



ANNUAL REPORT
2011

chalice
GOLD MINES 

CORPORATE DIRECTORY

DIRECTORS

Tim Goyder	Executive Chairman
Douglas Jones	Managing Director
Juan Jeffery	Executive Director/Chief Operating Officer
Anthony Kiernan	Non-executive Director
Stephen Quin	Non-executive Director
Michael Griffiths	Non-executive Director

COMPANY SECRETARY

Richard Hacker

PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE

Level 2, 1292 Hay Street
WEST PERTH WA 6005

Tel: (+61)(8)9322 3960

Fax: (+61)(8)9322 5800

Web: www.chalicegold.com

Email: info@chalicegold.com

AUDITORS

HLB Mann Judd

Level 4, 130 Stirling Street
PERTH WESTERN AUSTRALIA 6000

SHARE REGISTRY

Australia

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WESTERN AUSTRALIA 6000

Tel: 1300 557 010

Canada

Computershare Investor Services
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

HOME EXCHANGE

Australian Securities Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WESTERN AUSTRALIA 6000

TORONTO STOCK EXCHANGE

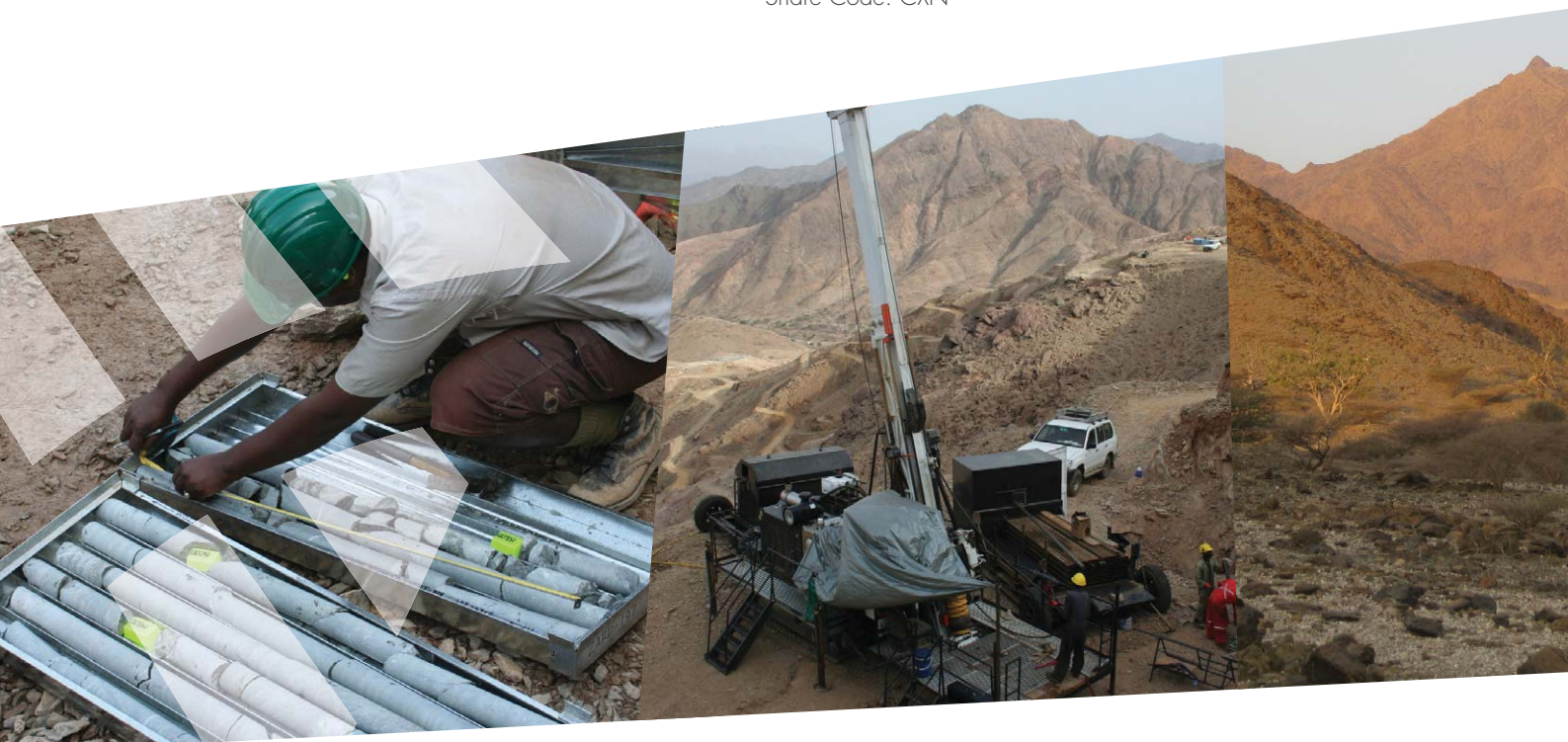
The Exchange Tower
P.O. Box 421
130 King Street West
Toronto, Ontario M5X 1J2

ASX

Share Code: CHN

TSX

Share Code: CXN



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CHAIRMAN'S LETTER

DEAR SHAREHOLDER

I am pleased to report on another very active year for Chalice as we continued to progress towards our goal of becoming a low cost North African-focused gold producer.

Our strategy this year was simple: to move the high-grade Koka gold mine toward production as soon as possible, while ensuring that our ongoing exploration efforts in Eritrea generate a strong pipeline of prospective drill targets with the potential to grow our reserve inventory over time.

At today's gold prices and with forecast cash operating costs of US\$338 per oz before royalties, it is no surprise that the high-grade, open cut Koka gold deposit – which contains a probable Ore Reserve of 4.6 million tonnes at a grade of 5.1 g/t containing 760,000oz of gold – would generate outstanding returns for shareholders. Cash operating costs are expected to be in the lowest quartile globally and we expect to operate a highly profitable mine.

While market conditions have again been volatile this year – with a significant disconnect emerging globally between the value of gold equities and the rising gold price – I am confident that the underlying value of Chalice's flagship asset will be reflected in our share price as we move closer to development and production.

In this regard, I am pleased to report that we achieved several important milestones during the year, including a final agreement with the Eritrean National Mining Corporation ("ENAMCO") for their right to acquire an additional 30 per cent interest in the Koka Project for approximately US\$34 million, including the reimbursement of certain costs.

The completion of this transaction – including the signing of a shareholder's agreement (as between Chalice and ENAMCO to establish the jointly owned operating company) together with ongoing permitting activities – should, subject to obtaining finance, enable Chalice to commence development of the Koka gold mine in the early part of 2012. With ENAMCO now on board, we can look forward to a long and successful partnership.

As part of the key deliverables required to bring Koka into production, we have also made excellent progress by substantially completing the Social and Environmental Impact Assessment Study and Social and Environmental Management Plan for the Project.

The only major outstanding item to be completed prior to the issue of the Mining Licence is the Mining Agreement between Zara Mining Share Company (the joint operating company in Eritrea which owns the Zara Project) and the Government of Eritrea. Shareholders can rest assured that Chalice and ENAMCO are working hard to complete this agreement on a timely basis.

As we are now rapidly approaching the development phase of the Koka mine, we have strengthened our management team with the recent appointment of Juan Jeffery to the Board and to the position of Chief Operating Officer. On behalf of Zara Mining Share Company, we have also appointed Mike Kelly as General Manager; Mike will be based in Eritrea to oversee the permitting process, build the development team and undertake construction of the mine.

We are currently inviting reputable international companies to tender for the Engineering, Procurement and Construction (EPC) contract to build the plant and infrastructure required for the operation.

Aside from the planned development of the Koka mine, our exploration team in Eritrea has put in an enormous effort to build an inventory of exploration targets in and around the Koka deposit, as well as on the Zara North and Zara South licences.

Bearing in mind that little, if any, exploration has been undertaken on the majority of Chalice's licences prior to our involvement, work undertaken to date has included detailed mapping, stream sediment sampling and soil sampling. While this on-ground work was being completed, we conducted an aeromagnetic survey over all of our licences in Eritrea. A ground IP survey was also conducted over the Koka-Konate corridor to target possible repetitions of the Koka deposit.

We expect this extensive groundwork to pay off, as numerous targets have been defined which are now being drilled. We expect that the first results from this drilling will be generated during the December 2011 Quarter, as we seek to expand the mineral resource in and around Koka.

At Mogoraib North, which is rapidly becoming a key focus, first-pass stream sediment sampling was conducted, followed up with helicopter-supported mapping and a rock chip sampling program. The surface sampling program identified areas anomalous in base metals, some of which are associated with geophysically-identified basement conductors.

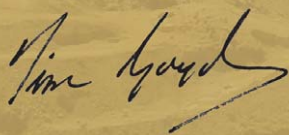
Airborne geophysics, including VTEM, was also flown over the Mogoraib North tenement, targeting volcanic-hosted massive sulphide deposits. Our target area has similar geology to that of the world-class Bisha deposit which lies 10km south of our Mogoraib North tenement. The Bisha mine, which recently went into production, is owned by Nevsun Resources Limited and ENAMCO. Geophysical interpretation of the VTEM work will be completed in October 2011. We expect to drill these targets in late 2011 or early 2012.

Michael Griffiths recently retired from an executive position with the Company; however, we are thankful that his wealth of experience and knowledge will be retained by the Company as he will remain on the Board as a Non-Executive Director and consultant, as required.

In conclusion, I would also like to take this opportunity to thank our growing management team and staff for their continued dedication towards bringing the project to fruition, and our board of directors for their wise counsel and support.

I would also like to especially thank our shareholders for your continued support. I am confident that Chalice has a very bright future as we move ahead and deliver positive news regarding the permitting, financing and development of the Zara Project, and continue to ramp up our exploration efforts.

Yours faithfully



TIM GOYDER

Executive Chairman



ACTIVITIES

REVIEW

THE ZARA PROJECT REVIEW

Chalice Gold Mines Limited ("Chalice" or "the Company"), together with its 40% partner the Eritrean National Mining Corporation ("ENAMCO"), are planning to develop the high grade, open pit Koka Gold Deposit, part of the greater Zara Project in Eritrea, East Africa. The Koka Gold Deposit hosts a JORC and NI 43-101 compliant Probable Mineral Reserve of 4.6 million tonnes with a grade of 5.1 g/t gold, containing 760,000 ounces.

The forecast low cash operating cost of US \$338/oz gold is expected to be in the lowest quartile of global gold mine production costs. Planned mine production from the mine will average 104,000 gold ounces per year over a 7 year mine life.

In July 2010, Chalice delivered the results of a positive Feasibility Study and since then, significant steps have been taken to advance the project through to development with targeted first production in late 2014, subject to receipt of all necessary approvals and project funding.

STRONG ECONOMICS

Based on the 2010 Koka Feasibility Study which was undertaken by Lycopodium Minerals, the economics of the deposit are extremely robust with a payback period of less than 2 years and a cash operating margin expected to be well in excess of US\$1,200 per ounce at current gold prices.

PROJECT FINANCIAL OUTCOMES (US\$) (UNLEVERAGED)	GOLD PRICE			
	\$900/oz	\$1,200/oz	\$1,500/oz	\$1,800/oz
Life-of-mine EBITDA	\$381M	\$589M	\$797M	\$1,005M
Average annual EBITDA	\$54M	\$84M	\$114M	\$144M
NPV _{5%} after-tax cash flows	\$99M	\$196M	\$293M	\$322M
IRR after-tax	22%	35%	45%	54%

US\$338 PER RECOVERABLE oz CONSISTING OF:

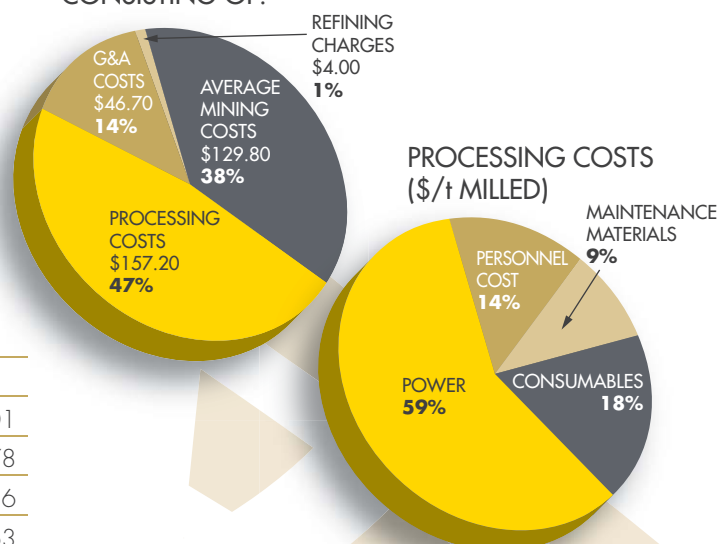
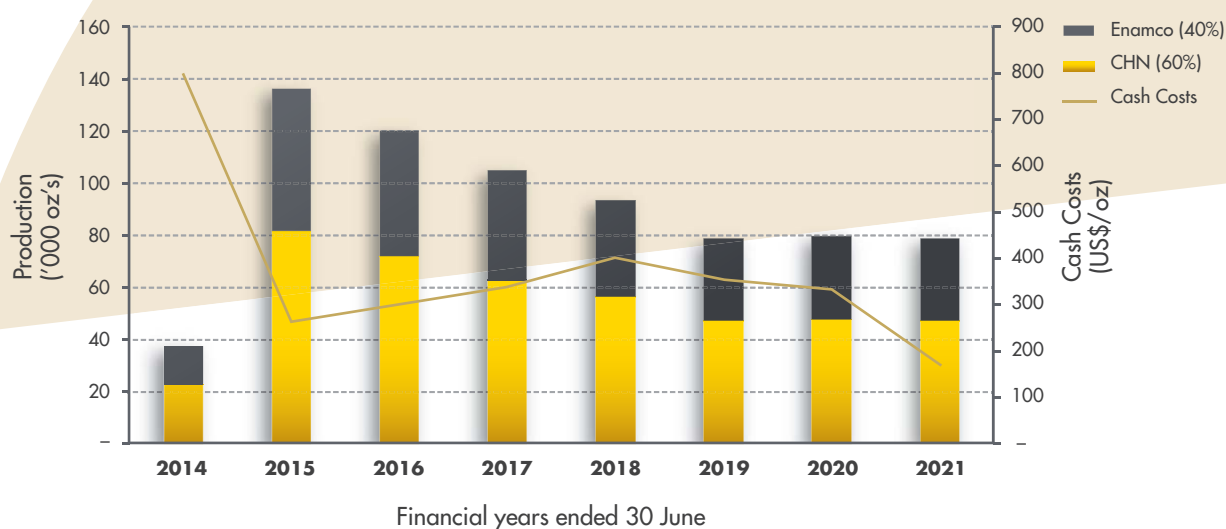


Table 1: Key Financial Outcomes from the Koka Feasibility Study

OPERATING COST ESTIMATES		
Average mining costs (incl. pre-strip)	US\$/t mined	2.01
Processing cost	US\$/t milled	24.78
General and administration	US\$/t milled	7.36
Refining charges	US\$/t milled	0.63

FORECAST ANNUAL GOLD PRODUCTION AND CASH COSTS



A TECHNICALLY LOW RISK GOLD PROJECT

The Koka Gold Mine is to be based on proven mining and processing technology. The Koka Feasibility Study shows simple quartz vein stockwork in a micro-granite that is free milling with a relatively coarse grind and low reagent consumption. Mining is planned on a traditional drill/blast, truck/shovel, open pit operations at a stripping ratio of 1:8 after pre-strip at a 9Mta mining rate.

