

## Quarterly Report for the period ended 30 June 2009

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### Highlights

- Chalice and Sub-Sahara on track to complete the merger of the two companies in August 2009.
- Major elements of an immediate work program have commenced to rapidly advance the Zara Gold Project, Eritrea to feasibility.
- Planning well advanced for 5,000m diamond drilling program to commence at Zara immediately on completion of the merger.
- Chalice provides Sub-Sahara with a loan facility to enable the advancement of time-critical elements of the Scoping and Feasibility Studies for the Zara Project.
- Internationally recognised consortium of consultants led by Lycopodium Minerals and with extensive African experience appointed to conduct the Scoping Study and Feasibility Study for the Koka Deposit.
- Revised resource estimate completed outlining 5.04 million tonnes at an average grade of 5.8 g/t gold for 944,000 ounces gold at a cut-off of 1.2g/t at the Koka Deposit.

#### 1.0 Chalice Gold Mines and Sub-Sahara Resources Merger Update

During the quarter, Chalice Gold Mines Limited (“Chalice”) and East Africa-focused gold explorer Sub-Sahara Resources NL (ASX: SBS; “Sub-Sahara”) completed documentation to merge the two companies by way of a Scheme of Arrangement (“Scheme”).

As previously announced, the proposed merger is designed to consolidate ownership and fund ongoing development of the high-grade **944,000oz Zara Gold Project** in Eritrea, East Africa, combining Chalice’s strong cash position with Sub Sahara’s 69% interest in the Project.

The merger, together with a separate transaction with Africa Wide Resources Limited, will see Chalice secure an 80% interest in the Zara Gold Project as the basis for a long-term exploration and development strategy in the Arabian-Nubian Shield – an emerging gold and base metal province.

### **Licence Extension**

During the quarter, Sub-Sahara advised that the 4 Exploration licences covering the Zara Gold Project had been extended by the government of Eritrea for a further 12 months. The extension requires Sub-Sahara to complete a Pre-Feasibility Study by the end of October 2009 and a full Feasibility Study by 25 May 2010.

Due to time-critical elements which are necessary to complete the Scoping and Feasibility Studies, Chalice and Sub-Sahara have worked together to facilitate the continued advancement of the Zara Gold Project pending completion of the merger.

In addition, the Eritrea Government advised during the Quarter that applications by Sub-Sahara for additional tenements totalling 400 square kilometres have been approved pending final documentation. This increases the total Sub-Sahara tenure at Zara to approximately 550 square kilometres.

### **Loan Facility**

A loan facility of A\$450,000 has been made available to Sub-Sahara by Chalice to fund further development of the Zara Gold Project (Koka deposit) and to advance time-critical elements of the Scoping and Feasibility Studies.

Funds advanced under the facility, together with accrued interest, are repayable if the merger is not implemented by 30 September 2009 (or such later date as Chalice may agree). In this event, the loan must be repaid either in cash or, at Sub-Sahara's election, by the issue of Sub-Sahara shares at an issue price of 1.3 cents per share. The facility is secured by a fixed and floating charge over Sub-Sahara.

### **Scoping Study Awarded to Lycopodium Minerals.**

During the Quarter, Chalice appointed Lycopodium Minerals ("Lycopodium") in association with AMC Consultants ("AMC") and Knight Piesold to complete development studies for the Zara Gold Project.

Lycopodium will complete all metallurgical process design, infrastructure and project development components and is responsible for overall study coordination. AMC will complete geology, resource modelling, mining and mine related geotechnical study aspects. Knight Piesold will undertake infrastructure geotechnical studies, hydrogeology, tailings disposal and environmental and social impact management in consultation with local Eritrean consultants Global Resources Development and Management Consultants.

These consultants have demonstrated African gold project credentials and bring an international approach to the Zara Gold Project.

### **Owner's Representative Appointment**

During the Quarter, Chalice also appointed experienced Australian mining executive Mr Steven Chadwick as Owner's Representative to oversee the Scoping and Feasibility Studies for the Zara Gold Project, including the lead up to commencement of these studies.

Mr Chadwick has been involved in the development of numerous gold mines during an extensive career both as a consultant and in senior management roles.

### **Immediate Work Program**

Major elements of an immediate work program have commenced to rapidly advance the Zara Gold Project to feasibility.

This work program includes water drilling and hydrological studies, metallurgical test-work, preparation for further resource definition drilling and ongoing environmental, geological and topographic data collection.

A percussion drilling program to investigate potential water-bearing structures identified by targeted geophysical surveys and drainages is planned and a contractor has been engaged by Sub-Sahara to conduct this work.

Drill core from seven metallurgical holes drilled at the Koka deposit in 2008 is currently held by Ammtec metallurgical laboratories in Perth and a test-work program designed by the Company's consultants has commenced.

A further 5,000m of drilling is required to infill the Koka resource and upgrade it from its current Indicated and Inferred status. It is planned that this drilling will commence shortly after the merger between Sub-Sahara and Chalice is completed. In anticipation of this event, work has already commenced on site preparation and a drilling contractor has been engaged by Chalice.

