



ABN 47 116 648 956

NOTICE OF GENERAL MEETING, EXPLANATORY STATEMENT AND PROXY FORM

A General Meeting of the Company will be held at the office of Chalice Gold Mines Limited, Level 2, 1292 Hay Street, West Perth, Western Australia, on 5 June 2013 at 10.00 am (WST).

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

A General Meeting of the Shareholders of Chalice Gold Mines Limited ('Chalice') to which this Notice of Meeting relates will be held at 10.00 am (WST) on 5 June 2013 at Level 2, 1292 Hay Street, West Perth, Western Australia.

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the General Meeting on the date and at the place set out above.

VOTING BY PROXY

All Shareholders who are entitled to attend and vote at the meeting have the right to appoint a proxy to attend and vote for them. The proxy does not have to be a Shareholder. Shareholders holding two or more Shares can appoint either one or two proxies. If two proxies are appointed, the appointing Shareholder can specify what proportion of their votes they want each proxy to exercise.

To vote by proxy, please complete and sign the proxy form enclosed and either send it:

- (a) by post to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, VIC, 3001 (reply paid envelope enclosed); or
- (b) by facsimile (within Australia) 1800 783 447 and (outside Australia) +61 3 9473 2555,

so that it is received **no later than 10.00 am (WST) on 3 June 2013**, being not less than 48 hours prior to the commencement of the meeting. Proxy forms received later than this time will be invalid. Where the proxy form is executed under power of attorney, the power of attorney must be lodged in the same way as the proxy form.

BODIES CORPORATE – CORPORATE REPRESENTATION

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at the meeting of Shareholders. The appointment may be a standing one. An Appointment of Corporate Representative is enclosed with this Notice.

VOTING ENTITLEMENTS

The Board has determined that, for the purpose of voting at the meeting, Shareholders are those persons who are the registered holders of the Company's shares at **4.00 pm (WST) on 3 June 2013**.

ENQUIRIES

The Company welcomes enquiries in respect of matters covered in this Notice of Meeting and Explanatory Memorandum and the attendance of Shareholders at the General Meeting. Should you require further information please contact:

The Company Secretary
 Richard Hacker
 Phone: (+61 8) 9322 3960
 Fax: (+61 8) 9322 5800
 Email: rhacker@chalicegold.com

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that a General Meeting (**Meeting**) of the Shareholders of Chalice Gold Mines Limited (the **Company**) will be held at Level 2, 1292 Hay Street, West Perth, Western Australia on 5 June 2013 at 10.00 am (WST).

AGENDA

RESOLUTION 1 – ISSUE OF PERFORMANCE RIGHTS TO MR WILLIAM BENT

To consider and, if thought fit, to pass as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 1,453,444 Performance Rights (and the issue of Shares following vesting of the Performance Rights) to the Managing Director of the Company, Mr William Bent, in accordance with the Chalice Gold Mines Limited Long Term Incentive Plan and on the terms set out in the Explanatory Statement.”

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 1 by Mr William Bent and by any other director of the Company who is eligible to participate in any of the Company's employee incentive schemes and any of their respective associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, the Company will disregard votes cast by a member of the Key Management Personnel (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of Key Management Personnel.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 1.

RESOLUTION 2 – ISSUE OF PERFORMANCE RIGHTS TO DR DOUGLAS JONES

To consider and, if thought fit, to pass as an ordinary resolution:

“That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to issue up to 655,000 Performance Rights (and the issue of Shares following vesting of the Performance Rights) to the Technical Director of the Company, Dr Douglas Jones, in accordance with the Chalice Gold Mines Limited Long Term Incentive Plan and on the terms set out in the Explanatory Statement.”

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 2 by Dr Douglas Jones and by any other director of the Company who is eligible to participate in any of the Company's employee incentive schemes and any of their respective associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a

direction on the proxy form to vote as the proxy decides.

In addition, the Company will disregard votes cast by a member of the Key Management Personnel (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of Key Management Personnel.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 2.

RESOLUTION 3 – GRANT OF OPTIONS TO MR ANTHONY KIERNAN

To consider, and if thought fit, to pass as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.14, Chapter 2E of the Corporations Act 2001 and for all other purposes, approval is given to grant 750,000 options to Non-executive Director, Mr Anthony Kiernan, with an exercise price being the greater of 30 cents or 150% of the VWAP of the fully paid ordinary shares of the Company on the 5 trading days prior to the date of shareholder approval, expiring 30 June 2016 on the terms set out in the Explanatory Statement and in accordance with the Company's Employee Share Option Plan."

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 3 by Mr Anthony Kiernan and by any other director of the Company who is eligible to participate in any of the Company's employee incentive schemes and by any of their associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, the Company will disregard votes cast by a member of the Key Management Personnel (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of Key Management Personnel.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 3.

RESOLUTION 4 – GRANT OF OPTIONS TO MR STEPHEN QUIN

To consider, and if thought fit, to pass as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 10.14, Chapter 2E of the Corporations Act 2001 and for all other purposes, approval is given to grant 300,000 options to Non-executive Director, Mr Stephen Quin, with an exercise price being the greater of 30 cents or 150% of the VWAP of the fully paid ordinary shares of the Company on the 5 trading days prior to the date of shareholder approval, expiring 30 June 2016 on the terms set out in the Explanatory Statement and in accordance with the Company's Employee Share Option Plan."

