annual report 07

CHALICE
GOLD MINES LIMITED

CORPORATE DIRECTORY

DIRECTORS

A R Bantock	- Executive Chairman
T R B Goyder	- Non-executive Director
B W Alexander	- Non-executive Director
A W Kiernan	- Non-executive Director

COMPANY SECRETARY

R K Hacker

PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE

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WEST PERTH WA 6005
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15 Rheola Street
WEST PERTH WA 6005

SOLICITORS

Pullinger Readhead Lucas
Level 2, Fortescue House
50 Kings Park Road
WEST 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

CONTENTS

HIGHLIGHTS

CORPORATE

- Sold the Chalice and Higginsville Gold Projects to Avoca Resources Limited (Avoca Resources), for shares in Avoca Resources to the value of $5.8 million and 2,000,000 unlisted options over ordinary shares in Avoca Resources.
- 3.5 million Avoca Resources shares were sold after year end, realising $6.9 million for the Company. A further $0.8 million of Avoca Resources shares are to be received on settlement of the second tranche of the sale.

HIGGINSVILLE AND CHALICE

- Followed up over 6,500 metres of RC/diamond drilling and 2,600 metres of RAB/air core drilling at Higginsville and Chalice conducted from March to June 2006, with over 2,400 metres of RAB/air core drilling and detailed SAM and IP geophysical surveys.

YANDEEARRA

- Completed over 12,600 metres of air core drilling at Yandeearra to test seven large geochemical targets. Anomalous gold results were recorded from four prospects.
- Received encouraging gold and uranium results from rock chip sampling of radiometric anomalies at the Nevada Prospect within the Yandeearra Project.

GNAWEEDA

- Actively tested targets through an exploration joint venture with Teck Cominco.
- RC drilling returned narrow high grade gold intercepts within broader zones of anomalous gold mineralisation at the Turnberry Prospect.

WILGA

- Conducted an auger drilling program which defined an extensive, low order gold anomaly in an area of cover.

Creek system in the western part of the Yandeearra Project

View looking east during heli-supported fieldwork compaign in the southern part of the Yandeearra Project

LETTER TO SHAREHOLDERS

Dear Shareholder

Chalice Gold Mines completed the financial year significantly recapitalised but firmly focused on the same business – seeking discoveries across our portfolio of Western Australian gold projects and new project opportunities.

As discussed in our June 2007 notice of meeting, the sale of our Higginsville and Chalice projects to Avoca Resources Limited ("Avoca") presented a number of benefits compared to other strategic alternatives. Principal among these were the management of equity dilution and providing continuing upside exposure for shareholders, both to regional gold discovery and development of Avoca's Trident Gold Mine.

Some of this potential was realised through the sale, in September 2007, of 3.5 million Avoca shares received for Tranche 1 of the sale, at $1.98 per share. This represents a 38% premium to the original Avoca transaction value (of $1.43 per share), realising a further $1.9 million for your company.

The alternative to selling the Tranche 1 shares was to remain with over 60% of our value in another listed company. We felt that to be beyond the reasonable management of your Company and also value the enhanced capacity that approximately $9.0 million of cash on hand now confers in our search for new discoveries and project opportunities.

We continue to hold 2.0 million unlisted 3-year $1.79 Avoca options and the right to receive a further $0.84 million of Avoca shares upon settlement of Tranche 2 of the sale.

Exploration continued at our remaining three gold projects during the year.

- At the large Yandeearra Gold Project in the West Pilbara, 12,600 metres of aircore drilling was completed to test seven large geochemical targets. Additionally, a review of available radiometrics was followed by a sampling program which drew focus to the Nevada Prospect, in the central south of the project on Fortescue sediment sequences. Best results from rock chip samples included 14.64 g/t gold and 920 ppm uranium.

  We will continue to follow up this newly identified area.

- At the Gnaweeda Gold Project in the Murchison, Teck Cominco ("Teck") progressed an active program with over 7,000 metres of aircore drilling.

  Teck has advised that this will be followed up with further RC drilling at the Turnberry and St Annes Prospects in the last quarter of 2008, as part of their arrangement to earn a 51% project interest by spending $750,000 (increasing to 70% upon $1.5 million spent).

- At the Wilga Gold Project, an auger sampling program provided encouraging results, identifying an extensive, low order gold anomaly.

We will continue to progress these projects, dealing with partners and other external parties where this can provide returns and continuing upside exposure for shareholders.

The past year was important for your Company. I look forward to the future, and thank the Board and shareholders for their continuing support.

Yours faithfully

Andrew Bantock
Executive Chairman

REVIEW AND RESULTS OF OPERATIONS

1. Higginsville and Chalice Gold Projects

EXPLORATION ACTIVITY

During the year, Chalice Gold Mines Limited (Chalice Gold Mines or the Company) completed an active exploration program to test priority targets at its Chalice and Higginsville Projects.

2,400 metres of RAB/air core drilling conducted in July 2006 took total drilling at the projects since March 2006 to over 11,500 metres (6,500 metres RC/diamond and 5,000 metres RAB/aircore). This was followed by two sub-audio magnetics surveys, and an induced polarisation (IP) survey. Whilst the results of the exploration program were interpreted by Chalice Gold Mines to have identified a number of prospective geological settings, the program was not successful in defining an economic gold resource.

SALE OF HIGGINSVILLE AND CHALICE GOLD PROJECTS TO AVOCA RESOURCES

On 30 April 2007, Chalice Gold Mines reached agreement for the sale of its Chalice and Higginsville gold projects to Avoca Resources, for shares in Avoca Resources to the value of $5,841,000 and 2,000,000 unlisted options over ordinary shares in Avoca Resources.

The sale comprised two tranches as follows:

Tranche 1

Tranche 1, which settled on 25 July 2007, involved the sale of Chalice Gold's Higginsville tenements, the Chalice Gold Mine and areas north thereof.

Consideration for completion of Tranche 1 was $5 million of Avoca Resources shares, at $1.43 per share, for a total of 3.5 million Avoca Resources shares, based on the 5 day ASX Volume Weighted Average Price (VWAP) prior to the date of agreement, plus 2 million 3-year, unlisted Avoca options, each with an exercise price of $1.79. The unlisted options were valued at $0.41 per option at the grant date, for accounting purposes utilising standard theoretical option valuation methodology.

The total consideration value for Tranche 1 has therefore been booked within the accounts at $5.82 million, comprising $5 million of share consideration value and $0.8 million for the unlisted options.

Tranche 2

Tranche 2, which comprises a package of tenements south of the Chalice Gold Mine, will complete upon grant of an Exploration Licence (EL) and then amalgamation of the same with certain Prospecting Licences (PL) already held by Chalice Gold Mines, as well as the achievement of other conditions precedent typical of such sale agreements (such as receipt of relevant Department of Industry and Resources approvals).

Grant of the EL and amalgamation with the PL's is expected by June 2008, allowing for relevant public notice requirements.

2. Yandeearra Project (100% Chalice Gold Mines Limited)

NEVADA GOLD AND URANIUM PROSPECT

Following a "desktop" review of available radiometric data, a heli-supported fieldwork campaign was conducted to provide a first pass assessment of radiometric anomalies in the southern part of the Yandeearra project area. The field program included ground reconnaissance, scintillometer surveys and rock chip sampling of 13 separate target areas.

Encouraging gold and uranium results were returned from the Nevada Prospect. Significant gold and uranium results include:

- Sample 114528 returned 14.64 g/t gold and 920 ppm uranium; and
- Sample 114527 returned 1.06 g/t gold and 50 ppm uranium.

The Nevada Prospect comprises a discrete radiometric anomaly within the basal units of the Fortescue Group. Details of the three rock chip samples taken from the Nevada Prospect are tabulated below.

Sample Number	Easting (GDA 94)	Northing (GDA94)	Target Area	Au Average (ppb)	Au 1 (ppb)	Au 3 (ppm)	U (ppm)	Comments
114526	627994	7651508	YAN20	15	15	-	23.90	Haematite rich layer, locally siliceous with haematite fragments (fault?)
114527	628047	7651563	YAN20	1069	1138	1.00	50.71	Quartz pebble conglomerate bed, iron-rich
114528	628020	7651540	YAN20	14640	16360	12.92	920.70	Shallow dipping ferruginous horizon bounded by schist and conglomerate, estimated thickness of 0.30m

Analyses on 2 - 3kg surface rockchip samples by Genalysis Laboratory Services, Perth. Gold and uranium assays were carried out by Method B/MS to a detection limit of 1 ppb (Au) and 0.01 ppm (U) respectively.

TABLE 1 : Details of rock chips samples from the Nevada Prospect

The encouraging gold and uranium results from sample 114528 are associated with a thin (0.30m thick) ferruginous layer within a quartz pebble conglomerate.

Historical soil sampling (-80 mesh) has defined a coherent >30ppb gold anomaly approximately 700m to the north of the rockchip sampling, close to the basal contact of the conglomerate sequence. The soil anomaly measures approximately 700m in strike, peaks at 544ppb gold and is open to the south and west (Figure 1).

