



Quarterly Report for the period ended 31 March 2009

Highlights

- **Chalice Gold Mines and Sub-Sahara Resources agree to merge by way of Scheme of Arrangement**
- **Scheme consideration will comprise 1 Chalice Share for every 10.73 Sub-Sahara Shares**
- **The proposed merger will combine Chalice's strong cash resources (~A\$10M) with Sub-Sahara's 69% interest in the emerging 1.04Moz Zara Gold Project in Eritrea (East Africa)**
- **Chalice to acquire a further 11.12% interest in the Zara Project, subject to completion of the merger, giving the merged group a consolidated 80% interest in the Zara Project**
- **Proposed merger has the full support of the Boards of both companies**

1.0 Chalice Gold Mines and Sub-Sahara Resources Merger

On 3 April 2009, Chalice Gold Mines Limited ("Chalice") and East Africa-focused gold explorer Sub-Sahara Resources NL (ASX: SBS; "Sub-Sahara") announced that they have agreed to merge the two companies by way of a Scheme of Arrangement ("Scheme").

The proposed merger will combine Chalice's strong cash position of over A\$10 million with Sub-Sahara's 69% interest in the high grade Zara Gold Joint Venture in Eritrea, East Africa. The Zara Project currently comprises an Indicated and Inferred Resource of 5.13 million tonnes at 6.31g/t gold for 1.04 million ounces of contained gold.

Chalice has also entered into an agreement with Africa Wide Resources Limited ("AWR") to acquire its 11.12% interest in the Zara Gold Project, which will result in the newly merged group holding 80% of the Zara Gold Project with ASX-listed gold producer Dragon Mining Limited owning the remaining 20%.

The acquisition of the interest from AWR is subject to completion of the merger with Sub-Sahara. Under the terms of this Agreement, Chalice will pay AWR or its nominee A\$1.2M in cash for its 11.12% interest in the Zara Gold Project and reimburse past exploration expenditure of A\$454,000 to acquire its interest in the Zara Joint Venture. This additional payment will settle Sub-Sahara's payment obligation with AWR due on completion of a bankable feasibility study.

Key Terms of the Merger

Chalice and Sub-Sahara have executed a binding term sheet for the proposed merger and expect to execute a Merger Implementation Agreement ("MIA") shortly.

The Scheme will require Sub-Sahara shareholder approval and Court approval. Under the proposed Scheme, Sub-Sahara shareholders will receive **1 Chalice Share** for every **10.73 Sub-Sahara Shares** and will hold approximately 39% of the merged company.

Other security classes, comprising all partly paid shares and options will be offered Chalice shares based on a valuation calculated in accordance with the Black & Scholes valuation model. No offer will be made for Sub-Sahara's listed options given these options will expire before the merger is completed.

Overview of Merged Group

Following completion of the merger, Chalice will have approximately 121.2 million shares on issue and a strong funding position, which will enable acceleration of the exploration and evaluation of the Zara Gold Project in Eritrea as the focus of an international gold development strategy.

Mr Michael Griffiths will be invited to join the Board of Chalice with primary responsibility for advancing the Zara Gold Project, with particular focus on completion of the feasibility study over the next 12 months.

Project Background

The Zara Project lies within an emerging gold and base metal province in East Africa which includes the ~13Moz Sukari Gold Project in Egypt, the ~2Moz Ariab/Hassai gold and base metal deposit in Sudan and the ~1Moz Bisha gold and base metal deposit in Eritrea. The 615 km² project area covers a significant portion of the Zara gold field and offers significant exploration upside for the definition of additional resources.

2.0 Yandearra Project

Chalice Gold Mines has received formal notification from De Grey Mining Limited (De Grey) of its withdrawal from the Yandearra Project in the West Pilbara. Under the joint venture agreement, De Grey was to spend \$1.67 million to earn up to 80% of the rights to gold and base metals. De Grey has spent in excess of \$600,000 on the project, which exceeded their minimum commitment of \$417,000 under the joint venture agreement.

Under a separate agreement, Atlas Iron Limited (which has an option to acquire 100% of the iron ore rights for \$1 million – subject to a 30% claw-back provision) is continuing a regional exploration program to investigate the iron ore potential of the project. Having undertaken helicopter reconnaissance and rock chip sampling, where several surface samples were collected with values returning 55 to 60 % iron, a number of potential direct shipping ore and magnetite targets have been identified. Further exploration is proposed in the upcoming field season.

Following the notification of withdrawal by De Grey, the Yandearra tenements have been rationalised with the retention of prospective gold, base metal and iron ore targets.

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

AngloGold Ashanti reported that the following exploration activities were conducted on the Wilga Project during the quarter:

- surface rock chip sampling and gold analyses (35 samples);
- 1:5,000 scale geological mapping; and
- an archaeological heritage survey.