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 4 by Mr Stephen Quin and by any other director of the Company who is eligible to participate in any of the Company's employee incentive schemes and by any of their respective associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the chairman of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, the Company will disregard votes cast by a member of the Key Management Personnel (or any of their closely related parties) as proxy, where the appointment does not specify the way the proxy is to vote, unless the proxy is the Chairman of the meeting and has been expressly authorised to vote on behalf of someone entitled to vote on this resolution, even though it is connected with the remuneration of Key Management Personnel.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 4.

By order of the Board



RICHARD HACKER
Company Secretary

16 April 2013

EXPLANATORY STATEMENT

This Explanatory Statement (which comprises part of the Notice of Meeting) has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting of Chalice Gold Mines Limited ('Chalice') to be held at Level 2, 1292 Hay Street, West Perth, Western Australia on 5 June 2013 at 10.00 am (WST).

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the resolutions set out in the Notice of Meeting.

In late 2012, Chalice sold its interest in the Koka Gold Mine in Eritrea to China SFECO Group and the Eritrean National Mining Corporation for gross proceeds of \$114 million. Following a capital return to shareholders and payment of taxes on the transaction, Chalice has a strong balance sheet with approximately US\$53 million in cash at the date of this Notice of Meeting.

The key objectives of the company going forward are:

1. To leverage the Company's strong balance sheet to acquire new project(s) or asset(s) capable of generating significant upside on the value of the company. The Company has set an internal target of 6 to 12 months for acquiring a new project or asset, recognising the time frame will be dependent on the availability of quality projects or assets.
2. To successfully implement the next stage of the Company's exploration drilling program at the Company's Mogoraib North property in Eritrea. This stage of the drilling program is targeting completion before the start of the wet season in 2013 (i.e. before the end of July 2013).

The Company recently recruited a new Managing Director, Mr William Bent to lead the next stage of growth for the Company and deliver the Company's growth objectives. Mr Bent commenced as Managing Director of the Company on 1 February 2013 and further information on Mr Bent is included as part of information on Resolution 1 below. A further key component for delivering the Company's strategy includes aligning and implementing the Company's short and long term incentive plans for executives and directors to support delivering the growth objectives of the Company and driving value for shareholders.

The Explanatory Statement describes the proposed issue of Performance Rights and Options to Executive and Non-executive Directors respectively.

RESOLUTION 1 – APPROVAL OF ISSUE OF PERFORMANCE RIGHTS TO MR WILLIAM BENT

Background

Shareholder approval is sought for the issue of up to but not exceeding 1,453,444 Performance Rights to Mr William Bent, the Managing Director of the Company under the terms of the Chalice Long Term Incentive Plan ("the Plan").

Shareholder approval to the proposed issue of Performance Rights to Mr Bent is required under ASX Listing Rule 10.14 because Mr Bent is a Director of the Company.

Mr Bent commenced as Managing Director of the Company on 1 February 2013. Further information on Mr Bent appears at the end of this section of the Explanatory Statement.

Remuneration arrangements

As previously announced, Mr Bent's employment contract specified the following remuneration arrangements:

- (a) An Annual Fixed Salary of \$390,000 per annum inclusive of superannuation.
- (b) By way of short term incentive, a cash bonus up to the value of 40% of his Annual Fixed Salary upon achievement of key performance indicators to be determined by the Board (to align with the strategic direction of the Company). At the election of the Company and subject to Shareholder approval, this bonus may be paid in Shares rather than cash.
- (c) By way of long term incentive, an annual issue of Performance Rights (issued under the Plan) having a value of up to 60% of his Annual Fixed Salary with performance hurdles and performance and/or vesting periods being determined by the Board. The issue of these Performance Rights is subject to Shareholder approval.

NB: Subsequent to the engagement of Mr Bent, it was agreed between the Company and Mr Bent that the ratio of short term to long term incentive would be changed from 40%:60% to 50%:50%.

Long Term Incentive Plan

The Company established the Plan to provide its executives (including executive directors) with long term incentives designed to create a link between the delivery of value to Shareholders, financial performance and the rewarding and retaining of executives. Under the Plan, which was approved by shareholders on 22 November 2011, the Board has discretion to grant Performance Rights to any person it determines eligible upon the terms of the Plan. An issue to directors would additionally require a separate shareholder approval.

A Performance Right is, in effect, a contractual right to be issued a fully paid ordinary share in the Company ("Share") on the satisfaction of certain conditions. It follows, therefore, that if these conditions are not satisfied, the Shares would not be issued. Therefore, the number of Shares to be issued to Mr Bent upon the vesting of the Performance Rights are 'at risk' until the vesting conditions are met, i.e. there is no certainty that Shares arising from the Performance Rights will in fact be issued. Also, the number of Shares ultimately to be issued may not equate to the number of Performance Rights as the issue of those Shares is subject to performance hurdles/conditions to be met.

Proposed number of Performance Rights to be issued

Approval is being sought for the issue of the first tranche of Performance Rights to Mr Bent. Any future issues of Performance Rights will require separate Shareholder approval.