Field reconnaissance and scintillometer surveying at the Nevada Prospect

Panoramic view at Yandeearra Project during heli-supported fieldwork campaign

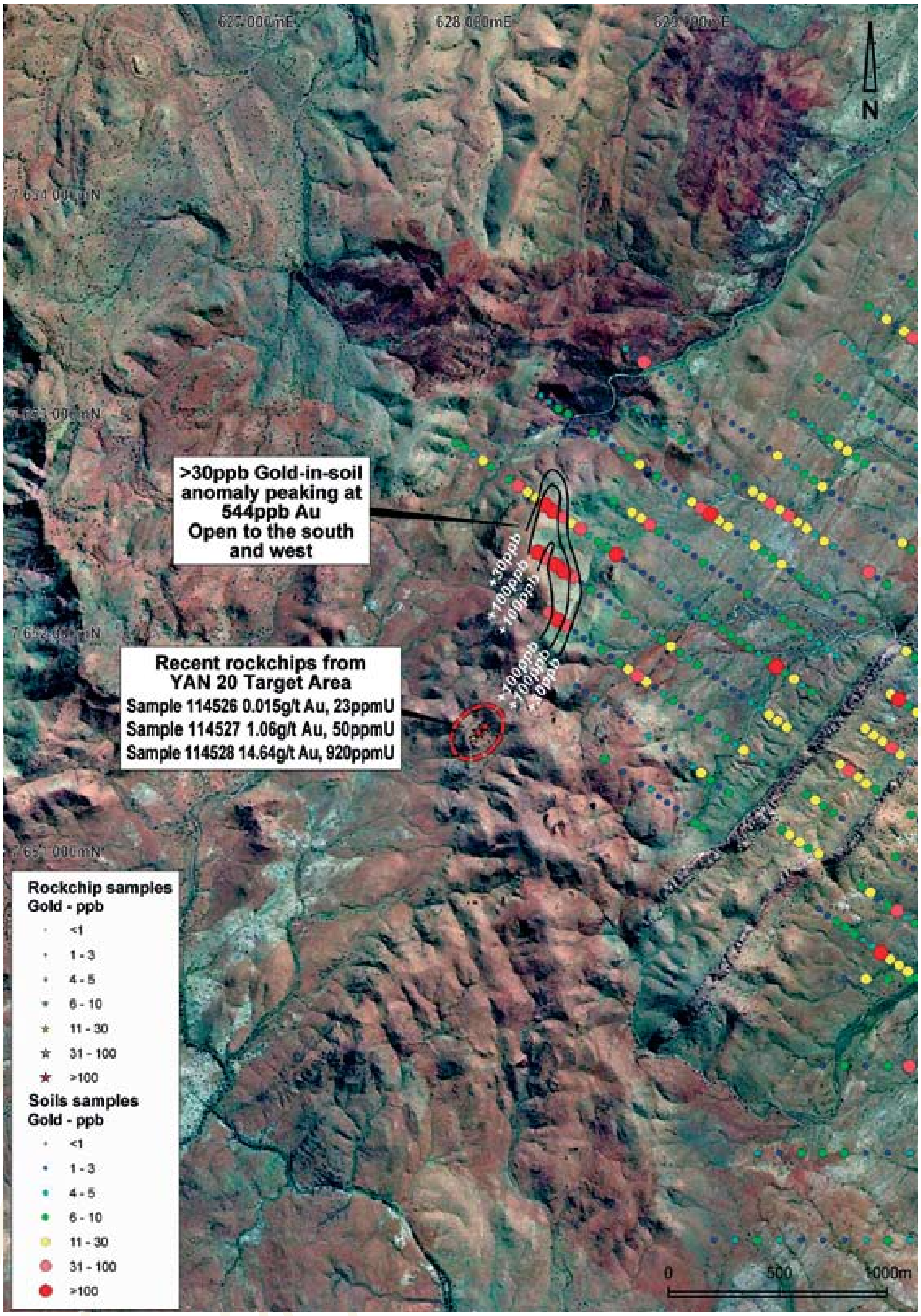


FIGURE 1 : Nevada Prospect - Rock chip and soil sample results over aerial photography

A program of detailed mapping and further sampling has commenced for the Nevada Prospect to further assess the extent and significance of the gold and uranium mineralisation defined to date.

Assay results from all rock chip samples received to date are detailed within Table 2.

Sample Number	Easting (GDA 94)	Northing (GDA94)	Target Area	Au Average (ppb)	Au 1 (ppb)	Au 2 (ppb)	Au 3 (ppm)	U (ppm)
114501	608966	7652030	YAN04	4	4			4.82
114502	608893	7652230	YAN04	<1	<1			7.44
114503	608772	7652249	YAN04	39	47	32		2.55
114504	608911	7651945	YAN04	3	3			2.87
114505	632306	7657375	YAN08	3	3			2.93
114506	632143	7657476	YAN08	<1	<1			2.12
114507	631904	7657769	YAN08	<1	<1			3.01
114508	631872	7657818	YAN08	3	3			0.24
114509	631233	7659220	YAN08	9	9			4.33
114510	630078	7659902	YAN07	<1	<1			0.57
114511	630158	7659754	YAN07	<1	<1			3.49
114512	630158	7659754	YAN07	<1	<1			0.58
114513	630213	7659554	YAN07	<1	<1			3.22
114514	630409	7600617	YAN23	<1	<1			0.20
114515	639353	7658213	YAN25	<1	<1			0.51
114516	639266	7658153	YAN25	<1	<1			0.34
114517	639112	7658047	YAN25	<1	<1			0.16
114518	609550	7665695	YAN01	<1	<1			0.77
114519	609539	7665717	YAN01	<1	<1			0.85
114520	628125	7653058	YAN11	<1	<1			9.18
114521	627927	7653198	YAN11	<1	<1			34.25
114522	627660	7653319	YAN11	2	2			1.95
114523	627132	7653473	YAN11	<1	<1			6.00
114524	627757	7653608	YAN24	1	1			0.42
114525	626670	7653630	YAN24	<1	<1			0.31
114526	627994	7651508	YAN20	15	15			23.90
114527	628047	7651563	YAN20	1069	1138		1.00	50.71
114528	628020	7651540	YAN20	14640	16360		12.92	920.70
114529	635029	7649350	YAN10	74	79	69		24.98
114530	635269	7649524	YAN10	65	70	61		22.71
114531	636895	7652122	YAN12	12	12			14.76
114532	636909	7650560	YAN12	4	4			34.85
114533	634280	7652260	YAN13	<1	<1			4.29
114534	614530	7646288	YAN22	5	5			5.66

Analyses on 2 - 3kg surface rockchip samples by Genalysis Laboratory Services, Perth. Gold and uranium assays were carried out by Method B/MS to a detection limit of 1 ppb (Au) and 0.01 ppm (U) respectively.

TABLE 2 : Rock chip sample results – Yandeearra Project

INDEE-STYLE GOLD TARGETS

During the year a 12,600m aircore program, testing for Indee-style gold deposits in Mallina Formation turbiditic sediments, was completed. Six geochemical anomalies (Holly, Fir, Aspen, Connolly, Magda and Hogan) along the Central Shear Zone and a seventh target at Woomerina were tested (Figure 2).

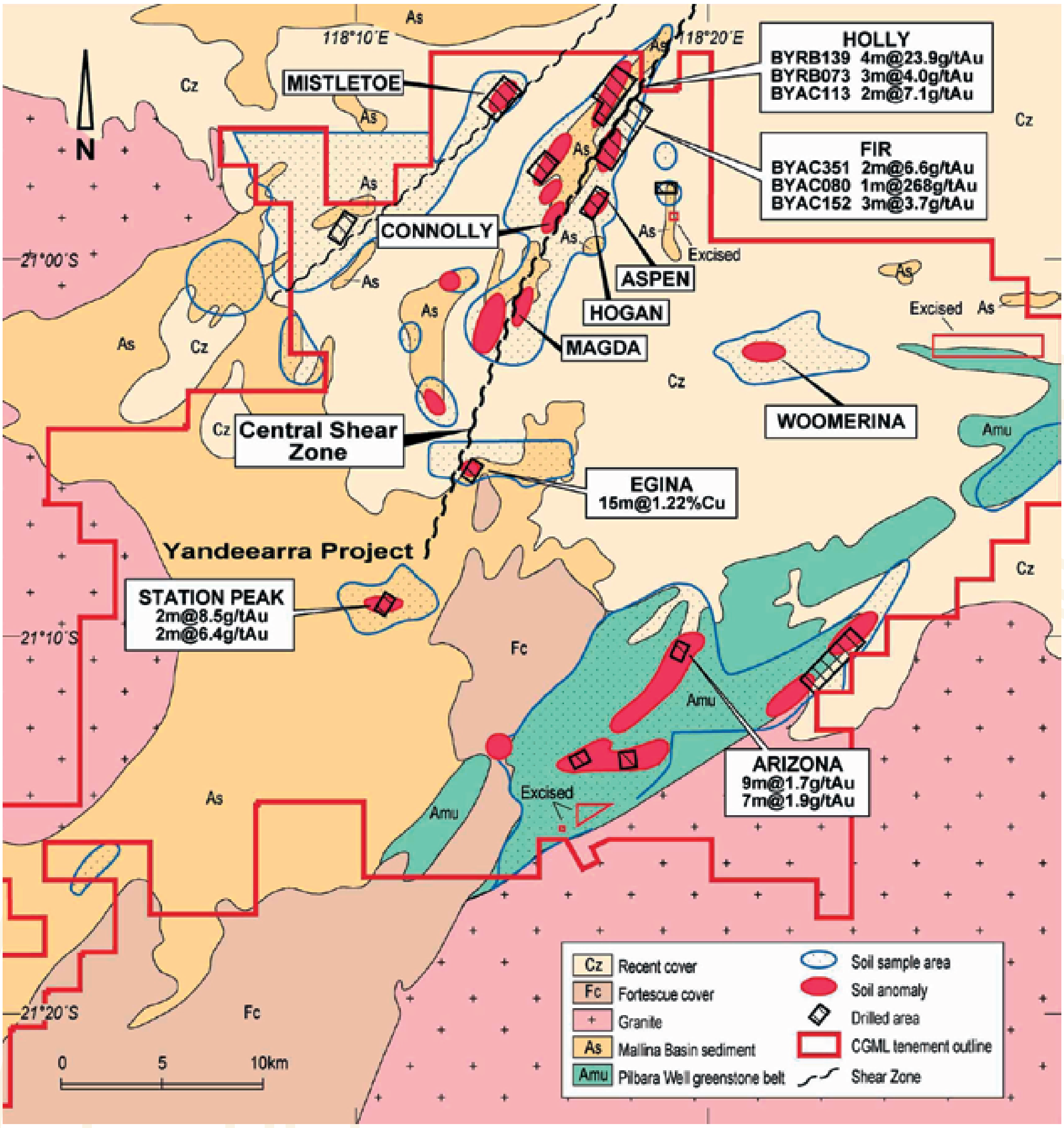


FIGURE 2
Yandeearra Project - surface geochemical anomalies and selected historical drill results

Central Shear Zone

The Central Shear Zone is interpreted as a significant splay off the east – west trending Mallina Shear Zone, host to Range River Gold Limited's 529,000oz Indee Gold Project, located immediately to the north of the Yandeearra Project area.

At the Holly (where previously identified anomalism has reported results including 4m @ 23.9g/t Au in BYRB139, and 2m @ 7.1g/t Au in BYAC113) and Aspen Prospects, step out drilling was undertaken in order to extend identified targets. Results received to date from the Central Shear Zone have extended the strike of the known mineralised corridor to over 4km.

At the Connolly Prospect a coherent 1.6km x 300m gold and arsenic soil anomaly was tested by four drilling traverses. The extensive anomaly is located in shallow wind blown sand, and is interpreted to be sourced from blind gold mineralisation in the basement. Results from the Connolly Prospect have defined a north-northeast trending zone of gold mineralisation over 150m x 1km as defined by +300ppb Au contour. This zone of anomalism is hosted within a weakly quartz veined and limonite-altered siltstone.

Woomerina

At Woomerina, drilling tested a 1 km x 500m gold and arsenic vacuum sample anomaly, again partly buried under shallow cover. The anomaly is situated over an east-west orientated structure, parallel to the Mallina Shear Zone to the north. Preliminary interpretation indicates better anomalism associated with an east-west trending outcropping quartz-tourmaline vein which traverses part of the area.

Drilling returned low level gold anomalism in several drillholes, associated with variably quartz veined zones in a sequence of sandstone and siltstone. The best result of 5m @ 0.80g/t Au from 4m (including 1m @ 2.25g/t Au from 8m) was hosted in a quartz veined siltstone in CYAC197. Anomalous assay results are tabulated in Table 3.

