

**CHALICE GOLD MINES LIMITED**

**ABN 47 116 648 956**

**Annual Financial Report  
30 June 2009**

# Chalice Gold Mines Limited

## Corporate Directory

### Directors

|              |                        |
|--------------|------------------------|
| T R B Goyder | Executive Chairman     |
| D A Jones    | Managing Director      |
| A W Kiernan  | Non-executive Director |

### Company Secretary

R K Hacker

### Principal Place of Business & Registered Office

Level 2 1292 Hay Street

WEST PERTH WA 6005

Tel: +618 9322 3960

Fax: +618 9322 5800

Web: [www.chalicegold.com](http://www.chalicegold.com)

Email: [info@chalicegold.com](mailto:info@chalicegold.com)

### Auditors

HLB Mann Judd

15 Rheola Street

WEST PERTH WA 6005

### Solicitors

Middletons

Level 2

6 Kings Park Road

WEST PERTH WA 6005

### Share Registry

Computershare Investor Services Pty Limited

Level 2 Reserve Bank Building

45 St Georges Terrace

PERTH WA 6000

Tel: 1300 557 010

### Home Exchange

Australian Securities Exchange Limited

Exchange Plaza

2 The Esplanade

PERTH WA 6000

### ASX Code

Share Code: CHN

# Chalice Gold Mines Limited

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# Chalice Gold Mines Limited

## Directors' Report

The Directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice Gold Mines' or 'the Company') for the financial year ended 30 June 2009 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

### 1. Directors

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

#### T R B Goyer

Executive Chairman

Tim has over 30 years experience in the resource industry. Tim has been involved in the formation and management of a number of publicly-listed companies and is currently a Director of Uranium Equities Limited and Chairman of Liontown Resources Limited.

#### D A Jones

PhD, AusIMM, RPGeo

Managing Director

(appointed 11 November 2008)

Doug is a Geologist with over 30 years experience in international mineral exploration, having worked extensively in Australia, Africa, South America and Europe. His career has covered exploration for volcanic and sediment-hosted zinc-copper-lead, gold in a wide range of geological settings and IOCG style copper-gold. He is also a director of Liontown Resources Limited and AIM-listed Minera IRL Limited.

#### A W Kiernan

LLB

Non-executive Director

Tony is a lawyer and general corporate advisor with extensive experience in the administration and operation of listed public companies. Tony is Chairman of BC Iron Limited and Uranium Equities Limited and is a director of Liontown Resources Limited. Tony was also a director of North Queensland Metals Limited and Solbec Pharmaceuticals Limited (now named Freedomeye Limited) in the last three years.

#### A R Bantock

B.Com, ACA

Non-executive Chairman

(resigned 11 November 2008)

Andrew has extensive professional, corporate and commercial experience in the resources, resource contracting and infrastructure sectors. He is currently a Director and chairs the Audit Committee of Water Corporation, Western Australia's water utility. Andrew was also a director of Liontown Resources Limited and Uranium Equities Limited in the last three years.

#### T M Clifton

BSc (Hons), B. Juris LLB, FAus

IMM

Alternate Director for

D A Jones (20 March to 14 April 2009)

Tim is a Geologist with over 35 years experience in the Australian mining industry at both a technical and corporate level. He was co-founder of Perilya Limited and is currently a Director of Uranium Equities Limited and Strike Oil Limited.

### 2. Company Secretary

#### R K Hacker

B.Com, ACA, ACIS

(resigned 7 April 2008,

re-appointed 1 August 2008)

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

#### AM Reynolds

(Resigned 1 August 2008)

# Chalice Gold Mines Limited

## Directors' Report

### 3. Directors' meetings

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

| Director     | Number of board meetings attended | Number of meetings held during the time the director held office during the year |
|--------------|-----------------------------------|--|
| T R B Goyder | 6                                 | 6  |
| D A Jones    | 3                                 | 3  |
| A W Kiernan  | 6                                 | 6  |
| A R Bantock  | 3                                 | 3  |
| T M Clifton  | 0                                 | 0  |

### 4. Principal activities

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

### 5. Review of Operations

#### 5.1 Merger Between Chalice Gold Mines and Sub-Sahara Resources NL

On 14 August 2009, Chalice Gold Mines Gold Mines Limited ("Chalice Gold Mines") and East Africa-focused gold explorer Sub-Sahara Resources NL (ASX: SBS; "Sub-Sahara") merged the two companies by way of a Scheme of Arrangement ("Scheme") following Scheme approval by Sub-Sahara shareholders and court approval.

The merger has combined Chalice Gold Mines' strong cash position with Sub-Sahara's 69% interest in the high grade Zara Gold Project in Eritrea, East Africa.

Chalice Gold Mines will also pay \$1.664 million for the acquisition of 100% of the shares of Yolanda International Limited, a wholly owned subsidiary of Africa Wide Resources Limited ("AWR"), which holds an 11.12% joint venture interest in the Zara Gold Project. This acquisition results in the newly merged group holding 80% of the Zara Gold Project with ASX-listed gold producer Dragon Mining Limited owning the remaining 20%.

#### Key Terms of the Merger

The Scheme required Sub-Sahara shareholder approval and Court approval. Under the Scheme, Sub-Sahara shareholders will receive 1 Chalice Gold Mines Share for every 10.73 Sub-Sahara Shares.

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

# Chalice Gold Mines Limited

## Directors' Report

### Overview of Merged Group

Following completion of the merger, Chalice Gold Mines 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.

### Project Background

The Zara Gold 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 km<sup>2</sup> project area covers a significant portion of the Zara goldfield and offers significant exploration upside for the definition of additional resources.

#### 5.2 Gnaweeda Gold Project

Chalice Gold Mines 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.

To earn its interest in the Gnaweeda Gold Project, Kent is required to fund \$3 million in exploration expenditures over 4 years, with 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 \$1.5M. To date, Teck has earned 51% in the Gnaweeda Project and has elected to spend an additional \$0.75M to earn a further 19%.

#### 5.3 Yandearra Project

Chalice Gold Mines 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.

#### 5.4 Wilga Gold Project

Chalice Gold Mines entered into an agreement with AngloGold Ashanti Australia Ltd (AngloGold), whereby AngloGold has the right to earn a 75% interest in Chalice Gold Mines' Wilga Project through completion of \$2 million of gold exploration expenditure at the project within the next four years.

Upon earning its 75% interest, a joint venture will be established as between AngloGold and Chalice Gold Mines, with respective participating interests being AngloGold 75%: Chalice Gold Mines 25%.

AngloGold is currently undertaking an air core drilling program as a possible prelude to RC drilling.

# Chalice Gold Mines Limited

## Directors' Report

### 5.5 Termination of Agreement to acquire the Mount Oxide Copper-Cobalt Project

Following the execution of an agreement to acquire the Mount Oxide Copper-Cobalt Project from Perilya Limited (and an associated option to acquire the subsidiary of Perilya Limited which holds a 50% interest in the Tampang Copper-Gold Project), the directors of Chalice Gold Mines advised Perilya Limited on 24 October 2008 that, due to the severe downturn in capital markets and the substantial fall in the copper price, in exercising their respective fiduciary duties, the Board could not recommend that shareholders approve the acquisition in the current form.

Under the circumstances, Perilya Limited consented to the request to terminate the agreement and a Deed of Termination and Release was executed.

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

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

### 7. Remuneration report - audited

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

#### 7.1 Principles of compensation

The broad remuneration policy of the Company is to ensure that remuneration levels for executive directors, secretaries and other key management personnel are set at competitive levels to attract and retain appropriately qualified and experienced personnel. This is particularly important in view of the significant impact that each individual can make within a small executive team for an exploration and development company such as Chalice Gold Mines. However, with the impact of recent global economics the board has acted appropriately by reviewing salaries for directors, executives and staff and has made changes to salaries accordingly.

