

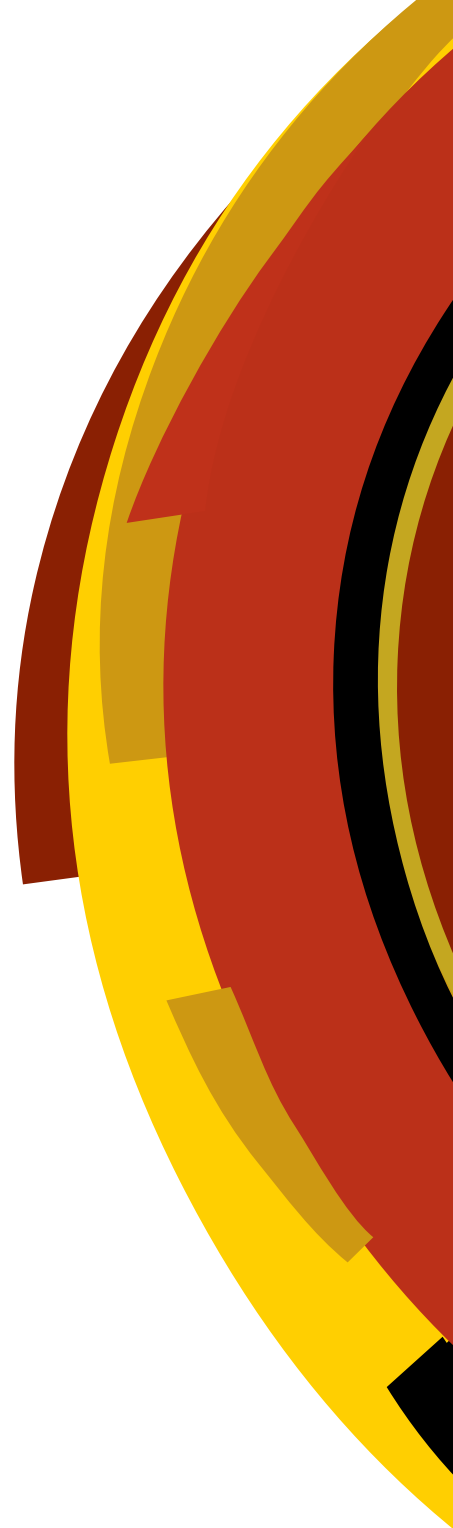


**CHALICE**  
GOLD MINES LIMITED



2008

ANNUAL REPORT 2008



#### DIRECTORS

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

#### COMPANY SECRETARY

R K Hacker

#### PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE

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WEST PERTH WA 6005

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WEST PERTH WA 6005

#### SHARE REGISTRY

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

#### HOME EXCHANGE

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

#### ASX CODE

Share Code: CHN



## **C O N T E N T S**

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# LETTER TO SHAREHOLDERS

Dear Shareholder

Chalice Gold Mines Limited continued the financial year in a relatively well capitalised position, firmly focused on the same business – seeking discoveries across our portfolio of Western Australian gold projects and new project opportunities.

Exploration continued at our three gold projects during the year:

- At the large Yandearra Gold Project in the West Pilbara a detailed mapping and sampling program was completed at the Nevada Prospect to follow up on anomalous gold and uranium mineralisation in previous reconnaissance rock chip sampling.

We also successfully negotiated a joint venture agreement with De Grey Mining Limited ("De Grey") to fund exploration of tenements generally to the southeast of the Central Shear Zone that runs through the project area.

We are pleased to have seen an active field program by De Grey, who commenced with a compilation of data from previous explorers and moved on to geological reconnaissance, rock chip sampling, multi-element soil sampling and substantial stream sediment sampling programs; identifying a number of new prospects and target areas.

- At the Gnaweeda Gold Project in the Murchison, our joint venture partner Teck Cominco ("Teck") completed a further six RC drill holes at the Turnberry and St Anne's Prospects.

Assays results were encouraging, including a number of near surface high grade hits.

Teck has now earned an initial 51% interest in the project by spending over \$750,000 and has advised that it intends to push on with exploration, with further drilling planned in 2008 to define the extent of mineralisation encountered to date.

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

As I outlined last year, we have continued our Prospectus objectives of seeking new exploration and development projects. We were unable to conclude any such acquisition opportunities during the financial year, but have since continued our search to identify potential new resources and growth opportunities.

I am pleased that on 10 September 2008 we were ultimately successful in this search and concluded a Heads of Agreement with Perilya Limited ("Perilya") to acquire the Mount Oxide Project in Queensland, Australia.

As detailed in the subject ASX announcement, we see the Mount Oxide Project as offering a great opportunity for growth and potential future production from a base of over 200,000 tonnes of JORC compliant copper resources and with an extensive 800 km<sup>2</sup> tenement package lying on a major mineralised structure in a proven production area.

Further details of the Mount Oxide Project acquisition and the associated option acquired by the Company over Perilya's 50% interest in the Tampang Porphyry Copper-Gold Project in Sabah, Malaysia are to be despatched to shareholders for their consideration and approval at our forthcoming Annual General Meeting. We are delighted to present this opportunity to shareholders and commend the proposed transaction for your approval.

The past year was important for your Company. I look forward to completing the acquisition of the Mount Oxide Project and an exciting future as we push on with its exploration and potentially development.

My thanks to the Board and shareholders for their continuing support.

Yours faithfully



**Andrew Bantock**  
**Chairman**

# HIGHLIGHTS

## YANDEEARRA

- A detailed mapping and sampling program was completed at the Nevada Prospect to follow up on anomalous gold and uranium mineralisation in a previous reconnaissance rock chip sampling program.
- Implemented Yandeearra Joint Venture with De Grey Mining Limited ("De Grey") and the Atlas Iron Limited ("Atlas") Option Agreement (see below).
- A geological reconnaissance and rock chip sampling program by De Grey identified new gold and base metals targets. De Grey also commenced a stream sediment sampling program over 13km of strike in the northeast of the Project.

## GNAWEEDA

- Teck Cominco ("Teck") continued its joint venture exploration program, completing six RC drill holes for a total of 1,546 metres drilled at the Turnberry and St Anne's Prospects, delivering encouraging results.
- Teck achieved its 51% earn-in expenditure requirement under the Gnaweeda Project Joint Venture Agreement, by spending over \$750,000.
- Teck has advised that it intends to proceed under the second stage joint venture earn-in provisions, ie. to an overall 70% interest, by increasing its total project spend to \$1.5 million. Further RC and diamond drilling is planned at the Turnberry and St Anne's Prospects during the coming year.

## WILGA

- Sought expressions of interest from potential joint venture partners to fund future exploration at the Project.

## CORPORATE

- Funding secured for the Yandeearra Gold Project by way of:
  - a joint venture agreement with De Grey; De Grey to spend \$1.67 million over three years to earn 80% of rights to all minerals over tenements covering approximately the southeast portion of the Project, other than iron ore and uranium; and
  - an option agreement with Atlas Iron Limited ("Atlas"), whereby for a fee of \$250,000, payable in cash or shares, Atlas may undertake \$200,000 of exploration in the first year to be in a position to acquire the iron ore rights over the Yandeearra Gold Project for a total of \$1.25 million.
- Sold 3.5 million Avoca Resources Limited ("Avoca") shares for net proceeds of \$6.9 million.
- Exercised 2 million \$1.79, 3-year unlisted Avoca options and realised the shares thereby acquired for net proceeds of \$1.5M.
- Continued to actively search for new project opportunities.

# REVIEW AND RESULTS OF OPERATIONS

## I Yandeearra Project (100% Chalice Gold Mines Limited)

### NEVADA PROSPECT

A detailed mapping and sampling program was completed at the Nevada Prospect to follow up on anomalous gold and uranium mineralisation in reconnaissance rock chip sampling undertaken in the previous year.

A total of 24 rock chip samples were taken from the prospect area. Assay results are detailed in Table 1.

Six rock chip samples were collected from the area of a discrete radiometric and aeromagnetic anomaly which has been interpreted to represent a volcanic vent or feeder for the voluminous Mt Roe Basalts present in the area. The best gold results of 1.91g/t and 1.57g/t were returned from sample numbers 114543 and 114541, respectively. The best uranium result was 45ppm from sample number 114538. The gold mineralisation appears to be preferentially associated with clasts of ferruginous quartz pebble conglomerate within the volcanic vent area.

Twelve rock chip samples were also taken to further test the extent of gold mineralisation in an area of gold-in-soil anomalism, which is located approximately 700m to the north of the volcanic vent. Rock chip sampling of the conglomerate matrix adjacent to the gold-in-soil anomaly returned the best result of 215ppb gold.

It was concluded that the soil anomaly is most likely derived from detrital gold in the conglomerates of the Hardey Formation. Numerous old dryblower workings on creeks draining the conglomerates support this conclusion. The conglomerates are extremely immature, comprising angular and rounded, polymict clasts ranging in size from sub-centimetre scale to in excess of 1 metre in diameter.

Additional sampling targeting chert horizons and several gossanous zones within basalts returned a best result of 164ppb gold.

A geology plan of Nevada Prospect showing the location of the sampling is shown in Figure 1.



Hardey Conglomerate

Sample Number	Easting (GDA 94)	Northing (GDA94)	Description	Au Average (ppb)	Au 1 (ppb)	Au 2 (ppm)	U (ppm)
114536	629123	7652209	Chert	164	164		
114537	629101	7652198	Chert	25	25		
114538	628015	7651547	Volcanic vent	4	4		45.24
114539	628002	7651532	Volcanic vent	69	69		28.2
114540	627983	7651513	Volcanic vent	46	46		30.23
114541	628022	7651545	Volcanic vent	1567	1567		4.39
114542	628069	7651567	Volcanic vent	57	57		18.37
114543	628073	7651564	Volcanic vent	1911	1833	1.99	8.77
114544	628592	7652525	Conglomerate	32	32		
114545	628442	7652520	Conglomerate	8	8		
114546	628119	7652266	Conglomerate	6	6		
114547	628420	7652029	Conglomerate	215	230	0.20	
114548	628427	7652019	Gossan - Basalt	10	10		
114549	628105	7651881	Gossan - Basalt	8	8		
114550	628388	7652018	Conglomerate	4	4		
114551	628321	7651996	Conglomerate	4	4		
114552	628021	7652004	Conglomerate	5	5		
114553	628185	7651899	Sandstone	6	6		
114554	628181	7651929	Conglomerate	12	12		
114555	628255	7652027	Conglomerate	16	16		
114556	628295	7652014	Conglomerate	5	5		
114557	628617	7652492	Conglomerate	7	7		
114558	628600	7652425	Conglomerate	3	3		
114559	628572	7652340	Conglomerate	3	3		

Analyses on 2 - 3kg surface rock chip samples by Genalysis Laboratory Services, Perth. Gold assays were carried out by Method FA25/MS to a detection limit of 1 ppb. Gold repeats were carried out by Method FA25/AASF to a detection limit of 0.01ppm. Uranium assays were carried out by Method A/MS to a detection limit 0.01 ppm (U).