The processing plant design consists of single stage jaw crusher and SAG mill in closed circuit with hydro-cyclones and a centrifugal gravity concentrator, followed by cyanidation and electro-winning. Cyclone overflow leads to a 7 stage carbon-in-leach and Zadra elution circuit for gold and carbon recovery. Processing throughput is planned to be 0.6Mta with an estimated 96.6% gold recovery.

THE PATH TO CONSTRUCTION

Following the signing of the Shareholders Agreement between Chalice and ENAMCO in July 2011, application was made for the Koka Mining Licence. Discussions are currently underway with the Eritrean Government in relation to a Mining Agreement which will govern the operating protocols for the mine.

The Social and Environmental Impact Assessment and Management Plans have been completed and lodged with the Eritrean Ministry of Energy & Mines. These reports form a key component of the documentation required to secure Koka Mining Licence. They represent the culmination of two and a half years of environmental, socio-economic and community studies.

The studies were conducted by independent consultants Knight Piésold and Global Resources Development and Management Consultants (GREDMCO) in line with internationally accepted standards.

Mine permitting activities, and the grant of the mining licence are expected to be finalised by the end of 2011.

Chalice has also commenced mine pre-development activities for Koka starting with the recruitment of the senior management team, including the Chief Operating Officer of Chalice and General Manager for the Zara Project.

Chalice is currently evaluating a number of options in relation to financing the project. Subject to financing, construction and development of the mine may commence in early 2012.

RESERVES AND RESOURCES

Koka contains a Probable Mineral Reserve and an Indicated Mineral Resource as listed in Table 2.

Table 2: The Mineral Resource estimate using a 1.2 g/t gold cut-off and the Reserve estimate

CATEGORY	TONNES (Mt)	GRADE (g/t AU)	CONTAINED GOLD (oz)
Probable Mineral Reserve	4.6	5.1	760,000
Indicated Mineral Resource	5.0	5.3	840,000

ACTIVITIES REVIEW (CONTINUED)

ENAMCO'S ACQUISITION OF A 30% INTEREST IN THE ZARA PROJECT

During the year, Chalice reached agreement with ENAMCO for the acquisition of a 30% participating interest in the Zara Project. This interest is in addition to the 10% free-carried interest also held by the Government of Eritrea.

The agreement covers the Koka Gold Deposit, as well as the Zara North, Central and South Exploration Licences, but excludes the Company's 100% owned Mogoraib North and Hurum Exploration Licences.

ENAMCO has agreed to pay US\$32 million for its 30% participating interest in the Zara Project, which will be represented by an interest in the operating company, Zara Mining Share Company ("Zara Mining SC" or "Zara"). Zara will own, develop and operate the Koka Gold Mine, and will own and explore the surrounding Zara Project.

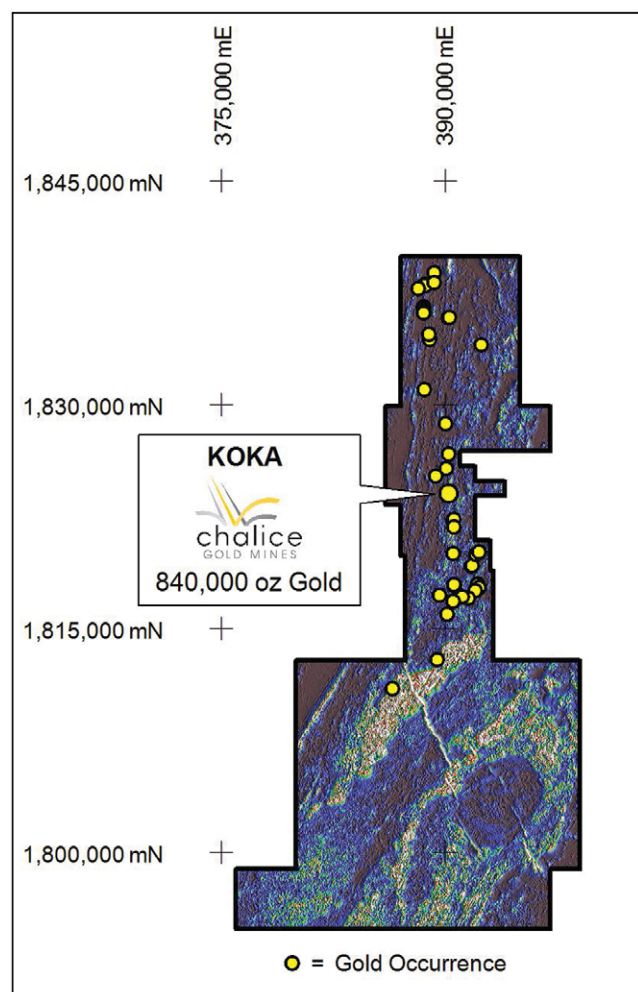
In addition to this amount, ENAMCO will pay Chalice approximately US\$2 million (subject to audit), which represents a reimbursement to Chalice of ENAMCO's pro-rata share of exploration costs expended up to and including 31 March 2011 on the Zara Project areas that fall outside of the proposed Koka mining licence.

Zara Mining SC is owned 60% by Chalice and 40% by ENAMCO. Zara Mining SC has a board of directors of five, comprising three from Chalice and two from ENAMCO.

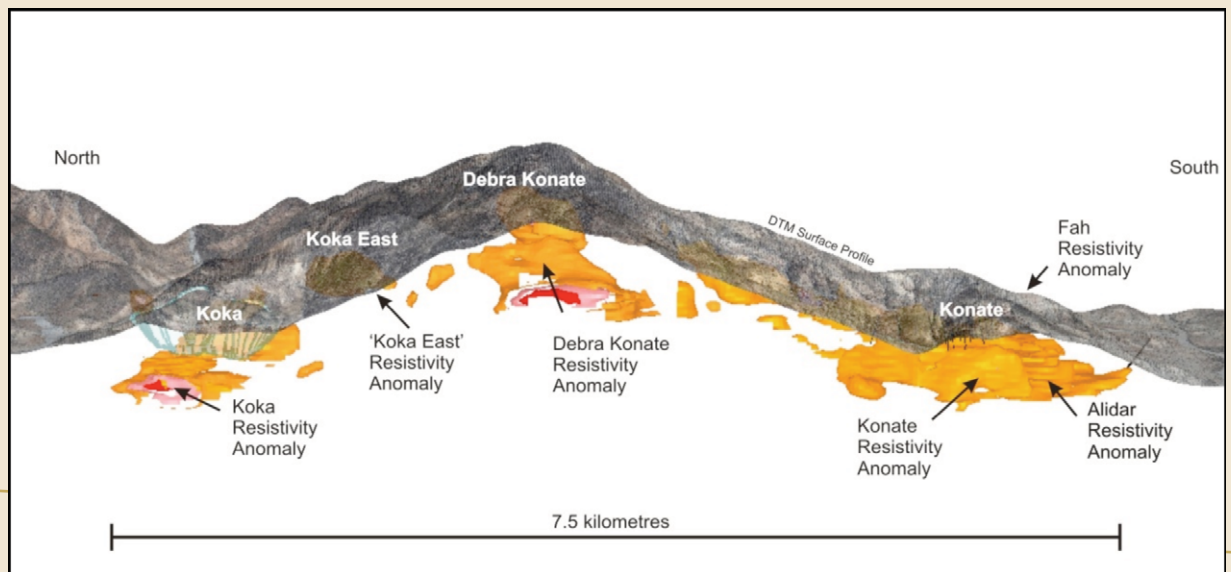
In accordance with the Shareholders' Agreement Chalice and ENAMCO would contribute to the further development costs of Koka and to future exploration expenditures on the Zara Project on a 2/3rd Chalice and 1/3rd ENAMCO basis, which is in line with their respective shares of the overall participating interest. The signing of the Shareholders' Agreement allows for the payment of approximately US\$34 million to Chalice on or before the 27 January 2012.

EXPLORATION AT ZARA

The Zara Project consists of six contiguous granted licences, including the Zara North, South and Central tenements covering an area totalling 546km² situated in northern Eritrea, approximately 160km northwest of the country's capital, Asmara. Chalice's commitment to explore for new discoveries at the Zara Project is vital to the Company's success and growth.



Zara - Hurum gold prospects plotted on analytic signal magnetic image.



IP Resistivity anomalies in the Koka - Konate Corridor

Following the completion of the Koka Feasibility Study, exploration during the year has focussed on target generation and, in particular, building a pipeline of drill-ready targets that will be the subject of a significant drilling campaign over the next 12 months. This target generation phase, which is ongoing, has delineated numerous high priority targets across the Company's tenements and drill testing commenced in June 2011.

A number of high priority Induced Polarisation ("IP") resistivity targets have been identified from an IP survey completed in March 2011. These targets are located within a 7.5km long corridor encompassing both the Koka deposit and the Konate and Fah prospects drilled in 2010.

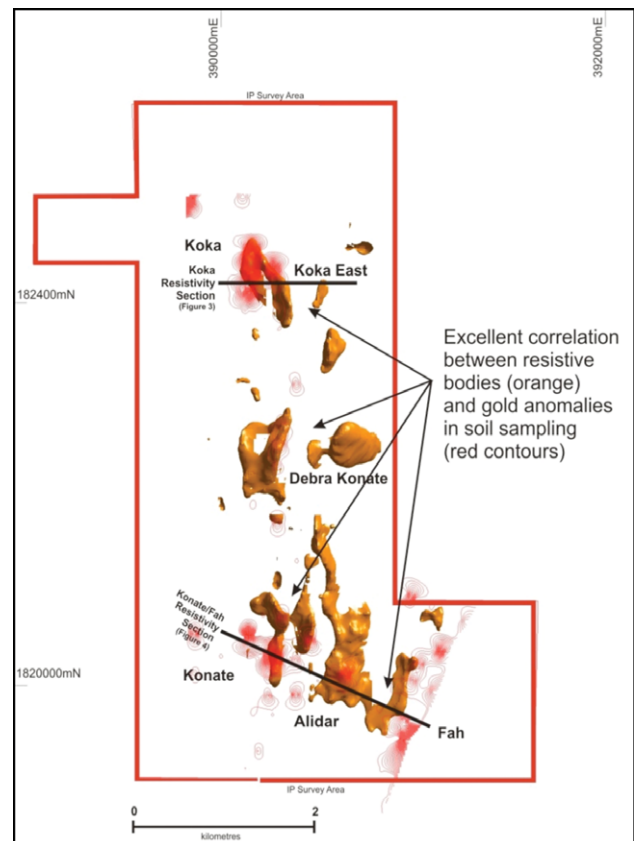
The anomalies are similar to those associated with the mineralisation at the Koka deposit and are considered to be prospective for repeats of Koka-style quartz stockwork gold mineralisation. The resistivity anomalies are also associated with surface soil gold anomalies and in some cases minor artisanal workings.

A 10,000 metre diamond drilling campaign has recently commenced and has initially targeted resistivity anomalies 300-500m beneath and immediately along strike from the Koka deposit and the nearby Koka East and Koka South prospects.

As part of the focussed target generation program, the Company also conducted extensive soil sampling on the Zara Project. These programs have now covered an area of roughly 75km² extending from the northern limits of the Company's tenure to south of Konate with in excess of 3,000 soil samples being collected.

Geological mapping and rock-chip sampling have been undertaken in tandem with this work with rock-chip values up to 27.5g/t gold being returned. Numerous artisanal sites have been identified during the course of the mapping.

Assay results for the bulk of the soil sampling indicate a number of high priority targets for follow-up, including trenching and drilling. The main prospects identified by the soil sampling include Debre Tsaeda and Hamid Keir. At both sites, high-order soil anomalism extends over strike lengths exceeding 1,000m at levels >200ppb gold.



IP Resistivity anomalies in the Koka - Konate Corridor with contoured gold-in-soil anomalies (red)

ACTIVITIES REVIEW (CONTINUED)

MOGORAIB NORTH AND HURUM PROJECTS

In addition to the Zara Project, Chalice holds 100% of a further 825km² of exploration ground consisting of the Mogoraib North license, located just 10km from Nevsun's Bisha Mine, and the Hurum license, along strike from the Zara Project. This extensive exploration package hosts numerous, high potential, early and advanced stage gold and base metal exploration targets. Chalice is undertaking a systematic exploration effort on these licences with the aim of discovering significant new deposits.