Following the issue of the Performance Rights, there is a test or measuring date (which in this case is 1 January 2015). At that date the Board will assess the extent to which the performance conditions or hurdles are met.

Under the terms of Mr Bent's employment contract, Mr Bent is entitled to an annual issue of Performance Rights having a value of up to a maximum of 50% of his Annual Fixed Salary. As Mr Bent's employment commenced on 1 February 2013 (being part way through the financial year), for the first tranche, it is proposed that the calculation to determine the number of Performance Rights be calculated using a 17 month period (1 February 2013 to 30 June 2014). From 1 July 2014, the annual calculation to determine the maximum number of Performance Rights which Mr Bent shall be issued will be based on his Annual Fixed Salary on 1 July each year and be for a period of 12 months (as opposed to the first up period of 17 months for Mr Bent).

If Resolution 1 is approved, Mr Bent will be invited to apply for, and if application is made, will be issued the number of Performance Rights determined in accordance with the following formula:

$$\begin{aligned} & \text{(Annual Fixed Salary as at 1 February 2013} \times \text{(515days/365days)} \times \text{50\%)} / \text{30 day VWAP at 1 February 2013} \\ &= (\$390,000 \times (515/365) \times 50\%) / 0.1893 \\ &= 1,453,444 \text{ Performance Rights} \end{aligned}$$

("Issue Formula")

VWAP is the 30 day volume weighted average share price of ordinary shares in the Company on ASX at 1 February 2013

Performance conditions and vesting period

The Performance Rights will not vest (and the underlying Shares will not be issued) unless the performance conditions set by the Board for each cycle of the Plan have been satisfied. It is the intention of the Company to use the "standard" measure of Total Shareholder Return (TSR) as the performance measure for the Plan, where the Company's TSR will be compared against that of a comparator group of companies over the selected performance period for each cycle of the Plan. However, given the Company has recently sold its primary asset and is in the process of looking for a new asset, a comparator group of companies cannot yet be determined. The Board has therefore selected absolute share price as the most appropriate measure for the first tranche of Performance Rights issued under the Plan to determine long term business performance of the Company for vesting period of 1 February 2013 until 30 June 2015 (29 months).

The number of Performance Rights that will vest will be solely dependent on the Company's share price as at the measurement (or test) date of 1 January 2015 as compared to the Share price hurdles outlined in the following table. The Company's share price will be calculated on its 30 day VWAP.

If the 30 Day VWAP as at 1 January 2015 is	Percentage of Performance Rights which will Vest
Below 25 cents	0%
25 cents*	33%
Between 25 cents and 38 cents*	Pro rata between 33% and 100%
Above 38 cents*	100%

* The Share price hurdles of 25 cents and 38 cents were based on a 33% and 100% increase respectively in the 30 day VWAP of 18.93 cents as at 1 February 2013 (rounded to the nearest half cent).

Following the measurement date on 1 January 2015, it is a condition that an additional 6 month service period must be completed by Mr Bent meaning that any vested Performance Rights which are converted to Shares after the measurement date will be subject to a holding lock until 30 June 2015. It is also a condition that Mr Bent be an employee of the Company at 30 June 2015. The total vesting period will be 2 years and 5 months for the first tranche because of Mr Bent's commencement date being part way through the financial year. Any future performance rights issued to Mr Bent will have a vesting period of a minimum of 3 years.

Summary

For additional clarity, if Resolution 1 is approved by Shareholders, the Performance Rights to be issued to Mr Bent will be calculated and treated as follows:

- On or about 5 June 2013, Mr Bent will be issued the first tranche of 1,453,444 Performance Rights calculated by reference to Mr Bent's Annual Fixed Salary (extrapolated to take into account the commencement of his employment part way through the financial year) as at 1 February 2013 and the Company's 30 day VWAP (**see the Issue Formula above**).
- On 1 January 2015, being the measurement date, the 30 day VWAP share price will be evaluated against the criteria set out in the table above to determine the percentage of Performance Rights that will vest, if any.

By way of example, if the share price was 29 cents on 1 January 2015 (based on the 30 day VWAP), then, Mr Bent would be entitled to convert 53.6% (or 779,270) of the Performance Rights into Shares at 1 January 2015 (calculated as $(33\% + ((29 \text{ cents} - 25 \text{ cents}) / (38 \text{ cents} - 25 \text{ cents})) \times 67\%)$). However, Mr Bent must complete an additional 6 months service period before he is able to deal in the Shares.

- Mr Bent will be entitled to an annual issue of Performance Rights on 1 July each year commencing on 1 July 2014, which will require future Shareholder approval.

As noted above, Mr Bent's employment contract also provides for a short term incentive in the nature of a cash bonus of up to 50% of his Annual Fixed Salary upon achievement of certain key performance indicators. The indicators upon which the short term bonuses depend are broadly divided into three areas namely:

- successful exploration at Mogoraib North in Eritrea (upon which there is a weighting of 15% of the 50%);
- the acquisition by the Company of a significant project (of which there is a weighting of 25% of the 50%); and
- meeting of defined Personal Objectives (of which there is a weighting of 10% of the 50%).

In relation to Mogoraib North, the entitlement ranges for no bonus where exploration does not add value through various stages up to 100% (of the 15%) where exploration defines potential for a stand-alone, economic satellite development.