Table 1: Rock Chip Sample Results – Nevada Prospect



# REVIEW AND RESULTS OF OPERATIONS

## CONTINUED

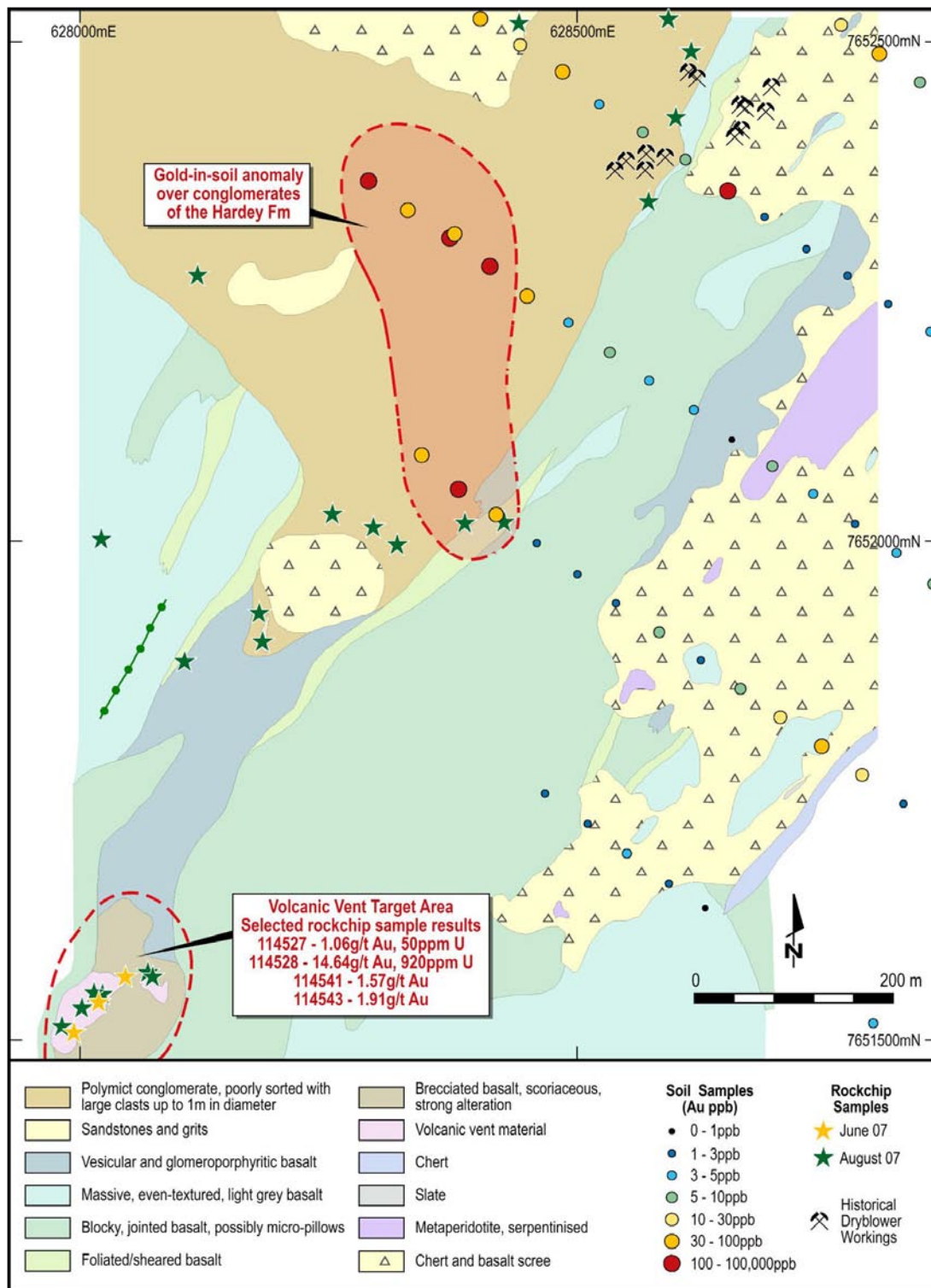


Figure 1: Geology Plan - Nevada Prospect



## EXPLORATION PURSUANT TO JOINT VENTURE AGREEMENT WITH DE GREY MINING LIMITED

In November 2007, Chalice Gold negotiated a joint venture agreement with De Grey whereby De Grey is to spend \$1.67 million over five years to earn 80% of rights to all minerals other than iron ore and uranium, over a number of tenements to the southeast of the Central Shear Zone, which runs roughly diagonally through the Yandeearra project area (see Figure 2).

Under the terms of the joint venture, De Grey will make an initial payment comprising the issue of 2 million shares and 2 million, 3-year 20 cent options, upon executing a formal joint venture agreement and is required to spend \$835,000 over a two year period to earn 60% of the rights to all minerals other than iron ore and uranium. De Grey may then elect to spend a further \$835,000 over a further 3 years to increase this interest to 80%. A minimum expenditure requirement of \$417,000 applies for the first year. Chalice may then elect to contribute pro rata or covert its 20% interest to a 10% interest free carried through to completion of a bankable feasibility study.

De Grey commenced work under the joint venture during the year and has reported that geological reconnaissance and rock-chip sampling, along with compilation of data from previous explorers, has highlighted at least two areas with potential for VMS-style base metals mineralisation and three project-scale structures prospective for gold. Mapping and soil sampling programs were undertaken to define future drill targets.

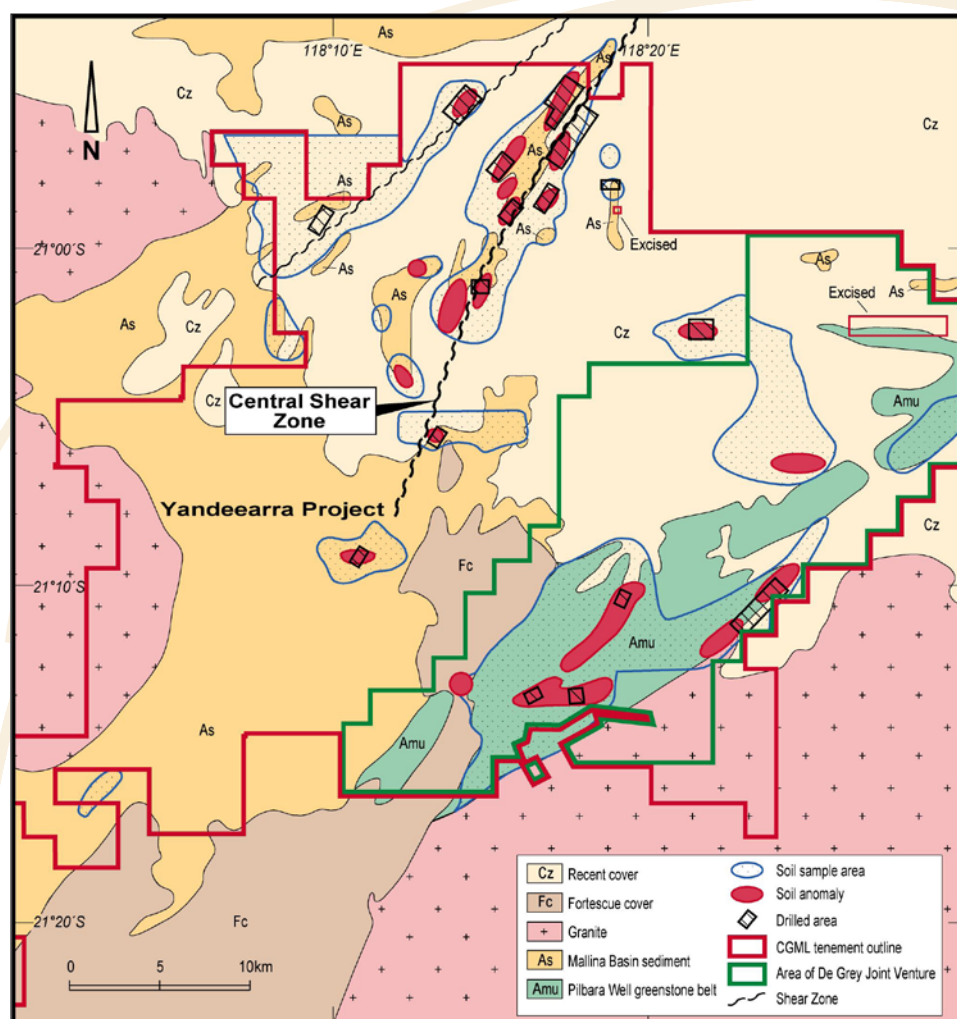


Figure 2 : De Grey Joint Venture Tenements – Yandeearra Project

# REVIEW AND RESULTS OF OPERATIONS

## CONTINUED

### Yandeearra VMS Targets

De Grey's geological reconnaissance in the southwestern Yandeearra area (the Western Pride area) identified a sequence of bimodal volcanic rocks, prospective for VMS-style base metals mineralisation.

The alternating sequence of basalt, rhyolite and felsic volcanoclastic units occurs in sub-crop over a width of up to 950m, with a potential strike length of 7km and is covered to the north and south by younger Fortescue Group basalt and sediments. Soil sampling for base metals in the 1970's of part of this extent located a copper-in-soil anomaly of up to 825ppm over a 700m strike length of altered felsic volcanoclastic rocks. The soil anomalism remains open to the west and north under transported cover.

In the central project area, an orientation sampling traverse was sited over an area of known elevated lead-in-soil values (up to 346 ppm) located by previous explorers. The traverse confirmed the lead-in-soils anomaly and also returned significantly elevated values of barium, silver, mercury and antimony, metals commonly associated with volcanogenic massive sulphide (VMS) style mineralisation.

Follow-up field investigation by De Grey identified a limited area of sub-cropping felsic volcanic rock at the peak of the soil anomaly, further supporting the possibility of a VMS geological environment. The interpreted strike extensions of the anomalous area are covered by a veneer of transported overburden and the area has never been tested by drilling.