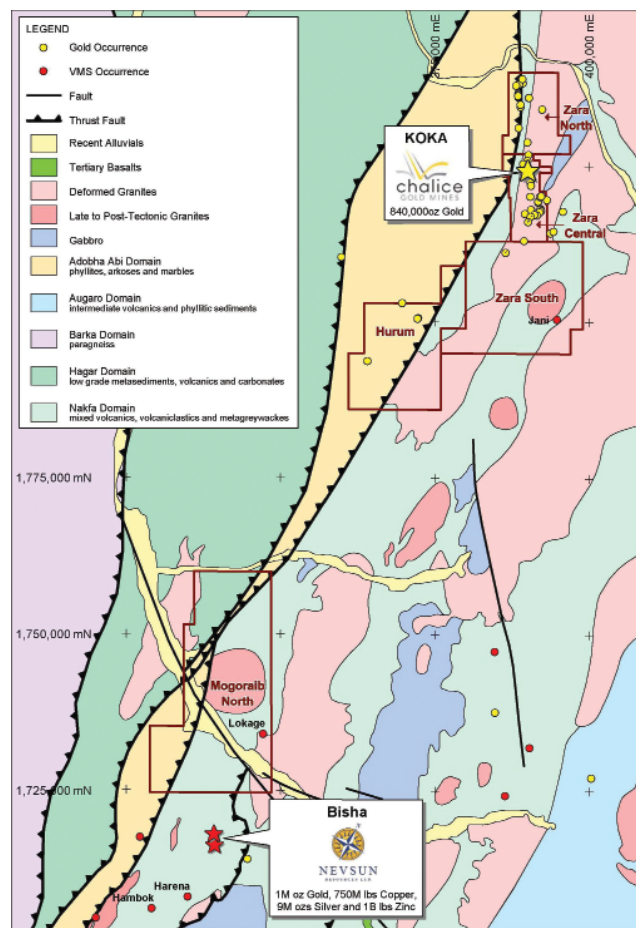
MOGORAIB VTEM SURVEY

An extensive helicopter VTEM, magnetic and radiometric survey covering the 550km² Mogoraib North Project was completed in June 2011. This ~3,800 line kilometre survey was designed to detect conductive bodies indicative of possible buried massive sulphide deposits, similar in style to the Bisha polymetallic VHMS (volcanic-hosted massive sulphide) deposit (60% owned by TSX-listed Nevsun Resources). Interpretation is pending with results expected shortly. The results of the VTEM survey will likely form the basis of an exciting drilling program early in 2012.

GNaweEDA PROJECT

In 2010, Teck Resources Limited ("Teck") advised that, having earned a 70% interest in the Gnaweeda Gold Project in Western Australia, it had entered into an agreement with Kent Exploration Inc. ("Kent") pursuant to which Kent has the right to earn 100% of Teck's 70% interest in the project. The property was subsequently included as part of the demerger of Archean Star Resources Inc ("Archean"). Under the terms of the underlying agreement between Teck and Chalice, as of February 2011, Chalice's interest in Gnaweeda has been diluted from 30% to 20%.

Archean drilled seven diamond holes at the Bunarra prospect during the year and subsequently conducted an IP program at the St. Anne's prospect. Chalice has elected not to participate in the funding for the 2011-2012 joint venture work program and as such will further dilute its interest in the project.



Regional geology - Zara Hurum and Mogoraib North area.

SUSTAINABLE DEVELOPMENT

OCCUPATIONAL HEALTH & SAFETY

Chalice is committed to ongoing improvement and sustaining high standards of health and safety for all its employees both in Eritrea and Australia. As part of this culture, Chalice actively develops and maintains systems in compliance with applicable laws, regulations and standards in our jurisdictions of operation. Our culture of safety is integrated from the boardroom to the operations fronts and is demonstrated by senior and frontline leaders leading by example. The same culture and proactive behaviour is strongly emphasised with all employees, consultants and contractors. To that end, the Company ensures through due process that external contractors and service providers understand and share our culture. Our local contractors are treated as employees and are encouraged and assisted through active leadership to approach our health and safety focus as a way of life.

COMMUNITY

Chalice understands the importance of being an active community participant and continues to foster the well established long term relationship that has been developed over the past decade, since exploration commenced on the Zara Project.

Chalice continues its formal engagement with the local and regional communities as stakeholders in the development of the Koka Gold Deposit. Chalice has ongoing programmes of involvement with all stakeholders. Ongoing discussions are being held with local communities and the Government regarding appropriate programs to assist and build capacity within both the local and broader Eritrean community.

As we are moving forward towards active operations with Zara Mining Share Company (JV between Chalice Gold Ltd and Eritrean Government owned ENAMCO), all new operations employees will be inducted and coached on the importance of relationship with the community. Through leadership and systems, employees will be encouraged to identify, assess, monitor and control existing and potential impacts on the local community. Community leaders are provided with feedback systems and access to operations management.

ENVIRONMENT

The Company is committed to a practical balance between economic development and protection of the environment. To date, environmental impacts have been minimal during the exploration phase and in areas still being explored, impacts will remain low. As the mining development activities increase, measures are taken to minimise and mitigate potential negative impacts on both the environment and local community.



COMPETENT PERSONS AND QUALIFIED PERSON STATEMENT

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

The Mineral Resource estimate was prepared by Mr. John Tyrrell who is a Member of the Australasian Institute of Mining and Metallurgy. Mr. Tyrrell is a full time employee of AMC and has sufficient experience in gold resource estimation to act as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)' and was a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects' at the date the National Instrument 43-101 was filed with the Toronto Stock Exchange. Mr Tyrrell consents to the inclusion of this information in the form and context in which it appears.

The information in this statement of Ore Reserves is based on information compiled by Mr David Lee who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of AMC. Mr Lee has sufficient relevant experience to be a Competent Person as defined in the JORC Code and was a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects' at the date the National Instrument 43-101 was filed with the Toronto Stock Exchange. Mr Lee consents to the inclusion of this information in the form and context in which it appears.

FORWARD LOOKING STATEMENTS

This document may contain forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements). These forward-looking statements are made as of the date of this document and Chalice Gold Mines Limited (the Company) does not intend, and does not assume any obligation, to update these forward-looking statements.

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the likelihood of exploration success, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, will, may, would, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review on SEDAR at sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking statements.

CAUTIONARY NOTE

For readers to fully understand the technical information in this annual report, they should read the Technical Report for the Koka Gold Deposit dated July 27, 2010 (available at www.chalicegold.com) in its entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this annual report which qualifies that technical information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Technical Report is intended to be read as a whole, and sections should not be read or relied upon out of context. The technical information in the report is subject to the assumptions and qualifications contained in the Technical Report.

SCHEDULE OF TENEMENTS



PROJECTS - ERITREA

	LICENSE TYPE	NATURE OF INTEREST	CURRENT EQUITY
Zara (1,2,3,4)	Exploration License	Owned	60%
Zara South	Exploration License	Owned	60%
Zara North	Exploration License	Owned	60%
Mogoraib	Exploration License	Granted	100%
Hurum	Exploration License	Granted	100%

PROJECTS - AUSTRALIA

TENEMENT #	NATURE OF INTEREST	CURRENT EQUITY
E51/0926	Owned	13%
E51/0927	Owned	13%



DIRECTORS' REPORT

The Directors present their report together with the financial report of the Chalice Gold Mines Limited ('Chalice') and its subsidiaries (together 'the Group') for the financial year ended 30 June 2011 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

1. DIRECTORS

T R B Goyder

Executive Chairman

Tim has over 30 years experience in the resource industry. Tim has been involved in the formation and management of a number of publicly-listed and private companies and is currently a Director of Uranium Equities Limited, Strike Energy Limited and Chairman of Liontown Resources Limited all listed on ASX. Tim is a member of the remuneration committee.

D A Jones PhD, AusIMM, CPGeo

Managing Director

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

A W Kiernan LLB

Independent Non-executive Director

Tony is a lawyer and corporate advisor with extensive experience in the administration and operation of listed public companies. Tony is Chairman of BC Iron Limited, Uranium Equities Limited, Venturex Resources Limited and is a director of Liontown Resources Limited all listed on ASX. Tony has not been a director of any other ASX listed companies during the past three years other than North Queensland Metals (from January 2007 to July 2008). Tony is chairman of the audit committee and remuneration committee.

M R Griffiths BSc Dip Ed, AusIMM, GAIC

Non-executive Director (from 1 July 2011)

Mike is a geologist with considerable experience in the minerals exploration sector in both Eritrea and Africa. Mike previously held the position of Managing Director of Sub-Sahara Resources NL, which merged with Chalice Gold Mines in August 2009. Mike is also a director of TSX listed Currie Rose Limited and Chairman of ASX listed Mozambi Coal Limited. From 1 July 2011, Mike became a non-executive director.

S P Quin PGeo, FGAC, FSEG, MIOM3

Independent Non-executive Director

Stephen is a mining geologist with over 30 years experience in the mining and exploration industry. Stephen is based in Vancouver, Canada and is the President of Midas Gold Corp. Stephen was until December 2010 President of Capstone Mining Corp. He is also a director of TSX listed company's Troon Ventures, Rare Element Resources and Mercator Minerals Ltd. Stephen has extensive experience in the resources sector, and in the development and operation of production companies. Stephen is a member of the audit and remuneration committee.

J Jeffery BSc (Engineering), BSc (honours), MBA (Marketing)

Executive Director/Chief Operating Officer (appointed 7 July 2011)

Juan is a dual qualified engineer and geologist with 28 years of international experience including geology, geotechnical and mine engineering, operations management, business improvement project delivery and engineering management. Juan has held senior management and executive roles in mining operations and consulting engineering in Asia-Pacific and Africa with multinational corporations including BHP Billiton, URS and Parsons Brinckerhoff.

DIRECTORS' REPORT (CONTINUED)

2. CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

R K Hacker B.Com, ACA, ACIS

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

3. DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	DIRECTORS' MEETINGS	AUDIT	REMUNERATION	NOMINATION
Number of meetings held:	7	2	1	-
Number of meetings attended:				
T R B Goyder	6	-	1	-
D A Jones	7	-	-	-
A W Kiernan	7	2	1	-
M R Griffiths	7	-	-	-
S P Quin	7	2	1	-
J Jeffery	-	-	-	-

As at the date of this report, the Company had an audit committee, a remuneration committee and a nomination committee of the board of directors.

Members acting on the committees of the board during the year were:

AUDIT	REMUNERATION	NOMINATION
A W Kiernan (Chairman)	A W Kiernan (Chairman)	T R B Goyder (Chairman)
S P Quin	T R B Goyder S P Quin	D A Jones A W Kiernan M R Griffiths S P Quin J Jeffery

4. PRINCIPAL ACTIVITIES

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

5. REVIEW OF OPERATIONS

5.1 THE ZARA PROJECT, ERITREA

In July 2010, Chalice delivered the results of a positive Feasibility Study on the Koka Gold Deposit ("Koka"), part of its 60% owned Zara Project in Eritrea, East Africa. Since then, significant steps have been taken to advance the project through to development including reaching agreement with the Eritrean Government for their statutory right to acquire 30% of the Zara Project and progression of mine permitting activities.

DIRECTORS' REPORT (CONTINUED)

ENAMCO's acquisition of a 30% interest in the Zara Project

Chalice has reached agreement with the Eritrean National Mining Corporation ("ENAMCO") for the acquisition of a 30% participating interest in Chalice's Zara Project, paving the way for final permitting, financing and development of the project. This interest is in addition to the 10% free-carried interest also held by ENAMCO.

The agreement covers the high-grade Koka Deposit, as well as the Zara North, Central and South Exploration Licences (the "Zara Licences"), but excludes the Company's 100% owned Mogoraib North and Hurum Exploration Licences.

ENAMCO has agreed to pay US\$32 million for its 30% participating interest in the Zara Licences, which will be represented by an interest in the operating company, Zara Mining Share Company ("Zara Mining SC" or "Zara"). Zara will own, develop and operate the Koka Gold Mine, and will own and explore the surrounding Zara Exploration Licences.

In addition to this amount, ENAMCO will pay Chalice approximately US\$2 million (subject to audit), which represents a reimbursement to Chalice of ENAMCO's pro-rata share of exploration costs expended up to and including 31 March 2011 on the Zara Licences which fall outside of the proposed Koka Mining Licence.

Zara Mining SC will be owned 60% by Chalice and 40% by ENAMCO. Zara Mining SC will have a board of directors of five, comprising three from Chalice and two from ENAMCO.

Chalice and ENAMCO will contribute to the further development costs of Koka and to future exploration expenditures on the Zara Licences on a 2/3rd Chalice and 1/3rd ENAMCO basis, which is in line with their respective shares of the overall participating and contributing interest. The signing of the Shareholders' Agreement (as between Chalice and ENAMCO for their interest in Zara Mining SC) provides for the payment of the approximately US\$34 million to Chalice on or before the 27 January 2012.

Koka mine permitting

Following execution of the Shareholders Agreement in July 2011, Zara Mining SC will apply for the Koka Mining Licence. Discussions are currently underway with the Eritrean Government in relation to a Mining Agreement which will govern the operating protocols for the mine.

The Social and Environmental Impact Assessment and Management Plans have been completed and lodged with the Eritrean Ministry of Energy & Mines. These reports form a key component of the documentation required to secure a mining licence for Koka. They represent the culmination of two and half years of environmental, socio-economic and community studies.

The studies were conducted by independent consultants Knight Piésold and Global Resources Development and Management Consultants (GREDMCO) in line with internationally accepted standards.

Mine permitting activities, and the grant of the mining licence are expected to be finalised within the next few months.

Mine development

Chalice has commenced mine pre-development activities for the Koka Gold Mine starting with the recruitment of the senior management team, including a Chief Operating Officer of Chalice and General Manager of Zara Mining SC.

Chalice is currently evaluating a number of options in relation to financing the project. Subject to financing, construction and development of the mine may commence in late 2011 or early 2012.

Zara Mining SC will shortly be calling for tenders for the Engineering, Procurement and Construction (EPC) contract for the CIL gold plant, camp and assorted infrastructure.

5.2 EXPLORATION ERITREA

Following the completion of the feasibility study on the Koka deposit, exploration during the year has focussed on target generation and in particular, building a pipeline of drill ready targets which will be the subject of a significant drilling campaign over the next 12 months. This target generation phase, whilst continuing, has delineated numerous high priority targets across the Company's tenements and drill testing commenced in June 2011.

Chalice has also signed agreements with the Eritrean Ministry of Energy and Mines for two new Exploration Licences totalling 830km² in northern Eritrea at Mogoraib North and Hurum. These licences add significantly to the Company's exploration tenure in two highly prospective geological terrains.

DIRECTORS' REPORT (CONTINUED)

Near mine exploration at the Zara Project

A number of high priority Induced Polarisation ("IP") resistivity targets have been identified from an IP survey completed in March 2011. These targets are located within a 7.5km long corridor encompassing both the Koka deposit (which has a Probable Reserve of 760,000oz at a grade of 5.1g/t gold), and the Konate prospect drilled in 2010.

The anomalies are similar to those associated with the mineralisation at the Koka deposit and are considered to be prospective for repeats of Koka-style quartz stockwork gold mineralisation. The resistivity anomalies are also associated with surface soil gold anomalies and in some cases minor artisanal workings.

Drilling has recently commenced and will initially target resistivity anomalies 300-500m beneath and immediately along strike from the Koka deposit and the nearby Koka East and Koka South prospects.