In relation to the acquisition of a project, the Board has discretion and needs to be satisfied that the acquisition is "significant" in the context of the Company.

In relation to Personal Objectives, these relate to matters such as safety, the environment, costs, meeting regulatory matters and the like.

Regulatory Information

Shareholder approval is required under Listing Rule 10.14 for the issue of Performance Rights to Mr Bent as he is a Director and therefore a related party of the Company. The Board has considered the application of Chapter 2E of the Corporations Act and has resolved that the reasonable remuneration exception provided by section 211 of the Corporations Act is relevant in the circumstances and accordingly, the Company will not seek approval for the issue of Performance Rights to Mr Bent pursuant to section 208 of the Corporations Act in addition to the approval now being sought under the ASX Listing Rules.

Listing Rule 10.15 requires the following information to be provided in relation to the Performance Rights which may be issued to Mr Bent pursuant to the Plan:

- (a) The maximum number of Performance Rights (and hence the maximum number of Shares on vesting of the Performance Rights) which may be issued to Mr Bent for the period the 1 February 2013 to the 30 June 2014 is 1,453,444. The formula for determining the number of Performance Rights issued to Mr Bent is detailed above.
- (b) No consideration is payable by Mr Bent at the time of issue of the Performance Rights or upon the exercise of the Performance Rights.
- (c) Mr Bent and Dr Jones (see Resolution 2), being executive directors, are entitled to participate in the Plan. There has been 1,650,000 Performance Rights issued under the Plan to date of which 1,250,000 have been forfeited. No Performance Rights have previously been issued to Directors.
- (d) No loans will be made by the Company in connection with the issue of Performance Rights to Mr Bent.
- (e) The Performance Rights will be issued to Mr Bent no later than one year after the date of the Meeting.

Except as stated above, all other terms and conditions of Mr Bent's Performance Rights are described in the Plan.

Recommendation

The non-executive Directors are of the view that the remuneration for Mr Bent, including the grant of Performance Rights is reasonable having regard to the circumstances of the Company, the duties and responsibilities of Mr Bent as Managing Director and market levels of remuneration for managing directors of similar companies.

The Directors (excluding Mr Bent) **unanimously recommend** that Shareholders vote in favour of Resolution 1.

Earlier History of Mr Bent

Prior to joining Chalice, Mr Bent held the positions of Vice President – Business Development and Chief Development Officer at Mirabela Nickel and was responsible for exploration, investor relations, business development, growth and expansion and technical studies. Prior to joining Mirabela, Mr Bent was a Director of Strategy with PriceWaterhouseCoopers Advisory and an Associate Director at Mainsheet Corporate for a combined period of five years, where he focused on strategy, M&A and performance improvement, predominantly in the mining and mining services sectors in Australia. Mr Bent holds a BSc in Chemical Engineering from the University of Cape Town and an MBA from Cranfield University in the UK. In total, Mr Bent has 22 years of industry and consulting experience and is a Member of AusIMM and a professional engineer with the Institute of Chemical Engineers (IChemE).

RESOLUTION 2 – APPROVAL OF ISSUE OF PERFORMANCE RIGHTS TO DR DOUGLAS JONES

Background

Shareholder approval is sought for the issue of up to but not exceeding 655,000 Performance Rights to Dr Douglas Jones, the Technical Director of the Company under the terms of the Chalice Long Term Incentive Plan ("**the Plan**").

Shareholder approval to the proposed issue of Performance Rights to Dr Jones is required under ASX Listing Rule 10.14 because Dr Jones is a Director of the Company.

Dr Jones commenced as Technical Director of the Company on 1 February 2013. Prior to this, Dr Jones was the Managing Director of Chalice. Further information on Dr Jones appears at the end of this section of the Explanatory Statement.

Remuneration arrangements

Dr Jones is currently paid an Annual Fixed Salary of \$310,000 per annum inclusive of superannuation.

The Board has proposed that as an executive of the Company, Dr Jones shall also be entitled to the following:

- (a) By way of short term incentive, a cash bonus up to the value of 25% of the Annual Fixed Salary upon achievement of key performance indicators (to align with the strategic direction of the Company) to be determined by the Board. At the election of the Company and subject to Shareholder approval, this bonus may be paid in Shares rather than cash.
- (b) By way of long term incentive, Dr Jones will be entitled to an annual issue of Performance Rights (issued under the terms of the Plan) having a value of up to 40% of his Annual Fixed Salary with performance hurdles and performance and/or vesting periods being determined by the Board. The issue of these Performance Rights is subject to shareholder approval.

Long Term Incentive Plan

The Company established the Plan to provide its executives (including executive directors) with long term incentives designed to create a link between the delivery of value to Shareholders, financial performance and the rewarding and retaining of executives. Under the Plan, which was approved by shareholders on 22 November 2011, the Board has discretion to grant Performance Rights to any person it determines eligible upon the terms of the Plan. An issue to directors would additionally require a separate shareholder approval.

A Performance Right is, in effect, a contractual right to be issued a fully paid ordinary share in the Company ("Share") on the satisfaction of certain conditions. It follows, therefore, that if these conditions are not satisfied, the Shares would not be issued. Therefore, the number of Shares to be issued to Dr Jones upon the vesting of the Performance Rights are 'at risk' until the vesting conditions are met, i.e. there is no certainty that Shares arising from the Performance Rights will in fact be issued. Also, the number of Shares ultimately to be issued may not equate to the number of Performance Rights as the issue of those Shares is subject to performance hurdles/conditions to be met.

