolidated |            |
|------------------------------|--|--------------|------------|
|                              |  | 2010<br>\$   | 2009<br>\$ |
| <b>15. Other Liabilities</b> |  |              |            |
| <b>Current</b>               |  |              |            |
| Lease incentive              |  | -            | 3,182      |
|                              |  | -            | 3,182      |
| <b>Non-current</b>           |  |              |            |
| Make good provision          |  | 39,312       | 47,207     |
|                              |  | 39,312       | 47,207     |

### 16. Issued Capital

There were 181,033,617 (2009: 72,800,000) shares on issue at 30 June 2010.

| (a) Movements in ordinary shares on issue                    | 2010        |             | 2009       |            |
|--------------------------------------------------------------|-------------|-------------|------------|------------|
|                                                              | No.         | \$          | No.        | \$         |
| Balance at beginning of financial year                       | 72,800,000  | 13,974,454  | 72,800,000 | 13,974,454 |
| Shares issued on completion of merger                        | 48,320,537  | 6,802,388   | -          | -          |
| Share placement                                              | 57,913,080  | 20,678,494  | -          | -          |
| Issued as consideration for acquisition of controlled entity | 2,000,000   | 900,000     | -          | -          |
| Share placement costs                                        | -           | (1,100,389) | -          | -          |
| Balance at end of financial year                             | 181,033,617 | 41,254,947  | 72,800,000 | 13,974,454 |

#### Issuance of Ordinary Shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

| (b) Share options              | 2010<br>No. | 2009<br>No. |
|--------------------------------|-------------|-------------|
| On issue at 1 July             | 6,825,000   | 6,725,000   |
| Options forfeited              | -           | (400,000)   |
| Options issued during the year | 6,250,000   | 500,000     |
| On issue at 30 June            | 13,075,000  | 6,825,000   |

At 30 June 2010 the Company had 13,075,000 unlisted options on issue under the following terms and conditions:

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

| Number    | Expiry Date      | Exercise Price<br>\$ |
|-----------|------------------|----------------------|
| 5,575,000 | 21 March 2011    | 0.25                 |
| 500,000   | 1 December 2012  | 0.25                 |
| 250,000   | 11 December 2012 | 0.20                 |
| 500,000   | 31 July 2013     | 0.20                 |
| 1,250,000 | 31 March 2014    | 0.35                 |
| 1,250,000 | 31 March 2014    | 0.45                 |
| 750,000   | 1 September 2012 | 0.50                 |
| 1,000,000 | 31 March 2012    | 0.36                 |
| 2,000,000 | 16 November 2011 | 0.35                 |

### 17. Accumulated losses and reserves

(a) Movements in accumulated losses were as follows:

|                                        | 2010<br>\$  | 2009<br>\$  |
|----------------------------------------|-------------|-------------|
| Balance at beginning of financial year | (2,704,892) | (2,140,356) |
| Net loss for the year                  | (5,575,878) | (564,536)   |
| Balance at end of financial year       | (8,280,770) | (2,704,892) |

### (b) Reserves

#### Consolidated

|                                  | Investment<br>revaluation<br>reserve<br>\$ | Share based<br>payments<br>reserve<br>\$ | Foreign<br>currency<br>translation<br>reserve<br>\$ | Total<br>\$ |
|----------------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------------|-------------|
| At 1 July 2009                   | 36,000                                     | 618,018                                  | -                                                   | 654,018     |
| Currency translation differences | -                                          | -                                        | 70,084                                              | 70,084      |
| Share-based payments             | -                                          | 883,432                                  | -                                                   | 883,432     |
| Revaluation movements            | (34,000)                                   | -                                        | -                                                   | (34,000)    |
| At 30 June 2010                  | 2,000                                      | 1,501,450                                | 70,084                                              | 1,573,534   |

#### Consolidated

|                                  | Investment<br>revaluation<br>reserve<br>\$ | Share based<br>payments<br>reserve<br>\$ | Foreign<br>currency<br>translation<br>reserve<br>\$ | Total<br>\$ |
|----------------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------------|-------------|
| At 1 July 2008                   | -                                          | 570,910                                  | -                                                   | 570,910     |
| Currency translation differences | -                                          | -                                        | -                                                   | -           |
| Share-based payments             | -                                          | 47,108                                   | -                                                   | 47,108      |
| Revaluation movements            | 36,000                                     | -                                        | -                                                   | 36,000      |
| At 30 June 2009                  | 36,000                                     | 618,018                                  | -                                                   | 654,018     |



# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### 18. Financial instruments

#### (a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of equity attributable to equity holders, comprising issued capital, reserves and accumulated losses as disclosed in notes 16 and 17.

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

#### (b) Market risk exposures

Market risk is the risk that changes in market prices such as foreign exchange rates, equity prices and interest rates will affect the Group's income or value of its holdings of financial instruments.

##### (i) Foreign exchange rate risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposes to exchange rate fluctuations arise. The Group does not hedge this exposure.

The Group manages its foreign exchange risk by constantly reviewing its exposure and ensuring that there are appropriate cash balances in order to meet its commitments.

At 30 June 2010, Chalice had the following exposures to USD foreign currency:

|                              |  | USD Impact   |            |            |            |
|------------------------------|--|--------------|------------|------------|------------|
|                              |  | Consolidated |            | The Parent |            |
|                              |  | 2010<br>\$   | 2009<br>\$ | 2010<br>\$ | 2009<br>\$ |
| <b>Financial Assets</b>      |  |              |            |            |            |
| Cash and cash equivalents    |  | 371,278      | -          | 76,016     | -          |
| <b>Financial Liabilities</b> |  |              |            |            |            |
| Trade and other payables     |  | 760,347      | -          | -          | -          |

The following tables summarises the impact of increases/decreases in the relevant foreign exchange rates on the Group's post-tax result for the year and on the components of equity. The sensitivity analysis uses a variance of 10% movement in the USD against AUD.

|                  |              | Consolidated |            | The Parent |            |
|------------------|--------------|--------------|------------|------------|------------|
|                  |              | 2010<br>\$   | 2009<br>\$ | 2010<br>\$ | 2009<br>\$ |
| Impact on Loss   | AUD/USD +10% | 35,372       | -          | -          | (6,910)    |
|                  | AUD/USD -10% | (38,909)     | -          | -          | 7,602      |
| Impact on Equity | AUD/USD +10% | 35,372       | -          | -          | (6,910)    |
|                  | AUD/USD -10% | (38,909)     | -          | -          | 7,602      |

#### Equity prices

The Group currently has no significant exposure to equity price risk.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### Interest rate risk

At reporting date the Group's exposure to market risk for changes in interest rate relates primarily to the Group's short term cash deposits. The Group is not exposed to cash flow volatility from interest rate changes on borrowings, as it does not have any short or long term borrowings.

