



Quarterly Report

for the period ended 31 December 2008

Highlights

- **New high tenor gold in soil anomaly identified in previously unexplored area of the Yandearra Project.**
- **Atlas Iron undertakes iron ore reconnaissance survey at Yandearra.**
- **Advanced projects continue to be evaluated for purchase or joint venture.**
- **At the end of the quarter, the Company has cash at bank and current receivables of \$10.5M (representing 14.4 cents per share).**

1.0 Yandearra Project (Chalice 100% - De Grey Mining earning up to 80%)

Gold and base metal exploration by joint venture partner, De Grey Mining Limited ("De Grey") continued at the Yandearra Project during the December quarter with soil geochemistry, geological reconnaissance and rock sampling programs undertaken.

Several new gold and base metal occurrences were identified by this work (see rock sampling results, Table 1). Despite grades up to 58.6g/t gold, 38g/t silver and 3.10% lead from rock samples, most occurrences were found to be related to wide-spaced veins and narrow felsic dykes and were downgraded as having limited tonnage potential. Nevertheless, De Grey's discovery of so many new mineral occurrences at Yandearra over the last 9 months supports the residual prospectivity of the region and the effectiveness of the exploration methods.

Work is now focusing on a large, previously unexplored area near the Cleaverville Chert Hills where soil sampling this quarter has identified a new, high tenor gold in soil anomaly. Gold anomalism up to 2.64g/t in soils remains open and untested to the north and east (Figure 1). There are no known gold occurrences in the area and a bedrock source to the gold in soil has yet to be identified. The soil anomaly occurs in a structurally favourable position at the western end of a large granite body that intrudes the greenstone rocks of the Cleaverville Chert and underlying felsic volcanic lithologies.

Soil sampling coverage will be extended to define the limits of the gold anomaly when the 2009 Pilbara field season recommences.

Chalice and its partners, continue to rationalize the ground position at the Yandearra Project to reduce future exploration commitments and focus exploration on key target areas.