The geological mapping has revealed a north northwesterly striking stratigraphy of banded iron formation (BIF), basalt, pyroxenite, high-Mg basalt and ultramafic units (see Figure 1). Structure is dominated by shearing and isoclinal folding of the stratigraphy. Initial indications from surface sampling show that gold mineralisation is strongly associated with a north northwesterly striking BIF ridge.

Two zones of anomalous gold-in-soil values were identified from previous exploration activities. This includes a north-south striking area overlying a BIF and overlying mafic and ultramafic lithologies in the west, within the central portion of E39/1003. Surface rock chip sampling verifies the presence of these low order gold anomalies with seven samples yielding gold values above 0.03 ppm (see Table 1 and Figure 1).

An archaeological heritage survey was conducted on the tenements and a report was submitted to the Department of Indigenous Affairs. Further assessment is pending.

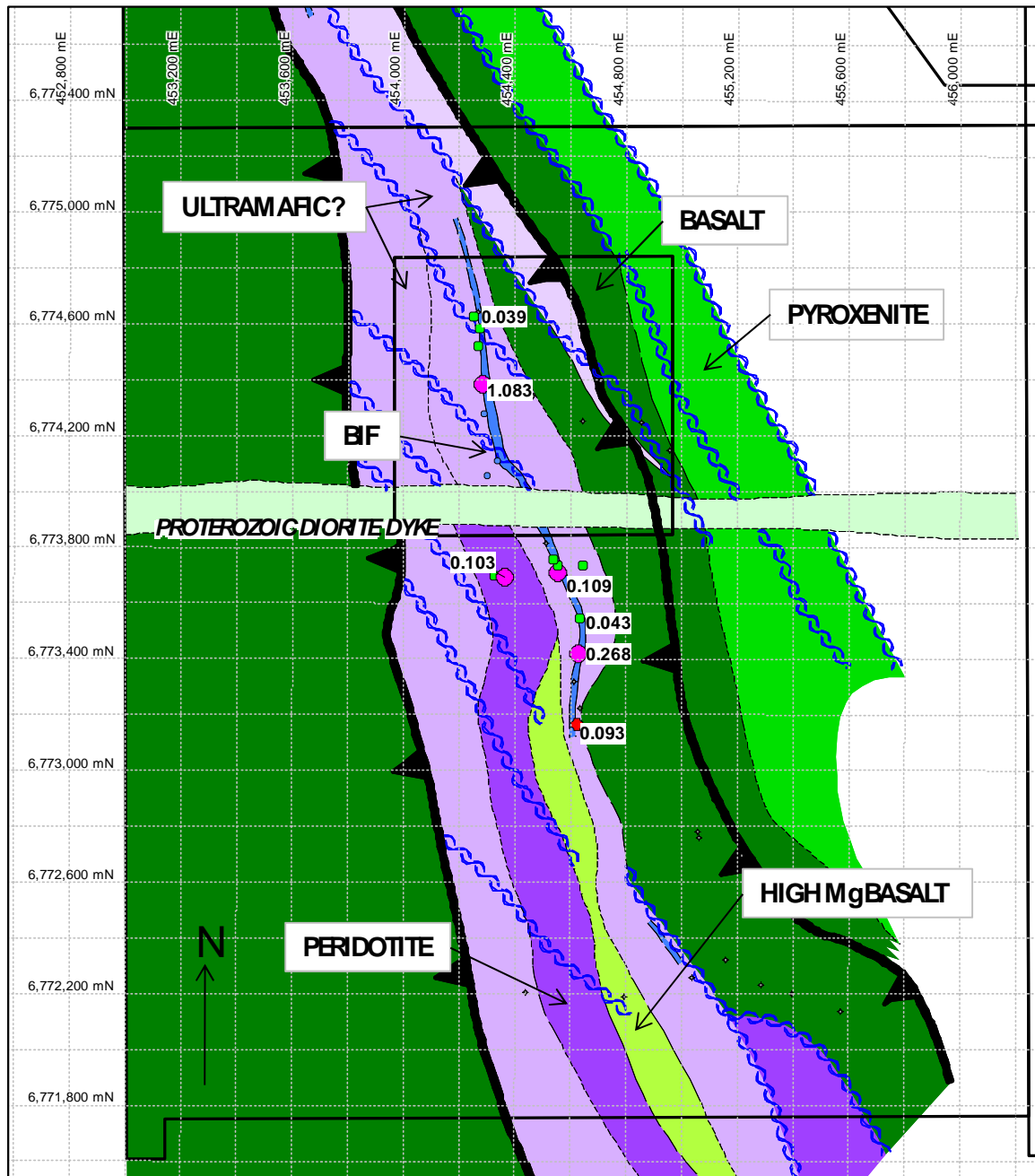
Permits of Work have been submitted and approvals are pending.