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

#### Fixed compensation

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

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

#### Long-term incentives

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

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

#### Performance-related compensation

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

## Chalice Gold Mines Limited

### Directors' Report

#### **Non-executive directors**

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

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

Chalice Gold Mines Limited  
**Directors' Report**

**7.2 Directors' and executive officers' remuneration (audited)**

| Key Management Personnel                                 | Short-term payments |                          |               | Post-employment payments   |                         | Share-based payments |               | Value of options as proportion of remuneration (%) |
|--|---------------------|--------------------------|---------------|----------------------------|-------------------------|----------------------|---------------|--|
|  | Salary & fees \$    | Non-monetary benefits \$ | Total \$      | Superannuation benefits \$ | Termination benefits \$ | Options (A) \$       | Total \$      |  |
|  |                     |                          |               |                            |                         |                      |               |  |
| <b>Directors</b>   |                     |                          |               |                            |                         |                      |               |  |
| T R B Goyder   | 2009 73,394         | 5,137                    | 78,532        | 6,605                      | -                       | -                    | 85,137        | -%   |
|  | 2008 45,872         | 3,364                    | 49,236        | 4,128                      | -                       | -                    | 53,364        | -%   |
| D A Jones <sup>(1)</sup><br>(appointed 11 November 2008) | 2009 -              | -                        | -             | -                          | -                       | -                    | -             | -%   |
|  | 2008 -              | -                        | -             | -                          | -                       | -                    | -             | -%   |
| A W Kiernan  | 2009 30,275         | 5,137                    | 35,412        | 2,725                      | -                       | -                    | 38,137        | -%   |
|  | 2008 27,523         | 3,364                    | 30,887        | 2,477                      | -                       | 54,929               | 88,293        | 62%  |
| T M Clifton (Alternate Director) <sup>(2)</sup>          | 2009 -              | -                        | -             | -                          | -                       | -                    | -             | -  |
|  | 2008 -              | -                        | -             | -                          | -                       | -                    | -             | -  |
| <b>Executive</b>   |                     |                          |               |                            |                         |                      |               |  |
| R K Hacker<br>(appointed 1 August 2008)                  | 2009 178,899        | 4,701                    | 183,600       | 16,101                     | -                       | 37,559               | 237,259       | 16%  |
|  | 2008 131,679        | 2,369                    | 134,048       | 11,337                     | -                       | -                    | 145,385       | -%   |
| <b>Former Directors</b>                                  |                     |                          |               |                            |                         |                      |               |  |
| A R Bantock<br>(resigned 11 November 2008)               | 2009 27,141         | 1,886                    | 29,027        | 2,443                      | 92,367                  | -                    | 123,836       | -%   |
|  | 2008 114,679        | 3,364                    | 118,043       | 10,321                     | -                       | -                    | 128,364       | -%   |
| B W Alexander<br>(resigned 30 November 2007)             | 2009 -              | -                        | -             | -                          | -                       | -                    | -             | -  |
|  | 2008 11,468         | 1,401                    | 12,869        | 1,032                      | -                       | -                    | 13,901        | -%   |
| <b>Former Executive</b>                                  |                     |                          |               |                            |                         |                      |               |  |
| A M Reynolds<br>(resigned 1 August 2008)                 | 2009 12,232         | 450                      | 12,682        | 1,101                      | 41,404                  | (1,284)              | 53,904        | (2%)   |
|  | 2008 42,908         | 1,115                    | 44,023        | 3,862                      | -                       | 1,284                | 49,169        | 3%   |
| <b>Total Compensation</b>                                |                     | <b>2009 321,942</b>      | <b>17,311</b> | <b>339,252</b>             | <b>28,975</b>           | <b>133,771</b>       | <b>36,275</b> | <b>538,273</b>                                     |
|  |                     | <b>2008 374,129</b>      | <b>14,977</b> | <b>389,106</b>             | <b>33,157</b>           | -                    | <b>56,213</b> | <b>478,476</b>                                     |

Note: <sup>(1)</sup> Dr Jones has his remuneration paid by Liotontown Resources Limited. Chalice Gold Mines is charged, at cost, by Liotontown Resources for the services provided by Dr Jones to Chalice Gold Mines Limited. Refer to note 25 for further details.

<sup>(2)</sup> Mr Clifton did not receive remuneration in his role as Alternate Director.

# Chalice Gold Mines Limited

## Directors' Report

### Notes in relation to the table of directors' and executive officers' remuneration

- A. The fair value of the options are calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. The following factors and assumptions were used in determining the fair value of options on grant date:

| Grant Date | Expiry Date | Fair value per option | Exercise price | Price of ordinary shares on grant date | Expected volatility | Risk free interest rate | Dividend yield |
|------------|-------------|-----------------------|----------------|--|---------------------|-------------------------|----------------|
| 01.08.08   | 31.07.13    | \$0.08                | \$0.20         | \$0.125                                | 85%                 | 7.5%                    | 0              |

### Details of performance-related remuneration

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

### 7.3 Equity instruments

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

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

|                                | Number of options granted during 2009 | Grant date | Number of options vested during 2009 | Fair value per option at grant date \$ | Exercise price | Expiry date |
|--------------------------------|---------------------------------------|------------|--------------------------------------|--|----------------|-------------|
| <b>Executive</b><br>R K Hacker | 500,000                               | 01.08.08   | 125,000                              | \$0.08                                 | \$0.20         | 31.07.13    |

#### 7.3.2 Exercise of options granted as compensation

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

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

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

|                                | Number granted     | Date granted         | % vested in year | Forfeited in year | Period in which grant vests |
|--------------------------------|--------------------|----------------------|------------------|-------------------|-----------------------------|
| <b>Executive</b><br>R K Hacker | 125,000<br>375,000 | 01.08.08<br>01.08.08 | 100%<br>-        | -<br>-            | 2009<br>2010                |

# Chalice Gold Mines Limited

## Directors' Report

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

|                  | Granted in year<br>\$ (A) | Exercised in year<br>\$ (B) | Forfeited in year<br>\$ (C) |
|------------------|---------------------------|-----------------------------|-----------------------------|
| <b>Executive</b> |                           |                             |                             |
| R K Hacker       | 40,114                    | -                           | 10,717                      |
| A M Reynolds     | -                         | -                           | 7,590                       |

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

### 8. Dividends

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

### 9. Likely developments

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

### 10. Subsequent events

On 14 August 2009, the Scheme of Arrangement between Sub-Sahara Resources NL ("Sub-Sahara") and its shareholders received court approval to merge with Chalice Gold Mines. Fully paid ordinary shareholders of Sub-Sahara will receive approximately 46.7 million Chalice Gold Mines shares in exchange for all the fully paid ordinary shares of Sub-Sahara.

In addition, unlisted partly paid shareholders and unlisted option holders in Sub-Sahara will receive a further 1.6 million Chalice Gold Mines shares as consideration for these securities.

Following completion of the merger, Chalice Gold Mines will also pay \$1.664 million for the acquisition of 100% of the shares of Yolanda International Limited, a wholly owned subsidiary of Africa Wide Resources Limited ("AWR"), which holds an 11.12% joint venture interest in the Zara Gold Project.

Other costs associated with the merger, including redundancy costs, corporate advisory fees and other liabilities inherited from Sub-Sahara are estimated to be approximately \$877,000.

# Chalice Gold Mines Limited

## Directors' Report

### 11. Directors' interests

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

|                          | Ordinary shares | Options over ordinary shares |
|--------------------------|-----------------|------------------------------|
| T R B Goyder             | 17,828,030      | 2,000,000                    |
| D A Jones <sup>(1)</sup> | 135,000         | -                            |
| A W Kiernan              | 820,074         | 500,000                      |

<sup>(1)</sup> Subject to shareholder approval at the Company's next General Meeting, Dr Jones will be issued 1,250,000 unlisted share options with an exercise price of \$0.35 expiring on 31 March 2014 and 1,250,000 unlisted share options with an exercise price of \$0.45 expiring on 31 March 2014.

### 12. Share options

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

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

|                          | Number of options granted |
|--------------------------|---------------------------|
| Executives<br>R K Hacker | 500,000                   |

#### Unissued shares under options

At the date of this report 6,825,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

| Expiry date | Exercise price | Number of shares |
|-------------|----------------|------------------|
| 21.03.11    | \$0.25         | 5,575,000        |
| 01.12.12    | \$0.25         | 500,000          |
| 11.12.12    | \$0.20         | 250,000          |
| 31.07.13    | \$0.20         | 500,000          |

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

#### Shares issued on exercise of options

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

### 13. Indemnification and insurance of directors and officers

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

## Chalice Gold Mines Limited

### Directors' Report

During the year the Company paid insurance premiums of \$17,311 in respect of directors and officers indemnity insurance contracts, for current and former Directors and officers. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The amount of insurance paid is included in Directors and executives remuneration on page 8.