Zara Project sampling surveys

As part of the focussed target generation program, the Company conducted extensive soil sampling on the Zara Project. These programs have now covered an area of roughly 75km² extending from the northern limits of the Company's tenure to south of Konate with in excess of 3,000 soil samples being collected.

Geological mapping and rock-chip sampling have been undertaken in tandem with this work with rock-chip values up to 27.5g/t being returned. Numerous artisanal sites have been identified during the course of the mapping.

Assay results for the bulk of the soil sampling indicate a number of high priority targets for follow-up, including trenching and drilling. The main prospects identified by the soil sampling include Debre Tsaeda and Hamid Keir. At both sites high-order soil anomalism extends over strike lengths exceeding 1,000m at levels >200ppb gold.

Mogoraib VTEM survey

An extensive heliborne VTEM, magnetic and radiometric survey covering the 550 sq km Mogoraib North property was completed in June 2011. This approximately 3,800 line kilometre survey was designed to detect conductive bodies indicative of possible buried massive sulphide deposits, similar in style to the Bisha polymetallic VHMS (volcanic-hosted massive sulphide) deposit (60% owned by TSX-listed Nevsun Resources). Interpretation is pending with results expected shortly. The results of the VTEM survey will likely form the basis of an exciting targeted drilling program early in 2012.

5.3 CORPORATE

TSX listing

On 26 November 2010, Chalice commenced trading on the Toronto Stock Exchange ("TSX") under the symbol "CXN".

Director appointments

In July 2011, the Board of Chalice announced the appointment of Mr Juan Jeffery as Chief Operating Officer and Executive Director of the Company. The appointment of Mr Jeffery was the first step in strengthening the Company's capabilities to enable the construction and development of the Koka Gold Mine.

Capital raising

In September 2010, Chalice completed a one for six entitlements issue by issuing 30,172,169 shares at \$0.42 per share to raise approximately \$12.6 million before issue costs.

In May 2011, Chalice placed 32,000,000 shares at \$0.30 per share to raise approximately \$9.6 million before issue costs.

A total of 68,997,267 shares were issued as follows:

DATE	NATURE OF ISSUE	NUMBER ISSUED	ISSUE PRICE (\$)	TOTAL CONSIDERATION BEFORE COSTS OF ISSUE (\$)
21 September 2010	Rights Issue	30,172,269	0.42	12,672,353
11 November 2010	Options Exercised	250,000	0.20	50,000
7 February 2011	Options Exercised	1,000,000	0.35	350,000
3 March 2011	Options Exercised	2,000,000	0.25	500,000
10 March 2011	Options Exercised	1,000,000	0.25	250,000
21 March 2011	Options Exercised	2,575,000	0.25	643,750
26 May 2011	Placement	32,000,000	0.30	9,600,000

DIRECTORS' REPORT (CONTINUED)

6. FINANCIAL REVIEW

6.1 RESULTS FOR THE YEAR

The loss of the Group for the year ended 30 June 2011 was \$3,828,054.

Significant items for the year include:

- Corporate and administration costs totalling \$2,556,512; and
- Corporate personnel costs of \$1,826,970 which includes \$527,851 of non cash equity settled payments for share options issued to the directors.

6.2 FINANCIAL POSITION

As at 30 June 2011, the Group had net assets of \$48,427,881, including \$10,193,836 in cash and cash equivalents, and an excess of current assets over current liabilities of \$9,552,927.

6.3 DIVIDENDS

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

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

8. REMUNERATION REPORT – AUDITED

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

The Remuneration Report is set out under the following main headings:

- 8.1 Message from the Board
- 8.2 Introduction
- 8.3 Principles used to determine the nature and amount of remuneration
- 8.4 Directors' and executive officers' remuneration
- 8.5 Equity instruments
- 8.6 Service agreements

8.1 MESSAGE FROM THE BOARD

Through the Remuneration Committee, the Company has been undertaking a comprehensive review of its approach to remuneration. Due to the size and nature of the Company, to date, there has been only a limited link between performance of the Company and remuneration, with the exception of share options. The focus of the review was to ensure alignment between the business strategy, remuneration and shareholder interests. The review was cognisant of the approaches adopted by other ASX listed companies in the mining sector and sought to establish a structure and approach to ensure that Chalice is able to attract and retain the calibre of executives required by its business, particularly as its operations are developed in Eritrea.

In this context, the Company, for the 2012 financial year is making the following key changes to its remuneration structure:

- implementation of a Short Term Incentive Plan ("STIP");
- implementation of a Long Term Incentive Plan ("LTIP") (which will be subject to shareholder approval at the Company's 2011 AGM);
- introducing a more robust process for assessing management performance; and
- revising the structure of director fees to include a base fee and committee fee component (reflective of the varying workloads of each director).

These changes to the Company's approach are an important step forward as it aligns the remuneration policy with the strategic direction of its business.

DIRECTORS' REPORT (CONTINUED)

8.2 INTRODUCTION

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*. Information regarding the remuneration of key management personnel ("KMP") is required by Corporations Regulations 2M.3.03. KMP are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Based on 2011 compensation levels, the KMPs below are inclusive of the highest paid executives and directors:

Tim Goyder	Executive Chairman
Douglas Jones	Managing Director
Juan Jeffery	Chief Operating Officer and Executive Director
Mike Griffiths	Non-executive Director (from 1 July 2011)
Anthony Kiernan	Non-executive Director
Stephen Quin	Non-executive Director
Richard Hacker	Chief Financial Officer and Company Secretary
Michael Kelly	General Manager – Zara Mining Share Company
Harry Wilhelmij	Country Manager – Eritrea

8.3 PRINCIPLES OF COMPENSATION

8.3.1 Remuneration governance

The Board is responsible for ensuring Chalice's remuneration strategy is aligned with Company performance and shareholder interests and equitable for participants. To assist with this, the Board has established a Remuneration Committee consisting of the following directors:

Anthony Kiernan	Chair of the Remuneration Committee & Independent Non-Executive Director
Stephen Quin	Independent Non-Executive Director
Tim Goyder	Executive Chairman of the Company

The Remuneration Committee's objective is to support and advise the Board in fulfilling its oversight responsibility by focusing on the Company's approach to Board and executive remuneration plus the use of equity generally across the company. Further detail of the role of the Remuneration Committee is set out in the Remuneration Committee Charter that can be accessed on the Chalice website.

To ensure the Remuneration Committee is fully informed when making remuneration decisions, the Remuneration Committee may seek external advice, as required, on remuneration policies and practices. During the year advice was sought from Ernst & Young in relation to the design and implementation of the proposed LTI Plan. Furthermore, the Company obtained benchmark data for the resources sector from Godfrey Remuneration Group Pty Ltd ("Godfrey") to assist in the setting of executive remuneration. The Company did not receive any specific advice on salaries or remuneration policy from Godfrey.

8.3.2 Remuneration principles and components of remuneration

The Company has adopted the following principles in its remuneration framework:

1. The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors and executives of the highest calibre, while incurring a cost which is acceptable to shareholders and appropriate for the Company's size; and
2. Directors and executives interests need to be aligned with the creation of shareholder value and Company performance by:
 - providing fair, consistent and competitive compensation and rewards to attract and retain high calibre employees;
 - ensuring that total remuneration is competitive with its peers by market standards;
 - incorporating in the remuneration framework both short and long term incentives linked to the strategic goals and performance of the individuals and the Company and shareholder returns;
 - demonstrating a clear relationship between individual performance and remuneration; and
 - motivating employees to pursue and achieve the long term growth and success of the Company.

DIRECTORS' REPORT (CONTINUED)

The following table is an overview of the components of remuneration:

ELEMENT		NON-EXECUTIVE DIRECTORS		EXECUTIVES	
		Financial year 2011	Financial year 2012	Financial year 2011	Financial year 2012
Fixed remuneration	Base salary	×	×	✓	✓
	Base fee	✓	✓	×	×
	Committee fees	×	✓	×	×
	Superannuation	✓#	✓#	✓	✓
	Consultancy fees	✓###	✓###	×	×
	Other benefits	✓	✓	✓	✓
Variable remuneration	Short term incentives (STI)	×	×	×	✓
	Share options	✓###	✓###	✓	×
	Long term incentives (LTI)	×	×	×	✓

Only applies to Australian non-executives

Some directors are paid consultancy fees on an arm's length basis (refer below),

Non-executive directors are eligible to participate in the share option plan at the discretion of the Board (refer below).

8.3.3 Non-executive director remuneration

The Company's Constitution and the ASX Listing Rules specify that the aggregate fees to be paid to non-executive directors for their role as a director are to be approved by shareholders at a general meeting. Shareholders have approved an aggregate amount of \$150,000 per year (including superannuation).

The fee structure for non-executive directors is reviewed annually and the Remuneration Committee and the Board will consider advice from external consultants, which includes comparative analyses of the fees paid to non-executive directors of comparable companies in the resources sector with similar market capitalisations when undertaking the annual review process. Generally, the Company will position itself within the 50th and 75th percentile band of the comparative market data.

For the 2011 financial year, the non-executive directors were paid fees associated with their duties as directors. Each non-executive director was paid a base fee of \$35,000 per year. No additional fees were paid for directors undertaking roles on the Audit Committee or the Remuneration Committee.

For the 2012 financial year (effective 1 July 2011), non-executive directors will receive a fee of \$45,000 (inclusive of superannuation), the members of the Audit Committee and Remuneration Committee also will receive an additional \$5,000 for their roles. The additional payments recognise the additional time commitment by non-executive directors who serve on committees.

The non-executive directors are not entitled to receive retirement benefits. Non-executive directors, at the discretion of the Board, may participate in the Employee Share Option Plan, subject to the usual approvals required by shareholders. As approved by shareholders at the 2010 Annual General Meeting, Mr Stephen Quin was granted 750,000 share options under the terms of the Employee Share Option Plan with an expiry date of 30 April 2014 on the following basis:

Tranche 1: 187,500 options with an exercise price of A\$0.55, vesting on issue;

Tranche 2: 187,500 options with an exercise price of A\$0.65, vesting on 30 April 2011;

Tranche 3: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2012; and

Tranche 4: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2013.

It is not currently envisaged that non-executive directors will be eligible to participate in the proposed LTI Plan (Performance Rights Plan). The Board considers it appropriate to issue options to non-executive directors due to the current nature and size of the Company as, until profits are generated from the Company's operations, conservation of cash reserves remains a high priority. In future, as the Company grows and the nature of the Company's operations change from exploration and evaluation of resource projects to production, the composition of non-executive directors remuneration will be reviewed.

Apart from their duties as directors, some non-executive directors may undertake work for the Company on a consultancy basis pursuant to the terms of consultancy services agreements. The nature of the consultancy work varies depending on the expertise of the relevant non-executive director. Under the terms of these consultancy agreements non-executive directors would receive a daily rate or monthly retainer for the work performed at a rate comparable to market rates that they would otherwise receive for their consultancy services.

The remuneration of non-executive directors for the periods ended 30 June 2011 and 30 June 2010 is detailed further in this Remuneration Report. The amounts listed under 'Salary & Fees' includes both Director fees and consultancy fees received by non-executive directors.

DIRECTORS' REPORT (CONTINUED)

8.3.4 Executive remuneration

Current executive remuneration consists of fixed remuneration and variable remuneration in the form of share options. However, the Board is currently considering the implementation of an STIP and an LTIP intended to more closely align executive remuneration with the interests of shareholders. Further discussion on the proposed structure of these plans is detailed below.

Fixed remuneration

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate for the position and competitive in the market. The Company aims to pay within the 50th and 75th percentile band of benchmark data, but the Board has the discretion to pay above this to attract and retain key employees in achieving the Company's strategic goals.

Following the global financial crisis in 2008 and 2009, a decision was taken by the Board to reduce salaries for a number of executives and staff. In 2010, the salaries were re-aligned to market.

Fixed remuneration is reviewed annually by the Remuneration Committee and approved by the Board having regard to the Company and individual performance, relevant comparable remuneration for similarly capitalised companies in the mining industry and independently compiled market data. Executives receive their fixed remuneration in the form of cash.

The fixed remuneration for executives is detailed further in this Report.

Variable remuneration – new Short Term Incentive (STI)

During 2011, no executives were entitled to an STI. The Company is evolving from a gold explorer to a gold producer and needs to be competitive in attracting key senior employees to develop the Company's operations. The Remuneration Committee has therefore recommended to the Board, which has accepted the recommendation, for the implementation of a formal STI Plan, full details of which are currently being considered.

Under the Company's proposed STIP, STI payments may be made to executives and executive directors depending on the individual and group performance in relation to Company's annual performance goals and individual performance targets. Whilst the quantum of an STI has not yet been established, the objectives will be closely linked to the development of the Koka gold mine and exploration success in Eritrea and elsewhere.

The Remuneration Committee retains the discretion to adjust individual bonuses to reward outstanding individual performance subject to Board approval. The payment of any incentive may also be settled with the issue of shares in Chalice at the discretion of the Board.

Under the terms of the proposed STIP, the Board will retain absolute discretion to withhold the award of any cash payments depending on the Company's cash position and financial outlook and reserves the right to meet payment by issuing shares.

Subsequent to year end, the Company has appointed Mr Juan Jeffery (Chief Operating Officer and Executive Director) and Mr Michael Kelly (General Manager – Zara Mining Share Company) as the senior members of the mine development team to construct and operate the Koka gold mine in Eritrea. Both executives have been offered an annual STI of up to a maximum of 25% of their fixed remuneration, depending on the achievement of key performance milestones. Broadly speaking, these milestones will be based on the following:

1. Continuing and building upon Chalice's existing good working relationship with the government and other key stakeholders in Eritrea;
2. Building a team capable of constructing and operating the Koka gold mine;
3. The construction of the Koka gold mine to design specifications and within safety, time and cost parameters; and
4. Managing EPC contractor performance and delivery of project objectives.

Variable remuneration – share option plan

Equity grants to executives have previously been delivered in the form of employee share options granted under the Company's Employee Share Option Plan which was approved by shareholders in 2010. Options were issued at an exercise price determined by the Board at the time of issue.

No performance hurdles were set on options issued to executives. The Company believed that as options were issued at a price in excess of the Company's current share price at the date of issue of those options, there was an inherent performance hurdle as the share price of the Company's shares had to increase before any reward could accrue to the executive.

The vesting period for share options is at the discretion of the board. The expiry date of share options is usually between 3 and 5 years.