Chalice constantly analyses its exposure to interest rates, with consideration given to potential renewal of existing positions and the period to which deposits may be fixed.

At reporting date the following financial assets were exposed to fluctuations in interest rates:

|                           | Consolidated |            | The Parent |            |
|---------------------------|--------------|------------|------------|------------|
|                           | 2010<br>\$   | 2009<br>\$ | 2010<br>\$ | 2009<br>\$ |
| Cash and cash equivalents | 7,688,904    | 9,623,637  | 7,386,176  | 9,623,637  |

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. The sensitivity is based on a change of 100 basis points in interest rates at reporting date.

In the year ended 30 June 2010, if interest rates had moved by 100 basis points, with all other variables held constant, the post tax result to financial assets of the Group would have been affected as follows:

|                  |                 | Impact on Profit |            |            |            |
|------------------|-----------------|------------------|------------|------------|------------|
|                  |                 | Consolidated     |            | The Parent |            |
|                  |                 | 2010<br>\$       | 2009<br>\$ | 2010<br>\$ | 2009<br>\$ |
|                  |                 |                  |            |            |            |
| Impact on Loss   | 100 bp increase | 29,366           | 26,320     | 29,366     | 26,320     |
|                  | 100 bp decrease | (26,656)         | (23,928)   | (26,656)   | (23,928)   |
| Impact on Equity | 100 bp increase | 29,366           | 26,320     | 29,366     | 26,320     |
|                  | 100 bp decrease | (26,656)         | (23,928)   | (26,656)   | (23,928)   |

### (c) Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is not significant and currently arises principally from sundry receivables (see note 8) which represent an insignificant proportion of the Group's activities.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance sheet date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the notes to the financial statements.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

**(d) Liquidity risk exposure**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board of Directors actively monitors the Group's ability to pay its debts as and when they fall due by regularly reviewing the current and forecast cash position based on the expected future activities.

The Group has non-derivative financial liabilities which include trade and other payables of \$2,534,272 (2009: \$151,640) all of which are due within 60 days.

**(e) Net fair values of financial assets and liabilities**

The carrying amounts of all financial assets and liabilities approximate the net fair values.

### 19. Acquisition of subsidiaries

**(a) Acquisition of Sub-Sahara Resources NL**

On 14 August 2009, the Company acquired all the shares in Sub-Sahara Resources NL (now named Chalice Operations Pty Ltd), owner of 68.88% of the Zara Project in Eritrea, following completion of a merger between the two companies by Scheme of Arrangement. The acquisition was satisfied by the issue of 48,327,537 ordinary shares as consideration for all the fully paid ordinary shares and partly paid shares of Sub-Sahara Resources NL.

The net assets acquired in the business combination at the date of acquisition are as follows:

|                                                                             | Acquiree's<br>carrying amount<br>before business<br>combination | Fair value<br>adjustments | Fair value       |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------|------------------|
|                                                                             | \$                                                              | \$                        | \$               |
| <b>Net assets acquired:</b>                                                 |                                                                 |                           |                  |
| Cash and cash equivalents                                                   | 252,054                                                         |                           | 252,054          |
| Trade and other receivables                                                 | 463,165                                                         |                           | 463,165          |
| Financial assets                                                            | 57,810                                                          |                           | 57,810           |
| Property, plant and equipment                                               | 426,162                                                         |                           | 426,162          |
| Exploration and evaluation expenditure                                      | 7,396,018                                                       | (815,109)                 | 6,580,909        |
| Trade and other payables                                                    | (673,470)                                                       |                           | (673,470)        |
| Other liabilities                                                           | (304,243)                                                       |                           | (304,243)        |
| <b>Net assets</b>                                                           | <b>7,617,496</b>                                                |                           | <b>6,802,387</b> |
| Goodwill on consolidation                                                   |                                                                 |                           | -                |
| Total consideration satisfied by the issue of<br>48,320,537 ordinary shares |                                                                 |                           | <b>6,802,387</b> |
| <b>The cash inflow on acquisition is as follows:</b>                        |                                                                 |                           |                  |
| Net cash acquired on acquisition of Sub Sahara<br>Resources NL Group        |                                                                 |                           | 252,054          |
| Cash paid                                                                   |                                                                 |                           | -                |
| <b>Net cash inflow</b>                                                      |                                                                 |                           | <b>252,054</b>   |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### (b) Acquisition of Yolanda International Limited

On 26 August 2009, the Company acquired all the shares in Yolanda International Limited, owner of 11.12% of the Zara Project in Eritrea, from Africa Wide Resources Limited. The acquisition was satisfied by payment of \$1,210,000 for all the fully paid ordinary shares in Yolanda International Limited.