#### **14. Non-audit services**

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

#### **15. Auditor's independence declaration**

The auditor's independence declaration is set out on page 13 and forms part of the Directors' report for the year ended 30 June 2009.

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



Tim R B Goyder  
Executive Chairman

Dated at Perth this day 25 August 2009



Accountants | Business and Financial Advisers

### Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Chalice Gold Mines Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Chalice Gold Mines Limited.

A handwritten signature in black ink, appearing to read "Di Giallonardo".

**Perth, Western Australia**  
**25 August 2009**

**L DI GIALLONARDO**  
**Partner, HLB Mann Judd**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**  
Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.  
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# Chalice Gold Mines Limited

## Income Statement

For the year ended 30 June 2009

|  | Note | 2009<br>\$       | 2008<br>\$       |
|--|------|------------------|------------------|
| Net gain/ (loss) on sale of exploration and evaluation assets              | 3    | 674,486          | (1,681)          |
| Net gain on sale of securities   |      | 56,003           | 556,852          |
| Changes in fair value of available-for-sale investments                    | 4    | 12,463           | 1,996,631        |
| Other income   | 5    | 824,333          | 748,586          |
| <b>Total income</b>  |      | <b>1,567,285</b> | <b>3,300,388</b> |
| Impairment losses on exploration and evaluation expenditure                |      | -                | (1,355,640)      |
| Exploration costs not capitalised  |      | (129,862)        | (41,783)         |
| Corporate administrative expenses  | 6    | (1,474,525)      | (1,168,055)      |
| Costs of business combinations expensed                                    |      | (527,434)        | -                |
| Finance costs  | 9    | -                | (64)             |
| <b>Profit/ (loss) before tax</b>   |      | <b>(564,536)</b> | <b>734,846</b>   |
| Income tax expense/benefit   | 10   | -                | -                |
| <b>Profit/ (loss) for the period</b>                                       |      | <b>(564,536)</b> | <b>734,846</b>   |
| Basic earnings/ (loss) per share attributable to ordinary equity holders   | 11   | (0.01)           | 0.01             |
| Diluted earnings/ (loss) per share attributable to ordinary equity holders | 11   | (0.01)           | 0.01             |

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 18 to 39.

# Chalice Gold Mines Limited

## Balance Sheet

As at 30 June 2009

|                                      | Note | 2009<br>\$        | 2008<br>\$        |
|--------------------------------------|------|-------------------|-------------------|
| <b>Current assets</b>                |      |                   |                   |
| Cash and cash equivalents            | 12   | 9,623,637         | 9,972,766         |
| Trade and other receivables          | 13   | 162,000           | 84,085            |
| Assets held for sale                 | 15   | -                 | 164,064           |
| <b>Total current assets</b>          |      | <b>9,785,637</b>  | <b>10,220,915</b> |
| <b>Non-current assets</b>            |      |                   |                   |
| Financial assets                     | 14   | 174,827           | 74,698            |
| Exploration and evaluation assets    | 16   | 1,950,775         | 2,033,937         |
| Property, plant and equipment        | 17   | 232,566           | 207,781           |
| <b>Total non-current assets</b>      |      | <b>2,358,168</b>  | <b>2,316,416</b>  |
| <b>Total assets</b>                  |      | <b>12,143,805</b> | <b>12,537,331</b> |
| <b>Current liabilities</b>           |      |                   |                   |
| Trade and other payables             | 18   | 151,640           | 60,782            |
| Employee benefits                    | 19   | 18,196            | 19,565            |
| Other                                | 20   | 3,182             | -                 |
| <b>Total current liabilities</b>     |      | <b>173,018</b>    | <b>80,347</b>     |
| <b>Non-current liabilities</b>       |      |                   |                   |
| Other                                | 20   | 47,207            | 51,976            |
| <b>Total non-current liabilities</b> |      | <b>47,207</b>     | <b>51,976</b>     |
| <b>Total liabilities</b>             |      | <b>220,225</b>    | <b>132,323</b>    |
| <b>Net assets</b>                    |      | <b>11,923,580</b> | <b>12,405,008</b> |
| <b>Equity</b>                        |      |                   |                   |
| Issued capital                       | 21   | 13,974,454        | 13,974,454        |
| Accumulated losses                   | 21   | (2,704,892)       | (2,140,356)       |
| Reserves                             | 21   | 654,018           | 570,910           |
| <b>Total Equity</b>                  |      | <b>11,923,580</b> | <b>12,405,008</b> |

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 18 to 39.

**Chalice Gold Mines Limited**  
**Statement of Changes in Equity**  
For the year ended 30 June 2009

|  | Note | Share capital     | Accumulated losses | Share based payments reserve | Investment revaluation reserve | Total equity      |
|--|------|-------------------|--------------------|------------------------------|--------------------------------|-------------------|
|  |      | \$                | \$                 | \$                           | \$                             | \$                |
| <b>Balance at 1 July 2008</b>                  |      | 13,974,454        | (2,140,356)        | 570,910                      | -                              | 12,405,008        |
| Employee share options vested                  |      | -                 | -                  | 47,108                       | -                              | 47,108            |
| Fair value gain available for sale investments |      | -                 | -                  | -                            | 36,000                         | 36,000            |
| Loss for the period                            |      | -                 | (564,536)          | -                            | -                              | (564,536)         |
| <b>Balance at 30 June 2009</b>                 | 21   | <b>13,974,454</b> | <b>(2,704,892)</b> | <b>618,018</b>               | <b>36,000</b>                  | <b>11,923,580</b> |
|  |      | Share capital     | Accumulated losses | Share based payments reserve | Investment revaluation reserve | Total equity      |
|  |      | \$                | \$                 | \$                           | \$                             | \$                |
| <b>Balance at 31 July 2007</b>                 |      | 13,974,454        | (2,875,202)        | 501,882                      | -                              | 11,601,134        |
| Employee share options vested                  |      | -                 | -                  | 69,028                       | -                              | 69,028            |
| Profit for the period                          |      | -                 | 734,846            | -                            | -                              | 734,846           |
| <b>Balance at 30 June 2008</b>                 | 21   | <b>13,974,454</b> | <b>(2,140,356)</b> | <b>570,910</b>               | <b>-</b>                       | <b>12,405,008</b> |

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 18 to 39.

# Chalice Gold Mines Limited

## Cash Flow Statement

For the year ended 30 June 2009

|   | Note | 2009<br>\$       | 2008<br>\$       |
|---|------|------------------|------------------|
| <b>Cash flows from operating activities</b>                                     |      |                  |                  |
| Cash receipts from operations   |      | 288,734          | 275,180          |
| Cash paid to suppliers and employees  |      | (1,388,115)      | (1,060,139)      |
| Interest paid   |      | -                | (64)             |
| Interest received   |      | 522,328          | 476,546          |
| <b>Net cash used in operating activities</b>                                    | 24   | <b>(577,053)</b> | <b>(308,477)</b> |
| <b>Cash flows from investing activities</b>                                     |      |                  |                  |
| Payments for mining exploration and evaluation                                  |      | (320,890)        | (360,083)        |
| Acquisition of property, plant and equipment                                    |      | (94,329)         | (87,809)         |
| Proceeds from sale of investments   |      | 897,003          | 11,960,176       |
| Proceeds from option fee received for sale of exploration and evaluation assets |      | 250,000          | -                |
| Payments for costs of business combinations                                     |      | (503,860)        | -                |
| Amounts paid to exercise options  |      | -                | (3,580,000)      |
| Proceeds from sale of property, plant and equipment                             |      | -                | 5,010            |
| <b>Net cash from investing activities</b>                                       |      | <b>227,924</b>   | <b>7,937,294</b> |
| <b>Cash flows from financing activities</b>                                     |      |                  |                  |
| Lodgement of bank guarantee and security deposits                               |      | -                | 20,000           |
| <b>Net cash from financing activities</b>                                       |      | <b>-</b>         | <b>20,000</b>    |
| Net increase/(decrease) in cash and cash equivalents                            |      | (349,129)        | 7,648,817        |
| Cash and cash equivalents at the beginning of the period                        |      | 9,972,766        | 2,323,949        |
| <b>Cash and cash equivalents at 30 June</b>                                     | 12   | <b>9,623,637</b> | <b>9,972,766</b> |

The cash flow statement is to be read in conjunction with the notes to the financial statements set out on pages 18 to 39.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

### 1. Significant accounting policies

Chalice Gold Mines is an ASX listed public company domiciled in Australia at Level 2, 1292 Hay Street, Perth, Western Australia. The financial report of the Company is for the year ended 30 June 2009.