Upon cessation of employment, participants have 3 months from the date of cessation to exercise the share options. This may be waived at the Board's discretion.

DIRECTORS' REPORT (CONTINUED)

Variable remuneration – new Long Term Incentive Plan (LTIP)

Within the context of the review of the Company's remuneration approach the Company will introduce, subject to shareholder approval at the Company's 2011 AGM, a Performance Rights Plan (PRP). The objectives of the PRP will be to:

- align employee incentives with personal and Company performance;
- balance the short term with the long term Company focus; and
- assist in attracting and retaining high calibre employees by providing an attractive long term retention tool that builds an 'ownership of the Company' mindset.

Under the proposed PRP, the Board has the discretion to make annual awards of performance rights to executives and employees. The level of the award of performance rights is dependent on an employee's position within the Company. Subject to the performance criteria set out in the terms of the PRP, performance rights held by an employee may convert into shares in the Company. In the event the performance criteria are not achieved, the employee's performance rights lapse with no shares being issued. No performance rights have yet been granted.

A summary of the key design criteria of the proposed PRP is set out below:

KEY DESIGN FEATURE	PROPOSED DESIGN
Eligibility	The PRP is for executive directors, executives and selected other individuals at the discretion of the Board. Performance Rights to executive directors would be subject to shareholder approval.
Award Quantum	The award quantum will be determined in consideration of total remuneration of the individual, market relativities and business affordability.
Performance Conditions	The performance conditions that must be satisfied in order for the performance rights to vest will be determined by the Board. The performance conditions may include one or more of the following: <ul style="list-style-type: none"> • Employment of a minimum period of time; • Achievement of specific objectives by the participant and/or the Company. This may include the achievement of share price targets and other major long term milestone targets.
Vesting	Vesting will occur at the end of a defined period, usually three years, and upon the achievement of the performance conditions.
Price Payable by Participant	No consideration.
Cessation of Employment	If an employee leaves the Company prior to the expiration of the relevant vesting period for a particular award of performance rights, generally such performance rights would lapse except in certain limited situations such as disability, redundancy or death.

8.3.5 Link between performance and executive remuneration

The focus of executive remuneration over the financial year was fixed remuneration and the share options (i.e., growing the value of the company as reflected through share price). The current review of the Company's remuneration approach seeks to ensure that executive remuneration is appropriately aligned with the business strategy and shareholder interests.

The share price performance over the last 5 years is as follows:

	30 JUNE 2007	30 JUNE 2008	30 JUNE 2009	30 JUNE 2010	30 JUNE 2011
Share price	\$0.12	\$0.14	\$0.25	\$0.39	\$0.33

DIRECTORS' REPORT (CONTINUED)

8.4 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (AUDITED)

KEY MANAGEMENT PERSONNEL		SHORT-TERM PAYMENTS			POSTEMPLOYMENT PAYMENTS		SHARE- BASED PAYMENTS	
		Salary & fees	Non-monetary benefits	Total	Superannuation benefits	Termination benefits	Options (A)	Total
		\$	\$	\$	\$	\$	\$	Value of options as proportion of remuneration
Directors								
T R B Goyder	2011	229,358	2,601	231,959	20,642	-	-	252,601
	2010	137,615	3,062	140,677	12,385	-	-	153,062
D A Jones	2011	284,404	2,601	287,005	25,596	-	269,740	582,341
	2010	172,018	3,062	175,080	15,482	-	741,062	931,624
A W Kiernan	2011	165,527	2,601	168,128	2,973	-	-	171,101
	2010	126,027	3,062	129,089	2,973	-	-	132,062
M R Griffiths	2011	275,229	2,601	277,830	24,771	-	95,072	397,673
	2010	229,357	2,584	231,941	20,643	-	138,127	390,711
S P Quin	2011	35,000	2,601	37,601	-	-	163,039	200,640
	2010	5,833	487	6,320	-	-	-	6,320
J Jeffery ⁽¹⁾	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Executive								
R K Hacker	2011	239,358	3,189	242,547	21,542	-	-	264,089
	2010	206,422	3,256	209,678	18,578	-	2,555	230,811
M P Kelly ⁽²⁾	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Total	2011	1,228,876	16,194	1,245,070	95,524	-	527,851	1,868,445
Compensation	2010	877,272	15,513	892,785	70,061	-	881,744	1,844,590

(1) Mr Jeffery commenced employment as Chief Operating Officer and Executive Director in July 2011. Mr Jeffery has a base salary of \$325,000 plus superannuation of 9%.

(2) Mr Kelly commenced employment as General Manager – Zara Mining Share Company in September 2011. Mr Kelly has a base salary of US\$360,000, an additional living allowance of US\$30,000 and other benefits. Mr Kelly may make a one off election to be paid in a currency other than US\$.

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
		\$	\$	\$			
25 November 2010	30 April 2014	0.35	0.55	0.62	71%	5.12%	0
25 November 2010	30 April 2014	0.32	0.65	0.62	71%	5.12%	0
25 November 2010	30 April 2014	0.30	0.75	0.62	71%	5.12%	0

Details of performance-related remuneration

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

DIRECTORS' REPORT (CONTINUED)

8.5 EQUITY INSTRUMENTS (AUDITED)

8.5.1 Options and rights over ordinary shares granted as compensation

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

	NUMBER OF OPTIONS GRANTED DURING 2011	GRANT DATE	NUMBER OF OPTIONS VESTED DURING 2011	FAIR VALUE PER OPTION AT GRANT DATE \$	EXERCISE PRICE \$	EXPIRY DATE
Directors						
S P Quin	187,500	25 November 2010	187,500	0.35	0.55	30 April 2014
	187,500	25 November 2010	187,500	0.32	0.65	30 April 2014
	375,000	25 November 2010	-	0.30	0.75	30 April 2014

8.5.2 Exercise of options granted as compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	NUMBER OF SHARES	AMOUNT PAID \$/SHARE
Director		
T R Goyder	2,000,000	0.25

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2011 financial year.

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

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

	NUMBER GRANTED	DATE GRANTED	% VESTED IN YEAR	FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS
Director					
S P Quin	187,500	25 November 2010	100%	-	25 November 2010
	187,500	25 November 2010	100%	-	30 April 2011
	187,500	25 November 2010	-	-	30 April 2012
	187,500	25 November 2010	-	-	30 April 2013
D A Jones	1,250,000	16 November 2009	100%	-	31 March 2011
M R Griffiths	375,000	16 November 2009	100%	-	1 September 2010
	375,000	16 November 2009	-	-	1 September 2011

DIRECTORS' REPORT (CONTINUED)

8.5.4 Analysis of movements in options

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

	VALUE OF OPTIONS GRANTED IN YEAR (A) \$	VALUE OF OPTIONS EXERCISED IN YEAR (B) \$	VALUE OF OPTIONS LAPSED IN YEAR (C) \$
S Quin	238,404	-	-
T R B Goyder	-	580,000	-

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes 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 the Black Scholes option-pricing model with no adjustments for whether the performance criteria have or have not been achieved.

8.6 SERVICE AGREEMENTS

Remuneration arrangements for Key Management Personnel are formalised in employment agreements. Details of these contracts are provided below.

	TERMINATION	DIMINUTION OF RESPONSIBILITY	OTHER PROVISIONS
Tim Goyder (Executive Chairman)	Mr. Goyder's employment agreement may be terminated by the Company or Mr. Goyder upon giving three months notice.	If Mr Goyder 's role in the Company undergoes a material variation or diminution of responsibilities, including a material change in authority or in his reporting relationship to the Board, he may terminate his employment and would then receive a payment equal to 12 months salary.	Standard Chalice terms and conditions of employment.
Douglas Jones (Managing Director and Chief Executive Officer)	Dr Jones' employment agreement may be terminated by the Company or Dr Jones upon giving three months notice.	If Dr Jones' role in the Company undergoes a material variation or diminution of responsibilities, including a material change in authority or in his reporting relationship to the Board, he may terminate his employment and would then receive a payment equal to 12 months salary.	Standard Chalice terms and conditions of employment.
Other Key Management Personnel	All other Key Management Personnel employment agreements may be terminated by the Company or the employee upon giving three months notice.	Nil	Standard Chalice terms and conditions of employment.
Non-Executive Directors	Nil	Nil	

DIRECTORS' REPORT (CONTINUED)

9. DIVIDENDS

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

10. LIKELY DEVELOPMENTS

The Group will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business. However, as the final stages of mine permitting at the Zara Project are soon to be completed, the business will focus on the development of the mine in conjunction with exploration activities at its projects in Eritrea.

11. EVENTS SUBSEQUENT TO REPORTING DATE

There were no events subsequent events to reporting date.

12. DIRECTORS' INTERESTS

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

	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
T R B Goyder	29,199,342	-
D A Jones	296,278	2,500,000
M R Griffiths	600,960	750,000
S P Quin	26,321	750,000
A W Kiernan	1,062,041	500,000
J Jeffery	-	-

13. SHARE OPTIONS

Options granted to directors and officers of the Group

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

	NUMBER OF OPTIONS GRANTED
Directors	
S P Quin	750,000

DIRECTORS' REPORT (CONTINUED)

Unissued shares under option

At the date of this report 8,250,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

EXPIRY DATE	EXERCISE PRICE (\$)	NUMBER OF SHARES
1 December 2012	0.25	500,000
31 July 2013	0.20	500,000
31 March 2014	0.35	1,250,000
31 March 2014	0.45	1,250,000
1 September 2012	0.50	750,000
16 November 2011	0.35	1,000,000
31 March 2012	0.36	1,000,000
30 April 2014	0.55	187,500
30 April 2014	0.65	187,500
30 April 2014	0.75	375,000
31 March 2014	0.40	500,000
14 September 2014	0.45	750,000

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

Shares issued on exercise of options

During or since the end of the period, Chalice issued ordinary shares of the Company as a result of the exercise of options as follows (there are no amounts unpaid on the shares issued):

NUMBER OF SHARES	AMOUNT PAID \$/SHARE
5,575,000	0.25
1,000,000	0.35
250,000	0.20

14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

During the year the Group paid insurance premiums of \$15,607 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 21.

15. NON-AUDIT SERVICES

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

DIRECTORS' REPORT (CONTINUED)

16. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 27 and forms part of the directors' report for the year ended 30 June 2011.

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



Tim R B Goyder

Executive Chairman

Dated at Perth the 15th day of September 2011

COMPETENT PERSONS AND QUALIFIED PERSON STATEMENT

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

The Mineral Resource estimate was prepared by Mr. John Tyrrell who is a Member of the Australasian Institute of Mining and Metallurgy. Mr. Tyrrell is a full time employee of AMC and has sufficient experience in gold resource estimation to act as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)' and was a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects' at the date the National Instrument 43-101 was filed with the Toronto Stock Exchange. Mr Tyrrell consents to the inclusion of this information in the form and context in which it appears.

The information in this statement of Ore Reserves is based on information compiled by Mr David Lee who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of AMC. Mr Lee has sufficient relevant experience to be a Competent Person as defined in the JORC Code and was a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects' at the date the National Instrument 43-101 was filed with the Toronto Stock Exchange. Mr Lee consents to the inclusion of this information in the form and context in which it appears.

Forward Looking Statements

This document may contain forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements). These forward-looking statements are made as of the date of this document and Chalice Gold Mines Limited (the Company) does not intend, and does not assume any obligation, to update these forward-looking statements.

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the likelihood of exploration success, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, will, may would, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review on SEDAR at sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking statements.

Cautionary Note

For readers to fully understand the technical information in this financial report, they should read the Technical Report for the Koka Gold Deposit dated July 27, 2010 (available at www.chalicegold.com) in its entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this financial report which qualifies the technical information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Technical Report is intended to be read as a whole, and sections should not be read or relied upon out of context. The technical information in the report is subject to the assumptions and qualifications contained in the Technical Report.

AUDITOR'S INDEPENDENCE DECLARATION



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 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia
15 September 2011

A handwritten signature in black ink, appearing to read 'W M Clark', is written over a light blue rectangular background.

W M CLARK
Partner, HLB Mann Judd

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	CONSOLIDATED	
		2011	2010
		\$	\$
Continuing Operations			
Loss on sale of exploration and evaluation assets	3(a)	-	(146,677)
Change in fair value of options held through profit and loss		(2,978)	(11,732)
Other income	3(b)	615,748	658,509
Share of loss of associate	11	-	(1,508)
Reversal of share of loss of associate	11	1,508	-
Project transaction costs expensed		-	(655,400)
Exploration expenditure not capitalised		(15,720)	-
Impairment of exploration and evaluation assets	10	(41,130)	(1,172,071)
Corporate administrative expenses	3(c)	(4,385,482)	(4,246,999)
Loss before tax		(3,828,054)	(5,575,878)
Income tax expense	5	-	-
Loss for the period attributable to owners of the parent		(3,828,054)	(5,575,878)
Other comprehensive income			
Net change in fair value of available for sale investments	17(b)	12,000	(34,000)
Exchanges differences on translation of foreign operations	17(b)	(5,776,792)	70,084
Total comprehensive income after tax attributable to owners of the parent		(9,592,846)	(5,539,794)
Basic and diluted loss (cents per share)	6	(0.02)	(0.04)

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

STATEMENT OF FINANCIAL POSITION**AS AT 30 JUNE 2011**

	NOTE	CONSOLIDATED	
		2011	2010
		\$	\$
Current assets			
Cash and cash equivalents	7	10,193,836	7,688,905
Trade and other receivables	8	478,080	329,587
Total current assets		10,671,916	8,018,492
Non-current assets			
Financial assets	9	919,136	214,255
Exploration and evaluation assets	10	36,492,204	27,056,158
Investments in associates	11	-	684,934
Property, plant and equipment	12	1,508,705	1,257,494
Total non-current assets		38,920,045	29,212,841
Total assets		49,591,961	37,231,333
Current liabilities			
Trade and other payables	13	941,382	2,534,272
Employee benefits	14	177,607	110,038
Total current liabilities		1,118,989	2,644,310
Non-current liabilities			
Other	15	45,091	39,312
Total non-current liabilities		45,091	39,312
Total liabilities		1,164,080	2,683,622
Net assets		48,427,881	34,547,711
Equity			
Share capital	16	64,200,112	41,254,947
Accumulated losses	17(a)	(12,108,824)	(8,280,770)
Reserves	17(b)	(3,663,407)	1,573,534
Total equity		48,427,881	34,547,711