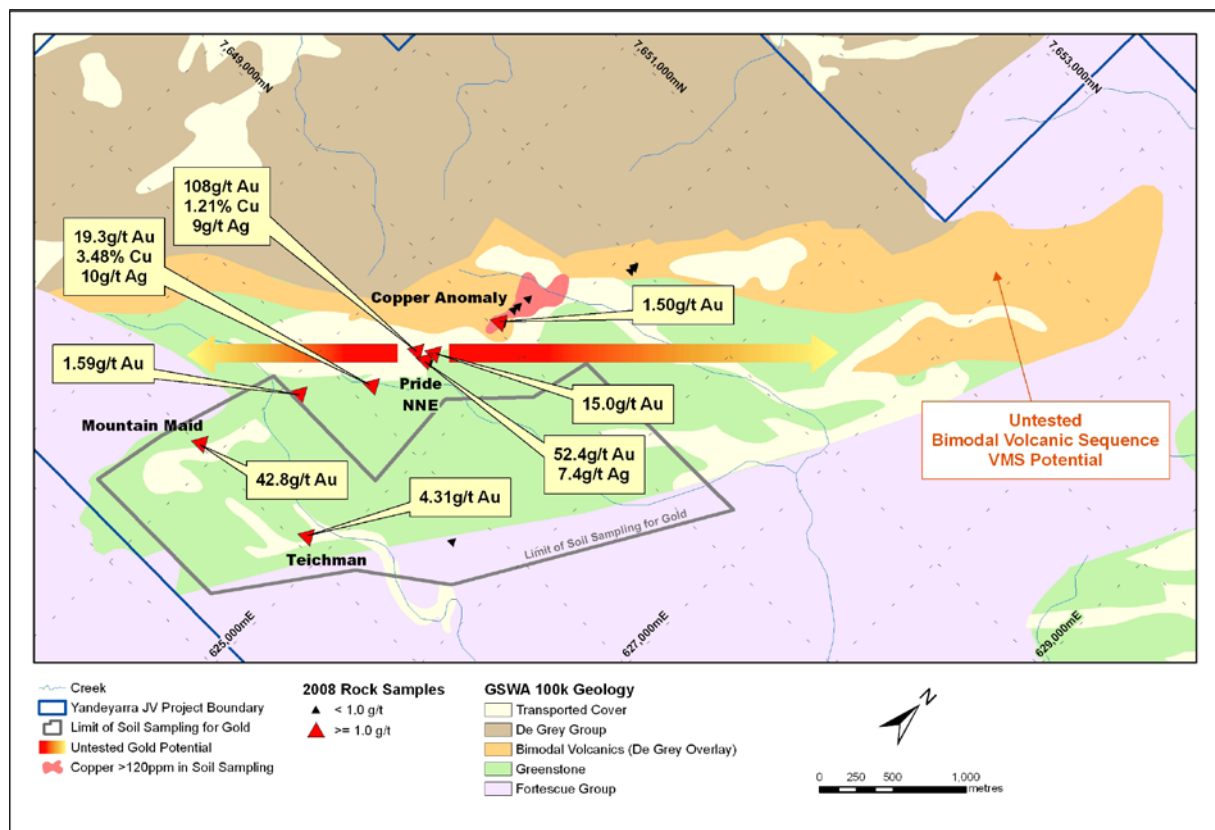


Figure 3: Rock sampling results and VMS prospective bimodal volcanic sequence in the Western Pride area, Yandeearra Project

## Yandeearra Gold Targets

Samples collected in the Western Pride area from sulphide rich quartz-carbonate veins exposed in shallow prospecting pits over an 80m strike length returned assays up to 108g/t gold, 1.26% copper and 9g/t silver. The area is surrounded by alluvial gravel cover. A single sample of a previously unrecorded gossanous quartz-carbonate vein sub-cropping through the transported cover 100m to the north of the pits assayed 15.0g/t gold with anomalous copper and silver.

High grade rock samples up to 71.4g/t and 33.2g/t gold were returned from sampling at the Princess May and John Bull historic workings (Figure 4). No drilling has been undertaken at any of these workings.

A 530m portion of the John Bull Shear Zone along strike from the historical workings was drill tested in 2003 and yielded gold intercepts:

- BYRC013: 9m at 1.99g/t gold from 42m;
- BYRC014: 4m at 2.67g/t gold from 75m; and
- BYRC015: 7m at 1.84g/t gold from 35m.

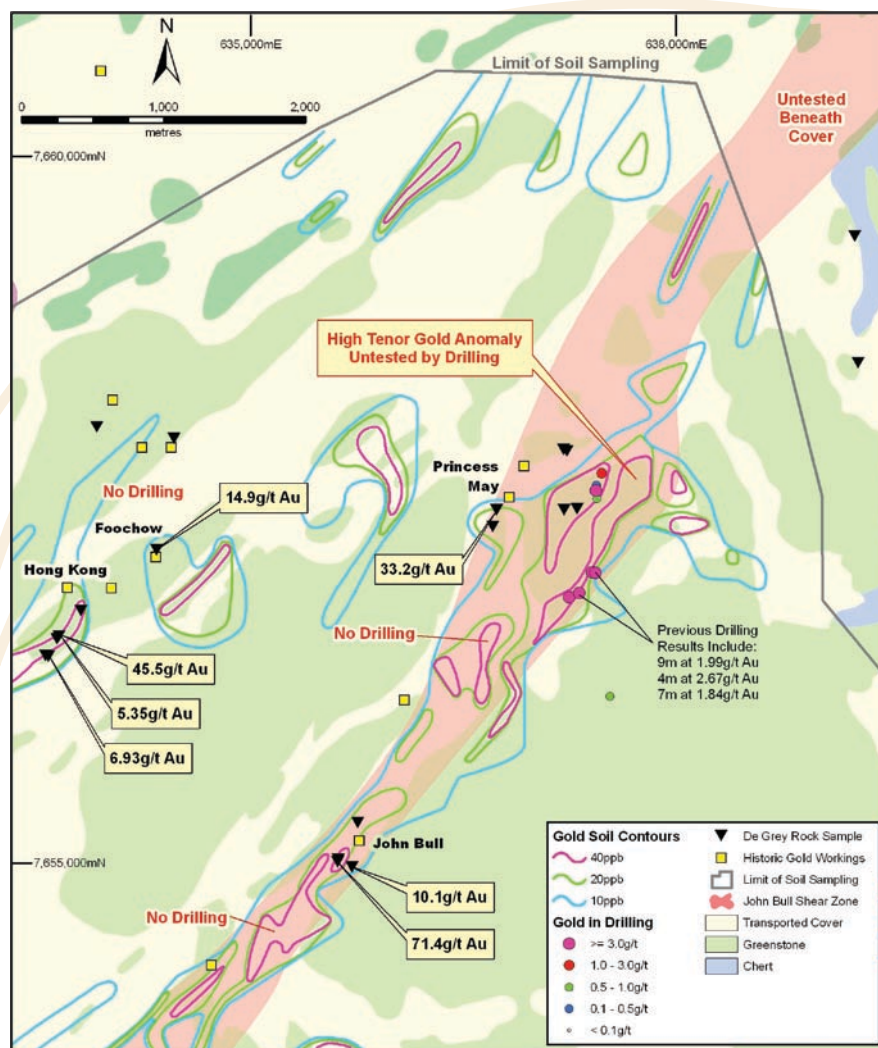


Figure 4: Location of VMS and gold targets identified by De Grey Mining at the Yandeearra Project

# REVIEW AND RESULTS OF OPERATIONS

## CONTINUED

Coherent and high tenor gold-in-soil anomalies yielding up to 920ppb gold, located directly over the John Bull Shear and its second order plays remain untested, as do the northern and southern strike extensions of these anomalies beneath shallow gravel cover.

In the Pilbara Well Shear Zone, lying to the south of the John Bull Shear Zone, samples of quartz vein collected from old workings on the south side of Sandy Creek returned assays up to 14.4g/t gold and 2.67% copper. The workings have not been drill tested. At Pilbara Well East, sampling of a copper occurrence returned 6.73% copper; 50.2g/t silver and 1.01g/t gold within quartz veined chlorite schist.

In June 2008, De Grey reported that new gold and base metals targets had been generated at Yandeearra from geological reconnaissance programs, including rock chip and soil sampling surveys and an initial multi-element soil sampling program (see Tables 2 and 3).

Anomaly	Anomalous Metal	Highest Value	Background Value	Comments
Pilbara Well	Gold	200ppb gold	40ppb gold	Gold anomalism on outcropping leached saprolite coincident with base metal anomalism
Western Pride	Gold	269ppb gold	40ppb gold	Previously reported rock sampling returned up to 108g/t gold. Additional quartz-sulphide vein located this quarter – new rock sample result of 11.6g/t gold.
Hardey	Gold	859ppb gold	40ppb gold	Anomaly covers an 800m x 200m area at >100ppb gold. 43 new rock samples returned up to 0.41g/t gold.
Central	Gold	416ppb gold	40ppb gold	Single line gold anomaly of 3 samples >120ppb gold. Rock samples of pyritic vein quartz in ultramafic collected, results awaited.
Pilbara Well	Lead, zinc, copper, silver	180ppm Pb, 206ppm Zn, 253ppm Cu, 0.5g/t Ag	25ppm Pb, 90ppm Zn, 90ppm Cu, 0.1g/t Ag	Multi-element anomalism on 3 consecutive 400m spaced sample traverses. Siliceous gossan returned 1.48g/t silver and 26g/t silver.
Lead Anomaly 1 *	Lead, silver, antimony, barium & mercury	375ppm Pb, 37ppm Sb, 1,260ppm Ba	25ppm Pb, 2ppm Sb, 300ppm Ba	'VMS' geochemical signature in an area of felsic volcanics and ultramafic rocks.
Lead Anomaly 2	Lead, zinc, copper	595ppm Pb, 368ppm Zn, 124ppm Cu	25ppm Pb, 90ppm Zn, 90ppm Cu	Sample of pyritic felsic volcanic returned 835ppm lead and 794ppm zinc. Soil anomalism open along strike to east.

\* Reported previously by De Grey

Table 2: Gold and base metals targets defined by soil geochemistry, Yandeearra Project, June 2008

Project	Sample ID	East	North	Gold g/t	Copper %	Silver g/t	Prospect
Yandearra	550301	624,528	7,648,575	11.6	0.04	3	Pride NNE Extended
	550094	637,604	7,657,544	1.24	0	0	Arizona
	550406	636,891	7,656,453	1.21	0	0	
	550359	635,612	7,653,662	4.20	0.01	1	John Bull South

Note: Samples are surface in situ rocks. Coordinates are MGA zone 50. Analyses are by Ultra Trace Laboratories Perth using an Aqua Regia digest and Inductively Coupled Plasma (ICP) Mass or Optical Emission Spectrometry finish.

Table 3: Reconnaissance Rock Sampling Results –Yandearra Gold Project >1.00g/t gold or 1% copper

Follow-up field inspection and future drilling programs will be designed to test high priority targets.

#### OPTION AGREEMENT WITH ATLAS IRON LIMITED

In November 2007, Chalice entered into an option agreement with Atlas whereby Atlas may acquire the iron ore rights over the Yandearra Project.

The key terms of the option require Atlas to make an initial payment of \$250,000 in cash or Atlas shares to Chalice (value based on the Volume Weighted Average Price (VWAP) for the 5 days prior to the agreement), within 60 days of signing the formal agreement between the parties.

Atlas may then elect to make a further payment of \$1,000,000 in cash or Atlas shares (valued at a 5 day VWAP) to exercise its option to purchase the iron ore rights, which will occur no later than 12 months after the date of the formal agreement.

Atlas agreed to spend \$200,000 on exploration for iron ore at the Yandearra Project during the option period.

Further terms of the agreement are that on definition of an iron ore resource exceeding 5 million tonnes, at the Yandearra Project, Chalice will have a one-off right to “claw-back” a 30% interest in this resource at a cost of four times total exploration expenditure across the subject tenements. In the absence of a claw-back, Chalice retains a 2% Gross Sales Royalty and Atlas retains a first right of refusal to acquire the royalty.

The option is subject to terms and conditions typical of such agreements including that the subject tenements remain in good standing during and at the end of the option period.

Atlas commenced work under the option agreement during the year.



# REVIEW AND RESULTS OF OPERATIONS

## CONTINUED

## 2 Gnaweeda Gold Project (Teck Cominco earning 70%)

Chalice's joint venture partner, Teck Cominco, completed six RC holes for 1,546 metres of drilling at the Turnberry and St Anne's prospects at the Gnaweeda Gold Project during the year (see Figure 5).