Prospect	Hole Id	North	East	Width	Interval	Grade (ppm Au)	Comments
WOOMERINA	CYAC197	7672027	641605	5m	4-9m	0.80	Quartz veined siltstone
			incl	1m	8-9m	2.25	
WOOMERINA	CYAC198	7672050	641601	1m	7-8m	0.78	Lower saprolite
WOOMERINA	CYAC201	7672135	641600	1m	37-38m	0.57	Sandy siltstone
WOOMERINA	CYAC202	7672159	641600	2m	8-10m	0.92	Medium grained siltstone

Analysed by aqua regia technique.
Based on 0.50 g/t Au lower cut off and minimum 1m internal waste.

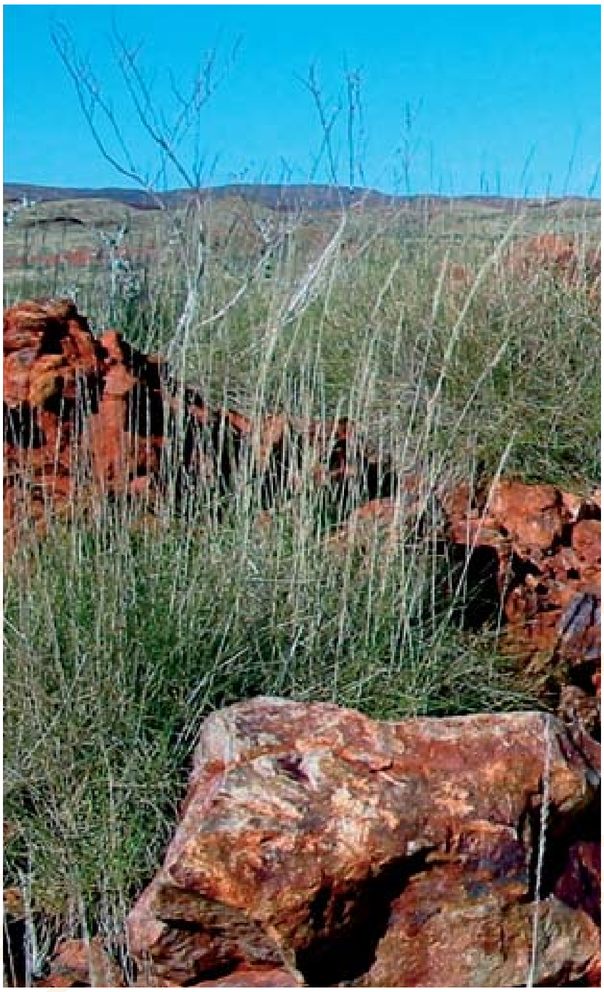
TABLE 3 : Anomalous assay results, Woomerina Prospect

West Yule

A partial leach sampling program has outlined a new area of gold and arsenic anomalism southeast of the Woomerina Prospect extending to the western limits of the Yule River. The anomaly, named West Yule, is a broad, coherent, 5km long northeast trending area of gold and arsenic anomalism in an area of transported sand cover.

The defined target areas within the Yandeearra Project have been prioritised for appropriate follow up exploration.

Areas of granite outcrop within a creek bed at the YAN04 Target – Yandeearra Project



View looking north from the southern part of the Yandeearra Project

3. Gnaweeda (100% Chalice Gold Mines Limited – Teck Cominco earning 70% interest)

Exploration undertaken by Teck Cominco Australia Ltd ("Teck Cominco") at the Gnaweeda Project as project manager, included several programs of aircore and RC drilling:

TURNBERRY PROSPECT

RC drilling at the Turnberry Prospect targeted the strike and dip extensions of known gold mineralisation beneath the predominantly shallow (approximately 100m) historical drilling.

Four RC holes were drilled and largely intersected coarse-grained mafic or dolerite rocks with pervasive carbonate alteration, localised quartz-carbonate veining and disseminated pyrite. The drilling returned narrow high grade gold intercepts within broader zones of anomalous gold mineralisation. The best results included 1m @ 37.60g/t gold from 50m in GNRC003 and 1m @ 11.06g/t Au from 216m in GNRC002.

Gold mineralisation appears to be associated with zones of strong silica-pyrite alteration, with abundant fine-grained arsenopyrite.

Significant results from drilling are tabulated in Table 4 and RC hole locations are shown in Figure 4.

Hole No.	From (m)	To (m)	Interval (m)	Au g/t
GNRC001	213	214	1	1.07
	234	235	1	**10.58**
	235	236	1	1.12
	236	237	1	1.48
GNRC002	82	83	1	1.86
	147	148	1	1.06
	149	150	1	1.21
	157	158	1	1.93
	207	208	1	**5.72**
	208	209	1	0.87
	216	217	1	**11.06**
	217	218	1	2.30
	218	219	1	1.20
GNRC003	39	40	1	1.34
	50	51	1	**37.60**
	51	52	1	1.50
	52	53	1	0.98
	61	62	1	1.44
	62	63	1	1.22
	63	64	1	0.82
	64	65	1	1.10
	248	249	1	1.13
	251	252	1	1.07
	252	253	1	**6.76**
	253	254	1	**5.75**
	276	277	1	3.12
	293	294	1	1.01

Original samples resplit at one metre intervals with gold analysed by 50g fire assay

TABLE 4 : Significant gold results from RC drilling –Turnberry Prospect

The results indicate relatively thin, high-grade gold zones with broader haloes of anomalous gold at below 0.5g/t level. The gold mineralisation remains open at depth and along strike.

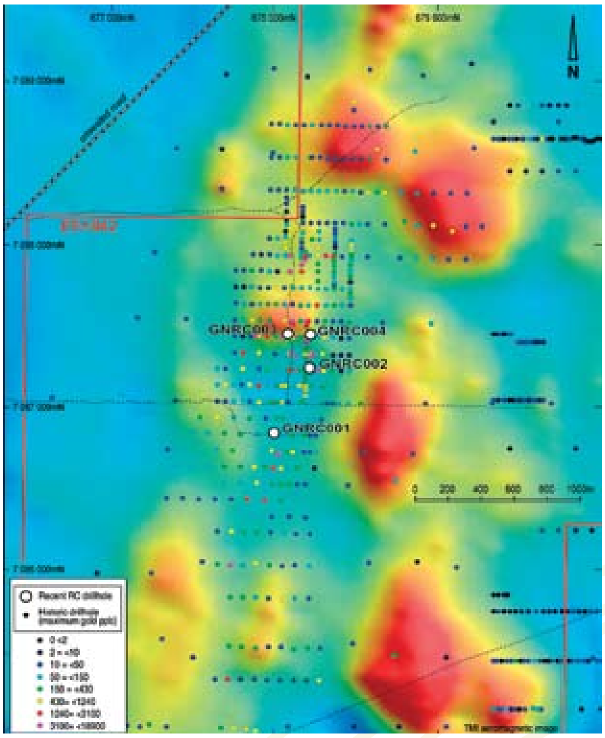


FIGURE 3 : Gnaweeda Project – maximum gold in drilling at the Turnberry Prospect

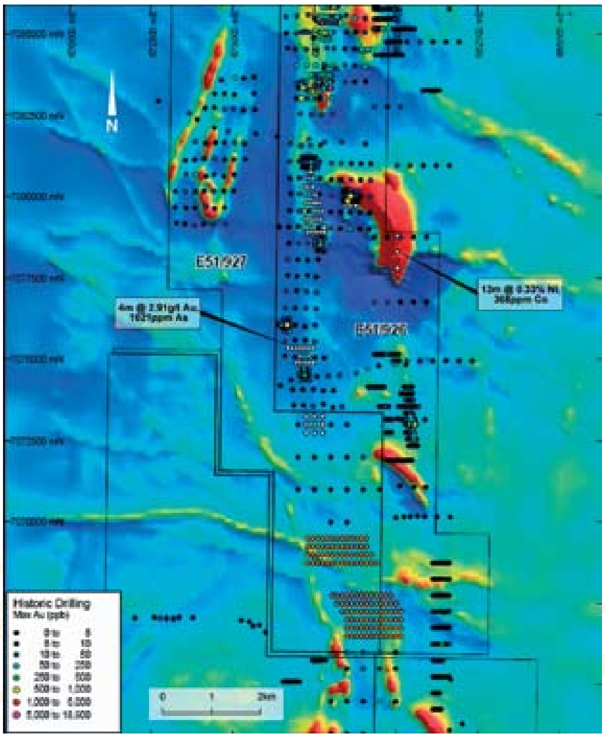


FIGURE 4 : Gnaweeda Project – Aeromagnetics showing recent drilling (white) and geochemistry (orange) and anomalous results

REGIONAL TARGETS

Several programs of aircore drilling were undertaken to test previously defined targets at three separate prospect areas.

Fairway Magnetic Package

A program of 4,831m of aircore drilling (70 holes) was completed to follow up previously defined targets within the north-south trending Fairway Magnetic Package, a 2-4km wide belt of mafic intrusive and felsic intrusive/volcanic rocks.The aircore holes were generally drilled to infill previous holes at line spacings of 200-250m and hole spacings of 100-150m.

Previous broader spaced drilling defined localised gold associated with broader arsenic anomalism in this package. Results from the aircore drilling program supported the general arsenic trend, and returned a best result of 4m @ 2.91g/t gold within a downhole interval of 45m of anomalous arsenic values (300-1200ppm arsenic) in hole GNAC082 (Figure 4) Further work is needed to test the extent of mineralisation and the lithological/structural framework.

Old Chiddle Well

A program of 2,300m of aircore drilling (45 holes) targeted a prominent north-south linear magnetic feature on the western side of the Project area.

Results from drilling were not significant, returning a maximum value of 65 ppb gold on the northern-most line.

A portion of the aircore program was reserved for infill drilling around an anomalous historical gold intercept of 1m @ 12.12g/t gold at the Old Chiddle Well Prospect. Drilling returned a maximum value of 215ppb gold, with broadly associated arsenic anomalism. The 12g/t gold intercept appears localized and was not repeated in any of the surrounding holes.

Nickel Target

Three holes were also completed within the eastern sub-domain testing an arcuate ultramafic body, visible as a strong magnetic feature in the TMI image. A coarse grained mafic to ultramafic rock defined by relict olivine cumulate textures and relatively shallow weathering (10-30m) was intersected. Results received were very encouraging with elevated Ni and Co in all three holes. A best result of 13m @ 0.33% nickel and 368ppm cobalt was returned from 15m to end of hole in GNAC052. Additional geochemistry will be undertaken to further evaluate the potential of this body.

Under an exploration joint venture, Teck Cominco can earn a 70% interest in the Gnaweeda Project by spending $1.5 million over three years, with a minimum expenditure of $140,000.