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

CONSOLIDATED						
	Issued capital	Accumulated losses	Share based payments reserve	Investment revaluation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2010	41,254,947	(8,280,770)	1,501,450	2,000	70,084	34,547,711
Revaluation of available for sale investments	-	-	-	12,000	-	12,000
Exchange differences on translation of foreign operations	-	-	-	-	(5,776,792)	(5,776,792)
Loss for the year	-	(3,828,054)	-	-	-	(3,828,054)
Total comprehensive income for the year	-	(3,828,054)	-	12,000	(5,776,792)	(9,592,846)
Share issue – rights issue (net after costs)	12,044,217	-	-	-	-	12,044,217
Share placement (net after costs)	9,107,198	-	-	-	-	9,107,198
Exercise of options	1,793,750	-	-	-	-	1,793,750
Share based payments	-	-	527,851	-	-	527,851
Balance at 30 June 2011	64,200,112	(12,108,824)	2,029,301	14,000	(5,706,708)	48,427,881

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

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

STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 30 JUNE 2011**

	NOTE	CONSOLIDATED	
		2011 \$	2010 \$
Cash flows from operating activities			
Cash receipts from operations		244,230	181,323
Cash paid to suppliers and employees		(3,016,741)	(3,130,431)
Interest received		376,724	320,575
Net cash used in operating activities	21	(2,395,787)	(2,628,533)
Cash flows from investing activities			
Payments for mining exploration and evaluation		(13,079,323)	(16,203,270)
Proceeds from sale of tenements		-	270,000
Acquisition of property, plant and equipment		(863,056)	(852,974)
Proceeds from sale of investments		-	154,416
Proceeds from joint venture termination		-	164,509
Payments for investment in associates		-	(686,442)
Tax payment for acquisition of exploration assets		(3,048,675)	-
Stamp duty paid on acquisition of exploration assets		(1,034,819)	-
Payments for acquisition of subsidiary		-	(1,210,000)
Cash acquired on merger by scheme of arrangement		-	252,054
Payments for costs of business combinations		-	(655,400)
Net cash used in investing activities		(18,025,873)	(18,767,107)
Cash flows from financing activities			
Lodgement of bank guarantee and security deposits		-	(50,000)
Proceeds from issue of shares		24,066,103	20,678,494
Payments for share issue costs		(1,120,938)	(1,100,389)
Funds held on trust		-	3,169
Net cash from financing activities		22,945,165	19,531,274
Net increase/(decrease) in cash and cash equivalents		2,523,505	(1,864,366)
Cash and cash equivalents at the beginning of the period		7,688,905	9,623,637
Effect of exchange rate fluctuations on cash held		(18,574)	(70,366)
Cash and cash equivalents at 30 June	7	10,193,836	7,688,905

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Chalice Gold Mines Limited is a dual listed Australian Securities Exchange ("ASX") and Toronto Stock Exchange ("TSX") listed public company domiciled in Australia at Level 2, 1292 Hay Street, Perth, Western Australia. The consolidated financial report comprises the financial statements of Chalice Gold Mines Limited ('Company') and its subsidiaries ('the Group') for the year ended 30 June 2011.

(a) Basis of preparation and statement of compliance

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

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

The financial report was authorised for issue by the Directors on 15 September 2011.

(b) Adoption of new and revised standards

In the year ended 30 June 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period beginning on or after 1 July 2010.

As part of the annual improvements process, AASB 2009-10 *Amendments to Australian Accounting Standards-Classification of Rights Issues* was released to amend AASB 132 Financial Instruments: Presentation and is applicable for annual periods beginning on or after 1 February 2010. Previously, rights issues denominated in a foreign currency other than the entity's functional currency were classified as derivative liabilities and accounted through the profit and loss. However, the amending standards now requires these rights to be classified as equity, regardless of the denomination provided that the entity offers the rights to all existing owners of the same class of its own non-derivative equity instruments.

AASB 2009-8 *Amendments to Australian Standards – Group Cash-settled Share-based Payment Transactions* amends AASB 2 and supersedes Interpretation 8 Scope of AASB 2 and Interpretations 11 *Group and Treasury Share Transactions*. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods and services in a share based payment arrangement to account for those goods or services regardless of which entity in the group settles the transaction, and regardless of whether the transaction is settled in cash or shares. It is applicable to annual reporting period commencing on or after 1 January 2010.

AASB 2009-5 *Further Amendments from the Annual Improvement Project* applies from 1 January 2010 and improves disclosures and classification of items under existing standards.

These amendments as per above have been reviewed and there is no impact, material or otherwise on the Group's accounting policies and therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet to be effective for the year ended 30 June 2011. In particular, these are amendments to AASB 9 and AASB 124.

Amendments to AASB 9 – *Financial Instruments*, have been released and is mandatory for periods beginning on or after 1 January 2013, with early adoption permitted. The amended standards requires two measurement models – amortised cost and fair value. Entities with significant equity investments that are classified as available for sale under AASB 139 may early adopt AASB 9 to benefit from the changes which now allow fair value increases and decreases to be consistently recorded through other comprehensive income.

AASB 124 *Related Parties* was amended and applies to annual reporting periods beginning on or after 1 January 2011. The changes to the standard incorporates amendments to the definition of a related party to make it clearer and to ensure it treats related party transactions consistently regardless of whether a person or an entity is involved.

As a result of this review of the above amended standards, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(c) Basis of consolidation

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

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

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

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

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

Investments in subsidiaries held by Chalice Gold Mines Limited are accounted for at cost in the accounts of the parent entity less any impairment charges.

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

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(d) Significant accounting judgements, estimates and assumptions

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

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

(i) Recoverability of exploration expenditure

The recoverability of the carrying amount of exploration and evaluation expenditure carried forward has been reviewed by directors and it is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest. Where exploration results are unsuccessful, or no further work is to be undertaken, the directors will then assess whether an impairment write-down is required, which will be recognised in the statement of comprehensive income.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted. The details and assumptions used in determining the value of these transactions are detailed in note 14.

(iii) Impairment of available for sale assets

The Group follows the guidance of AASB 139 *Financial Instruments: Recognition and Measurement* to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(e) Foreign currency translation

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

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

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

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

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

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

(f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the board.

Operating segments that meet the quantitative criteria as described in AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(i) Sale of goods

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

(ii) Services rendered

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

(iii) Interest received

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

(h) Expenses

Operating lease payments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(i) Depreciation

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

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

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

(j) Income tax and other taxes

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the country where the company's subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance date.

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(k) Other taxes

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

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

Other taxes payable in foreign jurisdictions are included as a current payable in the statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(l) Impairment

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

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Cash and cash equivalents

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

(n) Trade and other receivables

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

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

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

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

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

(p) Plant and equipment

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

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

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

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

The carrying values of plant and equipment are reviewed for impairment at each balance date in line with the Group's impairment policy (see policy (l)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(q) Financial assets

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

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

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

(ii) Held-to-maturity investments

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

(iii) Loans and receivables

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

(iv) Available-for-sale investments

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

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

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

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

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

Exploration and evaluation expenditure is initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation expenditures where they are related directly to operational, activities in a particular area of interest.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(s) Trade and other payables

Trade and other payables are stated at amortised cost. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(t) Provisions and employee benefits

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

Employee benefits

(i) Wages, salaries and annual leave

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

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

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

(iii) Superannuation

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

(iv) Share-based payment transaction

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

The cost of these equity-settled transactions with employees and Directors is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model and further details are provided at note 14.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

(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.

(v) Investments in associates

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

2. SEGMENT REPORTING

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

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

	EXPLORATION AND EVALUATION		CORPORATE		TOTAL	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Loss on sale of exploration assets	-	(146,677)	-	-	-	(146,677)
Impairment of exploration and evaluation assets	(41,130)	(1,172,071)	-	-	(41,130)	(1,172,071)
Exploration costs not capitalised	(15,720)	-	-	-	(15,720)	-
Other Income	-	125,000	232,230	181,323	232,230	306,323
Corporate and administrative expenses	-	-	(4,385,482)	(4,246,999)	(4,385,482)	(4,246,999)
Merger costs expensed	-	-	-	(655,400)	-	(655,400)
Segment loss before tax	(56,850)	(1,193,748)	(4,153,252)	(4,721,076)	(4,210,102)	(5,914,824)
Unallocated income/(expenses)						
Net financing income					383,518	347,770
Profit on sale of shares					-	4,416
Reversal of associates net loss					1,508	-
Share of associates net loss					-	(1,508)
Change in fair value of options					(2,978)	(11,732)
Loss before income tax					(3,828,054)	(5,575,878)

	EXPLORATION AND EVALUATION		CORPORATE		TOTAL	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$	\$	\$	\$	\$	\$
Segment assets:						
Exploration and evaluation assets	36,492,204	27,056,158	-	-	36,492,204	27,056,158
Other	1,124,354	857,204	862,431	729,877	1,986,785	1,587,081
	37,616,558	27,913,362	862,431	729,877	38,478,989	28,643,239
Unallocated assets					11,112,972	8,588,094
Total assets					49,591,961	37,231,333
Segment Liabilities	(745,807)	(2,169,248)	(418,273)	(514,374)	(1,164,080)	(2,683,622)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

3. REVENUE AND EXPENSES

	CONSOLIDATED	
	2011 \$	2010 \$
(a) Loss on sale of exploration and evaluation assets		
Loss on sale of exploration and evaluation assets	-	(146,677)
	-	(146,677)
(b) Other income		
Corporate and administration service fees	232,230	181,323
Profit on sale of shares	-	4,416
Net finance income	383,518	347,770
Other income	-	125,000
	615,748	658,509
(c) Corporate administrative expenses		
Depreciation and amortisation	474,327	264,793
Consultants	381,751	-
Insurance	103,253	59,173
Legal fees	136,358	193,864
Travel	356,438	292,789
Office costs	192,670	413,668
Regulatory and compliance	519,486	507,270
Personnel expenses (note 3(d))	1,826,970	2,094,734
Other	394,229	420,708
	4,385,482	4,246,999
(d) Personnel expenses		
Wages and salaries	899,082	877,932
Directors' fees	71,000	41,833
Other associated personnel expenses	128,826	175,226
Contributions to defined contribution plans	132,643	109,341
(Decrease)/increase in liability for annual leave	35,413	2,877
(Decrease)/increase in liability for long service leave	32,155	4,093
Equity-settled share-based payment transactions	527,851	883,432
	1,826,970	2,094,734

4. AUDITORS' REMUNERATION

AUDIT SERVICES	2011 \$	2010 \$
HLB Mann Judd:	43,815	31,215
Audit and review of financial reports	43,815	31,215

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

5. INCOME TAX

	CONSOLIDATED	
	2011	2010
	\$	\$
Current tax expense	(403,278)	(642,832)
Deferred tax expense relating to the origination and reversal of temporary differences	19,789	(62,726)
Tax losses not brought to account as deferred tax assets	383,489	705,558
Total income tax expense reported in the statement of comprehensive income	-	-
Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(3,828,054)	(5,575,878)
Tax at the Australian corporate rate of 30%	(1,148,416)	(1,672,763)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:		
Non-deductible expenses	745,138	1,029,931
s.40-880 allowable deductions	(189,819)	(161,206)
Non-deductible temporary differences	19,789	62,726
Difference in overseas tax rates	32,564	-
	(540,744)	(741,312)
Current year tax benefits not recognised	540,744	741,212
Income tax expense reported in the statement of comprehensive income	-	-
The tax rate used in the above reconciliation is the corporate rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.		
Deferred income tax		
<i>Deferred tax liabilities</i>		
Delayed revenue recognition for tax purposes	560	20,648
Exploration and evaluation expenditure	(188,939)	(83,625)
Net deferred tax liabilities	(188,379)	(62,977)
<i>Deferred tax assets</i>		
Revenue losses available to offset against future taxable income	19,789	(62,726)
Employee benefits	(20,271)	4,288
Accrued expenses	188,861	(4,539)
Net deferred tax assets recognised	-	-
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	16,359,373	14,448,346
Potential tax benefit at 30% tax rate	4,907,812	4,334,504

Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

6. EARNINGS PER SHARE

Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 30 June 2011 was based on the loss attributable to ordinary shareholders of \$3,828,054 [2010: loss of \$5,575,878] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2011 of 209,469,399 [2010: 133,806,990].

	CONSOLIDATED	
	2011	2010
	\$	\$
Gain/(loss) attributable to ordinary shareholders		
Gain/(loss) attributable to ordinary shareholders	3,828,054	(5,575,878)
Gain/(loss) attributable to ordinary shareholders (diluted)	3,828,054	(5,575,878)
Weighted average number of ordinary shares	No.	No.
Weighted average number of ordinary shares at 30 June	209,469,399	133,806,990
Effect of share options on issue	1,980,348	3,534,181
Weighted average number of ordinary shares (diluted) at 30 June	211,449,747	137,341,171

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2011	2010
	\$	\$
Bank balances	2,177,448	2,619,390
Term deposits	8,000,000	5,060,542
Petty cash	16,388	8,973
Cash and cash equivalents in the statement of cash flows	10,193,836	7,688,905

8. TRADE AND OTHER RECEIVABLES

Other trade receivables	181,355	239,844
Prepayments	296,725	89,743
	478,080	329,587

9. FINANCIAL ASSETS

Non-current

Available for sale investments (see note 11)	744,442	48,977
Bond in relation to office premises	88,070	84,325
Bank guarantee and security deposits	86,624	80,953
	919,136	214,255

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

10. EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED	
	2011	2010
	\$	\$
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of year	27,056,158	1,950,775
Expenditure incurred	10,943,633	9,461,445
Acquisitions through business combinations	-	7,790,911
Acquisition of exploration and evaluation assets from Dragon Mining Limited:		
– Purchase price	-	8,900,000
– Eritrean profits tax paid on behalf of Dragon Mining Limited	3,048,675	-
– Stamp duty	1,034,819	-
Reimbursement of exploration costs on merger	-	455,304
Sale of tenements	-	(166,021)
Refund of tenement costs	-	(286,651)
Impairment of exploration and evaluation assets	(41,130)	(1,172,071)
Effects of movements in exchange rate	(5,549,951)	122,466
Total exploration expenditure	36,492,204	27,056,158

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

11. INVESTMENTS IN ASSOCIATES

Chalice held a 20% interest in unlisted United Kingdom based London Africa Limited ("London Africa"). London Africa is registered in England and Wales and the principal activity of the company is exploring and developing precious and base metal deposits in Eritrea. Chalice's interest in London Africa was diluted to 12.04% in January 2011, therefore Chalice's investment is no longer recognised as an associate, and has been reclassified to an available for sale investment and stated at fair value (see note 9).