Proposed number of Performance Rights to be issued

Approval is being sought for the issue of 655,000 Performance Rights which represents the first tranche of Performance Rights to Dr Jones. For the first tranche, the number of Performance Rights to be issued to Dr Jones represents 40% of his Annual Fixed Salary.

It is proposed that any future annual issues of Performance Rights will have a value of up to 40% of his Annual Fixed Salary which will require separate Shareholder approval.

Performance conditions and vesting period

The Performance Rights will not vest (and the underlying Shares will not be issued) unless the performance conditions set by the Board for each cycle of the Plan have been satisfied. It is the intention of the Company to use the "standard" measure of Total Shareholder Return (TSR) as the performance measure for the Plan, where the Company's TSR will be compared against that of a comparator group of companies over the selected performance period for each cycle of the Plan. However, given the Company has recently sold its primary asset and is in the process of looking for a new asset, a comparator group of companies cannot yet be determined. The Board has therefore selected absolute share price as the most appropriate measure for the first tranche of Performance Rights issued under the Plan to determine long term business performance of the Company for vesting period of 1 February 2013 until 30 June 2015 (29 months).

The number of Performance Rights that will vest will be solely dependent on the Company's share price as at the measurement (or test) date of 1 January 2015 as compared to the Share price hurdles outlined in the following table. The Company's share price will be calculated on its 30 day VWAP.

If the 30 Day VWAP as at 1 January 2015 is	Percentage of Performance Rights which will Vest
Below 25 cents	0%
25 cents*	33%
Between 25 cents and 38 cents*	Pro rata between 33% and 100%

Above 38 cents*	100%
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* The Share price hurdles of 25 cents and 38 cents were based on a 33% and 100% increase respectively in the 30 day VWAP of 18.93 cents as at 1 February 2013 (rounded to the nearest half cent).

Following the measurement date on 1 January 2015, it is a condition that an additional 6 month service period must be completed by Dr Jones meaning that any vested Performance Rights which are converted to Shares after the measurement date will be subject to a holding lock until 30 June 2015. It is also a condition that Dr Jones be an employee of the Company at 30 June 2015. The total vesting period will be 2 years and 5 months for the first tranche in order to align Dr Jones long term incentive with that of Mr Bent (see Resolution 1). Any future performance rights issued to Dr Jones will have a vesting period of a minimum of 3 years.

Summary

For additional clarity, if Resolution 2 is approved by Shareholders, the Performance Rights to be issued to Dr Jones will be calculated and treated as follows:

- On or about 5 June 2013, Dr Jones will be issued the first tranche of 655,000 Performance Rights.
- On 1 January 2015, being the measurement date, the 30 day VWAP share price will be evaluated against the criteria set out in the table above to determine the percentage of Performance Rights that will vest, if any.

By way of example, if the share price was 29 cents on 1 January 2015 (based on the 30 day VWAP), then, Dr Jones would be entitled to convert 53.6% (or 351,180) of the Performance Rights into Shares at 1 January 2015 (calculated as $(33\% + ((29 \text{ cents} - 25 \text{ cents}) / (38 \text{ cents} - 25 \text{ cents})) \times 67\%)$). However, Dr Jones must complete an additional 6 months service period before he is able to deal in the Shares.

- Dr Jones will be entitled to an annual issue of Performance Rights on 1 July each year commencing on 1 July 2014, which will require future Shareholder approval.

It has been agreed with Dr Jones that he shall be entitled to a short term incentive in the nature of a cash bonus of up to 25% of his Annual Fixed Salary upon achievement of certain key performance indicators. The indicators upon which the short term bonus depends are broadly divided into three areas namely:

- successful exploration at Mogoraib North in Eritrea (upon which there is a weighting of 7.5% of the 50%);
- the acquisition by the Company of a significant project (of which there is a weighting of 7.5% of the 50%); and
- meeting of defined Personal Objectives (of which there is a weighting of 10% of the 50%).

In relation to Mogoraib North, the entitlement ranges for no bonus where exploration does not add value through various stages up to 100% (of the 7.5%) where exploration defines potential for a stand-alone, economic satellite development.

In relation to the acquisition of a project, the Board has discretion, and needs to be satisfied that the acquisition is "significant" in the context of the Company.

In relation to Personal Objectives, these relate to matters such as safety, the environment, meeting regulatory matters and the like.

Regulatory Information

Shareholder approval is required under Listing Rule 10.14 for the issue of Performance Rights to Dr Jones as he is a Director and therefore a related party of the Company. The Board has considered the application of Chapter 2E of the Corporations Act and has resolved that the reasonable remuneration exception provided by section 211 of the Corporations Act is relevant in the circumstances and accordingly, the Company will not seek approval for the issue of Performance Rights to Dr Jones pursuant to section 208 of the Corporations Act in addition to the approval now being sought under the ASX Listing Rules.