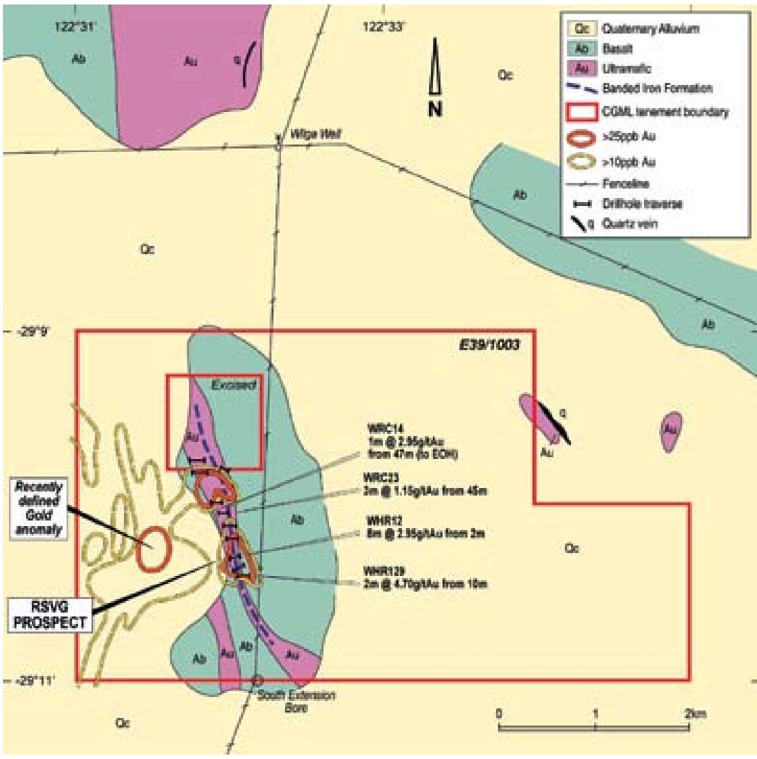


FIGURE 5 : Wilga Project – gold in soil and auger geochemistry

4.0 Wilga (100% Chalice Gold Mines Limited)

Exploration undertaken on the Wilga Project area comprised soil sampling and an auger drilling program.

The soil sampling program outlined two separate >25ppb gold in soil anomalies coincident with a semi-continuous banded iron formation (BIF) horizon in the central portion of the project. Limited historical shallow drilling in this area has previously returned narrow intervals of gold mineralisation associated with variably quartz veined BIF.

The auger drilling program defined an extensive, low order (>10ppb gold, peak 31ppb gold) gold anomaly in an area of cover to the west of the main mineralised banded iron formation. The anomaly trends north to north-north east and is semi-continuous over a strike distance of approximately 1,800m at the >10ppb gold contour (Figure 5).

A field check is required to assess the significance of the defined auger anomaly. The results of the auger program will be fully appraised, together with the local regolith, prior to the preparation of a suitable forward exploration program.

The information in this report that relates to Exploration Results is based on information compiled by Mr Bryan Alexander, a full-time employee of Archaean Exploration Services Pty Ltd, who is a Member of the Australian Institute of Mining and Metallurgy. Archaean Exploration Services Pty Ltd consults to Chalice Gold Mines Ltd. Mr Alexander 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.

Yandeearra

Tenement #	Nature of Interest	Current Equity
E47/590	Owned	100%
E47/591	Owned	100%
E47/755	Owned	100%
E47/1041	Owned	100%
E47/1161	Owned	100%
E47/1162	Owned	100%
E47/1163	Owned	100%
E47/1164	Owned	100%
E47/1165	Owned	100%
E47/1166	Owned	100%
E47/1207	Application	0%
M47/560	Application	0%
M47/561	Owned	100%
E47/1318	Application	0%
M47/783	Application	0%
M47/784	Application	0%
M47/785	Application	0%
P47/1223	Application	0%
P47/1224	Application	0%
P47/1225	Application	0%
P47/1226	Application	0%
P47/1227	Application	0%
P47/1245	Application	0%
P47/1246	Application	0%
P47/1459	Application	0%
M47/1000	Application	0%
M47/1001	Application	0%
M47/1002	Application	0%
M47/1003	Application	0%
M47/1004	Application	0%
M47/1005	Application	0%
M47/1114	Application	0%
M47/1115	Application	0%
M47/1116	Application	0%
M47/1117	Application	0%
M47/1118	Application	0%
M47/1119	Application	0%
M47/1120	Application	0%
M47/1121	Application	0%

SCHEDULE OF TENEMENTS
CONTINUED

Tenement #	Nature of Interest	Current Equity
M47/1122	Application	0%
M47/1123	Application	0%
M47/1124	Application	0%
M47/1125	Application	0%
M47/994	Application	0%
M47/995	Application	0%
M47/996	Application	0%
M47/997	Application	0%
M47/998	Application	0%
M47/999	Application	0%
E47/1748	Application	0%
E47/1749	Application	0%

Gnaweeda

Tenement #	Nature of Interest	Current Equity
E51/926	Right to earn 100% subject to royalty	0%
E51/927	Right to earn 100% subject to royalty	0%
P51/1074	Owned	100%
P51/2514	Owned	100%
P51/2515	Owned	100%
E51/1027	Owned	100%

Wilga

Tenement #	Nature of Interest	Current Equity
E39/1003	Owned	100%

NOTE : Chalice Tranche 2 tenements, the subject of a sale agreement with Avoca Resources Limited and which had not completed at 30 June 2007, are not included in the above schedule.

CHALICE GOLD MINES LIMITED

FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2007

DIRECTORS' REPORT

The Directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice Gold Mines' or 'the Company') for the financial year ended 30 June 2007 and the independent audit report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

1. Directors

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

A R Bantock
B.Com, ACA
Executive Chairman

Andrew has extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. He is currently Executive Director of Uranium Equities Limited, Managing Director of Liontown Resources Limited and is a Director of Water Corporation, Western Australia's water utility.

T R B Goyder
Non-executive Director

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

B W Alexander
BSc, MAusIMM
Non-executive Director

Bryan is a qualified geologist with over 16 years experience in the exploration and mining industry. Bryan is the principal of a geological contracting and consulting services practice, Archaean Exploration Services Pty Ltd ('Archaean'). Most recently Archaean has been responsible for directing the exploration, underground mine geology and acquisition activities for a private exploration and mining syndicate.

Prior to this Bryan has been responsible for the management of regional offices and the implementation of substantial exploration and resource definition programs for several mining companies.

A W Kiernan
LLB
Non-executive Director
(appointed 15 February 2007)

Tony is a Solicitor with considerable experience in the administration and operation of listed public companies. He practices extensively in the areas of media, resources and information technology law. In addition to his legal practice Tony provides commercial and corporate advice to various entities. Tony is Chairman of Anglicare (WA), BC Iron Limited and Solbec Pharmaceuticals Ltd. He is also a Director of Uranium Equities Limited, Liontown Resources Limited, Hailian International Limited and North Queensland Metals Limited.

J R McIntyre
(resigned 15 February 2007)

2. Company Secretary

R K Hacker

B.Com, ACA, ACIS

Richard has 14 years 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 both a Chartered Accountant and Chartered Secretary and is also Company Secretary of Liontown Resources Limited.

3. Directors' meetings

During the year, seven Directors' meetings were held. The number of meetings attended by each of the Directors of the Company during the year are:

Director	Number of board meetings attended	Number of meetings held during the time the director held office during the year
A R Bantock	7	7
T R B Goyder	7	7
B W Alexander	7	7
A W Kiernan	3	5
J R McIntyre	2	2

4. Principal activities

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

5. Review of Operations

During the financial year Chalice Gold Mines:

- reached agreement for the sale of its Chalice and Higginsville Gold Projects to Avoca Resources Limited (Avoca Resources), for shares in Avoca Resources to the value of $5,841,000 and 2,000,000 unlisted options over ordinary shares in Avoca Resources;
- followed up over 6,500 metres of RC/diamond drilling and 2,600 metres of RAB/air core drilling at Chalice and Higginsville conducted from March to June 2006, with over 2,400 metres of RAB/air core drilling and detailed SAM and IP geophysical surveys at Chalice and Higginsville;
- completed over 12,600 metres of air core drilling at the Yandeearra Project to test seven large geochemical targets;
- received encouraging gold and uranium results from rock chip sampling of radiometric anomalies at the Nevada Prospect within the Yandeearra Project;
- through an exploration joint venture with Teck Cominco, actively tested targets at Gnaweeda;
- completed an auger drilling program at Wilga which defined an extensive, low order gold anomaly; and

- incurred a loss of $1,187,476 for the period, which included a net gain on sale of the Chalice and Higginsville projects to Avoca Resources of $1,581,271 and an accounting write-down of exploration and evaluation assets of $1,556,950. This relates to a write-down in the value of the Yandeearra project following results of the drilling program undertaken during the year.

6. Significant changes in the state of affairs

On 30 April 2007, Chalice Gold Mines reached agreement for the sale of its Chalice and Higginsville Gold Projects to Avoca Resources Limited (Avoca Resources), for shares in Avoca Resources to the value of $5,841,000 and 2,000,000 unlisted options over ordinary shares in Avoca Resources.

The total consideration value is $6,667,693, comprising $5,841,000 of share consideration value and $826,693 for the unlisted options, valued using a binomial option-pricing model.

For full details of the transaction, refer to Note 3 of the financial statements.

7. Remuneration report

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

7.1 PRINCIPLES OF COMPENSATION

The broad remuneration policy of the Company is to ensure that remuneration levels for executive Directors, secretaries and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is particularly important in view of the strong demand for experienced technical and financial personnel currently being experienced in the Australian and international resources industry, driven by increased world demand for commodities, and the significant impact that each individual can make within a small executive team for an exploration and development company such as at Chalice Gold Mines. In short, the labour market is tight and key people make a difference to exploration and growth outcomes.

Remuneration offered by Chalice Gold Mines is therefore 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 Company.

Fixed compensation

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits, including motor vehicles), 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.

Long-term incentives

Options may be issued under the Employee Share Option Plan to Directors, employees and consultants of the Company and must be exercised within 3 months of termination. The ability to exercise the options is usually based on the option holder remaining with the Company for at least one year. Other than the vesting period, there is no performance hurdle required to be achieved by the Company to enable the options to be exercised.

The Company believes that the issue of share options in the Company aligns the interests of Directors, employees and shareholders alike.

Performance related compensation

The Company currently has no formal performance related remuneration policy which governs the payment of annual cash bonuses upon meeting pre-determined performance targets. However, the Board may consider performance related remuneration in the form of cash or share options when they consider these to be warranted.

Employment contracts

The following table sets out the contractual provisions of executive Directors and key management personnel.

Name and Job Title	Employment Contract Duration	Notice Period	Termination Provision
Executive Directors			
A R Bantock Executive Chairman	Unlimited	3 months by the Company and the employee	Other than for misconduct, the Company must pay Mr Bantock $125,000 to terminate his contract.

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.

Total compensation for all non-executive Directors is not to exceed $150,000 per annum.