The financial report was authorised for issue by the Directors on the 25<sup>th</sup> day of August 2009.

#### (a) Statement of compliance

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

#### (b) Basis of preparation

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

In the year ended 30 June 2009, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2008. It has been determined by the Company that other than the election to early adopt AASB 3 Business Combinations, there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to its accounting policies.

The company has elected to early adopt AASB 3 Business Combinations (March 2008) for the reporting period commencing 1 July 2008. The following changes to accounting policies are adopted in the preparation of this financial report:

- Acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- Contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- A gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- There shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- Dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- Impairment of investments in subsidiaries; joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- Where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure the cost of its investments at the carrying value of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

During the current financial year, costs of \$527,434 incurred to 30 June 2009 on the Sub Sahara Resources NL business combination, which was completed subsequent to balance date, have been expensed.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

### (c) Significant accounting judgements, estimates and assumptions

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

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

(i) Recoverability of exploration expenditure

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

(ii) Share-based payment transactions

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

### (d) Segment reporting

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

### (e) Revenue recognition

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

(i) **Sale of goods**

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

(ii) **Services rendered**

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

(iii) **Interest received**

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

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

**(f) Expenses**

**(i) Operating lease payments**

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

**(ii) Finance lease payments**

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

**(iii) Financing costs**

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

**(g) Depreciation**

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

- |   |                       |         |
|---|-----------------------|---------|
| • | plant and equipment   | 7%-40%  |
| • | fixtures and fittings | 11%-22% |
| • | Motor Vehicles        | 18.75%  |

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

**(h) Income tax**

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

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

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

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

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

**(i) Goods and Services Tax**

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

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

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

**(j) Impairment**

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

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

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

**(k) Cash and cash equivalents**

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

**(l) Trade and other receivables**

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

**(m) Non-current assets held for sale and discontinued operations**

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

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

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

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

### (n) Plant and equipment

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

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

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

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

### (o) Financial assets

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

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

Financial assets classified as held-for-trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognised in profit or loss.

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

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

#### (iii) Loans and receivables

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

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

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

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

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

**(p) Exploration, evaluation, development and tenement acquisition costs**

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

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

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

**(q) Trade and other payables**

Trade and other payables are stated at cost.

**(r) Interest-bearing loans and borrowings**

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

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

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

**(i) Leases**

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

**(s) Employee benefits**

**(i) Superannuation**

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

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

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

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

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

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

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

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

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

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

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

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

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

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

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

**(t) Provisions**

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

**(u) Share capital**

**(i) Ordinary share capital**

Ordinary shares and partly paid shares are classified as equity.

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

### (ii) Transaction costs

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

### 2. Segment reporting

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

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

|   | 2009<br>\$ | 2008<br>\$ |
|---|------------|------------|
| Net (loss)/ gain on sale of exploration and evaluation assets | 674,486    | (1,681)    |

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

Pursuant to the Avoca Resources sale agreement, the transaction was completed in two tranches. Tranche 1 settled on 25 July 2007 and consideration for the completion of Tranche 1 was recorded in the 30 June 2007 reporting period. Tranche 2, which comprises a package of tenements south of the Chalice Gold Mine, completed upon grant of an Exploration Licence and then amalgamation of the same with certain Prospecting Licences already held by Chalice Gold Mines.

During the year, the conditions for completion of Tranche 2 were satisfied and the sale has been recorded with settlement occurring via the receipt of \$841,000 of Avoca Resources shares in February 2009. The cost of the tenements sold were \$166,515 which resulted in a profit on sale of \$674,486.

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

|  |        |           |
|--|--------|-----------|
| Net change in fair value of available-for-sale investments | 12,463 | 1,996,631 |
|--|--------|-----------|

### 5. Other income

|   |                |                |
|---|----------------|----------------|
| Interest received                         | 545,099        | 488,479        |
| Gain on sale of plant and equipment       | -              | 2,107          |
| Corporate and administration service fees | 279,234        | 258,000        |
|   | <b>824,333</b> | <b>748,586</b> |

### 6. Corporate administrative expenses

|                               | Note | 2009<br>\$       | 2008<br>\$       |
|-------------------------------|------|------------------|------------------|
| Depreciation and amortisation | 17   | 71,543           | 74,213           |
| Insurance                     |      | 26,846           | 27,924           |
| Legal fees                    |      | 80,706           | 47,181           |
| Office costs                  |      | 242,707          | 117,780          |
| Personnel expenses            | 7    | 745,200          | 745,742          |
| Regulatory and compliance     |      | 117,908          | 86,340           |
| Other                         |      | 189,615          | 68,875           |
|                               |      | <b>1,474,525</b> | <b>1,168,055</b> |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

**7. Personnel expenses**

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
|  | \$          | \$          |
| Wages and salaries                                     | 490,086     | 428,598     |
| Directors' fees  | 45,948      | 84,862      |
| Other associated personnel expenses                    | 35,210      | 67,440      |
| Defined contribution superannuation fund contributions | 132,665     | 98,937      |
| (Decrease)/increase in liability for annual leave      | (5,817)     | (3,123)     |
| Equity-settled transactions                            | 21          | 69,028      |
|  | 47,108      | 69,028      |
|  | 745,200     | 745,742     |

**8. Auditor's remuneration**

|                                       |        |        |
|---------------------------------------|--------|--------|
| <b>Audit services</b>                 |        |        |
| HLB Mann Judd:                        |        |        |
| Audit and review of financial reports | 27,370 | 19,360 |

**9. Finance costs**

|                  |   |    |
|------------------|---|----|
| Interest expense | - | 64 |
|------------------|---|----|

**10. Income tax**

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
| Current tax expense  | (64,548)    | 257,593     |
| Deferred tax expense relating to the origination and reversal of temporary differences | 57,381      | 2,060,329   |
| Tax losses not brought to account as deferred tax assets                               | 7,167       | (2,317,922) |
| Total income tax expense reported in the income statement                              | -           | -           |

**Numerical reconciliation of income tax expense to prima facie tax payable**

|   |           |             |
|---|-----------|-------------|
| Profit/(Loss) from continuing operations before income tax expense                          | (564,536) | 734,846     |
| Tax at the Australian corporate rate of 30%   | (169,361) | 220,454     |
| Tax effect of amounts which are not tax deductible (taxable) in calculating taxable income: |           |             |
| Non-deductible expenses   | 30,619    | 37,139      |
| Blackhole expenditure tax deductible  | (35,133)  | (35,133)    |
| Origination and reversal of temporary differences   | 57,381    | 2,060,329   |
| Current year tax benefits not recognised  | (116,494) | 2,282,789   |
| Income tax expense reported in the income statement   | 116,494   | (2,282,789) |
|   | -         | -           |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

**Deferred income tax**

*Deferred tax liabilities*

|  | <b>2009</b> | <b>2008</b> |
|--|-------------|-------------|
|  | \$          | \$          |
| Delayed revenue recognition for tax purposes | (19,744)    | (2,438)     |
| Exploration and evaluation expenditure       | 74,168      | 326,936     |

*Deferred tax assets*

|  |          |             |
|--|----------|-------------|
| Revenue (profits)/ losses available for offset against future taxable income | (57,381) | (2,060,329) |
| Current receivables  | -        | 1,748,008   |
| Employee benefits  | (411)    | (937)       |
| Accrued expenses   | 3,368    | (11,240)    |
| Net deferred tax assets recognised   | -        | -           |

**Tax Losses**

|   |           |           |
|---|-----------|-----------|
| Unused tax losses for which no deferred tax asset has been recognised | 4,072,330 | 3,931,332 |
| Potential tax benefit at 30% tax rate                                 | 1,221,699 | 1,179,400 |

**11. Earnings per share**

**Basic and diluted earnings per share**

The calculation of basic and diluted earnings per share for the year ended 30 June 2009 was based on the loss attributable to ordinary shareholders of \$564,536 [2008: profit of \$734,846] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 72,800,000 [2008: 72,800,000].