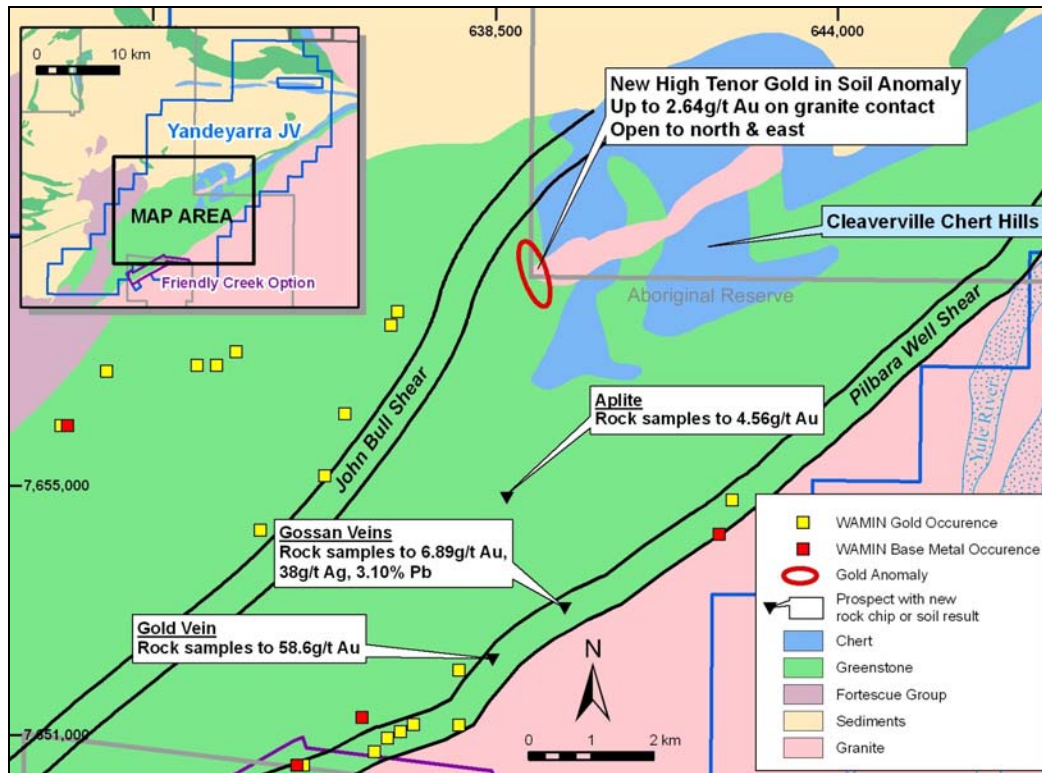


Figure 1: December Quarter 2008 surface sampling results, Yandearra Joint Venture Project

Prospect	SAMPLE ID	East	North	Gold, g/t	Silver, g/t	Copper %	Lead, %	Zinc, %
Gossan Veins	550966	639,672	7,653,035	1.19	38	0.07	2.58	0.64
	550967	639,700	7,653,051	2.26	27	0.05	3.10	0.18
	550969	639,768	7,653,152	6.89	2	0.01	0.05	0.00
	P545047	639,566	7,653,050	1.03	0	0.00	0.00	0.00
Gold Vein	550972	638,541	7,652,298	0.16	16	0.06	1.59	0.02
	550974	638,456	7,652,258	58.6	4	0.01	0.01	0.00
Aplite	550979	638,800	7,654,878	1.58	0	0.00	0.00	0.00
	550981	638,599	7,654,914	4.56	0	0.00	0.00	0.00

Table 1 – Reconnaissance Rock Sampling Results >1.00 g/t gold, 20g/t silver or 1% lead

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.

2.0 Yandearra Project (Chalice 100% - Atlas Iron option to purchase iron ore rights)

Helicopter reconnaissance surveys covering prospective host rocks have been undertaken over the entire tenement package. The project area was assessed for both direct shipping ore (DSO) and magnetite potential. To date, a relatively small area (i.e. approximately 450 metres x up to 60 metres) of surface iron enrichment has been delineated in the southwest portion of the project area. Several surface samples were collected from this area with values returned ranging from 55 to 60 % Fe. However, also of note are the relative high phosphorous values which range from 0.15 to 0.29 %.

Interpretation of regional aeromagnetic data coupled with helicopter reconnaissance ground truthing has delineated three distinct BIF-hosted, magnetite targets. These areas contain magnetic anomalies in the order of 5km long and display good continuity and width. Atlas Iron intends to further assess the potential for these BIF rich host rocks to host economic magnetite mineralization.

3.0 Wilga Gold Project (Chalice 100% - AngloGold earning up to 75%)

Following commencement of the joint venture between AngloGold Ashanti Australia Ltd (AngloGold) and Chalice, announced last quarter, AngloGold undertook a review of previous data and completed first pass geological mapping to define the prospective stratigraphy within the project area. Subsequently, detailed geological mapping (1:5,000 scale) and archaeological and ethnographic surveys have been undertaken together with the commencement of a rock chip sampling program.

4.0 Gnaweeda Gold Project (Chalice Gold Mines 49% - Teck Cominco 51%, earning up to 70%)

The drilling program planned to be undertaken by Teck Cominco Australia Pty Ltd during the December quarter was deferred due to a requirement to enter into an updated heritage agreement as part of the process to obtain aboriginal heritage clearance. Negotiation of the new heritage agreement is currently in progress.

5.0 Corporate

Pursuant to previous joint venture and option agreements with Atlas Iron Limited ("Atlas") and De Grey in relation to the Yandearra Project, Chalice received an initial payment of \$250,000 from Atlas and 2 million shares and 2 million unlisted options following from De Grey following completion of formal agreements between the parties.

Chalice now has cash at bank and current receivables of approximately \$10.5M, including \$0.8M of Avoca Resources Limited ("Avoca") shares which are due to be received in the March 2009 quarter following completion of tranche 2 of the sale of the Company's Chalice and Higginsville Gold Project to Avoca.

With a strong balance sheet and minimal commitments, the Company continues to assess advanced projects for acquisition or joint venture.