7.2 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (AUDITED)

		Short-term payments			Post-employment payments	Share-based payments		
Key Management Personnel		**Salary & fees $**	**Non-monetary benefits $**	**Total $**	**Superannuation benefits $**	**Options (A) $**	**Total $**	**Value of options as proportion of remuneration (%)**
Directors								
A R Bantock	2007	114,679	3,540	118,219	10,321	114,388	242,928	47%
	2006	31,163	3,378	34,541	2,805	43,762	81,108	54%
T R B Goyder	2007	45,872	3,540	49,412	4,128	114,388	167,928	68%
	2006	12,465	3,378	15,843	1,122	43,762	60,727	72%
B W Alexander	2007	27,523	3,540	31,063	2,477	28,597	62,137	46%
	2006	7,479	3,183	10,662	673	10,941	22,276	49%
A W Kiernan (appointed 15 February 2007)	2007	10,239	1,319	11,558	922	-	12,480	-
	2006	-	-	-	-	-	-	-
Former Directors								
J R McIntyre (resigned 15 February 2007)	2007	85,265	12,614	97,879	8,574	57,194	163,647	35%
	2006	44,426	6,775	51,201	4,487	21,881	77,569	28%
Executives								
R K Hacker	2007	146,789	3,540	150,329	13,211	14,299	177,839	8%
	2006	35,326	3,183	38,509	3,179	5,470	47,158	12%
Total Compensation	**2007**	**430,367**	**28,093**	**458,460**	**39,633**	**328,866**	**826,959**	
	2006	130,859	19,897	150,756	12,266	125,816	288,838	

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
21 March 2006	21 March 2011	$0.08	$0.25	$0.20	80%	5.3%	Nil

Details of performance related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance related are discussed at 7.1 above.

7.3 EQUITY INSTRUMENTS

7.3.1 Options and rights over ordinary shares granted as compensation

Details of options over ordinary shares in the Company 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 2007	Grant date	Number of options vested during 2007	Fair value per option at grant date $	Exercise price $	Expiry date
Directors						
A R Bantock	-	-	2,000,000	-	0.25	21 March 2011
T R B Goyder	-	-	2,000,000	-	0.25	21 March 2011
B W Alexander	-	-	500,000	-	0.25	21 March 2011
Former Directors						
J R McIntyre	-	-	1,000,000	-	0.25	21 March 2011
Executives						
R K Hacker	-	-	250,000	-	0.25	21 March 2011

	Number of options granted during 2006	Grant date	Number of options vested during 2006	Fair value per option at grant date $	Exercise price $	Expiry date
Directors						
A R Bantock	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
T R B Goyder	2,000,000	21 March 2006	-	0.08	0.25	21 March 2011
B W Alexander	500,000	21 March 2006	-	0.08	0.25	21 March 2011
Former Directors						
J R McIntyre	1,000,000	21 March 2006	-	0.08	0.25	21 March 2011
Executives						
R K Hacker	250,000	21 March 2006	-	0.08	0.25	21 March 2011

No options have been granted to key management personnel since the end of the period. The options were provided at no cost to the recipients.

7.3.2 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 Company and each of the named Company executives are outlined below.

	Number granted	Date granted	% vested in year	Forfeited in year	Period in which grant vests
Directors					
A R Bantock	2,000,000	21 March 2006	100%	-	2007
T R B Goyder	2,000,000	21 March 2006	100%	-	2007
B W Alexander	500,000	21 March 2006	100%	-	2007
A W Kiernan	-	-	-	-	-
Former Directors					
J R McIntyre	1,000,000	21 March 2006	100%	-	2007
Executives					
R K Hacker	250,000	21 March 2006	100%	-	2007

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

	Value of options			
	Granted in year $ (A)	Exercised in year $ (B)	Forfeited in year $ (C)	Total option value in year $
Directors				
A R Bantock	-	-	-	-
T R B Goyder	-	-	-	-
B W Alexander	-	-	-	-
A W Kiernan	-	-	-	-
Former Directors				
J R McIntyre	-	-	-	-
Executives				
R K Hacker	-	-	-	-

(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.

8. Dividends

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

9. Events subsequent to reporting date

On 25 July 2007, the Company received 3,496,503 Avoca Resources Limited (Avoca Resources) shares and 2,000,000 unlisted options over ordinary shares in Avoca Resources as consideration for the first tranche (Tranche 1) under an agreement to sell the Company's Chalice and Higginsville gold projects to Avoca Resources.

Completion of Tranche 1 has been determined to be an adjusting event under AASB110 'Events After the Balance Sheet Date' and therefore the financial statements have been adjusted to record a net gain on sale of the Tranche 1 tenements of $1,581,271.

For further details of the transaction, refer to Note 3.

10. Likely developments

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

11. Directors' interests

The interest of each Director in the shares, rights or options over such instruments issued by the Company 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
A R Bantock	2,431,772	2,000,000
T R B Goyder	11,835,208	2,000,000
B W Alexander	445,336	500,000
A W Kiernan	270,074	-

12. Share options

Options granted to directors and officers of the company

During or since the end of the year, the Company did not grant any options for no consideration over unissued ordinary shares in the Company to any of the Directors or to the most highly remunerated officers of the Company as part of their remuneration.

Unissued shares under options

At the date of this report 5,825,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

Expiry date	Exercise price	Number of shares
21 March 2011	$0.25	5,825,000

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

Shares issued on exercise of options

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

13. Indemnification and insurance of directors and officers

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

During the year the Company paid insurance premiums of $17,698 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 20.

14. Non-audit services

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

15. Auditor's independence declaration

The auditor's independence declaration is set out on page 25 and forms part of the Directors' report for the year ended 30 June 2007.

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

Andrew R Bantock
Executive Chairman

Dated at Perth this 20th day September 2007

HLB Mann Judd
Accountants | Business and Financial Advisers

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 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Chalice Gold Mines Limited.

Perth, Western Australia
20 September 2007

L Di Giallonardo
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)
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HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 $	2006 $
Net gain on sale of exploration and evaluation assets	3	1,581,271	-
Other income	4	452,305	154,176
Total income		2,033,576	154,176
Impairment losses on exploration and evaluation expenditure		(1,556,950)	(1,317,617)
Exploration costs not capitalised		(68,211)	(22,034)
Corporate administrative expenses	5	(1,593,107)	(501,956)
Finance costs	8	(2,784)	(295)
Loss before tax		**(1,187,476)**	**(1,687,726)**
Income tax expense/ benefit	9	-	-
Loss for the period		**(1,187,476)**	**(1,687,726)**
Basic earnings per share attributable to ordinary equity holders	10	(0.02)	(0.06)
Diluted earnings per share attributable to ordinary equity holders	10	(0.02)	(0.06)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 30 to 53.

BALANCE SHEET
AS AT 30 JUNE 2007

	Note	2007 $	2006 $
Current assets			
Cash and cash equivalents	11	2,323,949	5,427,250
Trade and other receivables	12	5,919,204	328,325
Financial assets	13	20,701	-
Assets held for sale	14	153,189	-
Total current assets		**8,417,043**	**5,755,575**
Non-current assets			
Financial assets	13	70,193	43,000
Exploration and evaluation assets	15	3,134,600	7,175,824
Property, plant and equipment	16	208,491	199,207
Total non-current assets		**3,413,284**	**7,418,031**
Total assets		**11,830,327**	**13,173,606**
Current liabilities			
Trade and other payables	17	152,179	697,826
Interest-bearing loans and borrowings	18	-	11,197
Employee benefits	19	22,688	38,931
Total current liabilities		**174,867**	**747,954**
Non-current liabilities			
Interest-bearing loans and borrowings	18	-	5,771
Other	20	54,326	-
Total non-current liabilities		**54,326**	**5,771**
Total liabilities		**229,193**	**753,725**
Net assets		**11,601,134**	**12,419,881**
Equity			
Issued capital	21	13,974,454	13,974,454
Accumulated losses	21	(2,875,202)	(1,687,726)
Reserves	21	501,882	133,153
Total Equity		**11,601,134**	**12,419,881**

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 30 to 53.

STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2007

	Note	Share capital $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at 1 July 2006		13,974,454	(1,687,726)	133,153	12,419,881
Employee share options vested		-	-	368,729	368,729
Loss for the period		-	(1,187,476)	-	(1,187,476)
Balance at 30 June 2007	21	13,974,454	(2,875,202)	501,882	11,601,134

	Note	Share capital $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at date of incorporation		2	-	-	2
Issue of fully paid ordinary shares – tenement acquisition		7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering		7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other		60,000	-	-	60,000
Transaction costs		(585,548)	-	-	(585,548)
Employee share options vested		-	-	133,153	133,153
Loss for the period		-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	21	13,974,454	(1,687,726)	133,153	12,419,881

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 30 to 53.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 $	2006 $
Cash flows from operating activities			
Cash receipts from operations		228,106	33,871
Cash paid to suppliers and employees		(1,046,185)	(354,557)
Interest paid		(2,315)	(179)
Interest received		248,982	53,309
Net cash from operating activities	24	(571,412)	(267,556)
Cash flows from investing activities			
Payments for mining exploration and evaluation		(2,408,849)	(1,044,271)
Acquisition of property, plant and equipment		(102,737)	(191,007)
Proceeds from sale of property, plant and equipment		43,812	-
Net cash from investing activities		(2,467,774)	(1,235,278)
Cash flows from financing activities			
Net proceeds from issue of shares		-	6,974,454
Lodgement of bank guarantee and security deposits		(45,701)	(43,000)
Proceeds from borrowings		-	100,200
Repayment of borrowings		(18,414)	(101,570)
Net cash from financing activities		(64,115)	6,930,084
Net increase/(decrease) in cash and cash equivalents		(3,103,301)	5,427,250
Cash and cash equivalents at the beginning of the period		5,427,250	-
Cash and cash equivalents at 30 June	11	**2,323,949**	**5,427,250**

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 30 to 53.

1. Significant accounting policies

Chalice Gold Mines is an ASX listed public company domiciled in Australia. The financial report of the Company is for the year ended 30 June 2007. The previous financial period of the Company was from the date of registration, 13 October 2005 to 30 June 2006.

The financial report was authorised for issue by the Directors on the 19th day of September 2007.

(A) STATEMENT OF COMPLIANCE

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').

(B) BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value. The financial report is presented in Australian dollars.

In the year ended 30 June 2007, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. It has been determined by the Company 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 its accounting policies.

(C) 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 amounts of assets and 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 Company.

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 carrying amount 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) Shared-based payment transactions
The Company 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.

(D) SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(E) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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 income statement in proportion to the stage of completion of the transaction at the balance sheet 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 and the costs incurred or to be incurred cannot be measured reliably.

(iii) Interest received

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

(F) EXPENSES

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement 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.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Financing costs

Financing costs comprise interest payable on borrowings calculated using the effective interest method and interest receivable on funds invested.