Listing Rule 10.15 requires the following information to be provided in relation to the Performance Rights which may be issued to Dr Jones pursuant to the Plan:

- (a) The maximum number of Performance Rights (and hence the maximum number of Shares on vesting of the Performance Rights) which may be issued to Dr Jones for the period the 1 February 2013 to the 30 June 2014 is 655,000.
- (b) No consideration is payable by Dr Jones at the time of issue of the Performance Rights or upon the exercise of the Performance Rights.
- (c) Dr Jones and Mr Bent (see Resolution 1), being executive directors, are entitled to participate in the Plan. There has been 1,650,000 Performance Rights issued under the Plan to date of which 1,250,000 have lapsed or have been forfeited. No Performance Rights have previously been issued to Directors.
- (d) No loans will be made by the Company in connection with the issue of Performance Rights to Dr Jones.
- (e) The Performance Rights will be issued to Dr Jones no later than one year after the date of the Meeting.

Except as stated above, all other terms and conditions of Dr Jones's Performance Rights are described in the Plan.

Recommendation

The non-executive Directors are of the view that the remuneration for Dr Jones, including the grant of Performance Rights is reasonable having regard to the circumstances of the Company, the duties and responsibilities of Dr Jones as Technical Director and market levels of remuneration for technical directors of similar companies.

The Directors (excluding Dr Jones) **unanimously recommend** that Shareholders vote in favour of Resolution 2.

Earlier History of Dr Jones

Dr Jones is a geologist with over 30 years' experience in mineral exploration, having worked extensively in Australia, Africa, South America and Europe. His career has covered exploration for gold in a wide range of geological settings, volcanic and sediment-hosted zinc-copper-lead, and IOCG style copper-gold. Dr Jones was the Managing Director of Chalice between 2009 and 2012.

RESOLUTION 3 – GRANT OF OPTIONS TO MR ANTHONY KIERNAN

Resolution 3 seeks Shareholder approval for the Company to issue 750,000 unlisted Options to Mr Anthony Kiernan, a Non-executive Director, or his nominee, under the Company's Employee Share Option Plan on the terms set out below.

Shareholder approval for the issue of the Options, the subject of Resolution 3 is sought for the purposes of:

- (a) Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to "related parties", such as directors of a company; and
- (b) ASX Listing Rule 10.14, which requires the grant of securities to a director of a company under an employee incentive scheme to be approved by shareholders.

Purpose of the Options Issue

The purpose of the proposed grant of Options is to provide Mr Kiernan with an added incentive in carrying out his duties as a Non-executive Director of the Company. Given the size and stage of the Company and its need to preserve cash, the issue of Options is a valuable part of the compensation to be provided to Mr Kiernan.

Terms of the Options

Mr Kiernan will be issued 750,000 Options for nil consideration. The Options will expire on 30 June 2016, will vest immediately and have an exercise price being the greater of 30 cents or 150% of the volume weighted average price of the shares of the Company on the 5 trading days prior to date of shareholder approval (**VWAP**).

Subject to Shareholder approval, the Options will otherwise be issued on the terms and conditions established under the Employee Share Option Plan.

Part 2E of the Corporations Act

Part 2E.1 of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director) unless either:

- the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- Shareholder approval is obtained prior to the giving of the financial benefit.

The proposed grant of unlisted Options to Mr Kiernan or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholder approval.

In accordance with the requirements of Part 2E of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Options to Mr Kiernan:

- Mr Kiernan is Non-executive Director of the Company and is the person to whom the financial benefit, in the nature of Options, is to be given. As a Director, Mr Kiernan is a related party of the Company for the purposes of the Corporations Act.
- The financial benefit to be given is the grant of 750,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the Company's Employee Share Option Plan.
- Those Directors who have no interest in the outcome of Resolution 3 (being all Directors other than Mr Kiernan) recommend that Shareholders vote in favour of Resolution 3 on the basis that the Options to be granted provide Mr Kiernan with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities and will enable directors' fees to be kept to a modest figure, thus preserving cash for the Company. In determining the appropriate number of options to be issued, the Board has calculated the value of the Options using a Black & Scholes valuation model (see (f) below). The Board believes that the value of the Options in addition to the modest director's fees is an appropriate quantum and incentive for Mr Kiernan.
- Mr Kiernan makes no recommendation in relation to Resolution 3 on the basis that he has an interest in the outcome of the resolution.
- The Options will be issued free of charge. However in the event that Mr Kiernan wishes to exercise the Options he would need to pay the appropriate exercise price in relation to the Options which is to be the greater of 30 cents or 150% of the VWAP. If he were to exercise all 750,000 of the Options he would be required to pay \$225,000 assuming an exercise price of 30 cents; however if the exercise price is 150% of the VWAP, then it will be the number of Options multiplied by 150% of the VWAP). These proceeds would be used for the Company's general working capital requirements at the appropriate time. The exercise price and exercise date for the Options are set out below.
- Using a Black & Scholes valuation model, the Company estimates that each Option, the subject of Resolution 3, has the following values based on the following assumptions:

Exercise Price	30 cents
Market Value on the ASX of underlying Shares at time of setting exercise price	18 cents
Expiry date	30 June 2016
Expected volatility	96.55%
Risk free interest rate	2.94%
Annualised dividend yield	Nil
The value of the Options	9.6 cents
The aggregate value of the Options	\$71,643.84