Please also refer to the attached quarterly cash flow.



Tim Goyder
Executive Chairman

29 January 2009

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.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CHALICE GOLD MINES LIMITED

ABN

47 116 648 956

Quarter ended ("current quarter")

31 DECEMBER 2008

Consolidated statement of cash flows

	Current quarter \$A	Year to date (6 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	85,725	167,096
1.2 Payments for (a) exploration and evaluation	(257,791)	(425,596)
(b) development	-	-
(c) production	-	-
(d) administration	(229,413)	(737,870)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	201,108	256,222
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(200,371)	(740,148)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	(66,354)	(89,084)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – option fee (Atlas Iron Limited)	250,000	250,000
Net investing cash flows	183,646	160,916
1.13 Total operating and investing cash flows (carried forward)	(16,725)	(579,232)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc. (net)	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(16,725)	(579,232)
1.20	Cash at beginning of quarter/year to date	9,410,259	9,972,766
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	9,393,534	9,393,534

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A
1.23	Aggregate amount of payments to the parties included in item 1.2	32,500
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.1 – cash inflow relates to fees charged to Liontown Resources Limited under a corporate services agreement for the sharing of office overhead costs.

Item 1.2 (a) – cash outflow relates predominantly to costs associated with the proposed acquisition of the Mount Oxide Copper-Cobalt Project from Perilya Limited.

Item 1.12 – cash inflow relates to the option fee received from Atlas Iron Limited in relation to the option agreement to acquire the iron ore rights at the Yandearra Project.

Amounts paid to related parties in 1.23 include remuneration, fees and reimbursements of expenses to directors.

+ See chapter 19 for defined terms.

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest.

<p>De Grey Mining Limited has advised that it has spent \$76,541 in the current quarter in respect of certain tenements within the Yandearra Gold Project. Refer to 31 December 2007 Quarterly Report which details the terms of a joint venture regarding the Yandearra Gold Project with De Grey Mining Ltd.</p>
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<p>Teck Cominco Australia met its 51% earn-in expenditure requirement in the March 2008 quarter (with an option to spend a further \$750,000 to earn up to 70%). Refer to 31 March 2008 Quarterly Report. Teck Cominco Australia advises that it has incurred an additional \$26,114 expenditure for the current quarter totalling approximately \$159,298 of earn-in expenditure for the Gnaweeda Project to the end of the quarter.</p>

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	100,000
4.2 Development	Nil
Total	100,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	2,912,715	146,455
5.2 Deposits at call	6,480,819	9,263,804
5.3 Bank overdraft	-	-
5.4 Other (Bank Guarantee)		
Total: cash at end of quarter (item 1.22)	9,393,534	9,410,259

Changes in interests in mining tenements

6.1 Interests in mining tenements relinquished, reduced or lapsed	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
	E51/1250	Application withdrawn	0%	0%
6.2 Interests in mining tenements acquired or increased	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
	NIL			

+ See chapter 19 for defined terms.

(1) Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	Nil	Nil	Nil	Nil
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs.	N/A	N/A	N/A	N/A
7.3 +Ordinary securities	72,800,000	72,800,000	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital.	Nil	Nil	N/A	N/A
7.5 +Convertible debt securities <i>(description)</i>	Nil	Nil	N/A	N/A
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured.	Nil	Nil	N/A	N/A
7.7 Options <i>(description and conversion factor)</i>			Exercise price	Expiry date
	5,575,000	Nil	\$0.25	21 March 2011
	250,000	Nil	\$0.20	11 December 2012
	500,000	Nil	\$0.25	1 December 2012
	500,000	Nil	\$0.20	31 July 2013
7.8 Issued during quarter	Nil	Nil	N/A	N/A
7.9 Exercised during quarter	Nil	Nil	N/A	N/A
7.10 Expired/Forfeited during quarter	Nil	Nil	N/A	N/A
7.11 Debentures <i>(totals only)</i>	Nil	Nil		
7.12 Unsecured notes <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 29 January 2009

Company Secretary

Print name: Richard Hacker

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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