(G) DEPRECIATION

Depreciation is charged to the income statement 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 estimated useful lives in the current and comparative periods are as follows:

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

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

(H) INCOME TAX

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement 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 the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation 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 the balance sheet 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.

(I) 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 balance sheet.

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

(J) IMPAIRMENT

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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 income statement 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 income statement. Receivables with a short duration are not discounted.

(K) 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 Company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(L) TRADE AND OTHER RECEIVABLES

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

(M) 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 Company'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.

(N) 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.

(O) 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 Company 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 Company 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-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 the balance sheet 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.

(P) 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 balance sheet 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.

(Q) TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

(R) 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.

(i) 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.

(S) EMPLOYEE BENEFITS

(i) Superannuation

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

(ii) Share-based payment transactions

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

The Company 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

(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 balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

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

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.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

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 Company expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(T) PROVISIONS

A provision is recognised in the balance sheet when the Company 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.

(U) 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.

2. Segment reporting

The Company currently only operates in one business segment and one geographical segment being the mining and exploration industry in Australia.

3. Net gain on sale of exploration and evaluation assets

	Note	2007 $	2006 $
Net gain on sale of exploration and evaluation assets	26	1,581,271	-

On 30 April 2007, Chalice Gold Mines reached agreement for the sale of its Chalice and Higginsville gold projects to Avoca Resources, for shares in Avoca Resources to a value of $5,841,000 and 2,000,000 unlisted options over ordinary shares in Avoca Resources.

The sale is to be completed in two tranches as follows:

Tranche 1
Tranche 1, which settled on 25 July 2007, comprised of the sale of Chalice Gold Mines' Higginsville tenements, the Chalice Gold Mine and areas north thereof.

Consideration for completion of Tranche 1 was $5,000,000 of Avoca Resources shares, at $1.43 per share, for a total of 3,496,503 Avoca Resources shares, based on the 5 day ASX Volume Weighted Average Price (VWAP) prior to the date of agreement, plus 2 million 3-year Avoca options, each with an exercise price of $1.79. The unlisted options have been valued at $0.41 per option at the date of grant.

The total consideration value for Tranche 1 is therefore valued in the financial statements at $5,826,693, comprising $5,000,000 of share consideration value and $826,693 for the unlisted options, valued using a binomial option-pricing model.

Completion of Tranche 1 has been determined to be an adjusting event under AASB110 'Events After the Balance Sheet

Date' and therefore the financial statements have been adjusted to record the net gain on sale of the Tranche 1 tenements of $1,581,271.

Tranche 2

Tranche 2, which comprises a package of tenements south of the Chalice Gold Mine, will complete upon grant of an Exploration Licence (EL) and then amalgamation of the same with certain Prospecting Licences (PL) already held by Chalice Gold Mines, as well as the achievement of other conditions precedent typical of such sale agreements (such as receipt of relevant Department of Industry and Resources approvals).

Grant of the EL and amalgamation with the PL's is expected within the next 12 months, allowing for relevant public notice requirements.

Consideration for completion of Tranche 2 is $841,000 of Avoca Resources shares, with pricing of these shares to be based on the 5 day VWAP at the time of the amalgamation of the PL's within the EL.

At 30 June 2007 and subsequent to balance sheet date, the Company had not completed Tranche 2 of the sale agreement to sell the remaining Chalice Gold Mines tenements. Pending completion of Tranche 2, the remaining Chalice tenements will be transferred to Avoca Resources for consideration of $841,000.

No net gain or loss on sale of exploration and evaluation assets for Tranche 2 has been recorded during the year and the Tranche 2 tenements are classified as assets held for sale (refer to Note 14).

	2007 $	**2006 $**
4. Other income		
Interest received	199,906	105,305
Gain on sale of plant and equipment	614	-
Corporate and administration service fees	251,435	48,871
Other	350	-
	452,305	154,176

		2007 $	2006 $
5. Corporate administrative expenses			
Accounting fees		14,600	14,655
Annual report costs		20,891	-
ASIC fees		1,605	-
ASX fees		28,864	32,438
Audit fees	7	23,315	10,000
Consulting fees		12,800	20,560
Depreciation and amortisation	16	56,458	12,198
Insurance		36,167	19,726
Legal fees		30,295	6,094
Loss on sale of plant and equipment		3,293	-
Make good provision – office premises		35,868	-
Marketing		2,250	9,411
Personnel expenses	6	1,096,732	295,476
Printing and stationery		15,622	4,670
Rent and outgoings		89,576	30,761
Share registry		21,068	7,096
Travel and accommodation		12,112	4,776
Recruitment		-	7,077
Other		91,591	27,018
		1,593,107	501,956
6. Personnel expenses			
Wages and salaries		493,162	105,625
Directors' fees		95,000	19,944
Other associated personnel expenses		63,568	3,217
Defined contribution superannuation fund contributions		85,379	25,531
(Decrease)/increase in liability for annual leave		(9,106)	8,006
Equity-settled transactions	21	368,729	133,153
		1,096,732	295,476

	2007 $	2006 $
7. Auditor's remuneration		
Audit services		
HLB Mann Judd:		
Audit and review of financial reports	23,315	10,000
8. Finance costs		
Interest expense	2,784	295
9. Income tax		
Current tax expense	(227,038)	(466,036)
Deferred tax expense relating to the origination and reversal of temporary differences	(560,148)	(2,151,112)
Tax losses not brought to account as deferred tax assets	787,186	2,617,148
Total income tax expense reported in the income statement	-	-
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(1,187,476)	(1,687,726)
Tax at the Australian corporate rate of 30%	(356,243)	(506,318)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:		
Non-deductible expenses	129,205	40,282
Blackhole expenditure tax deductible	(35,133)	(35,133)
Origination and reversal of temporary differences	(560,148)	(2,151,112)
	(822,319)	(2,652,281)
Current year tax benefits not recognised	822,319	2,652,281
Income tax expense reported in the income statement	-	-
Deferred income tax		
Deferred tax liabilities		
Delayed revenue recognition for tax purposes	15,381	(15,599)
Exploration and evaluation expenditure	1,166,411	(2,152,747)

	2007 $	2006 $
Deferred tax assets		
Revenue losses available for offset against future taxable income	560,148	2,151,112
Current receivables	(1,748,008)	-
Employee benefits	(4,873)	11,679
Accrued expenses	10,941	5,555
Net deferred tax assets recognised	-	-
Tax Losses		
Unused tax losses for which no deferred tax asset has been recognised	9,663,253	8,840,934
Potential tax benefit at 30% tax rate	2,898,976	2,652,280

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 30 June 2007 was based on the loss attributable to ordinary shareholders of $1,187,476 [2006: $1,687,726] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 72,800,000 [2006: 28,280,001].

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2007 was based on the loss attributable to ordinary shareholders of $1,187,476 [2006: $1,687,726] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 72,800,000 [2006: 28,280,001] calculated as follows:

Loss attributable to ordinary shareholders (diluted)		
Loss attributable to ordinary shareholders	1,187,476	1,687,726
Loss attributable to ordinary shareholders (diluted)	1,187,476	1,687,726
Weighted average number of ordinary shares (diluted)	No.	No.
Weighted average number of ordinary shares at 30 June	72,800,000	28,280,001
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at 30 June	72,800,000	28,280,001

11. Cash and cash equivalents

Bank balances	354,533	1,521,633
Bank bills	1,969,216	3,905,417
Petty cash	200	200
Cash and cash equivalents in the cash flow statement	2,323,949	5,427,250

	Note	2007 $	2006 $
12. Trade and other receivables			
Current			
Other trade receivables		63,210	301,540
Prepayments		29,301	26,785
Other current receivable – sale of exploration and evaluation assets	3	5,826,693	-
		5,919,204	328,325
13. Financial assets			
Current			
Bank guarantee and security deposits		20,701	-
Non-current			
Bond in relation to office premises		45,193	43,000
Bank guarantee and security deposits		25,000	-
		70,193	43,000
14. Assets held for sale			
Exploration and evaluation expenditure		153,189	-

During the year, Chalice Gold Mines reached agreement to sell its Chalice and Higginsville gold projects to Avoca Resources. The sale is to be completed in 2 tranches with Tranche 1 completed in July 2007.

At 30 June 2007, the Company had not completed Tranche 2 of the sale agreement to sell the remaining Chalice Gold Mines tenements, although a legally enforceable contract has been executed. Pending achievement of certain conditions precedent to the Tranche 2 sale (including the grant of an Exploration Licence and then amalgamation of the same with certain Prospecting Licences already held by Chalice Gold Mines, as well as the achievement of other conditions precedent typical of such sale agreements), the remaining Chalice tenements will be transferred to Avoca Resources for consideration of $841,000.

Exploration and evaluation assets, the subject of Tranche 2 under the sale agreement, have therefore been classified as assets held for sale.

		2007 $	2006 $

15. Exploration and evaluation expenditure

		2007 $	2006 $
Costs carried forward in respect of areas of interest in the exploration and evaluation phase (at cost)		7,175,824	-
Acquisition of tenements – stamp duty and other		374,009	7,034,545
Expenditure incurred during the year		1,608,539	1,480,930
Impairment of exploration and evaluation expenditure		(1,556,950)	(1,317,617)
Exploration costs not capitalised		(68,211)	(22,034)
Disposals of tenements		(4,245,422)	-
Transfer to assets held for sale	14	(153,189)	-
		3,134,600	7,175,824

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

16. Property, plant and equipment

	2007 $	2006 $
At cost	263,460	211,405
Less: accumulated depreciation	(54,969)	(12,198)
	208,491	199,207
Plant and equipment		
Carrying amount at beginning of financial year	181,338	-
Additions	112,228	193,183
Depreciation	(54,290)	(11,845)
Transfers from plant and equipment under hire purchase	532	-
Disposals/write offs	(31,317)	-
Carrying amount at end of period	208,491	181,338
Plant and equipment under hire purchase		
Carrying amount at beginning of financial year	17,869	-
Additions	-	18,222
Amortisation	(2,169)	(353)
Transfers to plant and equipment	(532)	-
Disposals/write offs	(15,168)	-
Carrying amount at end of period	-	17,869

	2007 $	2006 $

17. Trade and other payables

	2007 $	2006 $
Trade payables	99,602	568,271
Accrued expenses	52,577	129,555
	152,179	697,826

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 22.

	2007 $	2006 $
Current liabilities		
Hire purchase liabilities	-	11,197
Non-current liabilities		
Hire purchase liabilities	-	5,771

Hire purchase facility

The Company's hire purchase liabilities are secured by the assets under hire purchase of $Nil (2006: $17,869). In the event of default, these assets revert to the financier.