The holes were designed to follow up results from Teck Cominco's previous four RC holes (GNRC001 to GNRC004) and to test open zones in the north of the prospect. Three of these holes returned narrow high grade gold intercepts, including the best result of 1m @ 37.60g/t gold from 50m in GNRC003.

Gold results from the five new holes are summarised in Table 4.

The holes encountered a mixed package of foliated mafic volcanics, dolerite, shale, ultramafic schist and minor feldspar porphyry (GNRC005). Nearly all holes encountered zones of strong carbonate, quartz, pyrite veining and wallrock alteration

The strongest gold mineralisation was encountered in foliated fine-grained mafic volcanics that have been strongly carbonated and contain disseminated pyrite and quartz veining (GNRC005), and a shale/fine mafic volcanic unit with abundant quartz veining, chlorite and sericite alteration, and minor pyrite (GNRC009).

Shallow 5m composite samples returned 11.64g/t gold from 15 to 20m in GNRC007 from lateritised clays directly beneath the transported cover and 13.49g/t gold from 80 to 85m in GNRC008 from red-brown weathered saprolite.

A single RC hole, GNRC010, was drilled at St Anne's Prospect to test for down-dip extensions of shallower gold anomalism in AC/RAB drilling but it had to be terminated early at 174m due to excessive ground water. The hole encountered mostly massive dolerite with minor quartz veining. No significant gold results were returned from this hole, however, potential still exists for deeper mineralisation at St Anne's as the hole did not reach the target zone.

Hole No.	Easting (MGA 94)	Northing (MGA 94)	Azimuth (Mag)	Inclin.	From (m)	To (m)	Interval (m)	Au (g/t)
GNRC005	678070	7087735	085	-57.5o	91	92	1	1.02
					277	278	1	23.02
					278	279	1	8.07
					279	280	1	4.54
GNRC007	678200	7087135	087	-60o	15	20	5	11.64
GNRC008	677970	7086750	090	-60o	55	60	5	2.35
					80	85	5	13.49
GNRC009	677965	7086640	090	-60o	70	75	5	0.91
					151	152	1	1.93
					152	153	1	2.34
					168	169	1	59.27
					169	170	1	8.60
					170	171	1	1.88
					171	172	1	1.34
					223	224	1	2.63
					231	232	1	3.17

Analysis of composite (5m) and Individual (1m) samples by 50g fire assay.

Table 4: Turnberry Prospect gold assay results



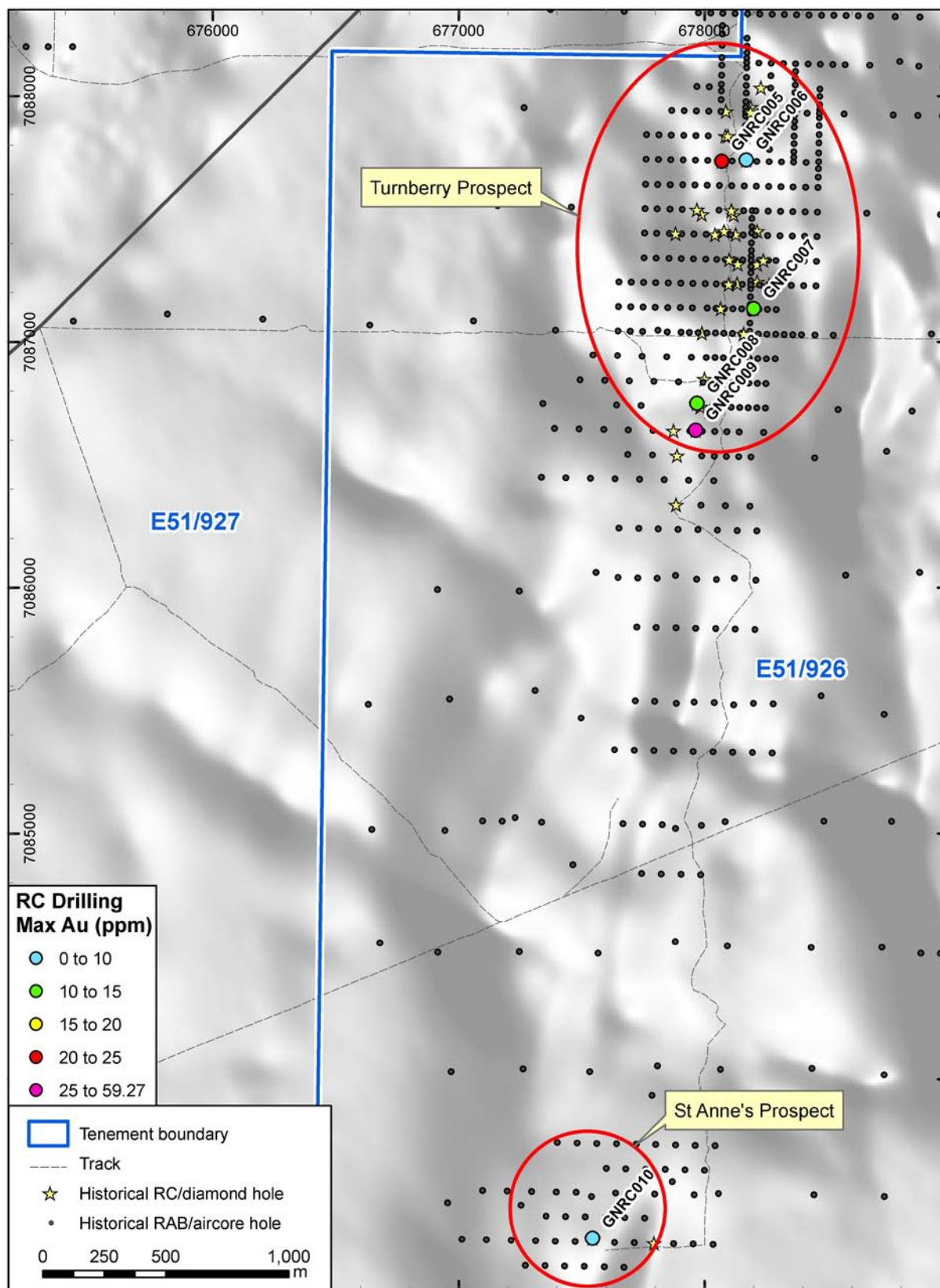


Figure 5: Gnaeweeda project RC drillhole locations



# REVIEW AND RESULTS OF OPERATIONS

## CONTINUED

In July 2008 Teck confirmed it had spent approximately \$1M since the inception of the joint venture in January 2006 and that it intends to continue exploration at the Gnaweeda Gold Project. Under the first stage requirement Teck has earned a 51% interest by expending a minimum of \$750,000.

Teck has the right under the second stage to earn a further 19% interest in the project, to an overall 70% interest, by increasing its total project spend to \$1.5 million.

Teck has advised that it will undertake further RC and diamond drilling at the Turnberry and St Anne's Prospects in the second half of 2008 to:

- test the extent of known mineralisation following high-grade results achieved in the previous RC drilling program; and
- provide important structural information about the system to aid understanding of controls on mineralisation for future targeting of thicker high-grade zones.

The proposed program will include:

- 5 holes comprising RC pre-collars with diamond tails at Turnberry, for an estimated total of 1,500 metres; and
- 1 diamond tail on a pre-existing RC hole (GNRC010) at St Anne's to properly test the target zone (below 150 metres).



RC Drilling at the Turnberry Prospect

### Competent Persons Statement

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

# SCHEDULE OF TENEMENTS

AS AT 30 JUNE 2008

## Yandearra

Tenement #	Nature of Interest	Current Equity
E47/590	Owned	100%
E47/591	Owned	100%
E47/755	Owned	100%
E47/1041	Owned	100%
E47/1161	Owned	100%
E47/1162	Owned	100%
E47/1163	Owned	100%
E47/1164	Owned	100%
E47/1165	Owned	100%
E47/1166	Owned	100%
M47/561	Owned	100%
P47/1298	Owned	100%
P47/1299	Owned	100%
P47/1223	Owned	100%
P47/1224	Owned	100%
P47/1225	Owned	100%
P47/1226	Owned	100%
P47/1227	Owned	100%
P47/1245	Owned	100%
P47/1246	Application	0%
E47/1207	Application	0%
E47/1318	Application	0%
E47/1459	Application	0%
M47/560	Application	0%
M47/783	Application	0%
M47/784	Application	0%
M47/785	Application	0%
M47/994	Application	0%
M47/995	Application	0%
M47/996	Application	0%
M47/997	Application	0%
M47/998	Application	0%
M47/999	Application	0%
M47/1000	Application	0%
M47/1001	Application	0%
M47/1002	Application	0%
M47/1003	Application	0%
M47/1004	Application	0%
M47/1005	Application	0%

# SCHEDULE OF TENEMENTS

CONTINUED

Tenement #	Nature of Interest	Current Equity
M47/1114	Application	0%
M47/1115	Application	0%
M47/1116	Application	0%
M47/1117	Application	0%
M47/1118	Application	0%
M47/1119	Application	0%
M47/1120	Application	0%
M47/1121	Application	0%
M47/1122	Application	0%
M47/1123	Application	0%
M47/1124	Application	0%
M47/1125	Application	0%
E47/1748	Application	0%
E47/1749	Application	0%

## Gnaweeda

Tenement #	Nature of Interest	Current Equity
E51/926	Right to earn 100% subject to royalty	0%
E51/927	Right to earn 100% subject to royalty	0%
P51/2514	Owned	49%
P51/2515	Owned	49%
E51/1027	Owned	49%

## Wilga

Tenement #	Nature of Interest	Current Equity
E39/1003	Owned	100%
P39/4890	Application	0%