- (g) Over the past 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares traded on ASX was 17 cents on 28 January 2013 and the highest was 34 cents on 9 November 2012. It should be noted however that there was a return of capital to shareholders of 10 cents per share, which saw the share price decrease accordingly. At the close of trading on 12 April 2013 the Share price on the ASX was 18 cents.
- (h) If Resolution 3 is passed, Mr Kiernan will hold an interest in 1,662,041 Shares and 750,000 Options.
- (i) Mr Kiernan receives non-executive director's fees of \$50,000 (inclusive of superannuation) and committee fees of \$5,000 (inclusive of superannuation). For the year ended 30 June 2012, Mr Kiernan also received consulting and legal fees of \$160,000.
- (j) There are no taxation consequences for the Company arising from the issue of the Options (including fringe benefits tax).
- (k) The Company currently has 250,730,886 Shares, 4,600,000 Options and 200,000 Performance Rights on issue. Mr Kiernan's interests in shares and options as of the date of this Notice are as follows:
- | | |
|---------|-----------|
| Shares | 1,662,041 |
| Options | Nil |
- Assuming that Mr Kiernan exercises all of the Options to be granted to him pursuant to Resolution 3, Mr Kiernan's interest including all the Shares and Options currently held would represent approximately 0.94% of the Company's expanded capital.
- (l) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the General Meeting. The right to exercise will be subject to the terms of their issue.
- (m) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of Shareholders to approve Resolution 3.

Listing Rules

In accordance with ASX Listing Rule 10.14, the acquisition of securities by a director under an employee incentive scheme requires shareholder approval. The following information is provided for the purposes of ASX Listing Rule 10.15.

- (a) The maximum number of Options that can be acquired by Mr Kiernan is 750,000.
- (b) The price payable on the issue of each Option is nil. The price payable on the exercise of each Option is the greater of 30 cents or 150% of the volume weighted average price of the shares of the Company on the 5 trading days prior to date of shareholder approval.
- (c) No persons as referred to in Listing Rule 10.14 have received securities under the option scheme since last approval.
- (d) All Directors (being persons referred to in ASX Listing Rule 10.14) are entitled to participate in the Employee Share Option Plan, but subject to appropriate approvals (including shareholders). Mr Kiernan is a Director.
- (e) There is no loan proposed in relation to the proposed acquisition of the Options by Mr Kiernan.
- (f) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the General Meeting.

Recommendation

The Board (other than Mr Kiernan) **unanimously recommends** that Shareholders vote in favour of this resolution.

RESOLUTION 4 – GRANT OF OPTIONS TO MR STEPHEN QUIN

Resolution 4 seeks Shareholder approval for the Company to issue 300,000 unlisted Options to Mr Stephen Quin, a Non-executive Director, or his nominee, under the Company's Employee Share Option Plan on the terms set out below.

Shareholder approval for the issue of the Options, the subject of Resolution 4 is sought for the purposes of:

- (a) Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, such as directors of a company; and
- (b) ASX Listing Rule 10.14, which requires the grant of securities to a director of a company under an employee incentive scheme to be approved by shareholders.

Purpose of the Options Issue

The purpose of the proposed grant of Options is to provide Mr Quin with an added incentive in carrying out his duties as a Non-executive Director of the Company. Given the size and stage of the Company and its need to preserve cash, the issue of Options is a valuable part of the compensation to be provided to Mr Quin.

Terms of the Options

Mr Quin will be issued 300,000 Options for nil consideration. The Options will expire on 30 June 2016, will vest immediately and have an exercise price being the greater of 30 cents or 150% of the volume weighted average price of the shares of the Company on the 5 trading days prior to date of shareholder approval (**VWAP**).

Subject to Shareholder approval, the Options will otherwise be issued on the terms and conditions established under the Employee Share Option Plan.

Part 2E of the Corporations Act

Part 2E.1 of the Corporations Act prohibits the Company from giving a financial benefit to a related party (such as a director) unless either:

- the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
- Shareholder approval is obtained prior to the giving of the financial benefit.

The proposed grant of unlisted Options to Mr Quin or his nominee involves the provision of a financial benefit to a related party of the Company, and therefore, requires Shareholder approval.

In accordance with the requirements of Part 2E of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Options to Mr Quin:

- (a) Mr Quin is Non-executive Director of the Company and is the person to whom the financial benefit, in the nature of Options, is to be given. As a Director, Mr Quin is a related party of the Company for the purposes of the Corporations Act.
- (b) The financial benefit to be given is the grant of 300,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the Company’s Employee Share Option Plan.
- (c) Those Directors who have no interest in the outcome of Resolution 4 (being all Directors other than Mr Quin) recommend that Shareholders vote in favour of Resolution 4 on the basis that the Options to be granted provide Mr Quin with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities and will enable directors’ fees to be kept to a modest figure, thus preserving cash for the Company. In determining the appropriate number of options to be issued, the Board has calculated the value of the Options using a Black & Scholes valuation model (see (f) below). The Board believes that the value of the Options in addition to the modest director’s fees is an appropriate quantum and incentive for Mr Quin.
- (d) Mr Quin makes no recommendation in relation to Resolution 4 on the basis that he has an interest in the outcome of the resolution.
- (e) The Options will be issued free of charge. However in the event that Mr Quin wishes to exercise the Options he would need to pay the appropriate exercise price in relation to the Options which is to be the greater of 30 cents or 150% of the VWAP. If he were to exercise all 300,000 of the Options he would be required to pay \$90,000 assuming an exercise price of 30 cents; however if the exercise price is 150% of the VWAP, then it will be the number of Options multiplied by 150% of the VWAP). These proceeds would be used for the Company’s general working capital requirements at the appropriate time. The exercise price and exercise date for the Options are set out below.