	2007		
	Minimum hire purchase payments $	**Interest $**	**Principal $**
Less than one year	-	-	-
Between one and five years	-	-	-
More than five years	-	-	-
	-	-	-

	2006		
	Minimum hire purchase payments $	**Interest $**	**Principal $**
Less than one year	12,111	914	11,197
Between one and five years	5,858	87	5,771
More than five years	-	-	-
	17,969	1,001	16,968

19. Employee benefits

	2007 $	2006 $
Liability for annual leave	22,688	38,931
Total employee benefits	22,688	38,931

SHARE BASED PAYMENTS

(a) Employee Share Option Plan

The Company has an Employee Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer free options to full-time or part-time employees (including persons engaged under a consultancy agreement), executive and non-executive Directors.

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

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.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the issued ordinary shares when the options have been exercised.

No share options were granted to employees during the year.

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

	Weighted average exercise price $	Number of options
	2007	**2007**
Outstanding at the beginning of the period	0.25	6,575,000
Forfeited during the period	0.25	750,000
Exercised during the period	-	-
Granted during the period	-	-
Outstanding at the end of the period	0.25	5,825,000
Exercisable at the end of the period	0.25	5,825,000
	2006	**2006**
Outstanding at the beginning of the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Granted during the period	0.25	6,575,000
Outstanding at the end of the period	0.25	6,575,000
Exercisable at the end of the period	-	-

The options outstanding at 30 June 2007 have an exercise price of $0.25 [2006: $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 2007.

Fair value of share options and assumptions	2007	2006
Share price at grant date	-	$0.25
Exercise price	-	$0.25
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	-	80%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	-	5 years
Expected dividends	-	-
Risk-free interest rate	-	5.3%

The expected volatility is based on the volatility of similar mining and exploration companies, due to there being no historical share price date at the data the options were granted.

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.

	2007 $	2006 $
Share options granted in 2006 - equity settled	368,729	133,153
Total expense recognised as personnel expenses	368,729	133,153

20. Other non-current liabilities

Lease incentive	18,457	-
Make good provision	35,869	-
	54,326	-

21. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	2007			
	Share capital (a) $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at 1 July 2006	13,974,454	(1,687,726)	133,153	12,419,881
Employee share options vested	-	-	368,729	368,729
Loss for the period	-	(1,187,476)	-	(1,187,476)
Balance at 30 June 2007	13,974,454	(2,875,202)	501,882	11,601,134

	2006			
	Share capital (a) $	Accumulated losses $	Share based payments reserve $	Total equity $
Balance at date of incorporation	2	-	-	2
Issue of fully paid ordinary shares – tenement acquisition	7,000,000	-	-	7,000,000
Issue of fully paid ordinary shares – initial public offering	7,500,000	-	-	7,500,000
Issue of fully paid ordinary shares – other	60,000	-	-	60,000
Transaction costs	(585,548)	-	-	(585,548)
Employee share options vested	-	-	133,153	133,153
Loss for the period	-	(1,687,726)	-	(1,687,726)
Balance at 30 June 2006	13,974,454	(1,687,726)	133,153	12,419,881

(a) Share capital

	2007 No.	2006 No.
On issue at 1 July	72,800,000	-
Issue of fully paid ordinary shares – tenement acquisition	-	34,999,998
Issue of fully paid ordinary shares – initial public offering	-	37,500,000
Issue of fully paid ordinary shares – other	-	300,002
On issue at 30 June	72,800,000	72,800,000

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

	2007 No.	2006 No.
On issue at 1 July	6,575,000	-
Options forfeited	(750,000)	-
Options issued during the year	-	6,575,000
On issue at 30 June	5,825,000	6,575,000

At 30 June 2007 the Company had 5,825,000 unlisted options on issue under the following terms and conditions:

Number	Expiry Date	Exercise Price
5,825,000	21 March 2011	$0.25

22. Financial instruments

(a) Interest rate risk exposures

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

30 June 2007	Note	1 year or less $	Over 1 to 5 years $	Floating interest $	Non-interest bearing $	Total $	Weighted average int. rate
Financial assets							
Bank balances	11	-	-	354,533	-	354,533	1.43%
Bank bills	11	1,969,216	-	-	-	1,969,216	6.17%
Bank guarantees and security deposits	13	90,894	-	-	-	90,894	6.40%
Petty cash	11	-	-	-	200	200	-
Trade and other receivables	12	-	-	-	5,889,903	5,889,903	-
Financial liabilities							
Trade payables and accrued expenses	17	-	-	-	152,179	152,179	-
Employee benefits	19	-	-	-	22,688	22,688	-

30 June 2006	Note	1 year or less $	Over 1 to 5 years $	Floating interest $	Non-interest bearing $	Total $	Weighted average int. rate
Financial assets							
Bank balances	11	-	-	1,521,633	-	1,521,633	0.25%
Bank bills	11	3,905,417	-	-	-	3,905,417	5.58%
Term deposits	13	43,000	-	-	-	43,000	5.10%
Petty cash	11	-	-	-	200	200	-
Trade and other receivables	12	-	-	-	301,540	301,540	-
Financial liabilities							
Trade payables and accrued expenses	17	-	-	-	697,826	697,826	-
Employee benefits	19	-	-	-	38,931	38,931	-
Hire purchase liabilities	18	11,197	5,771	-	-	16,968	4.45%

(b) Credit risk exposure

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

(c) Net fair values of financial assets and liabilities

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

23. Capital and other commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State 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 Company may in certain situations apply for exemptions under relevant mining legislation. These obligations are not provided for in the financial report and are payable:

	2007 $	2006 $
Within 1 year	692,860	863,840
Within 2 – 5 years	1,299,113	1,619,700
Later than 5 years	-	-
	1,991,973	2,483,540

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at balance date but not recognised as liabilities, payable:

	2007 $	2006 $
within 1 year	125,000	125,000
within 2-5 years	-	-
	125,000	125,000

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2007 $	2006 $
within 1 year	80,873	-
within 2-5 years	144,736	-
	225,609	-

24. Reconciliation of cash flows from operating activities

	2007 $	2006 $
Loss for the period	(1,187,476)	(1,687,726)
Adjustments for:		
Depreciation and amortisation	56,458	12,198
Profit on sale of exploration and evaluation assets	(1,581,271)	-
Loss on sale of other assets	3,294	-
Profit on sale of other assets	(614)	-
Provision for make good lease fit out (office premises)	35,868	-
Impairment losses on exploration and evaluation expenditure	1,556,950	1,317,617
Exploration costs not capitalised	68,211	22,034
Interest on finance leases	470	116
Equity-settled share-based payment expenses	368,729	133,153
Operating loss before changes in working capital and provisions	(679,381)	(202,608)
(Increase) in trade and other receivables	154,215	(246,728)
Increase in trade creditors and accruals	(46,268)	142,849
Increase in provisions	2,215	38,931
(Decrease) in current financial assets	(2,193)	-
Net cash used in operating activities	(571,412)	(267,556)

25. Key management personnel

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

Executive Directors

A R Bantock (Executive Chairman)

J R McIntyre (resigned 15 February 2007)

Non-executive Directors

T R B Goyder

B W Alexander

A W Kiernan (appointed 15 February 2007)

Executives

R K Hacker (Company Secretary)

The key management personnel compensation included in 'personnel expenses' (see note 6) are as follows:

	2007 $	2006 $
Short-term employee benefits	458,460	150,756
Post-employment benefits	39,633	12,266
Equity settled transactions	328,866	125,816
	826,959	288,838

Individual directors' and executives' compensation disclosures

The Company 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.

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 Company

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 Company 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 amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2007 $	2006 $
B W Alexander	Geological consulting services	(i)	44,520	11,705
A W Kiernan	Legal services	(ii)	15,277	-
J R McIntyre	Geological consulting services	(iii)	-	15,000
Other related parties				
Liontown Resources Limited	Corporate services	(iv)	(96,500)	-
Uranium Equities Limited	Corporate services	(v)	(154,935)	(48,871)

(i) The Company engaged Archaean Exploration Pty Ltd, a company of which Mr Alexander is a Director, to undertake preparation of the Company's business plan and pre-IPO information set in the 2006 financial year. Archaean Exploration also provided geological consulting services to the Company during the 2007 financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Company used the legal services of Mr Kiernan and Christensen Vaughan (a company of which Mr Kiernan is a consultant) 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.

(iii) The Company engaged Mr McIntyre to assist with preparation of the Company's business plan, IPO marketing, prospectus and due diligence activities between January 2006 and 24 March 2006. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(iv) The Company supplies corporate services including accounting and company secretarial services under a Corporate Services Agreement with Liontown Resources Limited. Messrs Bantock, Goyder, Kiernan and McIntyre were all Directors of Liontown Resources Limited during the year and Mr Hacker is the Company Secretary. Amounts were billed on a proportionate share of the cost to the Company of providing the services and are due and payable under normal payment terms.

(v) The Company supplied corporate services including accounting and company secretarial services under a Corporate Services Agreement with Uranium Equities Limited (until May 2007). Messrs Bantock, Goyder and Kiernan are all Directors of Uranium Equities Limited and Mr Hacker was the Company Secretary until 17 May 2007. Amounts were billed at cost 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	2007 $	2006 $
Current payables	(13,657)	(15,000)
Trade debtors	31,900	16,500
	18,243	1,500

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 Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2007	Held at 1 July 2006	Granted as compensation	Exercised	Other changes	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
A R Bantock	2,000,000	-	-	-	2,000,000	2,000,000	-
J R McIntyre	1,000,000	-	-	-	1,000,000	1,000,000	-
T R B Goyder	2,000,000	-	-	-	2,000,000	2,000,000	-
B W Alexander	500,000	-	-	-	500,000	500,000	-
A W Kiernan	-	-	-	-	-	-	-
Executives							
R K Hacker	250,000	-	-	-	250,000	250,000	-

2006	Held at date of incorporation	Granted as compensation	Exercised	Other changes	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
A R Bantock	-	2,000,000	-	-	2,000,000	-	-
J R McIntyre	-	1,000,000	-	-	1,000,000	-	-
T R B Goyder	-	2,000,000	-	-	2,000,000	-	-
B W Alexander	-	500,000	-	-	500,000	-	-
Executives							
R K Hacker	-	250,000	-	-	250,000	-	-

Movements in ordinary shares

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

2007	Held at 1 July 2006	Additions	Received on exercise of options	Sales	Held at 30 June 2007
Directors					
A R Bantock	1,765,886	765,886	-	-	2,531,772
T R B Goyder	5,228,408	6,575,600	-	-	11,804,008
B W Alexander	342,668	112,668	-	-	455,336
A W Kiernan*	200,037	70,037	-	-	270,074
Former Directors					
J R McIntyre	146,687	106,687	-	-	253,374
Executives					
R K Hacker	43,334	94,201	-	-	137,535

* A W Kiernan was appointed on 15 February 2007.