The net assets acquired in the business combination at the date of acquisition are as follows:

|                                                                   | Acquiree's<br>carrying<br>amount before<br>business<br>combination | Fair value<br>adjustments | Fair value         |
|-------------------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------|
|                                                                   | \$                                                                 | \$                        | \$                 |
| <b>Net assets acquired:</b>                                       |                                                                    |                           |                    |
| Exploration and evaluation expenditure                            | 1,210,000                                                          | -                         | 1,210,000          |
| <b>Net assets</b>                                                 | <b>1,210,000</b>                                                   |                           | <b>1,210,000</b>   |
| Goodwill on consolidation                                         |                                                                    |                           | -                  |
| <b>Total consideration</b>                                        |                                                                    |                           | <b>1,210,000</b>   |
| <b>The net cash outflow on acquisition is as follows:</b>         |                                                                    |                           |                    |
| Net cash acquired on acquisition of Yolanda International Limited |                                                                    |                           | -                  |
| Cash paid                                                         |                                                                    |                           | (1,210,000)        |
| <b>Net cash outflow</b>                                           |                                                                    |                           | <b>(1,210,000)</b> |

### (c) Acquisition of Dragon Mining (Eritrea) Limited

On 22 June 2010, the Group acquired Dragon Mining (Eritrea) Limited, registered holder of the Zara Project exploration licence in Eritrea, from Dragon Mining Limited and also Dragon Mining Limited's interest in the Zara project. The acquisition of Dragon Mining (Eritrea), as opposed to the interest in the Zara project, was for nil consideration.

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**Notes to the Financial Statements**  
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**20. Parent Entity**

|                                                            | 2010<br>\$        | 2009<br>\$        |
|------------------------------------------------------------|-------------------|-------------------|
| <b>Financial Position</b>                                  |                   |                   |
| <b>Assets</b>                                              |                   |                   |
| Current assets                                             | 16,447,615        | 9,785,637         |
| Non-current assets                                         | 18,686,641        | 2,358,168         |
| <b>Total Assets</b>                                        | <b>35,134,256</b> | <b>12,143,805</b> |
| <b>Liabilities</b>                                         |                   |                   |
| Current liabilities                                        | 998,972           | 173,018           |
| Non-current liabilities                                    | 39,312            | 47,207            |
| <b>Total Liabilities</b>                                   | <b>1,038,284</b>  | <b>220,225</b>    |
| <b>Equity</b>                                              |                   |                   |
| Issued capital                                             | 41,254,947        | 13,974,454        |
| Retained profits                                           | (8,662,425)       | (2,704,892)       |
| Investment revaluation                                     | 2,000             | 36,000            |
| Share-based payments                                       | 1,501,450         | 618,018           |
| <b>Total Equity</b>                                        | <b>34,095,972</b> | <b>11,923,580</b> |
| <b>Financial Performance</b>                               |                   |                   |
| Loss for the year                                          | (5,957,533)       | (564,536)         |
| Total comprehensive income                                 | (5,991,533)       | (528,536)         |
| <b>Commitments and Contingencies</b>                       |                   |                   |
| <b>(i) Contingencies</b>                                   |                   |                   |
| The parent entity has no contingent assets or liabilities. |                   |                   |
| <b>(ii) Operating lease commitments</b>                    |                   |                   |
| Within 1 year                                              | 232,234           | 148,346           |
| Within 2-5 years                                           | 178,964           | 560,353           |
| Later than 5 years                                         | -                 | -                 |
|                                                            | <b>411,198</b>    | <b>708,699</b>    |

**21. Commitments and Contingencies**

**Exploration expenditure commitments**

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Group may in certain situations apply for exemptions under relevant mining legislation or enter into joint venture arrangements which significantly reduce working capital commitments. These obligations are not provided for in the financial report and are payable:

Chalice Gold Mines Limited  
**Notes to the Financial Statements**  
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|                    | <b>Consolidated</b> |                |
|--------------------|---------------------|----------------|
|                    | <b>2010</b>         | <b>2009</b>    |
|                    | <b>\$</b>           | <b>\$</b>      |
| Within 1 year      | 713,287             | 596,060        |
| Within 2-5 years   | -                   | 82,500         |
| Later than 5 years | -                   | -              |
|                    | <b>713,287</b>      | <b>678,560</b> |

**Operating lease commitments**

|                    |                |                |
|--------------------|----------------|----------------|
| Within 1 year      | 268,015        | 148,346        |
| Within 2-5 years   | 205,799        | 560,353        |
| Later than 5 years | -              | -              |
|                    | <b>473,814</b> | <b>708,699</b> |

**Contingent liabilities**

**(a) Acquisition of Dragon Mining (Eritrea) Limited**

As part of the acquisition of all shares in Dragon Mining (Eritrea) Limited (DME) and Dragon Mining Limited's 20% interest in the Zara Project there is a requirement that a further payment of A\$4 million is to be paid to Dragon Mining upon delineation of a 1 million ounce gold mineral reserve within specific tenements in the Zara Project.

**(b) Potential tax liability**

In late July 2010, it became apparent from discussions with the Eritrean Government that the Government may seek to impose a profits tax liability arising on the acquisition by the Group of DME and of DME's parent's interest in the Zara Project. DME was holding the licences for the Zara Project upon trust for the joint venture partners. It still remains as licensee.

Advice received by the Group prior to this transaction taking place was that this was not a taxable event as it did not result in a transfer of the license for the Project and further that the transaction was between Australian registered entities.

As part of the transaction with DME, the Group provided an indemnity to the Dragon Group against any tax that may arise.

Discussions are ongoing with the Eritrean Government however at the date of this report the timing or conclusions on these discussions are uncertain.

If a tax liability does exist, the relevant Eritrean legislation allows unrecovered expenditure to be offset against the assessable amount. At this stage the quantum of unrecovered expenditure that could be offset is unknown.

The Group is assessing the possible financial impact and has estimated that if there is a liability it would range between nil and a maximum amount of \$3.4m depending upon allowable offsetting expenditure.