## Meekatharra

Tenement #	Nature of Interest	Current Equity
E51/1250	Application	0%

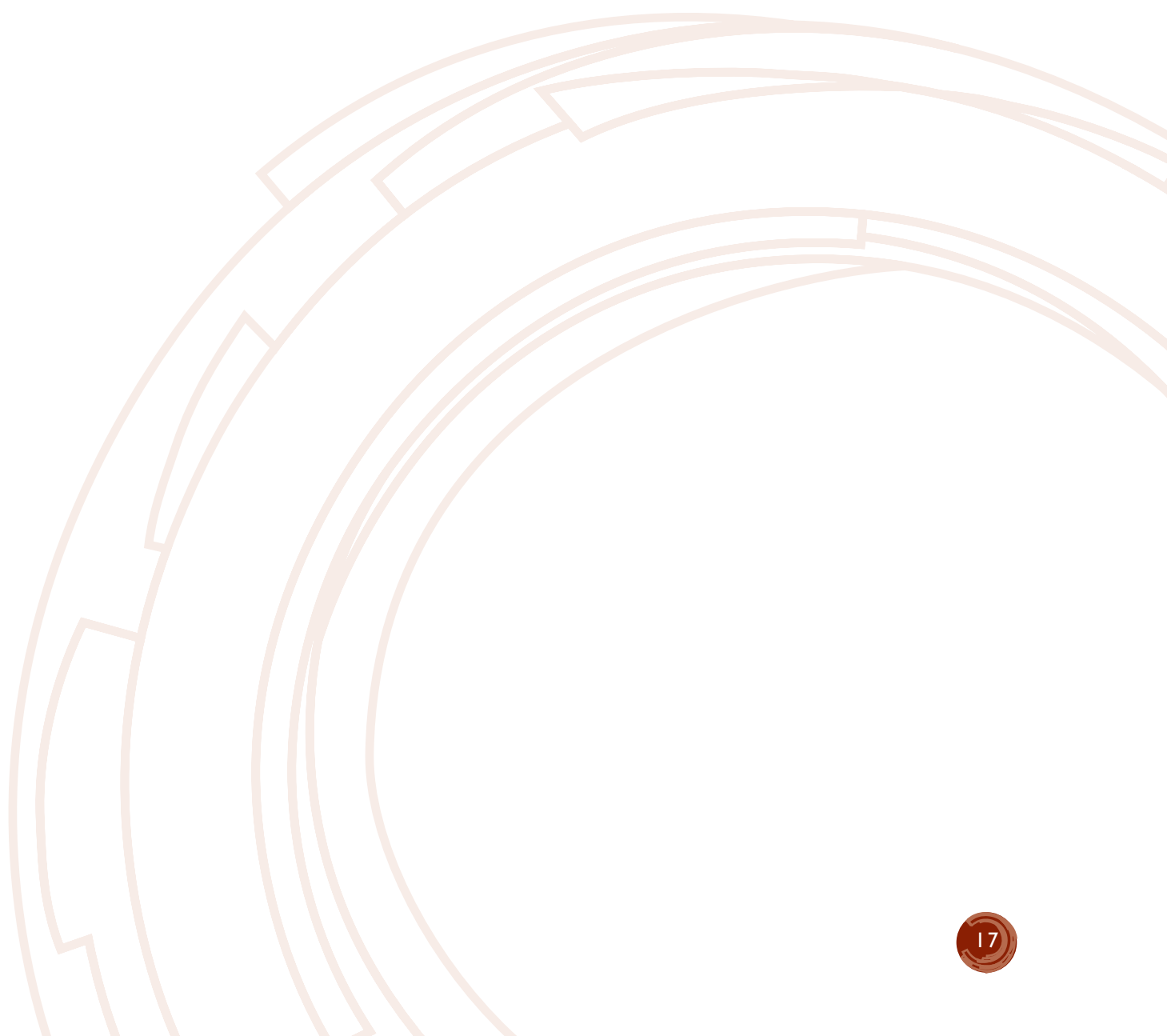
## Chalice

Tenement #	Nature of Interest	Current Equity
P15/4608	Sold to Avoca Resources – Tranche 2	100%
P15/4610	Sold to Avoca Resources – Tranche 2	100%
P15/4611	Sold to Avoca Resources – Tranche 2	100%
P63/1248	Sold to Avoca Resources – Tranche 2	100%
P63/1249	Sold to Avoca Resources – Tranche 2	100%
P63/1250	Sold to Avoca Resources – Tranche 2	100%

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

# CHALICE GOLD MINES LIMITED FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008



# DIRECTORS' REPORT

The Directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice Gold Mines' or 'the Company') for the financial year ended 30 June 2008 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

## 1. Directors

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

### **A R Bantock**

B.Com, ACA  
Non-executive Chairman

Andrew has extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. He is currently a Director and chairs the Audit Committee of Water Corporation, Western Australia's water utility.

### **T R B Goyder**

Executive Director

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

### **A W Kiernan**

LLB  
Non-executive Director  
(Independent Director)

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

### **B A Alexander**

BSc, MAusIMM  
Non-executive Director  
(resigned 30 November 2007)

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

## 2. Company Secretary

### **R K Hacker**

B.Com, ACA, ACIS  
(resigned 7 April 2008, re-appointed 1 August 2008)

Richard has 15 years professional and corporate experience in the energy and resources sector in Australia and the United Kingdom. Richard has previously worked in senior finance roles with global energy companies including Woodside Petroleum Limited and Centrica Plc. Prior to this, Richard worked with leading accounting practices. Richard is both a Chartered Accountant and Chartered Secretary and is also Company Secretary of Liontown Resources Limited and Uranium Equities Limited.

### **A M Reynolds**

B.Com, CFTP, SAFin  
(appointed 7 April 2008, resigned 1 August 2008)

### 3. Directors' meetings

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

Director	Number of board meetings attended	Number of meetings held during the time the director held office during the year
A R Bantock	9	9
T R B Goyder	9	9
A W Kiernan	8	9
B W Alexander	4	4

### 4. Principal activities

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

### 5. Review of Operations

During and since the end of the financial year, Chalice Gold Mines continued exploration for gold and other minerals at its Yandearra, Gnaweeda and Wilga gold projects.

Highlights included:

- through the Company's joint venture with De Grey Mining, highlighting at least two areas with potential VMS-style base metals mineralisation and three project-scale structures prospective for gold at its Yandearra Gold Project; and
- receiving encouraging results from drilling at the Gnaweeda Gold Project (Teck Cominco earning 70% interest). Teck Cominco intends to proceed to advance exploration under the second stage earn-in provisions of the joint venture agreement by spending a total of \$1.5 million.

The Company entered into arrangements to fund these exploration activities by:

- reaching an agreement with De Grey Mining Limited to enter into a joint venture to explore for gold and base metals at the Yandearra Gold project in the West Pilbara. De Grey may spend \$1.67 million over three years to earn 80% of all minerals other than iron ore and uranium; and
- entering into an option agreement with Atlas Iron Limited whereby Atlas Iron may acquire the iron ore rights over the Yandearra Gold project for a total of \$1.25 million.

The Company realised a profit of approximately \$2.5 million from the sale and exercise of the Avoca Resources Limited shares and options received as proceeds from the sale of the Company's Chalice and Higginsville Project. At 30 June the Company had cash at bank of \$10.0 million.

The Company continues to actively assess new exploration and development asset opportunities.

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

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

## 7. Remuneration report - audited

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

### 7.1 PRINCIPLES OF COMPENSATION

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

Remuneration offered by Chalice Gold Mines is therefore geared to attracting talented employees through a combination of fixed remuneration and long term incentives, calibrated and individually tailored to be competitive in the external market to offer incentive to join and remain with the Company.

#### Fixed compensation

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

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

#### Long-term incentives

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

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

#### Performance related compensation

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

#### Non-executive directors

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

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



## 7.2 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (AUDITED)

Key Management Personnel	Short-term payments			Post-employment payments	Share-based payments	Value of options as proportion of remuneration (%)		
	Salary & fees \$	Non-monetary benefits \$	Total \$	Super-annuation benefits \$	Options (A) \$			Total \$
Directors								
A R Bantock	2008	114,679	3,364	118,043	10,321	-	128,364	-%
	2007	114,679	3,540	118,219	10,321	114,388	242,928	47%
T R B Goyder	2008	45,872	3,364	49,236	4,128	-	53,364	-%
	2007	45,872	3,540	49,412	4,128	114,388	167,928	68%
A W Kiernan	2008	27,523	3,364	30,887	2,477	54,929	88,293	62%
	2007	10,239	1,319	11,558	922	-	12,480	-
Executive								
A M Reynolds (Commenced employment 17 March 2008)	2008	42,908	1,115	44,023	3,862	1,284	49,169	3%
	2007	-	-	-	-	-	-	-
Former								
B W Alexander (Resigned 30 November 2007)	2008	11,468	1,401	12,869	1,032	-	13,901	-%
	2007	27,523	3,540	31,063	2,477	28,597	62,137	46%
J R McIntyre (Resigned 15 February 2007)	2008	-	-	-	-	-	-	-
	2007	85,265	12,614	97,879	8,574	57,194	163,647	35%
Former Executive								
R K Hacker (Resigned 11 April 2008)	2008	131,679	2,369	134,048	11,337	-	145,385	-%
	2007	146,789	3,540	150,329	13,211	14,299	177,839	8%
Total Compensation	2008	374,129	14,977	389,106	33,157	56,213	478,476	
	2007	430,367	28,093	458,460	39,633	328,866	826,959	

### 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:

# DIRECTORS' REPORT

CONTINUED

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
01.12.07	01.12.12	\$0.11	\$0.25	\$0.17	85%	6.3%	Nil
23.04.08	23.04.11	\$0.06	\$0.20	\$0.14	85%	6.3%	Nil

## Details of performance related remuneration

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

## 7.3 EQUITY INSTRUMENTS

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

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

	Number of options granted during 2008	Grant date	Number of options vested during 2008	Fair value per option at grant date \$	Exercise price \$	Expiry date
<b>Directors</b>						
A W Kiernan	500,000	01.12.07	500,000	0.11	0.25	01.12.12
<b>Former Executive</b>						
A M Reynolds	150,000	23.04.08	-	0.06	0.20	23.04.11

The options were provided at no cost to the recipients. Andrew Reynolds options were forfeited on termination of his employment contract on 1 August 2008.

### 7.3.2 Exercise of options granted as compensation

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

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

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

	Number granted	Date granted	% vested in year	Forfeited in year	Period in which grant vests
<b>Directors</b>					
A W Kiernan	500,000	01.12.07	100%	-	2008
<b>Executive</b>					
A M Reynolds	75,000	23.04.08	-	-	2009
	75,000	23.04.08	-	-	2010

Andrew Reynolds options were forfeited on termination of his employment contract on 1 August 2008.

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

	Value of options			Total option value in year \$
	Granted in year \$ (A)	Exercised in year \$ (B)	Forfeited in year \$ (C)	
<b>Directors</b>				
A W Kiernan	54,928	—	—	54,928
<b>Executive</b>				
A M Reynolds	8,813	—	—	8,813

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

## 8. Dividends

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

## 9. Likely developments

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

## 10. Subsequent events

There were no significant events occurring after balance sheet date.

## 11. Directors' interests

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

	Ordinary shares	Options over ordinary shares
A R Bantock	2,431,772	2,000,000
T R B Goyder	15,056,458	2,000,000
A W Kiernan	270,074	500,000

## 12. Share options

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

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

	Number of options granted
<b>Directors</b>	
A W Kiernan	500,000
<b>Executives</b>	
R K Hacker	500,000
A M Reynolds	150,000

Andrew Reynolds options were forfeited on termination of his employment contract on 1 August 2008.

### Unissued shares under options

At the date of this report 7,075,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

Expiry date	Exercise price	Number of shares
21.03.11	\$0.25	5,825,000
01.12.12	\$0.25	500,000
11.12.12	\$0.20	250,000
31.07.13	\$0.20	500,000

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

### Shares issued on exercise of options

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

## 13. Indemnification and insurance of directors and officers

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

During the year the Company paid insurance premiums of \$14,977 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.

#### 14. Non-audit services

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

#### 15. Auditor's independence declaration

The auditor's independence declaration is set out on page 26 and forms part of the Directors' report for the year ended 30 June 2008.

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



**Timothy R B Goyder**  
**Executive Director**

Dated at Perth this 5th day September 2008

# 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 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Chalice Gold Mines Limited.



