



## **CHALICE GOLD MINES LIMITED**

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## **NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY STATEMENT**

The Annual General Meeting of the Company will be held at Frasers Kings Park Function Centre, Room 1, Fraser Avenue, West Perth, Western Australia, on 16 November 2009 at 11.00 am (WST).

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## CONTENTS

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	Page No.
Notice of Annual General Meeting (setting out the proposed resolutions)	2-5
Explanatory Statement (explaining the proposed resolutions)	6-12
Glossary	12
Proxy Form	14-15
Appointment of Corporate Representative	16

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### TIME AND PLACE OF MEETING AND HOW TO VOTE

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#### VENUE

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The Annual General Meeting of the Shareholders of Chalice Gold Mines Limited (**'Chalice Gold Mines'**) to which this Notice of Meeting relates will be held at 11.00 am (WST) on 16 November 2009 at:

Fraser's Kings Park Function Centre, Room 1, Fraser Avenue, West Perth, Western Australia

#### YOUR VOTE IS IMPORTANT

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

#### VOTING IN PERSON

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

#### VOTING BY PROXY

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

- (a) send the proxy form by post to Chalice Gold Mines Limited, GPO Box 2890, Perth, WA, 6001; or
- (b) send the proxy form by facsimile to the Company on + 61 8 9322 5800,

so that it is received no later than 11.00 am (WST) on 14 November 2009.

**Proxy forms received later than this time will be invalid.**

#### BODIES CORPORATE – CORPORATE REPRESENTATION

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

#### ENQUIRIES

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

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

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## NOTICE OF ANNUAL GENERAL MEETING

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**NOTICE IS HEREBY GIVEN** that the Annual General Meeting (**Meeting**) of the shareholders of Chalice Gold Mines Limited (the **Company**) will be held at Frasers Kings Park Function Centre, Room 1, Fraser Avenue, West Perth, Western Australia on 16 November 2009 at 11.00 am (WST).

### AGENDA

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#### ORDINARY BUSINESS

##### FINANCIAL REPORT

To receive, consider and discuss the Company's Financial Report for the year ended 30 June 2009 and the reports of the directors and auditors on those statements.

##### RESOLUTION 1 - TO ADOPT THE REMUNERATION REPORT

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

*"That, pursuant to and in accordance with section 250R(2) of the Corporations Act, the Directors' Remuneration Report for the financial year ended 30 June 2009 as contained within the Directors' Report be adopted."*

Note: Section 250R(3) of the Corporations Act provides that the vote on Resolution 1 is advisory only and does not bind the Directors.

##### RESOLUTION 2 - RE-ELECTION OF TIM GOYDER AS A DIRECTOR

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

*"To elect as a Director of the Company, Tim Goyder who retires by rotation in accordance with the Company's constitution and, being eligible, offers himself for re-election."*

##### RESOLUTION 3 - ELECTION OF MICHAEL GRIFFITHS AS A DIRECTOR

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

*"That Michael Griffiths, having been appointed to the Board of Chalice Gold Mines Limited effective 26 August 2009 is hereby elected as a Director in accordance with the Company's Constitution and the ASX Listing Rules."*

##### RESOLUTION 4 - ELECTION OF DOUGLAS JONES AS A DIRECTOR

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

*"That Douglas Jones, having been appointed to the Board of Chalice Gold Mines Limited effective 11 November 2008 is hereby elected as a Director in accordance with the Company's Constitution and the ASX Listing Rules."*

##### RESOLUTION 5 – RATIFICATION OF SHARE ISSUE - PLACEMENT

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

*"That, for the purpose of ASX Listing Rule 7.4 and all other purposes, Shareholders approve and ratify the allotment and issue of 16,300,000 Shares at 27 cents per Share to those persons and entities and on the terms and conditions set out in the Explanatory Statement."*

#### Voting Exclusion Statement

The Company will disregard votes cast on this Resolution by any person or entity or any of their associates that participated in the Issue.

However the Company need not disregard a vote if:

- (a) it is cast by that person (excluded from voting) as proxy for a person who is entitled to vote, in

accordance with the directions on the proxy form; or

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

#### **RESOLUTION 6 – RATIFICATION OF SHARE ISSUE – INCIDENTAL SCHEME SHARES**

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

*“That, for the purpose of ASX Listing Rule 7.4 and all other purposes, Shareholders approve and ratify the allotment and issue of 1,613,727 Shares in consideration for the acquisition by the Company of 38,590,000 partly paid shares and 3,800,000 options in the capital of Sub-Sahara Resources NL in connection with the recently completed Scheme of Arrangement as between the Company and Sub-Sahara Resources NL (which such partly paid shares and options were not part of the Scheme)”.*

##### **Voting Exclusion Statement**

The Company will disregard votes cast on this Resolution by any person or entity or any of their associates that participated in the Issue.

However the Company need not disregard a vote if:

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

#### **RESOLUTION 7 – ISSUE OF OPTIONS TO DOUGLAS JONES**

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

*“That for the purposes of ASX Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act 2001, approval is given to the allotment by the Company to Dr Douglas Jones, a director of the Company, of 2,500,000 options over ordinary shares in Chalice Gold Mines Limited each with the exercise price of per option set out below and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting, namely:*

- (a) 1,250,000 Options at 35 cents; and
- (b) 1,250,000 Options at 45 cents.