No provision for any liability has been recognised in the financial statements at balance date.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

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| 22. Reconciliation of cash flows from operating activities             | Consolidated       |                  |
|------------------------------------------------------------------------|--------------------|------------------|
|                                                                        | 2010<br>\$         | 2009<br>\$       |
| Net loss for the period                                                | (5,575,878)        | (564,536)        |
| Adjustments for:                                                       |                    |                  |
| Depreciation and amortisation                                          | 264,793            | 71,543           |
| Loss on sale of exploration and evaluation assets                      | (146,677)          | (674,486)        |
| Contract termination fee                                               | (125,000)          | -                |
| Foreign exchange losses                                                | 70,366             | -                |
| Share of associate's loss                                              | 1,508              | -                |
| Net gain on sale of securities                                         | (4,416)            | (56,003)         |
| Changes in fair value of available-for-sale investments                | 11,732             | (12,463)         |
| Costs of business combinations                                         | 655,400            | 527,434          |
| Impairment of exploration and evaluation assets                        | 1,172,071          | 129,862          |
| Equity-settled share-based payment expenses                            | 883,432            | 47,108           |
| <b>Operating loss before changes in working capital and provisions</b> | <b>(2,792,669)</b> | <b>(531,541)</b> |
| (Increase) in trade and other receivables                              | (65,999)           | (61,311)         |
| decrease in financial assets                                           | 1,750              | -                |
| Increase in trade creditors and other liabilities                      | 245,745            | 25,200           |
| (decrease) in provisions                                               | (13,260)           | (6,050)          |
| (Decrease) in non-current financial assets                             | (4,100)            | (3,351)          |
| <b>Net cash used in operating activities</b>                           | <b>(2,628,533)</b> | <b>(577,053)</b> |

### 23. Key management personnel

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### Executive Directors

T R B Goyder (Executive Chairman)

D A Jones (Managing Director)

M R Griffiths (Executive Director)

(appointed 26 August 2010)

#### Non-executive Directors

A W Kiernan

S Quin

(appointed 3 May 2010)

#### Executives

R K Hacker (Chief Financial Officer)

The key management personnel compensation included in 'personnel expenses' (see note 3) are as follows:

|                              | Consolidated     |                |
|------------------------------|------------------|----------------|
|                              | 2010<br>\$       | 2009<br>\$     |
| Short-term employee benefits | 799,785          | 473,023        |
| Post-employment benefits     | 70,061           | 28,975         |
| Equity settled transactions  | 881,744          | 36,275         |
|                              | <b>1,751,590</b> | <b>538,273</b> |

#### Individual director's and executive's compensation disclosures

The Group has transferred the detailed remuneration disclosures to the Directors' Report in accordance with Corporations Amendment Regulations 2006 (No. 4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

Chalice Gold Mines Limited

**Notes to the Financial Statements**

For the year ended 30 June 2010

**Loans to key management personnel and their related parties**

No loans were made to key management personnel and their related parties.

**Other key management personnel transactions with the Group**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

The aggregate expense/(income) recognised during the year relating to key management personnel and their related parties were as follows:

| Key management persons       | Transaction                   | Note  | 2010<br>\$ | 2009<br>\$ |
|------------------------------|-------------------------------|-------|------------|------------|
| A W Kiernan                  | Legal and consulting services | (i)   | 81,000     | 79,204     |
| <b>Other related parties</b> |                               |       |            |            |
| Liontown Resources Limited   | Corporate services            | (ii)  | (144,000)  | (217,725)  |
| Uranium Equities Limited     | Corporate services            | (iii) | (8,750)    | (49,369)   |
| Plato Prospecting Pty Ltd    | Property, plant & equipment   |       | -          | 29,145     |
| Liontown Resources Limited   | Corporate services            | (iv)  | 49,078     | 74,405     |

- (i) The Group used the consulting and legal services of Mr Kiernan during the course of the financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Group supplies corporate services including accounting and company secretarial services under a Corporate Services Agreement to Liontown Resources Limited. Messrs Goyder and Kiernan were all Directors of Liontown Resources Limited during the year and Mr Hacker was the Company Secretary. Amounts were billed on a proportionate share of the cost to the Group of providing the services and are due and payable under normal payment terms.
- (iii) The Group supplied company secretarial services during the year to Uranium Equities Limited. Messrs Goyder and Kiernan were all Directors of Uranium Equities Limited. Amounts were billed at cost to the Group and are due and payable under normal payment terms.
- (iv) During the year, the Group utilised the services of Dr Jones in the role of Managing Director. Dr Jones was the Managing Director of Liontown Resources Limited. Amounts were billed by Liontown Resources Limited based on a proportionate share of its cost of employing Dr Jones and are due and payable under normal payment terms.

Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

| Assets and liabilities arising from the above transactions | 2010<br>\$ | 2009<br>\$ |
|------------------------------------------------------------|------------|------------|
| Current payables                                           | (6,000)    | (26,333)   |
| Trade debtors                                              | 13,200     | 14,917     |
|                                                            | 7,200      | (11,416)   |



# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### Options and rights over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

|                  | Held at<br>1 July 2009 | Granted as<br>compensation | Exercised/<br>Forfeited | Held at<br>30 June 2010 | Vested during<br>the year | Vested and<br>exercisable at 30<br>June 2010 |
|------------------|------------------------|----------------------------|-------------------------|-------------------------|---------------------------|----------------------------------------------|
| <b>2010</b>      |                        |                            |                         |                         |                           |                                              |
| T R B Goyder     | 2,000,000              | -                          | -                       | 2,000,000               | -                         | 2,000,000                                    |
| A W Kiernan      | 500,000                | -                          | -                       | 500,000                 | -                         | 500,000                                      |
| D A Jones        | -                      | 2,500,000                  | -                       | 2,500,000               | 1,250,000                 | 1,250,000                                    |
| M R Griffiths    |                        | 750,000                    | -                       | 750,000                 | -                         | -                                            |
| <b>Executive</b> |                        |                            |                         |                         |                           |                                              |
| R K Hacker       | 500,000                | -                          | -                       | 500,000                 | 375,000                   | 500,000                                      |

### Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

|                  | Held at<br>1 July 2009 | Additions | Received<br>on exercise<br>of Options | Held at<br>30 June 2010 | Sales    | Held at 30 June<br>2010 |
|------------------|------------------------|-----------|---------------------------------------|-------------------------|----------|-------------------------|
| <b>2010</b>      |                        |           |                                       |                         |          |                         |
| T R B Goyder     | 17,240,458             | 2,710,748 | -                                     | 19,951,206              | -        | 19,951,206              |
| A W Kiernan      | 820,074                | -         | -                                     | 820,074                 | -        | 820,074                 |
| D A Jones        | 35,000                 | 200,000   | -                                     | 235,000                 | -        | 235,000                 |
| M R Griffiths    | -                      | 600,960   | -                                     | 600,960                 | -        | 600,960                 |
| <b>Executive</b> |                        |           |                                       |                         |          |                         |
| R K Hacker       | 51,982                 | 40,000    | -                                     | 40,000                  | (51,982) | 40,000                  |

No shares were granted to key management personnel during the reporting period as compensation.