Table 1: Wilga Project - Surface rock chip samples - gold values greater than 0.03 ppm.

Sample ID.	MGA E	MGA N	Au (ppm)	Sample Type
WILRK018	454361	6773691	0.103	In Situ
WILRK019	454623	6773163	0.093	In Situ
WILRK022	454628	6773421	0.268	In Situ
WILRK023	454635	6773545	0.043	In Situ
WILRK024	454556	6773711	0.109	In Situ
WILRK029	454254	6774624	0.039	In Situ
WILRK032	454284	6774384	1.083	In Situ

Analysis on 1-3kg surface rock chip samples by Genalysis Laboratory Services, Perth. Gold assays were carried out by Method FA25/SAAS to a detection limit of 1ppb (Au): Lead collection fire assay with Au analysis by solvent extraction & flame AAS finish.

Figure 1: Wilga Project - Schematic geological map showing major units and structures interpreted from aeromagnetic survey and higher grade gold values in rock chip samples.



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

During the quarter, no exploration field work was undertaken at the Gnaweeda Gold Project.

5.0 Corporate

During the quarter, the Company received 483,335 Avoca Resources Limited shares (ASX: AVO), being \$841,000 of tranche 2 consideration in full and final satisfaction for the sale of the Higginsville and Chalice Gold Project. The Company has subsequently disposed of all these shares for proceeds of \$897,000, realising a profit on sale of \$56,000.

At 31 March 2009, Chalice Gold Mines has cash on hand of \$10.0 million. Please refer to the attached Appendix 5B for further details.



Tim Goyder
Executive Chairman

20 April 2009

Competent Persons Statement

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Registered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and 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 MARCH 2009

Consolidated statement of cash flows

	Current quarter \$A	Year to date (9 months) \$A
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	69,584	236,679
1.2 Payments for (a) exploration and evaluation	(192,219)	(617,815)
(b) development	-	-
(c) production	-	-
(d) administration	(324,657)	(1,062,527)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	183,850	440,073
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(263,442)	(1,003,590)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	(3,007)	(92,091)
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
Net investing cash flows	(3,007)	157,909
1.13 Total operating and investing cash flows (carried forward)	(266,449)	(845,681)

+ 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 shares	897,003	897,003
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	(1,446)	(1,446)
Net financing cash flows		895,557	895,557
Net increase (decrease) in cash held		629,108	49,876
1.20	Cash at beginning of quarter/year to date	9,393,534	9,972,766
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	10,022,642	10,022,642

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	59,140
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.

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>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%). Teck Cominco Australia advises that it has incurred an additional \$7,846 expenditure for the current quarter totalling approximately \$67,144 of earn-in expenditure for the Gnaweeda Project to the end of the quarter.</p>
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<p>During the quarter, De Grey Mining Limited notified Chalice Gold Mines of its withdrawal from the Yandearra Project joint venture agreement.</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	65,000
4.2 Development	Nil
Total	65,000

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	2,016,256	2,912,715
5.2 Deposits at call	8,006,386	6,480,819
5.3 Bank overdraft	-	-
5.4 Other (Bank Guarantee)	-	-
Total: cash at end of quarter (item 1.22)	10,022,642	9,393,534

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
	E47/1318	Application withdrawn	0%	0%
	E47/1459	Application withdrawn	0%	0%
	P47/1223	Application withdrawn	0%	0%
	P47/1224	Application withdrawn	0%	0%
	P47/1225	Application withdrawn	0%	0%
	P47/1226	Application withdrawn	0%	0%
	P47/1227	Application withdrawn	0%	0%
	P47/1246	Application withdrawn	0%	0%
	E51/1027	Surrendered	49%	0%
	P51/2514	Surrendered	49%	0%
	P51/2515	Surrendered	49%	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
	P39/4890	Granted	0%	100%

+ 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	N/A	N/A	N/A	N/A
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs.				
7.3 +Ordinary securities	72,800,000	72,800,000	N/A	N/A
7.4 Changes during quarter				
(a) Increases through issues	Nil	Nil	N/A	N/A
(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	Nil	Nil	N/A	N/A
(a) Increases through issues				
(b) Decreases through securities matured.				
7.7 Options <i>(description and conversion factor)</i>			Exercise price	Expiry date
	5,575,000	Nil	\$0.25	21 March 2011
	500,000	Nil	\$0.25	1 December 2012
	250,000	Nil	\$0.20	11 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: 20th April 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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+ See chapter 19 for defined terms.