Reconciliation of movements in investments in associate:		
Balance at 1 July	684,934	-
Payments made to acquire interest	-	686,442
Share of loss of associate	-	(1,508)
Differences in fair value on loss of significant influence	1,508	-
Transfer of balance on loss of significant influence	(686,442)	-
Balance at 30 June	-	684,934
Summary of financial information of associate:		
Financial Position		
Total Assets	-	705,428
Total Liabilities	-	(93,507)
Net Assets	-	611,921
Share of associate's net assets	-	122,384
Financial Performance		
Total revenue	-	10
Total loss for the year	-	(7,541)
Share of associate's loss	-	(1,508)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED				
	Plant and Equipment	Office Furniture and Equipment	Computer Equipment and Software	Motor Vehicles	Total
	\$	\$	\$	\$	\$
Year ended 30 June 2011					
At 1 July 2010 net of accumulated depreciation and impairment	344,876	206,993	193,291	512,334	1,257,494
Additions	422,170	1,675	91,782	347,429	863,056
Exchange differences	(37,172)	(7,775)	(6,527)	(86,044)	(137,518)
Depreciation charge for the year	(162,827)	(40,325)	(97,959)	(173,216)	(474,327)
At 30 June 2011 net of accumulated depreciation and impairment	567,047	160,568	180,587	600,503	1,508,705
At 30 June 2010					
Cost	717,874	486,164	383,680	677,006	2,264,724
Accumulated depreciation and impairment	(372,998)	(279,171)	(190,389)	(164,672)	(1,007,230)
Net carrying amount	344,876	206,993	193,291	512,334	1,257,494
At 30 June 2011					
Cost	1,027,765	466,464	466,927	894,596	2,855,752
Accumulated depreciation and impairment	(460,718)	(305,896)	(286,340)	(294,093)	(1,347,047)
Net carrying amount	567,047	160,568	180,587	600,503	1,508,705
Year ended 30 June 2010					
At 1 July 2009 net of accumulated depreciation and impairment	29,648	121,686	81,232	-	232,566
Additions	215,983	40,940	176,244	445,720	878,887
Acquired through business combinations	211,905	95,412	-	118,844	426,161
Exchange differences	(9,433)	(1,784)	(92)	(4,018)	(15,327)
Depreciation charge for the year	(103,227)	(49,261)	(64,093)	(48,212)	(264,793)
At 30 June 2010 net of accumulated depreciation and impairment	344,876	206,993	193,291	512,334	1,257,494
At 30 June 2009					
Cost	46,243	174,930	207,436	-	428,609
Accumulated depreciation and impairment	(16,595)	(53,244)	(126,204)	-	(196,043)
Net carrying amount	29,648	121,686	81,232	-	232,566
At 30 June 2010					
Cost	717,874	486,164	383,680	677,006	2,264,724
Accumulated depreciation and impairment	(372,998)	(279,171)	(190,389)	(164,672)	(1,007,230)
Net carrying amount	344,876	206,993	193,291	512,334	1,257,494

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011	2010
	\$	\$
Trade payables	147,973	821,110
Eritrean services and withholding tax payable	80,153	877,185
Accrued expenses	713,256	835,977
	941,382	2,534,272

14. EMPLOYEE BENEFITS

Annual leave accrued	95,300	59,887
Provision for long service leave	82,307	50,151
	177,607	110,038

SHARE BASED PAYMENTS

(a) Employee Share Option Plan

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

Each option entitles the holder, on exercise, to one ordinary fully paid share in the 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.

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

	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER OF OPTIONS
	2011	2011
Outstanding at the beginning of the period	0.30	10,075,000
Forfeited during the period	-	-
Exercised during the period	0.25	(5,825,000)
Granted during the period	0.68	750,000
Outstanding at the end of the period	0.42	5,000,000
Exercisable at the end of the period	0.60	3,250,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER OF OPTIONS
	2011	2010
Outstanding at the beginning of the period	0.25	6,825,000
Forfeited during the period	-	-
Exercised during the period	-	-
Granted during the period	0.42	3,250,000
Outstanding at the end of the period	0.30	10,075,000
Exercisable at the end of the period	0.26	8,450,000

The options outstanding at 30 June 2011 have a weighted average exercise price of \$0.42 [2010: \$0.30] and a weighted average contractual life of 5 years.

During the period, 5,825,000 options were exercised, with an exercise price of \$0.25.

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 2011.

	WEIGHTED AVERAGE FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS	
	2011	2010
Weighted average share price at grant date	\$0.62	\$0.55
Exercise price	\$0.68	\$0.42
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	71%	89%
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	4 years	5 years
Expected dividends	-	-
Risk-free interest rate	5.12%	4.74%

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.

	CONSOLIDATED	
	2011 \$	2010 \$
Share options granted in 2010 - equity settled	364,813	883,432
Share options granted in 2011 - equity settled	163,038	-
Total expense recognised as personnel expenses	527,851	883,432

15. OTHER LIABILITIES

Non-current	45,091	39,312
Make good provision	45,091	39,312

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

16. ISSUED CAPITAL

There were 250,030,886 (2010: 181,033,617) shares on issue at 30 June 2011.

(a) Movements in ordinary shares on issue

	2011		2010	
	No.	\$	No.	\$
Balance at beginning of financial year	181,033,617	41,254,947	72,800,000	13,974,454
Shares issued on completion of merger	-	-	48,320,537	6,802,388
Shares issued under non-renounceable rights issue	30,172,269	12,672,353	-	-
Share placement	32,000,000	9,600,000	57,913,080	20,678,494
Shares issued on exercise of unlisted options	6,825,000	1,793,750	-	-
Issued as consideration for acquisition of controlled entity	-	-	2,000,000	900,000
Cost of share issues	-	(1,120,938)	-	(1,100,389)
Balance at end of financial year	250,030,886	64,200,112	181,033,617	41,254,947

Issuance of Ordinary Shares

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

(b) Share options

	2011	2010
	No.	No.
On issue at 1 July	13,075,000	6,825,000
Options forfeited	-	-
Options exercised during the year	(6,825,000)	-
Options issued during the year	750,000	6,250,000
On issue at 30 June	7,000,000	13,075,000

At 30 June 2011 the Company had 7,000,000 unlisted options on issue under the following terms and conditions:

NUMBER	EXPIRY DATE	EXERCISE PRICE
		\$
500,000	1 December 2012	0.25
500,000	31 July 2013	0.20
1,250,000	31 March 2014	0.35
1,250,000	31 March 2014	0.45
750,000	1 September 2012	0.50
1,000,000	31 March 2012	0.36
1,000,000	16 November 2011	0.35
187,500	30 April 2014	0.55
187,500	30 April 2014	0.65
375,000	30 April 2014	0.75

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

17. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses were as follows:

CONSOLIDATED		
	2011	2010
	\$	\$
Balance at beginning of financial year	(8,280,770)	(2,704,892)
Loss for the year	(3,828,054)	(5,575,878)
Balance at end of financial year	(12,108,824)	(8,280,770)

(b) Reserves

CONSOLIDATED				
	Investment revaluation reserve	Share based payments reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$
At 1 July 2010	2,000	1,501,450	70,084	1,573,534
Currency translation differences	-	-	(5,776,792)	(5,776,792)
Share-based payments	-	527,851	-	527,851
Revaluation movements	12,000	-	-	12,000
At 30 June 2011	14,000	2,029,301	(5,706,708)	(3,663,407)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

18. FINANCIAL INSTRUMENTS

(a) Capital risk management

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

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

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

(b) Market risk exposures

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

(i) Foreign exchange rate risk

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

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

At 30 June 2011, Chalice had the following exposures to USD foreign currency:

	USD IMPACT			
	CONSOLIDATED		THE PARENT	
	2011 \$	2010 \$	2011 \$	2010 \$
Financial Assets				
Cash and cash equivalents	169,403	371,278	115,223	76,016
Financial Liabilities				
Trade and other payables	598,983	760,347	-	-

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

		CONSOLIDATED		THE PARENT	
		2011 \$	2010 \$	2011 \$	2010 \$
Impact on gain/(loss)	AUD/USD +10%	39,052	35,372	10,475	-
	AUD/USD -10%	(42,958)	(38,909)	(11,522)	-
Impact on equity	AUD/USD +10%	39,052	35,372	10,475	-
	AUD/USD -10%	(42,958)	(38,909)	(11,522)	-

Equity prices

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

Interest rate risk

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

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

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

	CONSOLIDATED		THE PARENT	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash and cash equivalents	10,193,836	7,688,904	10,125,788	7,386,176

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

In the year ended 30 June 2011, if interest rates had moved by 100 basis points, with all other variables held constant, the post tax result for the Group would have been affected as follows:

		IMPACT ON PROFIT			
		CONSOLIDATED		THE PARENT	
		2011	2010	2011	2010
		\$	\$	\$	\$
Impact on gain/(loss)	100 bp increase	54,382	29,366	54,382	29,366
	100 bp decrease	(49,438)	(26,656)	(49,438)	(26,656)
Impact on equity	100 bp decrease	54,382	29,366	54,382	29,366
	100 bp increase	(49,438)	(26,656)	(49,438)	(26,656)

(c) Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

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

The company only trades with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Company's policy to securitise its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Company's experience of bad debts has not been significant.

(d) Liquidity risk exposure

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

The Group has non-derivative financial liabilities which include trade and other payables of \$919,136 (2010: \$2,534,272) all of which are due within 60 days.

(e) Net fair values of financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

19. PARENT ENTITY

	2011	2010
	\$	\$
Financial Position		
Assets		
Current assets	37,466,387	16,447,615
Non-current assets	18,643,038	18,686,641
Total assets	56,109,425	35,134,256
Liabilities		
Current liabilities	373,180	998,972
Non-current liabilities	45,091	39,312
Total liabilities	418,271	1,038,284
Net assets	55,691,154	34,095,972
Equity		
Issued capital	64,200,112	41,254,947
Accumulated losses	(10,552,259)	(8,662,425)
Reserves	2,043,301	1,503,450
Total equity	55,691,154	34,095,972
Financial Performance		
Loss for the year	(1,889,834)	(5,957,533)
Total comprehensive income	(1,889,834)	(5,991,533)

Commitments and Contingencies

(i) Contingencies

The parent entity has no contingent assets or liabilities.

(ii) Operating lease commitments

Within 1 year	370,766	232,234
Within 2-5 years	1,058,200	178,964
Later than 5 years	207,170	-
	1,636,136	411,198

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

20. COMMITMENTS AND CONTINGENCIES

Exploration expenditure commitments

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

CONSOLIDATED		
	2011	2010
	\$	\$
Within 1 year	-	713,287
Within 2-5 years	3,509,114	-
Later than 5 years	-	-
	3,509,114	713,287

Operating lease commitments

Within 1 year	370,766	268,015
Within 2-5 years	1,058,200	205,799
Later than 5 years	207,170	-
	1,636,136	473,814

Contingent liability

There are no contingent liabilities

Contingent assets

On 15 June 2011, Chalice executed a Deed of Acquisition with the Eritrean National Mining Corporation ("ENAMCO") for the sale to ENAMCO of a 30% participating interest in Chalice's Zara Project for US\$32 million. This is in addition to a 10% free carried interest in the Zara Licences. The ENAMCO interest will be represented by a 40% shareholding in the operating company, Zara Mining Share Company ("Zara Mining SC") which will be owned 60% by Chalice and 40% by ENAMCO.

In addition, ENAMCO have agreed to pay Chalice approximately US\$2 million (subject to audit), which represents a reimbursement to Chalice of ENAMCO's pro-rata share of exploration costs expended up to and including 31 March 2011 on the Zara Licences which fall outside of the proposed Koka Mining Licence.

At 30 June 2011, the Deed of Acquisition was unconditional; however, should ENAMCO fail to pay the US\$32 million for its participating interest by 27 January 2012, ENAMCO shall immediately transfer its 30% participating interest in Zara Mining SC to Chalice resulting in Chalice owning 90% of Zara Mining SC.

The transaction has not been recorded as a receivable in the financial statements at 30 June 2011, as ENAMCO is able to default with no other remedy other than the forfeiture of its 30% participating interest. Completion of the transaction, whilst probable, is contingent upon Chalice receiving the funds from ENAMCO and until this uncertainty is removed, an asset will not be recorded in the financial statements.