**L Di Giallonardo**  
**Partner, HLB Mann Judd**

Perth, Western Australia  
5 September 2008

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$	2007 \$
Net gain/ (loss) on sale of exploration and evaluation assets	3	(1,681)	1,581,271
Net gain on sale of securities		556,852	-
Changes in fair value of available-for-sale investments	4	1,996,631	-
Other income	5	748,586	452,305
<b>Total income</b>		<b>3,300,388</b>	<b>2,033,576</b>
Impairment losses on exploration and evaluation expenditure		(1,355,640)	(1,556,950)
Exploration costs not capitalised		(41,783)	(68,211)
Corporate administrative expenses	6	(1,168,055)	(1,593,107)
Finance costs	9	(64)	(2,784)
<b>Profit/ (loss) before tax</b>		<b>734,846</b>	<b>(1,187,476)</b>
Income tax expense/benefit	10	-	-
<b>Profit/ (loss) for the period</b>		<b>734,846</b>	<b>(1,187,476)</b>
Basic earnings/ (loss) per share attributable to ordinary equity holders	11	0.01	(0.02)
Diluted earnings/ (loss) per share attributable to ordinary equity holders	11	0.01	(0.02)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 31 to 53.



# BALANCE SHEET

AS AT 30 JUNE 2008

	Note	2008 \$	2007 \$
<b>Current assets</b>			
Cash and cash equivalents	12	9,972,766	2,323,949
Trade and other receivables	13	84,085	5,919,204
Financial assets	14	-	20,701
Assets held for sale	15	164,064	153,189
<b>Total current assets</b>		<b>10,220,915</b>	<b>8,417,043</b>
<b>Non-current assets</b>			
Financial assets	14	74,698	70,193
Exploration and evaluation assets	16	2,033,937	3,134,600
Property, plant and equipment	17	207,781	208,491
<b>Total non-current assets</b>		<b>2,316,416</b>	<b>3,413,284</b>
<b>Total assets</b>		<b>12,537,331</b>	<b>11,830,327</b>
<b>Current liabilities</b>			
Trade and other payables	18	60,782	152,179
Employee benefits	19	19,565	22,688
<b>Total current liabilities</b>		<b>80,347</b>	<b>174,867</b>
<b>Non-current liabilities</b>			
Other	20	51,976	54,326
<b>Total non-current liabilities</b>		<b>51,976</b>	<b>54,326</b>
<b>Total liabilities</b>		<b>132,323</b>	<b>229,193</b>
<b>Net assets</b>		<b>12,405,008</b>	<b>11,601,134</b>
<b>Equity</b>			
Issued capital	21	13,974,454	13,974,454
Accumulated losses	21	(2,140,356)	(2,875,202)
Reserves	21	570,910	501,882
<b>Total Equity</b>		<b>12,405,008</b>	<b>11,601,134</b>

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 31 to 53.

# STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2008

	Note	Share capital \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
<b>Balance at 1 July 2007</b>		13,974,454	(2,875,202)	501,882	11,601,134
Employee share options vested		-	-	69,028	69,028
Profit for the period		-	734,846	-	734,846
<b>Balance at 30 June 2008</b>	21	13,974,454	(2,140,356)	570,910	12,405,008

		Share capital \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
<b>Balance at 31 July 2006</b>		13,974,454	(1,687,726)	133,153	12,419,881
Employee share options vested		-	-	368,729	368,729
Loss for the period		-	(1,187,476)	-	(1,187,476)
<b>Balance at 30 June 2007</b>	21	13,974,454	(2,875,202)	501,882	11,601,134

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 31 to 53.

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$	2007 \$
<b>Cash flows from operating activities</b>			
Cash receipts from operations		275,180	228,106
Cash paid to suppliers and employees		(1,060,139)	(1,046,185)
Interest paid		(64)	(2,315)
Interest received		476,546	248,982
<b>Net cash from operating activities</b>	24	(308,477)	(571,412)
<b>Cash flows from investing activities</b>			
Payments for mining exploration and evaluation		(360,083)	(2,408,849)
Acquisition of property, plant and equipment		(87,809)	(102,737)
Proceeds from sale of investments		11,960,176	-
Amounts paid to exercise options		(3,580,000)	-
Proceeds from sale of property, plant and equipment		5,010	43,812
<b>Net cash from (used in) investing activities</b>		7,937,294	(2,467,774)
<b>Cash flows from financing activities</b>			
Lodgement of bank guarantee and security deposits		20,000	(45,701)
Repayment of borrowings		-	(18,414)
<b>Net cash from financing activities</b>		20,000	(64,115)
Net increase/(decrease) in cash and cash equivalents		7,648,817	(3,103,301)
Cash and cash equivalents at the beginning of the period		2,323,949	5,427,250
<b>Cash and cash equivalents at 30 June</b>	12	9,972,766	2,323,949

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 31 to 53.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### I. Significant accounting policies

Chalice Gold Mines is an ASX listed public company domiciled in Australia at Level 2, 1292 Hay Street, Perth, Western Australia. The financial report of the Company is for the year ended 30 June 2008.

The financial report was authorised for issue by the Directors on the 5th day of September 2008.

#### (A) STATEMENT OF COMPLIANCE

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

#### (B) BASIS OF PREPARATION

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

In the year ended 30 June 2008, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. It has been determined by the Company that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to its accounting policies.

#### (C) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

(i) Recoverability of exploration expenditure

The carrying amount of exploration and evaluation expenditure is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest.

(ii) Share-based payment transactions

The Company measures the cost of equity-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

#### (D) SEGMENT REPORTING

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

## (E) REVENUE RECOGNITION

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

### (i) Sale of goods

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

### (ii) Services rendered

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

### (iii) Interest received

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

## (F) EXPENSES

### (i) Operating lease payments

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

### (ii) Finance lease payments

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

### (iii) Financing costs

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

## (G) DEPRECIATION

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

- plant and equipment 7%-40%
- fixtures and fittings 11%-22%
- motor vehicles 18.75%

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

## **(H) INCOME TAX**

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

## **(I) GOODS AND SERVICES TAX**

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

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

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

## **(J) IMPAIRMENT**

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

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

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

## **(K) CASH AND CASH EQUIVALENTS**

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

## **(L) TRADE AND OTHER RECEIVABLES**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### **(M) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

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

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

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

### **(N) PLANT AND EQUIPMENT**

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

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

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

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

### **(O) FINANCIAL ASSETS**

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

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

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

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

#### **(iii) Loans and receivables**

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



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

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

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

#### **(P) EXPLORATION, EVALUATION, DEVELOPMENT AND TENEMENT ACQUISITION COSTS**

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

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

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

#### **(Q) TRADE AND OTHER PAYABLES**

Trade and other payables are stated at cost.

#### **(R) INTEREST-BEARING LOANS AND BORROWINGS**

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

## **(i) Leases**

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

## **(S) EMPLOYEE BENEFITS**

### **(i) Superannuation**

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

### **(ii) Share-based payment transactions**

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

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

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

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the number of awards that, in the opinion of the Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

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

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

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

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

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

**(T) PROVISIONS**

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

**(U) SHARE CAPITAL**

**(i) Ordinary share capital**

Ordinary shares and partly paid shares are classified as equity.

**(ii) Transaction costs**

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

## 2. Segment reporting

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

## 3. Net gain on sale of exploration and evaluation assets

	2008 \$	2007 \$
Net (loss)/gain on sale of exploration and evaluation assets	(1,681)	1,581,271

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

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

**Tranche I**

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

## Tranche 2

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

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

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

At 30 June 2008 and subsequent to balance sheet date, the Company had not completed Tranche 2 of the sale agreement to sell the remaining Chalice Gold Mines tenements. Pending completion of Tranche 2, the remaining Chalice tenements will be transferred to Avoca Resources for consideration of \$841,000.

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

## 4. Fair value of available-for-sale investments

	2008 \$	2007 \$
Net change in fair value of available-for-sale investments	1,996,631	—

During the year, the Company exercised 2,000,000 Avoca Resources Limited options at an exercise price of \$1.79. A change in fair value until the date of exercise of each option of \$1,996,681 (2007: nil) has been recorded through profit and loss.

## 5. Other income

	2008 \$	2007 \$
Interest received	488,479	199,906
Gain on sale of plant and equipment	2,107	614
Corporate and administration service fees	258,000	251,435
Other	-	350
	748,586	452,305

	Note	2008 \$	2007 \$
<b>6. Corporate administrative expenses</b>			
Accounting fees		13,450	14,600
Annual report costs		16,550	20,891
ASIC fees		1,000	1,605
ASX fees		21,969	28,864
Audit fees	8	19,360	23,315
Consulting fees		1,707	12,800
Depreciation and amortisation	17	74,213	56,458
Insurance		27,924	36,167
Legal fees		47,181	30,295
Loss on sale of plant and equipment		-	3,293
Make good provision – office premises		5,288	35,868
Marketing		2,060	2,250
Personnel expenses	7	745,742	1,096,732
Printing and stationery		10,177	15,622
Rent and outgoings		72,448	89,576
Share registry		14,011	21,068
Travel and accommodation		2,593	12,112
Other		92,382	91,591
		1,168,055	1,593,107
<b>7. Personnel expenses</b>			
Wages and salaries		428,598	493,162
Directors' fees		84,862	95,000
Other associated personnel expenses		67,440	63,568
Defined contribution superannuation fund contributions		98,937	85,379
(Decrease)/increase in liability for annual leave		(3,123)	(9,106)
Equity-settled transactions	21	69,028	368,729
		745,742	1,096,732

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	2008 \$	2007 \$
<b>8. Auditor's remuneration</b>		
<b>Audit services</b>		
HLB Mann Judd: Audit and review of financial reports	19,360	23,315
<b>9. Finance costs</b>		
Interest expense	64	2,784
<b>10. Income tax</b>		
Current tax expense	257,593	(227,038)
Deferred tax expense relating to the origination and reversal of temporary differences	2,060,329	(560,148)
Tax losses not brought to account as deferred tax assets	(2,317,922)	787,186
Total income tax expense reported in the income statement	—	—
<b>Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/ (Loss) from continuing operations before income tax expense	734,846	(1,187,476)
Tax at the Australian corporate rate of 30%	220,454	(356,243)
Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income:		
Non-deductible expenses	37,139	129,205
Blackhole expenditure tax deductible	(35,133)	(35,133)
Origination and reversal of temporary differences	2,060,329	(560,148)
	2,282,789	(822,319)
Current year tax benefits not recognised	(2,282,789)	822,319
Income tax expense reported in the income statement	—	—

	2008 \$	2007 \$
<b>Deferred income tax</b>		
Deferred tax liabilities		
Delayed revenue recognition for tax purposes	(2,438)	15,381
Exploration and evaluation expenditure	326,936	1,166,411
Deferred tax assets		
Revenue (profits)/losses available for offset against future taxable income	(2,060,329)	560,148
Current receivables	1,748,008	(1,748,008)
Employee benefits	(937)	(4,873)
Accrued expenses	(11,240)	10,941
Net deferred tax assets recognised	–	–
<b>Tax Losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	3,931,332	9,663,253
Potential tax benefit at 30% tax rate	1,179,400	2,898,976

## 11. Earnings per share

### Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the year ended 30 June 2008 was based on the profit attributable to ordinary shareholders of \$734,846 [2007: loss \$1,187,476] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 72,800,000 [2007: 72,800,000].