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

2006	Held at 1 July 2005	Additions	Received on exercise of options	Sales	Held at 30 June 2006
Directors					
A R Bantock	-	1,765,886	-	-	1,765,886
J R McIntyre	-	146,687	-	-	146,687
T R B Goyder	-	5,228,408	-	-	5,228,408
B W Alexander	-	342,668	-	-	342,668
Executives					
R K Hacker	-	43,334	-	-	43,334

26. Subsequent events

On 25 July 2007, the Company received 3,496,503 Avoca Resources shares and 2,000,000 unlisted options over ordinary shares in Avoca Resources as consideration for the first tranche (Tranche 1) under an agreement to sell the Company's Chalice and Higginsville gold projects to Avoca Resources.

Completion of Tranche 1 has been determined to be an adjusting event under AASB110 'Events After the Balance Sheet Date' and therefore the financial statements have been adjusted to record the net gain on sale of the Tranche 1 tenements of $1,581,271.

For further details of the transaction, refer to Note 3.

DIRECTORS' DECLARATION

1 In the opinion of the Directors of Chalice Gold Mines Limited ('the Company'):

(a) the financial statements and notes including the remuneration disclosures that are contained in sections 7.1, 7.2 and 7.3 of the Remuneration report in the Directors' report, set out on pages 18 to 23, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(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.

2 The Directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) for the year ended 30 June 2007 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth the 20th day of September 2007.

Signed in accordance with a resolution of the Directors:

ANDREW BANTOCK
Executive Chairman

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
CHALICE GOLD MINES LIMITED

We have audited the accompanying financial report of Chalice Gold Mines Limited, which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended and the directors' declaration.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading "remuneration report" in the directors' report and not in the financial report. We have audited these remuneration disclosures.

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 state that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' 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 entity's internal controls. 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 and the remuneration disclosures contained in the directors' 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 opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Chalice Gold Mines Limited and included in the Directors' Report, would be on the same terms if provided to the directors as at the date of this auditor's report.

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 company's financial position as at 30 June 2007 and of its performance for the year then ended; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Auditor's Opinion on the AASB 124 Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
20 September 2007

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Corporate Governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The key corporate governance practices of the Company are summarised below.

1. Board of Directors

1.1 ROLE OF THE BOARD AND MANAGEMENT

The Board represents s hareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. The Board believes that this focus will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive, role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Executive Chairman is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Executive Chairman and approving senior executive remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies.
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans.
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress against them.
- Monitoring capital and cash flow requirements.
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs.
- Ensuring that risk management and internal controls, policies and compliance systems consistent with the Company's objectives, external best practice and the Company's size and scope of operations are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as required.

1.2 COMPOSITION OF THE BOARD AND NEW APPOINTMENTS

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any share holding qualification.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-executive Chairman and additional independent Non-executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

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

The membership of the Board and its activities are subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake the Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting. Under the Company's Constitution the tenure of Directors (other than Managing Director (or equivalent), and only one Managing Director (or equivalent) 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.

1.3 COMMITTEES OF THE BOARD

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

1.4 CONFLICTS OF INTEREST

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of a professional standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

2.1 CODE OF CONDUCT FOR DIRECTORS

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors;

The principles of the code are;

- a Director must act honestly, in good faith and in the best interests of the Company as a whole;
- a Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;
- a Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- a Director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company;
- a Director must not make improper use of information acquired as a Director;
- a Director must not take improper advantage of the position of Director;
- a Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;
- a Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board;
- confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law;
- a Director should not engage in conduct likely to bring discredit upon the Company; and
- a Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 CODE OF ETHICS AND CONDUCT

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the

community and environment in which it operates;

- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 DEALINGS IN COMPANY SECURITIES

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the Directors of the Company and employees who possess inside information.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 INTERESTS OF OTHER STAKEHOLDERS

The Company's objective is to maximise returns to shareholders through the continued exploration and development of current projects and the identification and acquisition of quality mining and/or exploration projects.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 CONTINUOUS DISCLOSURE TO ASX

The continuous disclosure policy requires all executives and Directors to inform the Executive Chairman or in his absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

a) a reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and

b) the information is confidential; or
one of the following applies:

- It would breach a law or regulation to disclose the information.
- The information concerns an incomplete proposal or negotiation.
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure.
- The information is generated for internal management purposes.
- The information is a trade secret.
- It would breach a material term of an agreement, to which the company is a party, to disclose the information.
- It would harm the Company's potential application or possible patent application.
- The information is scientific data that release of which may benefit the Company's potential competitors.

The Executive Chairman is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 COMMUNICATION WITH SHAREHOLDERS

The Company places considerable importance on effective communications with shareholders.

The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company to shareholders.

Mechanisms employed include:

- announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. Risk Management

4.1 IDENTIFICATION OF RISK

The Board is responsible for overseeing the Company's risk management and control framework.

Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Chairman 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:

- an annual risk assessment and review of mitigating controls to manage key risks;
- monthly reporting to the Board in respect of operations and the financial position of the Company;
- budgetary expenditure controls;
- monthly reporting to the Board on status of tenure to tenements; and
- regular reporting on adherence to health and safety guidelines and policies.

4.2 INTEGRITY OF FINANCIAL REPORTING

From the date the Company listed on the ASX, the Company's Executive Chairman and Chief Financial Officer (or equivalent) will report in writing to the Board that:

- the financial statements of the Company for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 ROLE OF AUDITOR

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance during each financial year. Ongoing review is undertaken in relation to the composition and skills mix of the Directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include annual performance appraisal meetings with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy of the Company is to ensure that remuneration levels for executive Directors, secretaries and senior managers are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is a particularly important policy in view of the strong demand for experienced technical and financial personnel currently being experienced in the Australian and international resources industry, driven by increased world demand for commodities, and the significant impact that each individual can make within a small executive team for an exploration and development company such as at Chalice Gold Mines. In short, the labour market is tight and key people make a difference to exploration and growth outcomes.

Remuneration packages offered by Chalice Gold Mines are therefore 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 good incentive to join and remain with the Company.

The remuneration of Non-executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-executive Directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

Options may be issued under the Employee Share Option Plan to Directors, employees and consultants of the Company and must be exercised within 3 months of termination. The ability to exercise the options is usually based on the option holder remaining with the Company for at least one year. Other than the vesting period, there is no performance hurdle required to be achieved by the Company to enable the options to be exercised.

The Company believes that the issue of share options in the Company aligns the interests of Directors, employees and shareholders alike.

ASX Corporate Governance Council: Principles of Good Corporate Governance and Best Practice Recommendations

Council Principle 1:
Lay solid foundations for management and oversight

Council Recommendation 1.1:
Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

Council Principle 2
Structure the board to add value

Council Recommendation 2.1:
A majority of the board should be independent Directors.

The Board considers that Mr Kiernan is an independent Director in accordance with Recommendation 2.1. Whilst the remainder of the Board are not independent, the Board believes that all the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2:
The chairperson should be an independent Director.

Council Recommendation 2.3:
The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Company's Chairman, Mr Bantock, acts in an executive capacity and is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of an independent Director. However the Board believes that the Chairman is able to and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.4:
The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate, an independent consultant is engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Principle 3:
Promote ethical and responsible decision-making

Council Recommendation 3.1:
Establish a code of conduct to guide the Directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the Company's integrity;

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2:
Disclose the policy concerning trading in Company securities by Directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

Council Principle 4:
Safeguard integrity in financial reporting
Council Recommendation 4.1:

Require the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The Company complies with this recommendation.

Council Recommendation 4.2:
The board should establish an audit committee.

The Board considers that the Company is not currently of a size to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

The Board acknowledges this does not comply with recommendation 4.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a audit committee will be reviewed by the Board and implemented if appropriate. Refer to section 1.3 of the Corporate Governance Statement.

Council Recommendation 4.3:
Structure the audit committee so that it consists of:

- only non-executive Directors;
- a majority of independent Directors;
- an independent chairperson, who is not chairperson of the board;
- at least three members.

Refer Recommendation 4.2.

Council Recommendation 4.4
The audit committee should have a formal operating charter.

Refer Recommendation 4.2.

Council Principle 5:
Make a timely and balanced disclosure

Council Recommendation 5.1:
Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

Council Principle 6:
Respect the rights of shareholders

Council Recommendation 6.1:
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2:
Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the

conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

Council Principle 7:
Recognise and manage risk

Council Recommendation 7.1:
The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2
The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Principle 8:
Encourage enhanced performance

Council Recommendation 8.1:
Disclose the process for performance evaluation of the board, its committees and individual Directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

Council Principle 9:
Remunerate fairly and responsibly

Council Recommendation 9.1:
Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to Directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2:
The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

The Board acknowledges that this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate. Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3
Clearly distinguish the structure of Non-executive Directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4
Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has in place an Employee Share Option Plan. Any issue of options made to eligible participants is made in accordance with that plan.

Council Principle 10:
Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:
Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

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 and their associated interests as at 18 September 2007 were:

Shareholder	Number of ordinary shares held	Percentage of capital held %
Timothy R B Goyder	11,835,208	16.26
Resolute Limited	7,624,546	10.47

CLASS OF SHARES AND VOTING RIGHTS

At 18 September 2007 there were 1,005 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 -

a) at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney: and

b) 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 18 SEPTEMBER 2007:

	Number of equity security holders	
Category	Ordinary Shares	Unlisted Share Options
1 – 1,000	72	-
1,001 – 5,000	291	-
5,001 – 10,000	212	-
10,000 – 100,000	334	1
100,001 and over	96	5
Total	**1,005**	**6**

The number of shareholders holding less than a marketable parcel at 18 September 2007 was 202.

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS AS AT 18 SEPTEMBER 2007

Name	Number of ordinary shares held	Percentage of capital held %
Plato Prospecting Pty Ltd	10,797,202	14.83
Resolute Limited	7,624,546	10.47
Fortis Clearing Nominees Pty Ltd (Settlement A/C)	2,296,034	3.15
Define Consulting Pty Ltd (Bantock Family)	2,391,772	3.29
Mr Richard John Watson	2,250,000	3.09
ANZ Nominees Pty Ltd	1,859,469	2.55
Mr Philip Scott Button & Ms Philippa Anne Nicol (Christopher Jordan A/C)	1,479,876	2.03
Tricom Nominees Pty Ltd (LPG A/C)	1,400,831	1.92
Lost Ark Nominees Pty Limited (Tera Fam A/C)	1,200,000	1.65
Clodene Pty Ltd	1,132,157	1.56
Tara Management Pty Ltd	1,132,012	1.55
Plato Prospecting Pty Ltd (TRB Goyder Super Fund)	1,108,006	1.40
Darley Pty Limited	1,000,000	1.37
Mr Arnold Olschyna	1,000,000	1.37
Calm Holdings Pty Ltd (Tide A/C)	970,000	1.33
Toltec Holdings Pty Ltd	885,177	1.22
Penally Management Limited	881,338	1.21
Mr John Campion and Mrs Judith Ann Campion	840,000	1.15
Nefco Nominees Pty Ltd	812,004	1.12
Ledge Finance Limited	773,334	1.06
Total	**41,743,758**	**57.32**