### 24. Related party disclosure

The consolidated financial statements include the financial statements of Chalice Gold Mines Limited and its subsidiaries listed in the following table:

| Name                                                         | Country of<br>Incorporation | % Equity<br>Interest |      | Investment<br>\$ |      |
|--------------------------------------------------------------|-----------------------------|----------------------|------|------------------|------|
|                                                              |                             | 2010                 | 2009 | 2010             | 2009 |
| <b>Parent Entity</b>                                         |                             |                      |      |                  |      |
| Chalice Gold Mines Limited                                   | Australia                   |                      |      |                  |      |
| <b>Subsidiaries</b>                                          |                             |                      |      |                  |      |
| Chalice Operations Pty Ltd <i>(i)</i>                        | Australia                   | 100                  | -    | 6,802,388        | -    |
| Yolanda International Limited                                | British Virgin Islands      | 100                  | -    | 1,210,000        | -    |
| Dragon Mining (Eritrea) Limited                              | Australia                   | 100                  | -    | -                | -    |
| <b><i>(i) Subsidiaries of Chalice Operations Pty Ltd</i></b> |                             |                      |      |                  |      |
| Western Rift Pty Ltd                                         | Australia                   | 100                  | -    | -                | -    |
| Keren Minerals Pty Ltd                                       | Australia                   | 100                  | -    | -                | -    |
| Universal Gold Pty Ltd                                       | Australia                   | 100                  | -    | 1,358,223        | -    |
| Sub-Sahara Resources (Eritrea) Pty Ltd                       | Australia                   | 100                  | -    | -                | -    |

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2010

### 25. Subsequent events

On 9 August 2010 Chalice announced to ASX that it intends to undertake a fully underwritten non-renounceable rights issue on the basis of one share for every six shares held at an issue price of 42 cents per share to raise approximately \$12.6 million before issue costs

# Chalice Gold Mines Limited

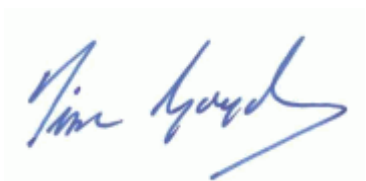
## Directors' Declaration

1. In the opinion of the directors of Chalice Gold Mines Limited (the 'Company'):
  - a. the financial statements, notes and the additional disclosures in the directors' report designated as audited, of the Group are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
    - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

This declaration is signed in accordance with a resolution of the Board of Directors.

Dated at Perth the 16<sup>th</sup> day of August 2010

Signed in accordance with a resolution of the Directors:

A handwritten signature in blue ink, appearing to read 'Tim Goyder', with a stylized flourish at the end.

TIM R B GOYDER  
Executive Chairman

**INDEPENDENT AUDITOR'S REPORT**

**To the members of  
CHALICE GOLD MINES LIMITED:**

**Report on the Financial Report**

We have audited the accompanying financial report of Chalice Gold Mines Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 16 to 50.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Chalice Gold Mines Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Chalice Gold Mines Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



**HLB MANN JUDD**  
Chartered Accountants



**Perth, Western Australia**  
**16 August 2010**

**L DI GIALLONARDO**  
Partner

# Chalice Gold Mines Limited

## Corporate Governance Report

### Statement

Chalice Gold Mines Limited ("**Chalice**" or "the Group") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the Group has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Group's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Group's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

### Disclosure of Corporate Governance Practices

#### Summary Statement

|                                 | ASX P & R <sup>1</sup> | If not, why not <sup>2</sup> |                                 | ASX P & R <sup>1</sup> | If not, why not <sup>2</sup> |
|---------------------------------|------------------------|------------------------------|---------------------------------|------------------------|------------------------------|
| Recommendation 1.1              | ✓                      |                              | Recommendation 4.3              |                        | ✓                            |
| Recommendation 1.2              |                        | ✓                            | Recommendation 4.4 <sup>3</sup> | n/a                    | n/a                          |
| Recommendation 1.3 <sup>3</sup> | n/a                    | n/a                          | Recommendation 5.1              | ✓                      |                              |
| Recommendation 2.1              |                        | ✓                            | Recommendation 5.2 <sup>3</sup> | n/a                    | n/a                          |
| Recommendation 2.2              |                        | ✓                            | Recommendation 6.1              | ✓                      |                              |
| Recommendation 2.3              | ✓                      |                              | Recommendation 6.2 <sup>3</sup> | n/a                    | n/a                          |
| Recommendation 2.4              |                        | ✓                            | Recommendation 7.1              | ✓                      |                              |
| Recommendation 2.5              |                        | ✓                            | Recommendation 7.2              | ✓                      |                              |
| Recommendation 2.6 <sup>3</sup> | n/a                    | n/a                          | Recommendation 7.3              | ✓                      |                              |
| Recommendation 3.1              | ✓                      |                              | Recommendation 7.4 <sup>3</sup> | n/a                    | n/a                          |
| Recommendation 3.2              | ✓                      |                              | Recommendation 8.1              |                        | ✓                            |
| Recommendation 3.3 <sup>3</sup> | n/a                    | n/a                          | Recommendation 8.2              | ✓                      |                              |
| Recommendation 4.1              |                        | ✓                            | Recommendation 8.3 <sup>3</sup> | n/a                    | n/a                          |
| Recommendation 4.2              |                        | ✓                            |                                 |                        |                              |

1 Indicates where the Group has followed the Principles & Recommendations.

2 Indicates where the Group has provided "if not, why not" disclosure.

3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

### Website Disclosures

Further information about the Group's current charters, policies and procedures as adopted by the Group in August 2010 may be found at the Group's website at [www.chalicegold.com](http://www.chalicegold.com), under the section marked Corporate Governance. A list of these charters, policies and procedures together with the Recommendations to which they relate, are set out below.