	2008 \$	2007 \$
<b>Profit/(loss) attributable to ordinary shareholders (diluted)</b>		
Profit/(loss) attributable to ordinary shareholders	734,846	(1,187,476)
Profit/(loss) attributable to ordinary shareholders (diluted)	734,846	(1,187,476)
<b>Weighted average number of ordinary shares (diluted)</b>		
Weighted average number of ordinary shares at 30 June	72,800,000	72,800,000
Effect of share options on issue	–	–
Weighted average number of ordinary shares (diluted) at 30 June	72,800,000	72,800,000

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$	2007 \$
<b>12. Cash and cash equivalents</b>			
Bank balances		1,541,571	354,533
Bank bills		1,185,135	1,969,216
Term deposits		7,245,860	–
Petty cash		200	200
Cash and cash equivalents in the cash flow statement		9,972,766	2,323,949
<b>13. Trade and other receivables</b>			
<b>Current</b>			
Other trade receivables		51,416	63,210
Prepayments		32,669	29,301
Other current receivable – sale of exploration and evaluation assets	3	–	5,826,693
		84,085	5,919,204
<b>14. Financial assets</b>			
<b>Current</b>			
Bank guarantee and security deposits		–	20,701
<b>Non-current</b>			
Bond in relation to office premises		48,094	45,193
Bank guarantee and security deposits		26,604	25,000
		74,698	70,193
<b>15. Assets held for sale</b>			
Exploration and evaluation expenditure		164,064	153,189

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

At 30 June 2008, the Company had not completed Tranche 2 of the sale agreement to sell the remaining Chalice Gold Mines tenements, although a legally enforceable contract (subject to mining ministerial approvals) has been executed. Pending achievement of certain conditions precedent to the Tranche 2 sale (including the grant of an Exploration Licence and then amalgamation of the same with certain Prospecting Licences already held by Chalice Gold Mines, as well as the achievement of other conditions precedent typical of such sale agreements), the remaining Chalice tenements will be transferred to Avoca Resources for consideration of \$841,000.

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



	<b>Note</b>	<b>2008 \$</b>	<b>2007 \$</b>
<b>I6 Exploration and evaluation expenditure</b>			
Costs carried forward in respect of areas of interest in the exploration and evaluation phase (at cost)		3,134,600	7,175,824
Acquisition of tenements – stamp duty and other		–	374,009
Expenditure incurred during the year		307,635	1,608,539
Impairment of exploration and evaluation expenditure		(1,355,640)	(1,556,950)
Exploration costs not capitalised		(41,783)	(68,211)
Disposals of tenements		–	(4,245,422)
Transfer to assets held for sale	15	(10,875)	(153,189)
		<b>2,033,937</b>	<b>3,134,600</b>

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

	<b>2008 \$</b>	<b>2007 \$</b>
<b>I7. Property, plant and equipment</b>		
At cost	332,281	263,460
Less: accumulated depreciation	(124,500)	(54,969)
	<b>207,781</b>	<b>208,491</b>
<b>Plant and equipment</b>		
Carrying amount at beginning of financial year	208,491	181,338
Additions	76,147	112,228
Depreciation	(74,213)	(54,290)
Transfers from plant and equipment under hire purchase	–	532
Disposals/write offs	(2,644)	(31,317)
Carrying amount at end of period	<b>207,781</b>	<b>208,491</b>
<b>Plant and equipment under hire purchase</b>		
Carrying amount at beginning of financial year	–	17,869
Additions	–	–
Amortisation	–	(2,169)
Transfers to plant and equipment	–	(532)
Disposals/write offs	–	(15,168)
Carrying amount at end of period	<b>–</b>	<b>–</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	2008 \$	2007 \$
<b>18. Trade and other payables</b>		
Trade payables	46,402	99,602
Accrued expenses	14,380	52,577
	60,782	152,179
<b>19. Employee benefits</b>		
Liability for annual leave	19,565	22,688
	19,565	22,688

## Share based payments

### (a) Employee Share Option Plan

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

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

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

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

	Weighted average exercise price \$ 2008	Number of options 2008
Outstanding at the beginning of the period	0.25	5,825,000
Forfeited during the period	—	—
Exercised during the period	—	—
Granted during the period	0.23	900,000
Outstanding at the end of the period	0.25	6,725,000
Exercisable at the end of the period	0.25	500,000

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

The options outstanding at 30 June 2008 have an exercise price of \$0.25 [2007: \$0.25] and a weighted average contractual life of 5 years.

During the period, no share options were exercised.

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

The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

	2008	2007
Fair value of share options and assumptions		
Share price at grant date	\$0.19	—
Exercise price	\$0.23	—
Expected volatility (expressed as weighted average volatility used in the modelling under binominal option-pricing model)	81%	—
Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)	5 years	—
Expected dividends	—	—
Risk-free interest rate	5.43%	—

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.

	2008 \$	2007 \$
Share options granted in 2008 - equity settled	69,028	368,729
<b>Total expense recognised as personnel expenses</b>	<b>69,028</b>	<b>368,729</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	2008 \$	2007 \$
<b>20. Other non-current liabilities</b>		
Lease incentive	10,820	18,457
Make good provision	41,156	35,869
	51,976	54,326

## 21. Capital and reserves

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

	2008			
	Share capital (a) \$	Accumulated losses \$	Share based payments reserve \$	Total equity \$
Balance at 1 July 2007	13,974,454	(2,875,202)	501,882	11,601,134
Employee share options vested	–	–	69,028	69,028
Profit for the period	–	734,846	–	734,846
Balance at 30 June 2008	13,974,454	(2,140,356)	570,910	12,405,008

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

#### (a) Share capital

There were 72,800,000 shares on issue at 30 June 2008 and 30 June 2007.

#### 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

	2008 No.	2007 No.
On issue at 1 July	5,825,000	6,575,000
Options forfeited	—	(750,000)
Options issued during the year	900,000	—
On issue at 30 June	6,725,000	5,825,000

At 30 June 2008 the Company had 6,725,000 unlisted options on issue under the following terms and conditions:

Number	Expiry Date	Exercise Price
5,825,000	21.03.11	\$0.25
500,000	01.12.12	\$0.25
150,000	23.04.11	\$0.20
250,000	11.12.12	\$0.20

## 22. Financial instruments

### (a) Capital risk management

The Company 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 Company consists of equity attributable to equity holders, comprising issued capital, reserves and accumulated losses as disclosed in note 21.

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 Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

### (b) Market risk exposures

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

#### Foreign exchange rate risk

The Company currently has no significant exposure to foreign exchange rates.

#### Equity prices

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

## Interest rate risk

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

### 30 June 2008

	Note	1 year or less \$	Over 1 to 5 years \$	Floating interest \$	Non- interest bearing \$	Total \$	Weighted average int. rate
<b>Financial assets</b>							
Bank balances	12	—	—	1,541,571	—	1,541,571	1.04%
Bank bills	12	1,185,135	—	—	—	1,185,135	7.26%
Term deposits	12	7,245,860	—	—	—	7,245,860	7.71%
Bank guarantees and security deposits	14	74,698	—	—	—	74,698	8.05%
Petty cash	12	—	—	—	200	200	—
Trade and other receivables	13	—	—	—	51,416	51,416	—
<b>Financial liabilities</b>							
Trade payables and accrued expenses	18	—	—	—	60,782	60,782	—
Employee benefits	19	—	—	—	19,565	19,565	—

### 30 June 2007

	Note	1 year or less \$	Over 1 to 5 years \$	Floating interest \$	Non- interest bearing \$	Total \$	Weighted average int. rate
<b>Financial assets</b>							
Bank balances	12	—	—	354,533	—	354,533	1.43%
Bank bills	12	1,969,216	—	—	—	1,969,216	6.17%
Bank guarantees and security deposits	14	90,894	—	—	—	90,894	6.40%
Petty cash	12	—	—	—	200	200	—
Trade and other receivables	13	—	—	—	5,889,903	5,889,903	—
<b>Financial liabilities</b>							
Trade payables and accrued expenses	18	—	—	—	152,179	152,179	—
Employee benefits	19	—	—	—	22,688	22,688	—

A change of 100 basis points in interest rates on bank balances and term deposits at the reporting date would have increased/

(decreased) profit and loss by \$99,726.

**(c) Credit risk exposure**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is not significant and currently arises principally from sundry receivables (see note 13) which represent an insignificant proportion of the Company's activities.

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

**(d) Liquidity risk exposure**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Board actively monitors the Company'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 Company has non-derivative financial liabilities which include trade and other payables of \$60,782 (2007: \$152,179) 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.

## 23. Capital and other commitments

### Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Company may in certain situations apply for exemptions under relevant mining legislation 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:

	<b>2008</b> <b>\$</b>	<b>2007</b> <b>\$</b>
Within 1 year	1,012,820	692,860
Within 2 – 5 years	1,748,180	1,299,113
Later than 5 years	-	-
	<b>2,761,000</b>	<b>1,991,973</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

## Remuneration commitments

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

	2008 \$	2007 \$
Within 1 year	125,000	125,000
Within 2-5 years	-	-
	125,000	125,000

## Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

within 1 year	82,596	80,873
within 2-5 years	36,016	144,736
	118,612	225,609

## 24. Reconciliation of cash flows from operating activities

Profit/(loss) for the period	734,846	(1,187,476)
Adjustments for:		
Depreciation and amortisation	74,213	56,458
(Profit)/loss on sale of exploration and evaluation assets	1,681	(1,581,271)
Net gain on sale of securities	(556,852)	-
Loss on sale of other assets	-	3,294
Profit on sale of other assets	(2,108)	(614)
Changes in fair value of available-for-sale investments	(1,996,631)	-
Provision for make good lease fit out (office premises)	5,289	35,868
Impairment losses on exploration and evaluation expenditure	1,355,640	1,556,950
Exploration costs not capitalised	41,783	68,211
Interest on finance leases	-	470
Equity-settled share-based payment expenses	69,028	368,729
<b>Operating loss before changes in working capital and</b>	<b>(273,111)</b>	<b>(679,381)</b>
(Increase)/decrease in trade and other receivables	15,126	154,215
Increase/(decrease) in trade creditors and accruals	(35,927)	(46,268)
Increase/(decrease) in provisions	(10,761)	2,215
Increase/(decrease) in non-current financial assets	(3,804)	(2,193)
<b>Net cash used in operating activities</b>	<b>(308,477)</b>	<b>(571,412)</b>



## 25. Key management personnel

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

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### Executive Directors

A R Bantock (Executive Chairman)

### Non-executive Directors

T R B Goyder

B W Alexander (resigned 30 November 2007)

A W Kiernan

### Executives

R K Hacker (Company Secretary) (resigned 11 April 2008)

A M Reynolds (Company Secretary) (appointed 17 March 2008)

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The key management personnel compensation included in 'personnel expenses' (see note 7) are as follows:

	2008 \$	2007 \$
Short-term employee benefits	389,106	458,460
Post-employment benefits	33,157	39,633
Equity settled transactions	56,213	328,866
	478,476	826,959

### Individual directors' and executives' compensation disclosures

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

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

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

### Other key management personnel transactions with the Company

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

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

Key management persons	Transaction	Note	2008 \$	2007 \$
B W Alexander	Geological consulting services	(i)	20,960	44,520
A W Kiernan	Legal services	(ii)	37,005	15,277
<b>Other related parties</b>				
Liontown Resources Limited	Corporate services	(iii)	(258,000)	(96,500)
Uranium Equities Limited	Corporate services	(iv)	-	(154,935)

- (i) The Company engaged Archaean Exploration Pty Ltd, a company of which Mr Alexander is a Director, to provide geological consulting services to the Company during the 2008 financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Company used the legal services of Mr Kiernan and Christensen Vaughan (a company of which Mr Kiernan is a consultant) during the course of the financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (iii) The Company supplies corporate services including accounting and company secretarial services under a Corporate Services Agreement with Liontown Resources Limited. Messrs Bantock, Goyder and Kiernan were all Directors of Liontown Resources Limited during the year and Mr Hacker and Mr Reynolds were the Company Secretary. Amounts were billed on a proportionate share of the cost to the Company of providing the services and are due and payable under normal payment terms.
- (iv) The Company supplied corporate services including accounting and company secretarial services under a Corporate Services Agreement with Uranium Equities Limited (until May 2007). Messrs Bantock, Goyder and Kiernan are all Directors of Uranium Equities Limited and Mr Hacker and Mr Reynolds were the Company Secretary. Amounts were billed on a proportionate share of the cost to the Company of providing the services and are due and payable under normal payment terms.