### **Merger Update and Indicative Timetable**

Sub-Sahara has distributed the Scheme Booklet to shareholders with a revised indicative timetable to completion of the merger as follows:

Dispatch of Notice of Meeting and Scheme Booklet to SBS Shareholders	3 July 2009
Scheme Meeting	4 August 2009
Second Court Hearing	12 August 2009
Scheme becomes binding	14 August 2009
Last day of trade in Sub-Sahara Shares	14 August 2009
Record date for determining entitlements to Chalice Shares	21 August 2009
Dispatch of holding statements for Chalice Shares	1 September 2009

## **2.0 Zara Gold Project – Koka Deposit Resource Update**

On May 1 2009, Sub-Sahara announced that it had commissioned Coffey Mining Pty Ltd ("Coffey") to provide a revised resource estimate for the Koka Gold Deposit that forms part of the Zara Gold Project in Eritrea as part of the documentation required for the proposed merger with Chalice.

The revised resource estimate outlines 5.04 million tonnes at an average grade of 5.8 g/t gold for 944,000 ounces of gold at a cut-off grade of 1.2 g/t (please refer to Table 1).

Category	Lower Cut-off Grade (g/t)	Tonnes (Mt)	Gold g/t	Metal (oz)
Indicated	1.2	4.55	5.9	867,000
Inferred	1.2	0.49	4.9	77,000
<b>TOTAL</b>	<b>1.2</b>	<b>5.04</b>	<b>5.8</b>	<b>944,000</b>

**Table 1: Koka Gold Deposit – reported above a cut-off of 1.2g/t Gold**

1. # Koka Insitu Mineral Resource reported above a 1.2 g/t Au lower cut-off grade.
2. MIK derived Selective Mining Unit (SMU) model estimates using a nominal 5mE x 10mN x 5mRL SMU dimension to emulate assumed open pit mining selectivity.
3. Bulk density of 2.74t/m<sup>3</sup> has been applied to mineralised zones. Gold grade tonnage distributions are subdivided by JORC resource categories.
4. Depletion is to the current natural surface, with no mining assumed to-date.
5. The reported resource limited by depth of drilling and model extents.

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

Chalice has received notification from Teck Australia Pty Ltd (“Teck”) that Teck has entered into an exclusivity agreement with TSX Venture Exchange listed company Kent Exploration Inc. (“Kent”) which contemplates Kent earning 100% of Teck’s interest, subject to Teck retaining a 75% claw-back, in the Gnaweeda Gold Project in the northern Murchison province of Western Australia. Chalice has consented to the transaction.

Kent has paid Teck a non-refundable A\$50,000 deposit which provides Kent with a three month exclusive period during which time Teck and Kent plan to negotiate and formalise the proposed arrangement.

To earn its interest in the Gnaweeda Gold Project, Kent is required to fund A\$3 million in exploration expenditures over 4 years, with a A\$200,000 (includes deposit) first phase exploration program to be completed by 31 December 2009.

Once Kent has earned its interest in the Gnaweeda Project, Teck has the right to claw back 75% of Kent’s interest by spending 2.5 times Kent's exploration expenditures. Teck is currently earning up to 70% in the Gnaweeda Gold Project by spending A\$1.5M. To date, Teck has earned 51% in the Gnaweeda Project and has elected to spend an additional A\$0.75M to earn a further 19%.

Teck has advised that Kent has planned a detailed aeromagnetic survey to be flown over the southern half of the project in the next quarter. In addition, further prospecting of the limited outcropping exposures is currently in progress.

#### 4.0 Yandearra Project

No exploration was undertaken at the Yandearra Project during the last quarter.

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

Joint venture partner, AngloGold Ashanti undertook an air core drilling program consisting of blanket coverage at 160x400 metre spacing with 80x200 metre spacing over infill areas to the east and central BIF ridge, in order to follow up anomalies previously identified in soil and surface rock chip data (Figure 1).

To date, 180 holes, for a total of 7,726 metres have been drilled and logged. A total of 148 end-of-hole samples have been collected and sent for multi-element analysis and 2,754 composite samples have been sent for gold assay. Results for both are pending.