**Profit/ (loss) attributable to ordinary shareholders (diluted)**

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
|   | \$          | \$          |
| Profit/ (loss) attributable to ordinary shareholders          | (564,536)   | 734,846     |
| Profit/ (loss)attributable to ordinary shareholders (diluted) | (564,536)   | 734,846     |

**Weighted average number of ordinary shares (diluted)**

|   | <b>No.</b> | <b>No.</b> |
|---|------------|------------|
| Weighted average number of ordinary shares at 30 June           | 72,800,000 | 72,800,000 |
| Effect of share options on issue                                | -          | -          |
| Weighted average number of ordinary shares (diluted) at 30 June | 72,800,000 | 72,800,000 |

**12. Cash and cash equivalents**

|  |           |           |
|--|-----------|-----------|
| Bank balances  | 1,543,318 | 1,541,571 |
| Bank bills   | -         | 1,185,135 |
| Term deposits  | 8,079,930 | 7,245,860 |
| Petty cash   | 389       | 200       |
| Cash and cash equivalents in the cash flow statement | 9,623,637 | 9,972,766 |

**13. Trade and other receivables**

**Current**

|                         |         |        |
|-------------------------|---------|--------|
| Other trade receivables | 101,763 | 51,416 |
| Prepayments             | 60,237  | 32,669 |
|                         | 162,000 | 84,085 |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

**14. Financial assets**

|                                      | <b>2009</b>    | <b>2008</b>   |
|--------------------------------------|----------------|---------------|
|                                      | \$             | \$            |
| <b>Current</b>                       |                |               |
| Loans receivable (A)                 | -              | -             |
| <b>Non-current</b>                   |                |               |
| Available for sale investments       | 94,709         | -             |
| Bond in relation to office premises  | 51,624         | 48,094        |
| Bank guarantee and security deposits | 28,494         | 26,604        |
|                                      | <b>174,827</b> | <b>74,698</b> |

(A) A loan facility of \$450,000 has been made available to Sub-Sahara Resources NL ("Sub-Sahara") by Chalice Gold Mines to fund further development of the Zara Gold Project (Koka deposit) and to advance time-critical elements of a scoping and feasibility study. At balance date, no draw down for this facility had been made.

Funds advanced under the facility, together with interest (accrued at a rate of 10%), are repayable if the merger is not implemented by 30 September 2009 (or such later date as Chalice Gold Mines 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 the assets and undertakings of Sub-Sahara.

**15. Assets held for sale**

|  |   |         |
|--|---|---------|
| Exploration and evaluation expenditure | - | 164,064 |
|--|---|---------|

**16. Exploration and evaluation expenditure**

|   | <b>Note</b> |                  |
|---|-------------|------------------|
| Costs carried forward in respect of areas of interest in the exploration and evaluation phase (at cost) | 2,033,937   | 3,134,600        |
| Expenditure incurred during the year  | 342,946     | 307,635          |
| Impairment of exploration and evaluation expenditure  | -           | (1,355,640)      |
| Exploration costs not capitalised   | (129,862)   | (41,783)         |
| Disposals of tenements  | (296,246)   | -                |
| Transfer to assets held for sale  | 15          | -                |
|   |             | (10,875)         |
|   |             | <b>1,950,775</b> |
|   |             | <b>2,033,937</b> |

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

**17. Property, plant and equipment**

|                                |                |                |
|--------------------------------|----------------|----------------|
| At cost                        | 428,609        | 332,281        |
| Less: accumulated depreciation | (196,043)      | (124,500)      |
|                                | <b>232,566</b> | <b>207,781</b> |

**Plant and equipment**

|  |                |                |
|--|----------------|----------------|
| Carrying amount at beginning of financial year | 207,781        | 208,491        |
| Additions                                      | 96,328         | 76,147         |
| Depreciation                                   | (71,543)       | (74,213)       |
| Disposals/write offs                           | -              | (2,644)        |
| Carrying amount at end of period               | <b>232,566</b> | <b>207,781</b> |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

|                              | <b>2009</b>    | <b>2008</b>   |
|------------------------------|----------------|---------------|
|                              | \$             | \$            |
| Trade payables               | 129,534        | 46,402        |
| Accrued expenses             | 22,106         | 14,380        |
|                              | <b>151,640</b> | <b>60,782</b> |
| <b>19. Employee benefits</b> |                |               |
| Liability for annual leave   | 18,196         | 19,565        |
|                              | <b>18,196</b>  | <b>19,565</b> |

**Share based payments**

**(a) Employee Share Option Plan**

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

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

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

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

|  | Weighted<br>average<br>exercise<br>price<br>\$ | Number<br>of options |
|--|--|----------------------|
|  | <b>2009</b>                                    | <b>2009</b>          |
| Outstanding at the beginning of the period | \$0.25   | 6,725,000            |
| Forfeited during the period                | \$0.23   | 400,000              |
| Exercised during the period                | -  | -                    |
| Granted during the period                  | \$0.20   | 500,000              |
| Outstanding at the end of the period       | \$0.25   | 6,825,000            |
| Exercisable at the end of the period       | \$0.25   | 6,325,000            |

|  | Weighted<br>average<br>exercise<br>price<br>\$ | Number<br>of options |
|--|--|----------------------|
|  | <b>2008</b>                                    | <b>2008</b>          |
| Outstanding at the beginning of the period | 0.25   | 5,825,000            |
| Forfeited during the period                | -  | -                    |
| Exercised during the period                | -  | -                    |
| Granted during the period                  | 0.23   | 900,000              |
| Outstanding at the end of the period       | 0.25   | 6,725,000            |
| Exercisable at the end of the period       | 0.25   | 500,000              |

The options outstanding at 30 June 2009 have an exercise price of \$0.25 [2008: \$0.25] and a weighted average contractual life of 5 years.

During the period, no share options were exercised.

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

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

The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2009.

| Fair value of share options and assumptions  | 2009    | 2008    |
|--|---------|---------|
| Share price at grant date  | \$0.12  | \$0.19  |
| Exercise price   | \$0.20  | \$0.23  |
| Expected volatility (expressed as weighted average volatility used in the modelling under binomial option-pricing model) | 85%     | 81%     |
| Option life (expressed as weighted average life used in the modelling under binomial option-pricing model)               | 5 years | 5 years |
| Expected dividends   | -       | -       |
| Risk-free interest rate  | 7.5%    | 5.43%   |

Share options are granted under service conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

|  | 2009   | 2008   |
|--|--------|--------|
|  | \$     | \$     |
| Share options granted in 2009 - equity settled | 47,108 | 69,028 |
| Total expense recognised as personnel expenses | 47,108 | 69,028 |

**20. Other liabilities**

|                     | 2009   | 2008   |
|---------------------|--------|--------|
|                     | \$     | \$     |
| <b>Current</b>      |        |        |
| Lease incentive     | 3,182  | -      |
|                     | 3,182  | -      |
| <b>Non-current</b>  |        |        |
| Lease incentive     | -      | 10,820 |
| Make good provision | 47,207 | 41,156 |
|                     | 47,207 | 51,976 |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
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**21. Capital and reserves**

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

|                                | Share<br>capital<br>(a)<br>\$ | Accumulated<br>losses<br>\$ | Share based<br>payments<br>reserve<br>\$ | Investment<br>revaluation<br>reserve<br>\$ | Total equity<br>\$ |
|--------------------------------|-------------------------------|-----------------------------|--|--|--------------------|
| Balance at 1 July 2008         | 13,974,454                    | (2,140,356)                 | 570,910                                  | -  | 12,405,008         |
| Available for sale investments | -                             | -                           | -  | 36,000                                     | 36,000             |
| Employee share options vested  | -                             | -                           | 47,108                                   | -  | 47,108             |
| Loss for the period            | -                             | (564,536)                   | -  | -  | (564,536)          |
| Balance at 30 June 2009        | 13,974,454                    | (2,704,892)                 | 618,018                                  | 36,000                                     | 11,923,580         |

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

**(a) Share capital**

There were 72,800,000 shares on issue at 30 June 2009 and 30 June 2008.