- (f) Using a Black & Scholes valuation model, the Company estimates that each Option, the subject of Resolution 4, has the following values based on the following assumptions:

Exercise Price	30 cents
Market Value on the ASX of underlying Shares at time of setting exercise price	18 cents
Expiry date	30 June 2016
Expected volatility	96.55%
Risk free interest rate	2.94%
Annualised dividend yield	Nil
The value of the Options	9.6 cents
The aggregate value of the Options	\$28,657.54

- (g) Over the past 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares traded on ASX was 17 cents on 28 January 2013 and the highest was 34 cents on 9 November 2012. It should be noted however that there was a return of capital to shareholders of 10 cents per share, which saw the share price decrease accordingly. At the close of trading on 12 April 2013 the Share price on the ASX was 18 cents.
- (h) If Resolution 4 is passed, Mr Quin will hold an interest in 26,321 Shares and 1,050,000 Options.
- (i) Mr Quin receives non-executive director's fees of \$50,000 (inclusive of superannuation) and committee fees of \$5,000 (inclusive of superannuation).
- (j) There are no taxation consequences for the Company arising from the issue of the Options (including fringe benefits tax).
- (k) The Company currently has 250,730,886 Shares, 4,600,000 Options and 200,000 Performance Rights on issue.

Mr Quin's interest in Shares as of the date of this Notice is 26,321. Mr Quin's interest in Options at the date of the Notice is 750,000 made up of the following:

Number	Exercise Price	Expiry Date
187,500	45 cents	30 April 2014
187,500	55 cents	30 April 2014
375,000	65 cents	30 April 2014

Assuming that Mr Quin exercises all of the Options to be granted to him pursuant to Resolution 4, Mr Quin's interest including all the Shares and Options currently held would represent approximately 0.42% of the Company's expanded capital.

- (l) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the General Meeting. The right to exercise will be subject to the terms of their issue.
- (m) Neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of Shareholders to approve Resolution 4.

Listing Rules

In accordance with ASX Listing Rule 10.14, the acquisition of securities by a director under an employee incentive scheme requires shareholder approval. The following information is provided for the purposes of ASX Listing Rule 10.15.

- (a) The maximum number of Options that can be acquired by Mr Quin is 300,000.

- (b) The price payable on the issue of each Option is nil. The price payable on the exercise of each Option is the greater of 30 cents or 150% of the volume weighted average price of the shares of the Company on the 5 trading days prior to date of shareholder approval.
- (c) No persons as referred to in Listing Rule 10.14 have received securities under the option scheme since last approval.
- (d) All Directors (being persons referred to in ASX Listing Rule 10.14) are entitled to participate in the Employee Share Option Plan, but subject to appropriate approvals (including shareholders). Mr Quin is a Director.
- (e) There is no loan proposed in relation to the proposed acquisition of the Options by Mr Quin.
- (f) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the General Meeting.

Recommendation

The Board (other than Mr Quin) **unanimously recommends** that Shareholders vote in favour of this resolution.

GLOSSARY

The following is a glossary of terms and abbreviations used frequently throughout this Explanatory Statement and in the Notice of Meeting and which such meanings shall apply unless the context requires otherwise. Additional terms used only occasionally are defined where used in their first instance in the body of this Explanatory Statement.

"ASIC" means the Australian Securities and Investments Commission.

"ASX" means ASX Limited or the Australian Securities Exchange, as appropriate.

"ASX Listing Rules" means the Listing Rules of ASX.

"Board of Directors" or **"Board"** means the board of Directors.

"Business Day" means a day, other than Saturdays, Sundays or any other public holiday in Perth, Western Australia.

"Chairman" means the chair appointed for the General Meeting.

"Chalice" or **"Company"** means Chalice Gold Mines Limited (ABN 47 116 648 956).

"Corporations Act" means the Corporations Act 2001 (Cwlth).

"Director" means a director of the Company.

"Employee Share Option Plan" means the Employee Share Option Plan approved by Shareholders on 25 November 2010.

"Key Management Personnel" is as defined in the Company's most recent Remuneration Report.

"Long Term Incentive Plan" means the Long Term Incentive Plan approved by Shareholders on 22 November 2011 for purposes of ASX Listing Rule 7.2 (Exception 9).

"Managing Director" means the managing director of Chalice.

"Notice" or **"Notice of Meeting"** means this notice of meeting including the Explanatory Statement.

"Office" means Level 2, 1292 Hay Street, West Perth, Western Australia, 6005.

"Option" means an option to acquire a fully paid ordinary share in the Company upon the payment of the appropriate exercise price and prior to the Options expiry period.

"Performance Right" means a right granted to acquire a Share on the terms set out in the Long Term Incentive Plan.

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

"Shareholder" means a holder of a Share.

"WST" means Western Standard Time.



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