On completion of the transaction, it is estimated that the income tax payable on sale of the 30% interest will be approximately US\$8.8 million resulting in a net increase in cash at bank of US\$25.2 million. The impact on net profit after tax is expected to be approximately US\$15.2 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

21. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2011	2010
	\$	\$
Loss for the period	(3,828,054)	(5,575,878)
Adjustments for:		
Depreciation and amortisation	474,327	264,793
Loss on sale of exploration and evaluation assets	-	146,677
Reversal of share of associate's loss	(1,508)	-
Contract termination fee	-	(125,000)
Foreign exchange losses	18,574	70,366
Share of associate's loss	-	1,508
Net gain on sale of securities	-	(4,416)
Changes in fair value of available-for-sale investments	2,978	11,732
Costs of business combinations	-	655,400
Exploration assets expensed	15,720	-
Impairment of exploration and evaluation assets	41,130	1,172,071
Equity-settled share-based payment expenses	527,851	883,432
Operating loss before changes in working capital and provisions	(2,748,982)	(2,792,669)
(Increase) in trade and other receivables	(175,352)	(65,999)
(Increase)/decrease in financial assets	(9,415)	1,750
Increase in trade creditors and other liabilities	464,613	245,745
(decrease)/increase in provisions	67,570	(13,260)
(decrease)/increase in non-current financial assets	5,779	(4,100)
Net cash used in operating activities	(2,395,787)	(2,628,533)

22. KEY MANAGEMENT PERSONNEL

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

Executive Directors

T R B Goyder (Executive Chairman)

D A Jones (Managing Director)

M R Griffiths (Executive Director)

Non-executive Directors

A W Kiernan

S P Quin

Executives

R K Hacker (Chief Financial Officer)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

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

	CONSOLIDATED	
	2011	2010
	\$	\$
Short-term employee benefits	1,245,070	892,785
Post-employment benefits	95,524	70,061
Equity settled transactions	527,851	881,744
	1,868,445	1,844,590

Individual director's and executive's compensation disclosures

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

Loans to key management personnel and their related parties

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

Other key management personnel transactions with the Group

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

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

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

KEY MANAGEMENT PERSONS	TRANSACTION	NOTE	2011	2010
			\$	\$
A W Kiernan	Legal and consulting services	(i)	140,500	81,000
Other related parties				
Liontown Resources Limited	Corporate services	(ii)	(144,000)	(144,000)
Uranium Equities Limited	Corporate services	(iii)	(401)	(8,750)
Liontown Resources Limited	Corporate services		-	49,078

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

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

ASSETS AND LIABILITIES ARISING FROM THE ABOVE TRANSACTIONS	2011	2010
	\$	\$
Current payables	(8,000)	(6,000)
Trade debtors	-	13,200
	(8,000)	7,200

Options and rights over equity instruments granted as compensation

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

	HELD AT 1 JULY 2010	GRANTED AS COMPENSATION	EXERCISED/ FORFEITED	HELD AT 30 JUNE 2011	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2011
T R B Goyder	2,000,000	-	(2,000,000)	-	-	-
A W Kiernan	500,000	-	-	500,000	-	500,000
D A Jones	2,500,000	-	-	2,500,000	1,250,000	2,500,000
M R Griffiths	750,000	-	-	750,000	375,000	375,000
S P Quin	-	750,000	-	750,000	375,000	375,000
Executive						
R K Hacker	500,000	-	-	500,000	-	500,000

	HELD AT 1 JULY 2009	GRANTED AS COMPENSATION	EXERCISED/ FORFEITED	HELD AT 30 JUNE 2010	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2010
T R B Goyder	2,000,000	-	-	2,000,000	-	2,000,000
A W Kiernan	500,000	-	-	500,000	-	500,000
D A Jones	-	2,500,000	-	2,500,000	1,250,000	1,250,000
M R Griffiths	-	750,000	-	750,000	-	-
Executive						
R K Hacker	500,000	-	-	500,000	375,000	500,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

Movements in ordinary shares

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

	HELD AT 1 JULY 2010	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2011	SALES	HELD AT 30 JUNE 2011
T R B Goyder	19,951,206	5,306,043	2,000,000	27,257,249	-	27,257,249
A W Kiernan	820,074	241,967	-	1,062,041	-	1,062,041
D A Jones	235,000	61,278	-	296,278	-	296,278
M R Griffiths	600,960	-	-	600,960	-	600,960
S P Quin	-	26,321	-	26,321	-	26,321
Executive						
R K Hacker	40,000	58,334	-	98,334	-	98,334

	HELD AT 1 JULY 2009	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2010	SALES	HELD AT 30 JUNE 2010
T R B Goyder	17,240,458	2,710,748	-	19,951,206	-	19,951,206
A W Kiernan	820,074	-	-	820,074	-	820,074
D A Jones	35,000	200,000	-	235,000	-	235,000
M R Griffiths	-	600,960	-	600,960	-	600,960
Executive						
R K Hacker	51,982	40,000	-	40,000	(51,982)	40,000

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

23. RELATED PARTY DISCLOSURE

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

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT	
		2011	2010	2011	2010
Parent Entity					
Chalice Gold Mines Limited	Australia				
Subsidiaries					
Chalice Operations Pty Ltd (i)	Australia	100	100	6,802,388	6,802,388
Yolanda International Limited	British Virgin Islands	100	100	1,210,000	1,210,000
Chalice Gold Mines (Eritrea) Pty Ltd	Australia	100	100	-	-
(i) Subsidiaries of Chalice Operations Pty Ltd					
Western Rift Pty Ltd	Australia	100	100	-	-
Keren Mining Pty Ltd	Australia	100	100	-	-
Universal Gold Pty Ltd	Australia	100	100	1,358,223	1,358,223
Sub-Sahara Resources (Eritrea) Pty Ltd	Australia	100	100	-	-

24. SUBSEQUENT EVENTS

There are no events subsequent to reporting date.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Chalice Gold Mines Limited (the 'Company'):
 - a. the financial statements, notes and the additional disclosures in the directors' report designated as audited, of the Group are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

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

Dated at Perth the 15th day of September 2011

Signed in accordance with a resolution of the Directors:



TIM R B GOYDER

Executive Chairman

INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Chalice Gold Mines Limited

Report on the Financial Report

We have audited the accompanying financial report of Chalice Gold Mines Limited ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)



Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Chalice Gold Mines Limited for the financial year ended 30 June 2011 included on Chalice Gold Mines Limited's website. The company's directors are responsible for the integrity of the Chalice Gold Mines Limited website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Chalice Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Chalice Gold Mines Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read 'HLB Mann Judd'.

HLB MANN JUDD
Chartered Accountants

A handwritten signature in black ink, appearing to read 'W M Clark'.

W M CLARK
Partner

Perth, Western Australia
15 September 2011

CORPORATE GOVERNANCE REPORT

APPROACH TO CORPORATE GOVERNANCE

Chalice Gold Mines Limited ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition ("**Principles & Recommendations**"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

Further information about the Company's corporate governance practices may be found on the Company's website at www.chalicegold.com, under the section marked "Corporate Governance".

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2010/2011 financial year ("**Reporting Period**"). The Principles & Recommendations were amended in 2010. These amendments apply to the Company's first financial year commencing on or after 1 January 2011. Accordingly, disclosure against the Principles & Recommendations as amended in 2010 will be made in relation to the Company's financial year ending 30 June 2012. The report below is made against the Principles and Recommendations prior to their amendment in 2010.

However, the Company does wish to report that on 29 June 2011 it adopted a Diversity Policy in accordance with the new Recommendation 3.2. A copy of the Company's Diversity Policy is available on the Company's website at www.chalicegold.com.

BOARD

Roles and responsibilities of the Board and Senior Executives

(Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chair or the lead independent director (currently Anthony Kiernan), as appropriate.

The Company's Board Charter is available on the Company's website at www.chalicegold.com.

Skills, experience, expertise and period of office of each Director

(Recommendation: 2.6)

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Director independence

(Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board does not have a majority of directors who are independent. The Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise relevant to the Company's business. The Board continues to monitor its composition as the Company's operations evolve and will appoint further independent directors if considered appropriate.

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

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

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

- Balance sheet items are material if they have a value of more than 1% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 2% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 1% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 2%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent directors of the Company are Timothy Goyder, Doug Jones, Juan Jeffery and Michael Griffiths.

The non-independent Chair of the Board is Timothy Goyder. The Chair is an executive director and does not satisfy the test of independence as set out in Box 2.1 of the Principles and Recommendations. The Board believes that Timothy Goyder is the most appropriate person for the position as Chair because of his seniority and industry experience. However, the Board has appointed Anthony Kiernan to act as lead independent director when any conflicts of interest arise.

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

Independent professional advice

(Recommendation: 2.6)

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Selection and (Re) Appointment of Directors

(Recommendation: 2.6)

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee (or equivalent) is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

The Company's Policy and Procedure for the Selection and (Re)Appointment of Directors is available on the Company's website at www.chalicegold.com.

BOARD COMMITTEES

Nomination Committee

(Recommendations: 2.4, 2.6)

The Company has not established a separate Nomination Committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. Items that are usually required to be discussed by a Nomination Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

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

The Company's Nomination Committee Charter is available on the Company's website at www.chalicegold.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Audit Committee

(Recommendations: 4.1, 4.2, 4.3, 4.4)

The Company has established an Audit Committee.

The Audit Committee is not structured in compliance with Recommendation 4.2. Given the composition of the Board, the formation of an Audit Committee in accordance with Recommendation 4.2 is not possible. However, the Audit Committee follows Recommendation 4.2 to the extent it is possible and therefore, the Audit Committee is comprised of Anthony Kiernan and Stephen Quin (the Board's two independent non-executive directors) and is chaired by Anthony Kiernan, who is not Chair of the Board. The Board considers this present structure is the best mix of skills and expertise to carry out the function of an Audit Committee available to the Company and appropriate for its current needs. The Board has adopted an Audit Committee Charter which the Audit Committee applies to assist it to fulfil its function. The Audit Committee Charter makes provision for the Audit Committee to meet with the external auditor as required.

The Audit Committee held two meetings during the Reporting Period. Details of the directors who are members of the Audit Committee and their attendance at Audit Committee meetings are set out in the Directors' Report.

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

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

The Company's Audit Committee Charter and the Company's Procedure for Selection, Appointment and Rotation of External Auditor are available on the Company's website at www.chalicegold.com.

Remuneration Committee

(Recommendations: 8.1, 8.2, 8.3)

The Company has established a Remuneration Committee comprising Anthony Kiernan, Stephen Quin and Timothy Goyder.

The Remuneration Committee held one meeting during the Reporting Period, which all members attended.

To assist the Remuneration Committee to fulfil its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter.

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

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not directly linked to individual performance; however, due to the stage of the Company in its evolution from a mineral explorer to a producer, the Board considers that Non-executive Directors should be entitled to participate in the Company's Employee Share Option Plan.

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

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

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

The Company's Remuneration Committee Charter is available on the Company's website at www.chalicegold.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

PERFORMANCE EVALUATION

Senior executives

(Recommendations: 1.2, 1.3)

The Managing Director and Executive Chairman currently review the performance of the senior executives. This is conducted by informal interviews.

During the Reporting Period a formal evaluation of senior executives did not occur. However, due to the size of the group, the Executive Chairman takes an active role in assessing the performance of executives on an informal basis. A more formal performance evaluation process is currently being implemented as part of a review of the Company's remuneration policy and structure – see the Remuneration Report.

Board, its committees and individual directors

(Recommendations: 2.5, 2.6)

The Chair evaluates the performance of the Board, individual directors, the Managing Director and any applicable committees of the Board. These evaluations are undertaken by each director completing a questionnaire which is then evaluated by the Chair.

During the Reporting Period an evaluation of the Board took place in accordance with the process disclosed. However, an evaluation of the individual directors and the committees of the Board did not occur during the Reporting Period.

ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

(Recommendations: 3.1, 3.3)

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A summary of the Company's Code of Conduct is available on the Company website at www.chalicegold.com.

Policy for Trading in Company Securities

(Recommendations: 3.2, 3.3)

The Company has established a Policy for Trading in Company Securities by directors, senior executives and employees.

A summary of the Company's Policy for Trading in Company Securities is available on the Company's website at www.chalicegold.com.

Continuous Disclosure

(Recommendations: 5.1, 5.2)

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

A summary of the Company's Policy on Continuous Disclosure and a summary of the Company's Compliance Procedures are available on the Company's website at www.chalicegold.com.

Shareholder Communication

(Recommendations: 6.1, 6.2)

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

The Company's Shareholder Communication Policy is available on the Company's website at www.chalicegold.com.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Risk Management

Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board. In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

The Board has established a separate Audit Committee to monitor and review the integrity of financial reporting and the Company's internal financial control systems and risk management systems

As the Company continues to evolve from an explorer to a gold producer, the Board will enhance the processes and procedures to manage and report on material business risk, and may engage external risk management consultants to assist.

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

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

In June 2011, the Board was provided with the material business risks, strategies adopted and funds allocated to mitigate these risks where possible. In 2012, the Board will receive a report from management as to the effectiveness of the Company's management of these material business risks.

The Board has also implemented a system to review, formalise and document the management of its material business risks. This system includes a risk register used by management to identify the Company's material business risks and risk management strategies for these risks. In addition, the process of managing material business risks is allocated to members of senior management. The risk register is reviewed regularly and updated, as required.

The categories of risk to be reported on or referred to as part of the Company's systems and processes for managing material business risk include market-related, financial reporting, operational, environmental, human capital, sustainability, occupational health and safety, political, strategic, economic cycle/marketing, and legal and compliance.

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

A summary of the Company's Risk Management Policy is available on the Company's website at www.chalicegold.com.

ASX ADDITIONAL INFORMATION

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

SHAREHOLDINGS

Substantial shareholders

The number of shares held by substantial shareholders advised to the Company and their associated interests as at 13 September 2011 were:

SHAREHOLDER	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD (%)
National Nominees Limited	39,628,968	15.85
Timothy R B Goyder	29,199,342	11.68
Lujeta Pty Ltd <The Margaret Account>	19,796,813	7.92

Class of Shares and Voting Rights

At 13 September 2011 there were 2,740 holders of the ordinary shares of the Company.

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

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

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

Holders of options do not have voting rights.

Distribution of equity security holders as at 13 September 2011:

Category	NUMBER OF EQUITY SECURITY HOLDERS	
	Ordinary Shares	Unlisted Share Options
1 – 1,000	421	-
1,001 – 5,000	846	-
5,001 – 10,000	477	-
10,000 – 100,000	827	-
100,001 and over	169	10
Total	2,740	10

The number of shareholders holding less than a marketable parcel at 13 September 2011 was 518.

ASX ADDITIONAL INFORMATION (CONTINUED)

TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS AS AT 13 SEPTEMBER 2011

Name	Number of ordinary shares held	Percentage of capital held %
National Nominees Limited	39,628,968	15.85
Timothy R B Goyder	29,199,342	11.68
Lujeta Pty Ltd <The Margaret Account>	19,796,813	7.92
Citicorp Nominees Pty Limited	17,105,850	6.84
HSBC Custody Nominees (Australia) Limited	14,301,032	5.72
JP Morgan Nominees Australia Limited <Cash Income A/C>	13,667,478	5.47
UBS Nominees Pty Ltd	11,723,079	4.69
Balfes (QLD) Pty Ltd <Balfes Super Fund A/C>	4,250,000	1.70
Sundowner International Limited	3,664,782	1.47
Calm Holdings Pty Ltd <Clifton Super Fund A/C>	3,350,000	1.34
Colbern Fiduciary Nominees Pty Ltd	2,899,333	1.16
Claw Pty Ltd	2,833,333	1.13
Dragon Mining Limited	2,333,334	0.93
Canadian Register Control	1,987,036	0.79
Mr Scott Andrew Grundmann	1,890,631	0.76
Bell Potter Nominees Ltd	1,759,365	0.70
Twynam Agricultural Group Pty Ltd	1,673,484	0.67
Greenslade Holdings Pty Ltd	1,516,667	0.61
Lost Ark Nominees Pty Ltd	1,400,000	0.56
Mr Ross Francis Stanley	1,333,334	0.53
Total	176,313,861	70.52





CHALICE GOLD MINES LIMITED

2/1292 Hay Street

WEST PERTH WA 6005

Tel: +618 9322 3960

Fax: +618 9322 5800

Web: www.chalicegold.com

Email: info@chalicegold.com