# Chalice Gold Mines Limited

## Corporate Governance Report

| Charters                                                              | Recommendation(s) |
|-----------------------------------------------------------------------|-------------------|
| Board                                                                 | 1.3               |
| Audit Committee                                                       | 4.4               |
| Nomination Committee                                                  | 2.6               |
| Remuneration Committee                                                | 8.3               |
| <b>Policies and Procedures</b>                                        |                   |
| Policy and Procedure for Selection and (Re)Appointment of Directors   | 2.6               |
| Process for Performance Evaluation                                    | 1.2, 2.5          |
| Policy on Assessing the Independence of Directors                     | 2.6               |
| Policy for Trading in Company Securities (summary)                    | 3.2, 3.3          |
| Code of Conduct (summary)                                             | 3.1, 3.3          |
| Policy on Continuous Disclosure (summary)                             | 5.1, 5.2          |
| Procedure for Selection, Appointment and Rotation of External Auditor | 4.4               |
| Shareholder Communication Policy                                      | 6.1, 6.2          |
| Risk Management Policy (summary)                                      | 7.1, 7.4          |

### Disclosure – Principles & Recommendations

The Group reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("**Reporting Period**"). This statement has been prepared based on the Group's corporate governance practices during the Reporting Period. In August 2010, the Group enhanced its corporate governance policies and procedures by adopting a Corporate Governance Manual containing a full suite of corporate governance policies and procedures. These new policies and procedures will form the basis for the Group's future reporting against the Principles and Recommendations.

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### Principle 1 – Lay solid foundations for management and oversight

#### Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

#### Disclosure:

The Group has established the functions reserved to the Board. These functions are set out in the Group's Board Charter adopted in August 2010, and previously in its Corporate Governance Statement on the Group's website. The Board is collectively responsible for setting the strategic direction of the Group. The Board is also responsible for among other things overseeing the management of the Group, monitoring the financial performance of the Group, engaging appropriate management commensurate with the Group's structure and objectives, involvement in the development of corporate strategy and performance objectives and ensuring that policies, risk management and compliance systems are consistent with the Group's objectives and external best practice taking into consideration the Group's size and scope of operations.

The Group has established the functions delegated to senior executives (and now sets out these functions in its Board Charter). Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Group, in accordance with the delegated authority of the Board.

## Chalice Gold Mines Limited

### Corporate Governance Report

In the Board Charter adopted by the Group in August 2010, senior executives are responsible for reporting all matters which fall within the Group's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

#### **Recommendation 1.2:**

Companies should disclose the process for evaluating the performance of senior executives.

#### **Explanation for departure:**

During the Reporting Period the Group did not publicly disclose its process for performance evaluation of its senior executives.

However, the Group now discloses on its website its process for performance evaluation which notes that the Managing Director and Executive Chairman review the performance of the senior executives. This is conducted by informal interviews.

#### **Recommendation 1.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 1*.

#### **Disclosure:**

During the Reporting Period a formal evaluation of senior executives did not occur. However, due to the size of the Group, the Executive Chairman takes an active role in assessing the performance of executives on an informal basis.

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## **Principle 2 – Structure the board to add value**

#### **Recommendation 2.1:**

A majority of the Board should be independent directors.

#### **Notification of Departure:**

Only two of the five directors, Anthony Kiernan and Stephen Quin are considered independent.

#### **Explanation for Departure:**

The independent directors of the Board are Anthony Kiernan and Stephen Quin and the non-independent directors of the Board are Timothy Goyder, Doug Jones and Michael Griffiths.

The Board considers that the current composition of the Board is adequate for the Group's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Group's business.

The Board continues to monitor its composition as the Group's operations evolve and will appoint further independent directors if considered appropriate.

#### **Recommendation 2.2:**

The Chair should be an independent director.



## Chalice Gold Mines Limited

### Corporate Governance Report

#### **Notification of Departure:**

The Chair of the board, Timothy Goyder, is not an independent director.

#### **Explanation for Departure:**

The Chair is an executive director and does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles and Recommendations ("**Independence Test**").

The Board believes that Timothy Goyder is the most appropriate person for the position as Chair because of his seniority and industry experience. However, the Board has appointed Anthony Kiernan to act as lead independent director when conflict may arise.

#### **Recommendation 2.3:**

The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

#### **Disclosure:**

The Managing Director is Dr Doug Jones who is not Chair of the Board.

#### **Recommendation 2.4:**

The Board should establish a Nomination Committee.

#### **Notification of Departure:**

The Group has not established a separate Nomination Committee.

#### **Explanation for Departure:**

Given the current size and composition of the Group, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring the director with conflicting interests is not party to the relevant discussions. In August 2010, the Board adopted a Nomination Committee Charter. When the Board convenes as the Nomination Committee it will carry out those functions which are delegated in the Group's Nomination Committee Charter.

#### **Recommendation 2.5:**

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

#### **Explanation for departure:**

For a majority of the Reporting Period the Group did not publicly disclose its process for performance evaluation of the Board, its committees and individual directors, except to a limited extent whereby it disclosed that the Board had adopted a self-evaluation process to measure its own performance.

However, the Group now makes available its process for performance evaluation on its website which notes that the Chair evaluates the performance of the Board, individual directors, the managing director and any applicable committees

## Chalice Gold Mines Limited

### Corporate Governance Report

of the Board. These evaluations are undertaken by each director completing a questionnaire which is then evaluated by the Chair.

#### **Recommendation 2.6:**

Companies should provide the information indicated in the *Guide to reporting on Principle 2*.