**Ordinary shares**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

**(b) Share options**

|                                | 2009<br>No. | 2008<br>No. |
|--------------------------------|-------------|-------------|
| On issue at 1 July             | 6,725,000   | 5,825,000   |
| Options forfeited              | (400,000)   | -           |
| Options issued during the year | 500,000     | 900,000     |
| On issue at 30 June            | 6,825,000   | 6,725,000   |

At 30 June 2009 the Company had 6,825,000 unlisted options on issue under the following terms and conditions:

| Number    | Expiry Date | Exercise Price |
|-----------|-------------|----------------|
| 5,575,000 | 21.03.11    | \$0.25         |
| 500,000   | 01.12.12    | \$0.25         |
| 250,000   | 11.12.12    | \$0.20         |
| 500,000   | 31.07.13    | \$0.20         |

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
For the year ended 30 June 2009

**22. Financial instruments**

**(a) Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders.

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

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

**(b) Market risk exposures**

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

**Foreign exchange rate risk**

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

**Equity prices**

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

**Interest rate risk**

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

| 30 June 2009                          | Note |  | Over              |                 | Non-                 |                     | Weighted<br>average<br>int. rate |
|---------------------------------------|------|--|-------------------|-----------------|----------------------|---------------------|----------------------------------|
|                                       |      |  | 1 year<br>or less | 1 to 5<br>years | Floating<br>interest | interest<br>bearing |                                  |
| <b>Financial assets</b>               |      |  |                   |                 |                      |                     |                                  |
| Bank balances                         | 12   |  | -                 | -               | 1,543,318            | -                   | 1,543,318 0.41%                  |
| Bank bills                            | 12   |  | -                 | -               | -                    | -                   | -                                |
| Term deposits                         | 12   |  | 8,079,930         | -               | -                    | -                   | 8,079,930 3.18%                  |
| Bank guarantees and security deposits | 14   |  | 80,118            | -               | -                    | -                   | 80,118 3.70%                     |
| Petty cash                            | 12   |  | -                 | -               | -                    | 389                 | 389 -                            |
| Trade and other receivables           | 13   |  | -                 | -               | -                    | 101,763             | 101,763 -                        |
| <b>Financial liabilities</b>          |      |  |                   |                 |                      |                     |                                  |
| Trade payables and accrued expenses   | 18   |  | -                 | -               | -                    | 151,640             | 151,640 -                        |
| Employee benefits                     | 19   |  | -                 | -               | -                    | 18,196              | 18,916 -                         |

**Chalice Gold Mines Limited**  
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| 30 June 2008                             | Note | 1 year<br>or less | Over<br>1 to 5<br>years |           | Floating<br>interest | Non-<br>interest<br>bearing | Total | Weighted<br>average<br>int. rate |
|--|------|-------------------|-------------------------|-----------|----------------------|-----------------------------|-------|----------------------------------|
|  |      |                   | \$                      | \$        |                      |                             |       |                                  |
| <b>Financial assets</b>                  |      |                   |                         |           |                      |                             |       |                                  |
| Bank balances                            | 12   | -                 | -                       | 1,541,571 | -                    | 1,541,571                   |       | 1.04%                            |
| Bank bills                               | 12   | 1,185,135         | -                       | -         | -                    | 1,185,135                   |       | 7.26%                            |
| Term deposits                            | 12   | 7,245,860         | -                       | -         | -                    | 7,245,860                   |       | 7.71%                            |
| Bank guarantees and<br>security deposits | 14   | 74,698            | -                       | -         | -                    | 74,698                      |       | 8.05%                            |
| Petty cash                               | 12   | -                 | -                       | -         | 200                  | 200                         |       | -                                |
| Trade and other<br>receivables           | 13   | -                 | -                       | -         | 51,416               | 51,416                      |       | -                                |
| <b>Financial liabilities</b>             |      |                   |                         |           |                      |                             |       |                                  |
| Trade payables and<br>accrued expenses   | 18   | -                 | -                       | -         | 60,782               | 60,782                      |       | -                                |
| Employee Benefits                        | 19   | -                 | -                       | -         | 19,565               | 19,565                      |       | -                                |

A change of 100 basis points in interest rates on bank balances and term deposits at the reporting date would have increased profit and loss by \$96,232.

**(c) Credit risk exposure**

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

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

**(d) Liquidity risk exposure**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Board actively monitors the Company's ability to pay its debts as and when they fall due by regularly reviewing the current and forecast cash position based on the expected future activities.

The Company has non-derivative financial liabilities which include trade and other payables of \$151,640 (2008: \$60,782) all of which are due within 60 days.

**(e) Net fair values of financial assets and liabilities**

The carrying amounts of all financial assets and liabilities approximate the net fair values.

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
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**23. Capital and other commitments**

**Exploration expenditure commitments**

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Company may in certain situations apply for exemptions under relevant mining legislation or enter into joint venture arrangements which significantly reduce working capital commitments. These obligations are not provided for in the financial report and are payable:

|                    | <b>2009</b> | <b>2008</b> |
|--------------------|-------------|-------------|
|                    | \$          | \$          |
| Within 1 year      | 596,060     | 1,012,820   |
| Within 2 – 5 years | 82,500      | 1,748,180   |
| Later than 5 years | -           | -           |
|                    | 678,560     | 2,761,000   |

**Remuneration commitments**

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

|                  | <b>2009</b> | <b>2008</b> |
|------------------|-------------|-------------|
|                  | \$          | \$          |
| within 1 year    | -           | 125,000     |
| within 2-5 years | -           | -           |
|                  | -           | 125,000     |

**Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows:

|                  |         |         |
|------------------|---------|---------|
| within 1 year    | 148,346 | 82,596  |
| within 2-5 years | 560,353 | 36,016  |
|                  | 708,699 | 118,612 |

**Chalice Gold Mines Limited**  
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| 24. Reconciliation of cash flows from operating activities             | <b>2009</b>      | <b>2008</b>      |
|--|------------------|------------------|
|  | \$               | \$               |
| Profit/ (Loss) for the period  | (564,536)        | 734,846          |
| Adjustments for:   |                  |                  |
| Depreciation and amortisation  | 71,543           | 74,213           |
| (Profit)/ Loss on sale of exploration and evaluation assets            | (674,486)        | 1,681            |
| Net gain on sale of securities   | (56,003)         | (556,852)        |
| Profit on sale of other assets   | -                | (2,108)          |
| Changes in fair value of available-for-sale investments                | (12,463)         | (1,996,631)      |
| Provision for make good lease fit out (office premises)                | -                | 5,289            |
| Impairment losses on exploration and evaluation expenditure            | -                | 1,355,640        |
| Costs of business combinations   | 527,434          | -                |
| Exploration costs not capitalised                                      | 129,862          | 41,783           |
| Equity-settled share-based payment expenses                            | 47,108           | 69,028           |
| <b>Operating loss before changes in working capital and provisions</b> | <b>(531,541)</b> | <b>(273,111)</b> |
| (Increase)/decrease in trade and other receivables                     | (61,311)         | 15,126           |
| Increase/(decrease) in trade creditors and other liabilities           | 25,200           | (35,927)         |
| Increase in provisions   | (6,050)          | (10,761)         |
| (Decrease) in non-current financial assets                             | (3,351)          | (3,804)          |
| <b>Net cash used in operating activities</b>                           | <b>(577,053)</b> | <b>(308,477)</b> |