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

Assets and liabilities arising from the above transactions	2008 \$	2007 \$
Current payables	(6,110)	(13,657)
Trade debtors	21,500	31,900
	15,390	18,243

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

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

2008	Held at 1 July 2007	Granted as compensation	Exercised	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
A R Bantock	2,000,000	—	—	2,000,000	—	—
T R B Goyder	2,000,000	—	—	2,000,000	—	—
A W Kiernan	—	500,000	—	500,000	500,000	—
<b>Former Director</b>						
B W Alexander	500,000	—	—	500,000	—	—
J R McIntyre	1,000,000	—	—	1,000,000	—	—
<b>Executive</b>						
A M Reynolds	—	150,000	—	150,000	—	—
<b>Former Executive</b>						
R K Hacker	250,000	—	—	250,000	—	—

### Movements in ordinary shares

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

2008	Held at 1 July 2007	Additions	Received on exercise of options	Sales	Held at 30 June 2008
<b>Directors</b>					
A R Bantock	2,531,772	—	—	—	2,531,772
T R B Goyder	11,804,008	2,670,483	—	—	14,474,491
A W Kiernan	270,074	—	—	—	270,074
<b>Former Director</b>					
B W Alexander	455,336	1,222,121	—	437,669	1,239,788
<b>Executive</b>					
A M Reynolds	—	—	—	—	—
<b>Former Executive</b>					
R K Hacker	137,535	—	—	137,535	—

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

# DIRECTORS' DECLARATION

- 1 In the opinion of the Directors of Chalice Gold Mines Limited ('the Company'):
  - (a) the financial statements and notes including the remuneration disclosures that are contained in sections 7.1, 7.2 and 7.3 of the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company as at 30 June 2008 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations by the Chief Executive Officer (or equivalent) and Chief Financial Officer (or equivalent) for the year ended 30 June 2008 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth the 5th day of September 2008.

Signed in accordance with a resolution of the Directors:



**TIMOTHY R B GOYDER**  
**Executive Director**

# INDEPENDENT AUDIT REPORT

## REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Chalice Gold Mines Limited ("the company"), which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORT

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity'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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

## INDEPENDENCE

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

# INDEPENDENT AUDIT REPORT

## CONTINUED

### AUDITOR'S OPINION

In our opinion:

- (a) the financial report of Chalice Gold Mines Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the 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 2008. 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 2008, complies with section 300A of the Corporations Act 2001.



**HLB Mann Judd**  
**Chartered Accountants**



**L Di Giallonardo**  
**Partner**

Perth, Western Australia  
5 September 2008

# CORPORATE GOVERNANCE STATEMENT

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

## I. Board of Directors

### I.1 ROLE OF THE BOARD AND MANAGEMENT

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

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

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

The Board has sole responsibility for the following:

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

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

### I.2 COMPOSITION OF THE BOARD AND NEW APPOINTMENTS

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

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

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

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

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

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

### 1.3 COMMITTEES OF THE BOARD

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

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

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

### 1.4 CONFLICTS OF INTEREST

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

### 1.5 INDEPENDENT PROFESSIONAL ADVICE

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

## 2. Ethical Standards

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

### 2.1 CODE OF CONDUCT FOR DIRECTORS

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



The principles of the code are:

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

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

## 2.2 CODE OF ETHICS AND CONDUCT

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

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

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

### 2.3 DEALINGS IN COMPANY SECURITIES

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

#### **'Inside information' is information that:**

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

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

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

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

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

Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

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

### 2.4 INTERESTS OF OTHER STAKEHOLDERS

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

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

### 3. Disclosure of Information

#### 3.1 CONTINUOUS DISCLOSURE TO ASX

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

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

Information is not material and need not be disclosed if:

- a) a reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and
- b) the information is confidential; or one of the following applies:
  - it would breach a law or regulation to disclose the information;
  - the information concerns an incomplete proposal or negotiation;
  - the information comprises matters of supposition or is insufficiently definite to warrant disclosure;
  - the information is generated for internal management purposes;
  - the information is a trade secret;
  - it would breach a material term of an agreement, to which the company is a party, to disclose the information;
  - it would harm the Company's potential application or possible patent application; or
  - the information is scientific data that release of which may benefit the Company's potential competitors.

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

#### 3.2 COMMUNICATION WITH SHAREHOLDERS

The Company places considerable importance on effective communications with shareholders.

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

Mechanisms employed include:

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

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

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

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

## 4. Risk Management

### 4.1 IDENTIFICATION OF RISK

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

Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Executive Director having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include:

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

### 4.2 INTEGRITY OF FINANCIAL REPORTING

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

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

### 4.3 ROLE OF AUDITOR

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

## 5. Performance Review

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

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

## 6. Remuneration Arrangements

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

Remuneration packages offered by Chalice Gold Mines are therefore geared to attracting talented employees through a combination of fixed remuneration and long term incentives, calibrated and individually tailored to be competitive in the external market to offer good incentive to join and remain with the Company.

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

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

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

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

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

#### **Council Principle 1:**

##### **Lay solid foundations for management and oversight**

Council Recommendation 1.1:

Formalise and disclose the functions reserved to the board and those delegated to management.

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

#### **Council Principle 2**

##### **Structure the board to add value**

Council Recommendation 2.1:

A majority of the board should be independent Directors.

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

Refer Section 1.2 of Corporate Governance Statement.

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

Council Recommendation 2.2:

The chairperson should be an independent Director.

Council Recommendation 2.3:

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

The Company complies with this recommendation.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.4:

The board should establish a nomination committee.

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

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

Refer Section 1.3 of Corporate Governance Statement.

### **Council Principle 3:**

#### **Promote ethical and responsible decision-making**

Council Recommendation 3.1:

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

- 3.1.1 the practices necessary to maintain confidence in the Company's integrity;
- 3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

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

Council Recommendation 3.2:

Disclose the policy concerning trading in Company securities by Directors, officers and employees.

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

#### **Council Principle 4:**

##### **Safeguard integrity in financial reporting**

Council Recommendation 4.1:

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

The Company complies with this recommendation.

Council Recommendation 4.2:

The board should establish an audit committee.

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

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

Council Recommendation 4.3:

Structure the audit committee so that it consists of:

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

Refer Recommendation 4.2.

Council Recommendation 4.4

The audit committee should have a formal operating charter.

Refer Recommendation 4.2.

#### **Council Principle 5:**

##### **Make a timely and balanced disclosure**

Council Recommendation 5.1:

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

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

# CORPORATE GOVERNANCE STATEMENT

## CONTINUED

### **Council Principle 6:**

#### **Respect the rights of shareholders**

Council Recommendation 6.1:

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

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

Council Recommendation 6.2:

Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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

### **Council Principle 7:**

#### **Recognise and manage risk**

Council Recommendation 7.1:

The Board or appropriate board committee should establish policies on risk oversight and management.

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

Council Recommendation 7.2

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

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

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

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

### **Council Principle 8:**

#### **Encourage enhanced performance**

Council Recommendation 8.1:

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

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



## **Council Principle 9: Remunerate fairly and responsibly**

Council Recommendation 9.1:

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

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

Council Recommendation 9.2:

The board should establish a remuneration committee.

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

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

Council Recommendation 9.3

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

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

Council Recommendation 9.4

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

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

## **Council Principle 10: Recognise the legitimate interests of stakeholders**

Council Recommendation 10.1:

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

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

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock 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 4 September 2008 were:

Shareholder	Number of ordinary shares held	Percentage of capital held %
Timothy R B Goyder	15,056,458	20.68
Resolute Limited	7,624,546	10.47

### CLASS OF SHARES AND VOTING RIGHTS

At 4 September 2008 there were 884 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 4 SEPTEMBER 2008:

Category	Number of equity security holders	
	Ordinary Shares	Unlisted Share Options
1 – 1,000	66	–
1,001 – 5,000	261	–
5,001 – 10,000	181	–
10,000 – 100,000	284	1
100,001 and over	92	5
<b>Total</b>	<b>884</b>	<b>6</b>

The number of shareholders holding less than a marketable parcel at 4 September 2008 was 319.

**TWENTY LARGEST ORDINARY FULLY PAID SHAREHOLDERS  
AS AT 4 SEPTEMBER 2008**

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Percentage of capital held %</b>
Plato Prospecting Pty Ltd	14,018,452	19.26
Resolute Limited	7,624,546	10.47
Nefco Nominees Pty Ltd	3,412,004	4.69
Define Consulting Pty Ltd (The Define Consulting A/C)	2,391,772	3.29
Colbern Fiduciary Nominees Pty Ltd	2,200,000	3.02
Balfes (QLD) Pty Ltd (Balfes Super Fund A/C)	1,500,000	2.06
Lost Ark Nominees Pty Limited	1,200,000	1.65
Mr Philip Button & Ms Philipa Anne Nicol (Christopher Jordan A/C)	1,199,876	1.65
Tara Management Pty Ltd	1,132,012	1.55
Toltec Holdings Pty Ltd	1,127,145	1.55
Clodene Pty Ltd	1,069,657	1.47
Mr Terrence Peter Williamson & Ms Jonine Maree Jancey (The Wiljan Super Fund A/C)	1,044,082	1.43
Mr Arnold Olschyna	1,000,000	1.37
Calm Holdings Pty Ltd (Tide A/C)	970,000	1.33
Penally Management Limited	881,338	1.21
Mrs Helen Joy Alexander	805,200	1.11
Zarzal Pty Ltd (D T & W M Johns Family A/C)	800,000	1.10
Ledge Finance Limited	773,334	1.06
Piat Corp Pty Ltd	700,248	0.96
Wersman Nominees Pty Ltd	700,000	0.96
<b>Total</b>	<b>44,549,666</b>	<b>61.19</b>



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