#### **Disclosure:**

##### **Skills, Experience, Expertise and term of office of each Director**

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

##### **Identification of Independent Directors**

The independent directors of the Group are Anthony Kiernan and Stephen Quin. These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Group's materiality thresholds. The materiality thresholds are set out below.

##### **Company's Materiality Thresholds**

Since adopting the new Corporate Governance Manual in August 2010, the Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Group's new Board Charter:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Group, involve a breach of legislation, are outside the ordinary course of business, they could affect the Group's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Group and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

##### **Statement concerning availability of Independent Professional Advice**

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Group will pay the reasonable expenses associated with obtaining such advice.

##### **Nomination Matters**

The full Board carries out the role of the Nomination Committee. The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time

## Chalice Gold Mines Limited

### Corporate Governance Report

during the year as required. To assist the Board to fulfil its function as the Nomination Committee, in August 2010 it adopted a Nomination Committee Charter.

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

#### **Performance Evaluation**

During the Reporting Period an evaluation of the Board, its committees and individual directors did not occur.

#### **Selection and (Re) Appointment of Directors**

The composition of the Board is reviewed periodically in view of the underlying scale, scope and complexity of the Group's operations. Changes are made where appropriate.

The membership of the Board and its activities are subject to periodic review. The Board has adopted a self-evaluation process to measure its own performance during each financial year. Also, the composition and skills mix of the directors of the Group are reviewed on a regular basis.

The criteria for determining the identification and appointment of a suitable candidate for the Board includes quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake Board's duties and responsibilities. Independent consultants may be engaged to identify possible new candidates for the Board.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Group's Constitution the tenure of directors (other than the Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A Managing Director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

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### **Principle 3 – Promote ethical and responsible decision-making**

#### **Recommendation 3.1:**

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the Group's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

#### **Disclosure:**

During the Reporting Period, the Group had a Code of Conduct for its Board, executives and employees as to the practices necessary to maintain confidence in the Group's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility.

#### **Recommendation 3.2:**

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

# Chalice Gold Mines Limited

## Corporate Governance Report

### Disclosure:

The Group has established a policy concerning trading in the Group's securities by directors and employees.

### Recommendation 3.3:

Companies should provide the information indicated in the *Guide to reporting on Principle 3*.

### Disclosure:

A copy of the Group's Code of Conduct and Share Trading Policy was disclosed on the Group's website throughout the Trading Period.

The Group's replacement Code of Conduct and Share Trading Policy was included on its website from August 2010.

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## Principle 4 – Safeguard integrity in financial reporting

### Recommendation 4.1:

The Board should establish an Audit Committee.

### Notification of Departure:

During the Reporting Period, no separate Audit Committee was formed.

### Explanation for Departure:

Given the size and composition of the Group, the Board believed that there would be no efficiencies gained by establishing a separate Audit Committee. However, an Audit Committee was formed in June 2010.

### Recommendation 4.2:

The Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

### Notification of Departure:

During the Reporting Period, no separate Audit Committee was formed.

### Explanation for Departure:

During the Reporting Period the Board carried out the role of Audit Committee and therefore it was not structured in accordance with the compositional recommendation. In June 2010, an Audit Committee was established, comprising Anthony Kiernan and Stephen Quin; both are independent and have the experience to carry out the obligations and duties of an Audit Committee. Mr Anthony Kiernan will chair the Audit Committee.

## Chalice Gold Mines Limited

### Corporate Governance Report

#### **Recommendation 4.3:**

The Audit Committee should have a formal charter.

#### **Notification of Departure:**

During the Reporting Period the Group did not have an Audit Committee Charter.

#### **Explanation for Departure:**

As part of the Group reviewing its governance structures, the Board has now adopted and disclosed its formal Audit Committee Charter and therefore now follows the recommendation set out in Principle 4 of the ASX Principles and Recommendations. A copy of the Audit Committee Charter is publically available on the Group's website.

#### **Recommendation 4.4:**

Companies should provide the information indicated in the *Guide to reporting on Principle 4*.

#### **Disclosure:**

The Audit Committee did not hold any meetings during the Reporting Period.

Details of each of the director's qualifications are set out in the Directors' Report. No members of the Audit Committee have formal accounting or financial qualifications, however, all are considered to be financially literate.

With effect from August 2010, the Group has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Group through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Group's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

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## **Principle 5 – Make timely and balanced disclosure**

#### **Recommendation 5.1:**

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

#### **Disclosure:**

The Group has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

#### **Recommendation 5.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 5*.

## Chalice Gold Mines Limited

### Corporate Governance Report

#### **Disclosure:**

A copy of the Group's Policy on Continuous Disclosure was disclosed on the Group's website throughout the Trading Period.

The Group's replacement Policy on Continuous Disclosure was included on its website from August 2010.

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#### **Principle 6 – Respect the rights of shareholders**

##### **Recommendation 6.1:**

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

#### **Disclosure:**

The Group has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

##### **Recommendation 6.2:**

Companies should provide the information indicated in the *Guide to reporting on Principle 6*.

#### **Disclosure:**

A copy of the Group's Risk Management Policy was disclosed on the Group's website throughout the Trading Period.

The Group's replacement Risk Management Policy was included on its website from August 2010.

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#### **Principle 7 – Recognise and manage risk**

##### **Recommendation 7.1:**

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

#### **Disclosure:**

The Board has adopted a Risk Management Policy. The Board adopted a policy under which it is responsible for overseeing the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of health, safety and environment, operations and the financial position of the Group.

When required, a formal process of identifying key business risks and assessing how these risks are being managed is undertaken.

## Chalice Gold Mines Limited

### Corporate Governance Report

As the Group continues to evolve from an explorer to a gold producer, the Board will enhance the processes and procedures to manage and report on material business risks.

In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

- the Board has established authority limits for management which, if exceeded, will require prior Board approval;
- the Board is developing and implementing a range of emergency response and other health and safety policies and procedures relevant to its operations in Eritrea;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Group's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Group to establish and maintain its governance practices.