**25. Key management personnel**

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

**Executive Directors**

|  |  |
|--|--|
| T R B Goyder (Executive Chairman)              |  |
| D A Jones (Managing Director)                  | (appointed 11 November 2008)           |
| T M Clifton (Alternate Director for D A Jones) | (for period 20 March to 14 April 2009) |
| A R Bantock (Former Chairman)                  | (resigned 11 November 2008)            |

**Non-executive Directors**

A W Kiernan

**Executives**

|                                  |                              |
|----------------------------------|------------------------------|
| R K Hacker (Company Secretary)   | (re-appointed 1 August 2008) |
| A M Reynolds (Company Secretary) | (resigned 1 August 2008)     |

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

| 2009                         | <b>2008</b>    |
|------------------------------|----------------|
|                              | \$             |
| Short-term employee benefits | 473,023        |
| Post-employment benefits     | 28,975         |
| Equity settled transactions  | 36,275         |
|                              | <b>538,273</b> |
|                              | <b>389,106</b> |
|                              | 33,157         |
|                              | 56,213         |
|                              | <b>478,476</b> |

**Individual director's and executive's compensation disclosures**

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

# Chalice Gold Mines Limited

## Notes to the Financial Statements

For the year ended 30 June 2009

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

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

### Other key management personnel transactions with the Company

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

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

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

| Key management persons       | Transaction                 | Note  | 2009<br>\$ | 2008<br>\$ |
|------------------------------|-----------------------------|-------|------------|------------|
| A W Kiernan                  | Legal services              | (i)   | 79,204     | 37,005     |
| <b>Other related parties</b> |                             |       |            |            |
| Liontown Resources Limited   | Corporate services          | (ii)  | (217,725)  | (258,000)  |
| Uranium Equities Limited     | Corporate services          | (iii) | (49,369)   | -          |
| Plato Prospecting Pty Ltd    | Property, plant & equipment | (v)   | 29,145     | -          |
| Liontown Resources Limited   | Corporate services          | (iv)  | 74,405     | -          |

- (i) The Company used the consulting and legal services of Mr Kiernan during the course of the financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- (ii) The Company supplies corporate services including accounting and company secretarial services under a Corporate Services Agreement to Liontown Resources Limited. Messrs Bantock, Goyder and Kiernan were all Directors of Liontown Resources Limited during the year and Messrs Reynolds and Hacker were the Company Secretaries. Amounts were billed on a proportionate share of the cost to the Company of providing the services and are due and payable under normal payment terms.
- (iii) The Company supplied company secretarial services during the year to Uranium Equities Limited. Messrs Bantock, Goyder and Kiernan were all Directors of Uranium Equities Limited and Messrs Reynolds and Hacker were the Company Secretaries. Amounts were billed at cost to the Company and are due and payable under normal payment terms.
- (iv) During the year, the Company utilised the services of Dr Jones in the role of Managing Director. Dr Jones is also the Managing Director of Liontown Resources Limited. Amounts were billed by Liontown Resources Limited based on a proportionate share of its cost of employing Dr Jones and are due and payable under normal payment terms.
- (v) The Company acquired office furniture, fixtures and fittings from Plato Prospecting Pty Ltd. Mr Goyder is the sole director and shareholder of Plato Prospecting Pty Ltd. Amounts were billed at market rates and were due and payable under normal payment terms.

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
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Amounts payable to key management personnel at reporting date arising from these transactions were as follows:

| <b>Assets and liabilities arising from the above transactions</b> | <b>2009</b>     | <b>2008</b>   |
|---|-----------------|---------------|
|   | \$              | \$            |
| Current payables  | (26,333)        | (6,110)       |
| Trade debtors   | 14,917          | 21,500        |
|   | <b>(11,416)</b> | <b>15,390</b> |

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

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

| <b>2009</b>             | <b>Held at<br/>1 July 2008</b> | <b>Granted as<br/>compensation</b> | <b>Exercised/<br/>Forfeited</b> | <b>Held at<br/>30 June<br/>2009</b> | <b>Vested<br/>during the<br/>year</b> | <b>Vested and<br/>exercisable at 30<br/>June 2009</b> |
|-------------------------|--------------------------------|------------------------------------|---------------------------------|-------------------------------------|---------------------------------------|---|
| T R B Goyder            | 2,000,000                      | -                                  | -                               | 2,000,000                           | -                                     | 2,000,000   |
| A W Kiernan             | 500,000                        | -                                  | -                               | 500,000                             | -                                     | 500,000   |
| D A Jones               | -                              | -                                  | -                               | -                                   | -                                     | -   |
| <b>Former Director</b>  |                                |                                    |                                 |                                     |                                       |   |
| A R Bantock             | 2,000,000                      | -                                  | -                               | 2,000,000                           | -                                     | 2,000,000   |
| <b>Executive</b>        |                                |                                    |                                 |                                     |                                       |   |
| R K Hacker              | 250,000                        | 500,000                            | (250,000)                       | 500,000                             | 125,000                               | 125,000   |
| <b>Former Executive</b> |                                |                                    |                                 |                                     |                                       |   |
| A Reynolds              | 150,000                        | -                                  | (150,000)                       | -                                   | -                                     | -   |

**Movements in ordinary shares**

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

| <b>2009</b>             | <b>Held at<br/>1 July 2008</b> | <b>Additions</b> | <b>Received on<br/>exercise of<br/>Options</b> | <b>Held at<br/>30 June 2009</b> | <b>Sales</b> | <b>Held at 30<br/>June 2009</b> |
|-------------------------|--------------------------------|------------------|--|---------------------------------|--------------|---------------------------------|
| T R B Goyder            | 14,474,491                     | 2,765,967        | -  | 17,240,458                      | -            | 17,240,458                      |
| A W Kiernan             | 270,074                        | 550,000          | -  | 820,074                         | -            | 820,074                         |
| D A Jones               | -                              | -                | -  | -                               | -            | -                               |
| <b>Former Director</b>  |                                |                  |  |                                 |              |                                 |
| A R Bantock             | 2,531,772                      | -                | -  | 2,531,772                       | 1,060,000    | 1,471,772                       |
| <b>Executive</b>        |                                |                  |  |                                 |              |                                 |
| R K Hacker              | -                              | 51,982           | -  | 51,982                          | -            | 51,982                          |
| <b>Former Executive</b> |                                |                  |  |                                 |              |                                 |
| A M Reynolds            | -                              | -                | -  | -                               | -            | -                               |

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

**Chalice Gold Mines Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2009**

**26. Subsequent events**

On 14 August 2009, the Scheme of Arrangement between Sub-Sahara Resources NL ("Sub-Sahara") and its shareholders received court approval to merge with Chalice Gold Mines. Fully paid ordinary shareholders of Sub-Sahara will receive approximately 46.7 million Chalice Gold Mines shares in exchange for all the fully paid ordinary shares of Sub-Sahara.

In addition, unlisted partly paid shareholders and unlisted option holders in Sub-Sahara will receive a further 1.6 million Chalice Gold Mines shares as consideration for these securities.

Following completion of the merger, Chalice Gold Mines will also pay \$1.664 million for the acquisition of 100% of the shares of Yolanda International Limited, a wholly owned subsidiary of Africa Wide Resources Limited ("AWR"), which holds an 11.12% joint venture interest in the Zara Gold Project.

Other costs associated with the merger, including redundancy costs, corporate advisory fees and other liabilities inherited from Sub-Sahara are estimated to be approximately \$877,000.

# Chalice Gold Mines Limited

## Directors' Declaration

1. In the opinion of the directors of Chalice Gold Mines Limited (the 'Company'):
  - a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year then ended; and
    - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2009.

This declaration is signed in accordance with a resolution of the Board of Directors.

Dated at Perth the 25<sup>th</sup> day of August 2009.

Signed in accordance with a resolution of the Directors:



TIM R B GOYDER  
Executive Chairman



Accountants | Business and Financial Advisers

## INDEPENDENT AUDITOR'S REPORT

### To the members of Chalice Gold Mines Limited

#### Report on the Financial Report

We have audited the accompanying financial report of Chalice Gold Mines Limited ("the company"), which comprises the balance sheet as at 30 June 2009, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year ended on that date, and the directors' declaration.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

#### *Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Chalice Gold Mines Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Chalice Gold Mines Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

*HLB Mann Judd*

**HLB MANN JUDD**  
**Chartered Accountants**

*Giallonardo.*

Perth, Western Australia  
25 August 2009

**L DI GALLONARDO**  
**Partner**

# Chalice Gold Mines Limited

## Corporate Governance Report

Chalice Gold Mines is committed to a high level of corporate governance in accordance with the Corporations Act and ASX Listing Rules. The Company's Corporate Governance Statement details the principles and practices adopted and can be found on the Company website ([www.chalicegold.com](http://www.chalicegold.com)).