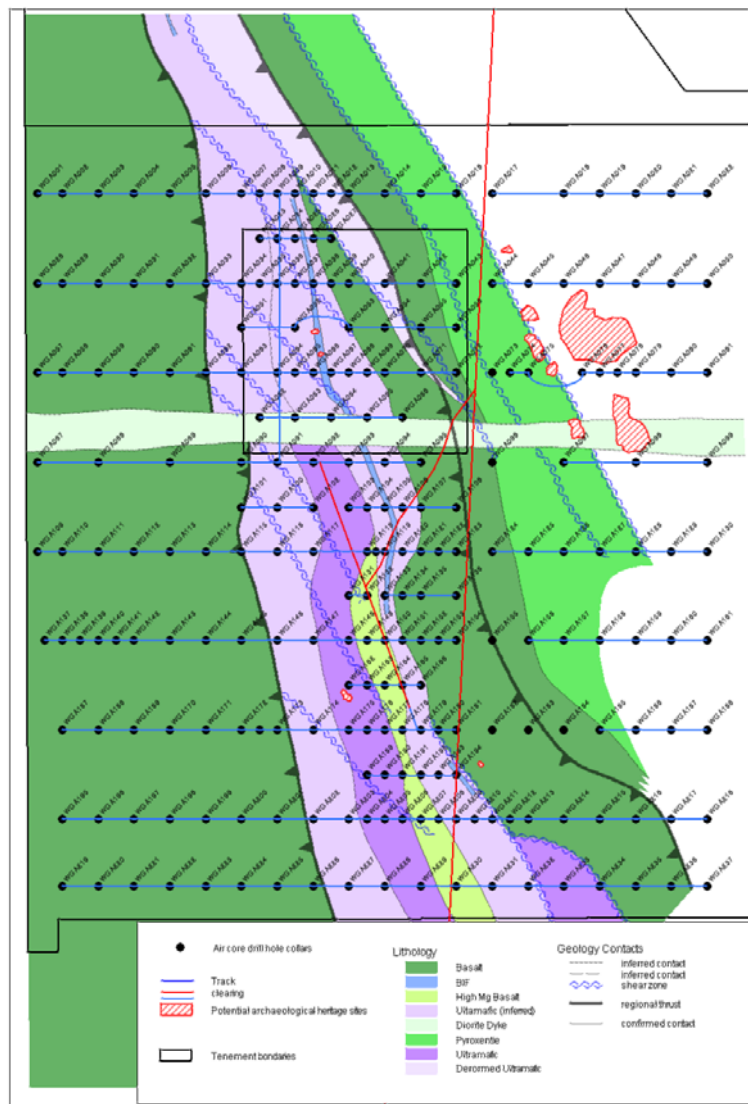


Figure 1: Schematic geological map of the Wilga Gold Project showing major units and structures interpreted from aeromagnetic survey and geological mapping with the air core drilling program

## 6.0 Corporate

At 30 June 2009, Chalice has cash on hand of \$9.6 million. Please refer to the attached Appendix 5B for further details.



**Doug Jones**  
Managing Director  
29 July 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.

The information in this statement that relates to the Koka Gold Deposit Mineral Resource is based on information compiled by Brian Wolfe, who is a Member of The Australasian Institute of Mining and Metallurgy. Brian Wolfe is an employee of Coffey Mining Ltd. Brian Wolfe has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and for the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves – The JORC Code". Brian Wolfe consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

# 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")

30 JUNE 2009

### Consolidated statement of cash flows

	Current quarter \$A	Year to date (12 months) \$A
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	52,054	288,734
1.2 Payments for (a) exploration and evaluation	(61,415)	(320,890)
(b) development	-	-
(c) production	-	-
(d) administration	(326,074)	(1,374,927)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	82,255	522,328
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Goods and services tax (net)	486	(13,188)
<b>Net Operating Cash Flows</b>	<b>(252,694)</b>	<b>(897,943)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	(145,519)	(503,860)
(c)other fixed assets	(2,238)	(94,329)
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
<b>Net investing cash flows</b>	<b>(147,757)</b>	<b>(348,189)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(400,451)</b>	<b>(1,246,132)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc. (net)	-	-
1.15	Proceeds from sale of shares	-	897,003
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	1,446	-
	<b>Net financing cash flows</b>	<b>1,446</b>	<b>897,003</b>
<b>Net increase (decrease) in cash held</b>		<b>(399,005)</b>	<b>(349,129)</b>
1.20	Cash at beginning of quarter/year to date	<b>10,022,642</b>	<b>9,972,766</b>
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>9,623,637</b>	<b>9,623,637</b>

**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	25,706
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 1.8 (b) – cash outflow relates to cost associated with the acquisition of the Mount Oxide Copper – Cobalt Project from Perilya Limited (now terminated) and merger costs associated with the merger of Chalice Gold Mines and Sub-Sahara Resources.

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
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- 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.

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 \$7,045 expenditure for the current quarter totalling approximately \$74,189 of earn-in expenditure for the Gnaweeda Project to the end of the quarter.
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### 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 <sup>(1)</sup>	1,989,000
4.2	Development <sup>(1)</sup>	977,000
<b>Total</b>		<b>2,966,000</b>

- <sup>(1)</sup> Subject to successful completion of the proposed merger between Challice Gold Mines and Sub-Sahara Resources.

### 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	1,543,707	2,016,256
5.2	Deposits at call	8,079,930	8,006,386
5.3	Bank overdraft	-	-
5.4	Other (Bank Guarantee)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)		<b>9,623,637</b>	<b>10,022,642</b>

+ See chapter 19 for defined terms.

### 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
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

### (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 <b>Preference +securities</b> <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 <b>+Ordinary securities</b>	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 <b>+Convertible debt securities</b> <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

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7	<b>Options</b> <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	<b>Debentures</b> <i>(totals only)</i>	Nil	Nil		
7.12	<b>Unsecured notes</b> <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: 24<sup>th</sup> July 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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