In August 2010, the Board resolved to review, formalise and document the management of its material business risks and expects to implement this system before the end of 2010. This system is expected to include the preparation of a risk register by management to identify the Group's material business risks and risk management strategies for these risks. In addition, the process of management of material business risks will be allocated to members of senior management. The risk register will be reviewed quarterly and updated, as required.

#### **Recommendation 7.2:**

The Board should require management to design and implement the risk management and internal control system to manage the Group's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Group's management of its material business risks.

#### **Disclosure:**

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Group's material business risks. Whilst this did not occur during the reporting period, the Board will require management to report to it confirming that those risks are being managed effectively. Further, the Board will receive a report from management as to the effectiveness of the Group's management of its material business risks.

#### **Recommendation 7.3:**

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

#### **Disclosure:**

The Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

#### **Recommendation 7.4:**

Companies should provide the information indicated in the *Guide to reporting on Principle 7*.

**Disclosure:**

The Board has not received the report from management under Recommendation 7.2. This will occur during the next reporting period.

The Board has received the assurance from the Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

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**Principle 8 – Remunerate fairly and responsibly**

**Recommendation 8.1:**

The Board should establish a Remuneration Committee.

**Notification of Departure:**

The Group has established a separate Remuneration Committee from June 2010.

**Recommendation 8.2:**

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

**Disclosure:**

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

**Recommendation 8.3:**

Companies should provide the information indicated in the *Guide to reporting on Principle 8*.

**Disclosure:**

Details of remuneration, including the Group's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The Remuneration Committee did not hold any meetings during the Reporting Period.

In August 2010, the Board adopted a Remuneration Committee Charter.

The explanation for departure set out under Recommendation 8.1 above explains how the functions of the Remuneration Committee are performed.



## Chalice Gold Mines Limited

### Corporate Governance Report

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Group's Remuneration Committee Charter includes a statement of the Group's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

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## Chalice Gold Mines Limited

### ASX additional information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

#### Shareholdings

##### Substantial shareholders

The number of shares held by substantial shareholders advised to the Company and their associated interests as at 13 August 2010 were:

| Shareholder                             | Number of ordinary shares held | Percentage of capital held % |
|-----------------------------------------|--------------------------------|------------------------------|
| Franklin Resources Inc & its affiliates | 26,663,150                     | 14.89%                       |
| Timothy R B Goyder                      | 19,951,206                     | 11.02%                       |
| Lujeta Pty Ltd <The Margaret Account>   | 11,500,000                     | 6.08%                        |

##### Class of Shares and Voting Rights

At 13 August 2010 there were 2,480 holders of the ordinary shares of the Company.

The voting rights to the ordinary shares set out in the Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or Classes of shares -

- at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney; and
- on a show of hands every person who is a member has one vote and on a poll every person in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options do not have voting rights.

##### Distribution of equity security holders as at 13 August 2010:

| Category         | Number of equity security holders |                        |
|------------------|-----------------------------------|------------------------|
|                  | Ordinary Shares                   | Unlisted Share Options |
| 1 – 1,000        | 415                               | -                      |
| 1,001 – 5,000    | 847                               | -                      |
| 5,001 – 10,000   | 473                               | -                      |
| 10,000 – 100,000 | 616                               | 1                      |
| 100,001 and over | 129                               | 5                      |
| <b>Total</b>     | <b>2,480</b>                      | <b>6</b>               |

The number of shareholders holding less than a marketable parcel at 13 August was 433.

Chalice Gold Mines Limited  
**ASX additional information**

**Twenty largest Ordinary Fully Paid Shareholders  
as at 13 August 2010**

| <b>Name</b>                                               | <b>Number of ordinary<br/>shares held</b> | <b>Percentage of<br/>capital held<br/>%</b> |
|-----------------------------------------------------------|-------------------------------------------|---------------------------------------------|
| National Nominees Limited                                 | 31,499,506                                | 17.40                                       |
| Mr Timothy Rupert Barr Goyder                             | 19,951,206                                | 11.02                                       |
| Lujeta Pty Ltd <The Margaret Account>                     | 11,500,000                                | 6.35                                        |
| Citicorp Nominees Pty Ltd                                 | 10,071,734                                | 5.56                                        |
| Anvil Mining Limited                                      | 8,387,698                                 | 4.63                                        |
| HSBC Custody Nominees (Australia) Ltd                     | 7,070,645                                 | 3.91                                        |
| ANZ Nominees Limited <Cash Income A/C>                    | 5,525,184                                 | 3.05                                        |
| Balfes (Qld) Pty Ltd <Balfes Super Fund>                  | 4,000,000                                 | 2.21                                        |
| Sundowner International Limited                           | 3,552,955                                 | 1.96                                        |
| Calm Holdings Pty Ltd <Clifton Super Fund A/C>            | 3,400,000                                 | 1.88                                        |
| HSBC Custody Nominees (Australia) Limited-GSCO ECA        | 2,886,718                                 | 1.60                                        |
| Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C> | 2,516,076                                 | 1.40                                        |
| Colbern Fiduciary Nominees Pty Ltd                        | 2,500,000                                 | 1.38                                        |
| Dragon Mining Limited                                     | 2,000,000                                 | 1.10                                        |
| Mr Ross Francis Stanley                                   | 2,000,000                                 | 1.10                                        |
| HSBC Custody Nominees (Australia) Limited-GSI EDA         | 1,990,156                                 | 1.10                                        |
| JP Morgan Nominees Australia Limited                      | 1,563,668                                 | 0.86                                        |
| Lost Ark Nominees Pty Ltd <Tera Fam A/C>                  | 1,400,000                                 | 0.77                                        |
| Greenslade Holdings Pty Ltd                               | 1,300,000                                 | 0.72                                        |
| Mrs Helen Joy Alexander                                   | 1,280,000                                 | 0.71                                        |
| <b>Total</b>                                              | <b>124,395,546</b>                        | <b>68.71%</b>                               |