The following information is supplementary to the Corporate Governance Statement and addresses the principles which are not met:

### **Directors and Management**

Details of each director's qualifications, experience and special responsibilities, their attendance at board meetings and the company secretary's qualifications and experience are disclosed on pages [3](#) and [4](#).

During the year the Company undertook reviews of the Board composition and executive management in accordance with sections 1.1 and 1.2 of the Corporate Governance Statement.

Anthony Kiernan, non-executive director, was considered independent at the time of publishing the 2008 Annual Report. During the year, Mr Kiernan has provided extensive consulting and legal services to the company and is therefore no longer considered to be independent. As a result, there are no independent directors as specified in the ASX Corporate Governance Principles.

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

### **Committees**

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

The requirement to establish special committees will be reviewed as and when the nature and scale of the company's operations changes.

### **Risk Management**

The Managing Director and Chief Financial Officer have assured the Board that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Management has also reported to the Board that the Company's management of material business risks is effective.

Chalice Gold Mines Limited  
**Corporate Governance Report**

**ASX Corporate Governance Council Recommendations**

|   | CGS Reference * | Comply           |
|---|-----------------|------------------|
| <b>Principle 1: Lay solid foundations for management and oversight</b>  |                 |                  |
| 1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.   | 1.1             | ✓                |
| 1.2 Companies should disclose the process for evaluating the performance of senior executives.  | 1.1             | ✓                |
| 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.  |                 | ✓                |
| <b>Principle 2: Structure the Board to add value</b>  |                 |                  |
| 2.1 A majority of the Board should be independent directors.  | 1.2             | ✗                |
| 2.2 The chair should be an independent director.  | 1.2             | ✗                |
| 2.3 The roles of chair and chief executive officer should not be exercised by the same individual.  | 1.2             | ✓                |
| 2.4 The Board should establish a nomination committee.  | 1.3             | ✗                |
| 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.   | 1.1             | ✓                |
| 2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.  |                 | ✓                |
| <b>Principle 3: Promote ethical and responsible decision-making</b>   |                 |                  |
| 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the Company' integrity.</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their Shareholders.</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul> | 2.1<br>2.2      | ✓                |
| 3.2 Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.   | 2.3             | ✓                |
| 3.3 Companies should provide the information indicated in the Guide to reporting on Principle 3.  |                 | ✓                |
| <b>Principle 4: Safeguard integrity in financial reporting</b>  |                 |                  |
| 4.1 The board should establish an audit committee.  | 1.3             | ✗                |
| 4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive directors</li> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair, who is not chair of the board</li> <li>• has at least three members</li> </ul>   | 1.3             | ✗<br>✗<br>✗<br>✗ |
| 4.3 The audit committee should have a formal charter.   | 1.3             | ✗                |
| 4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.  |                 | ✓                |
| <b>Principle 5: Make timely and balanced disclosure</b>   |                 |                  |
| 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.  | 3.1             | ✓                |
| 5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.  |                 | ✓                |

**Chalice Gold Mines Limited**  
**Corporate Governance Report**

|   |                   |   |
|---|-------------------|---|
| <b>Principle 6: Respects and rights of shareholders</b>   |                   |   |
| 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.  | 3.2               | ✓ |
| 6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.  |                   | ✓ |
| <b>Principle 7: Recognise and manage risk</b>   |                   |   |
| 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.   | 4.1               | ✓ |
| 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.   | 4.2               | ✓ |
| 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | 4.2               | ✓ |
| 7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.  |                   | ✓ |
| <b>Principle 8: Remunerate fairly &amp; responsibly</b>   |                   |   |
| 8.1 The board should establish a remuneration committee.  | 1.3               | ✗ |
| 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.   | 5, Rem.<br>Report | ✓ |
| 8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8.  |                   | ✓ |

\* Refer Corporate Governance Statement on the Company's website at [www.chalicegold.com](http://www.chalicegold.com).

# Chalice Gold Mines Limited

## ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

### Shareholdings

#### Substantial shareholders

The number of shares held by substantial shareholders advised to the Company and their associated interests as at 21 August 2009 were:

| Shareholder          | Number of ordinary shares held | Percentage of capital held % |
|----------------------|--------------------------------|------------------------------|
| Timothy R B Goyder   | 16,790,024                     | 23.06                        |
| Balfes (QLD) Pty Ltd | 5,260,470                      | 7.23                         |

#### Class of Shares and Voting Rights

At 21 August 2009 there were 844 holders of the ordinary shares of the Company.

The voting rights to the ordinary shares set out in the Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or Classes of shares -

- a) at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney: and
- b) on a show of hands every person who is a member has one vote and on a poll every person in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options do not have voting rights.

#### Distribution of equity security holders as at 21 August 2009:

| Category         | Number of equity security holders |                        |
|------------------|-----------------------------------|------------------------|
|                  | Ordinary Shares                   | Unlisted Share Options |
| 1 – 1,000        | 67                                | -                      |
| 1,001 – 5,000    | 254                               | -                      |
| 5,001 – 10,000   | 183                               | -                      |
| 10,000 – 100,000 | 258                               | 1                      |
| 100,001 and over | 82                                | 5                      |
| <b>Total</b>     | <b>844</b>                        | <b>6</b>               |

The number of shareholders holding less than a marketable parcel at 21 August 2009 was 115.

Chalice Gold Mines Limited  
**ASX additional information**

**Twenty largest Ordinary Fully Paid Shareholders  
as at 21 August 2009**

| Name  | Number of ordinary shares held | Percentage of capital held % |
|---|--------------------------------|------------------------------|
| Plato Prospecting Pty Ltd   | 16,790,024                     | 23.06                        |
| Balfes (QLD) Pty Ltd  | 5,260,470                      | 7.23                         |
| Lujeta Pty Ltd  | 3,304,591                      | 4.54                         |
| Colbern Fiduciary Nominees Pty Ltd  | 3,000,000                      | 4.12                         |
| Calm Holdings Pty Ltd (Clifton Super Fund A/C)                                | 2,946,170                      | 4.05                         |
| Nefco Nominees Pty Ltd  | 2,500,000                      | 3.43                         |
| HSBC Custody Nominees (Australia)   | 1,502,426                      | 2.06                         |
| Define Consulting Pty Ltd (The Define Consulting A/C)                         | 1,331,772                      | 1.83                         |
| Mrs Helen Joy Alexander   | 1,280,000                      | 1.76                         |
| Lost Ark Nominees Pty Ltd   | 1,200,000                      | 1.65                         |
| Mr Philip Scott Button & Mrs Philippa Anne Nicol (Christopher Jordan A/C)     | 1,169,876                      | 1.61                         |
| Tara Management Pty Ltd   | 1,132,012                      | 1.55                         |
| Plato Prospecting Pty Ltd (TRB Goyder Super Funds A/C)                        | 1,018,006                      | 1.40                         |
| Greenslade Holdings Pty Ltd   | 1,000,000                      | 1.37                         |
| Mr Terrence Peter Williamson & Ms Jonine Maree Jancey (The Wiljan Super Fund) | 909,791                        | 1.25                         |
| Penally Management Limited  | 881,338                        | 1.21                         |
| Methuen Holdings Pty Ltd (PB Family A/C)                                      | 751,667                        | 1.03                         |
| Central Manhattan Pty Ltd (A W Kiernan Super Fund A/C)                        | 717,444                        | 0.99                         |
| Mr Jamie Phillip Boyton   | 700,000                        | 0.96                         |
| Archaeon Exploration Services Pty Ltd   | 590,000                        | 0.81                         |
| <b>Total</b>  | <b>47,985,587</b>              | <b>65.91</b>                 |