##### **Voting Exclusion Statement**

The Company will disregard votes cast on this resolution by Dr Jones and any associate of Dr Jones.

However, the Company need not disregard a vote if:

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

#### **RESOLUTION 8 – ISSUE OF OPTIONS TO MICHAEL GRIFFITHS**

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

*“That for the purposes of ASX Listing Rules 7.1 and 10.11 and Chapter 2E of the Corporations Act 2001, approval is given to the allotment by the Company to Mr Michael Griffiths, a director of the Company, of 750,000 Options over ordinary shares in Chalice Gold Mines Limited each with the exercise price per option set out below and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting, namely 750,000 Options at 50 cents.”*

Voting Exclusion Statement

The Company will disregard votes cast on this resolution by Mr Griffiths and any associate of Mr Griffiths.

However, the Company need not disregard a vote if:

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

**RESOLUTION 9 – ISSUE OF OPTIONS TO CORPORATE ADVISERS**

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

*“That for the purposes of the ASX Listing Rule 7.1, approval is given to the allotment by the Company to each of Southern Cross Equities Limited and Thomas Weisel Partners Canada Inc of 1,000,000 Options over ordinary shares in Chalice Gold Mines Limited each with an exercise price of 35 cents per Option on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting and expiring 24 months from date of issue.”*

Voting Exclusion Statement

The Company will disregard votes cast on this resolution by Southern Cross Equities Limited and Thomas Weisel Partners Canada Inc or any associates of theirs.

However, the Company need not disregard a vote if:

- (a) it is cast by either or both of Southern Cross Equities Limited and Thomas Weisel Partners Canada Inc (or any associate of theirs) as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the chairperson of the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## PROXIES

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In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- (a) each Shareholder has a right to appoint a proxy;
- (b) the proxy need not be a member of the Company;
- (c) a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified then in accordance with Section 249X(3) of the Corporations Act each proxy may exercise one half of the votes.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments by Shareholders registered on the Company's share register:

Registered Office:           Level 2  
                                  1292 Hay Street  
                                  WEST PERTH WA 6005

Facsimile Number:         +61 8 9322 5800

Postal Address :           GPO Box 2890  
                                  PERTH WA 6001

The proxies of Shareholders must be received at the relevant address set forth above no later than 48 hours prior to the time of commencement of the Meeting (WST).

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations (Cth) that the persons eligible to vote at the General Meeting are those who are registered as Shareholders of the Company on 14 November 2009 at 11.00 am WST.

By order of the Board



Company Secretary  
25 September 2009

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting of Chalice Gold Mines Limited to be held at Frasers King Park Function Centre, Room 1, Fraser Avenue, West Perth, Western Australia on 16 November 2009 at 11.00 am (WST).

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

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### **(A) RESOLUTION 1 – TO ADOPT THE REMUNERATION REPORT**

Section 298 of the Corporations Act requires the annual Director's Report to contain a remuneration report prepared in accordance with section 300A of the Corporations Act.

The remuneration report of the Company for the financial year ended 30 June 2009 is set out in the Director's Report contained in the 2009 Annual Report to Shareholders ("**Remuneration Report**").

The Remuneration Report sets out the company's remuneration arrangements for the Executive and Non-Executive Directors and key management personnel. A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting. In addition, the Corporations Act requires that Resolution 1, to adopt the Remuneration Report, be put to the vote. However, the vote on this Resolution is only advisory and does not bind the Company.

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### **(B) RESOLUTION 2 – RE-ELECTION OF TIM GOYDER AS A DIRECTOR**

Under the Company's Constitution, one-third of the Directors (or the number closest thereto) (and other than the Managing Director) are required to retire by rotation each year.

Mr Goyder was elected as a Director of the Company on 13 October 2005 and pursuant to the Company's Constitution retires. Mr Goyder, being eligible, has offered himself for re-election as a Director of the Company.

Mr Goyder is currently the Executive Chairman of the Company and has significant experience in the formation and management of listed companies.

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### **(C) RESOLUTION 3 – ELECTION OF MICHAEL GRIFFITHS AS A DIRECTOR**

Mr Michael Griffiths was appointed to the Board of Chalice Gold Mines Limited on 26 August 2009 following completion of the merger between Chalice Gold Mines Limited and Sub-Sahara Resources NL. Under ASX Listing Rules and the Company's Constitution, a Director who is newly appointed must stand for election at the next general meeting.

Mr Griffiths is a geologist with over 25 years experience within the minerals exploration sector in Australia and Africa. Mr Griffiths was Managing Director of Sub-Sahara Resources NL and joins the Company following completion of the merger of the two companies.

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### **(D) RESOLUTION 4 – ELECTION OF DOUGLAS JONES AS A DIRECTOR**

Dr Douglas Jones was appointed to the Board of Chalice Gold Mines Limited on 11 November 2008. Under the listing rules and the Company's Constitution, a Director who is newly appointed must stand for election at the next general meeting.

Dr Jones 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. His experience and geological knowledge will stand the Company in good stead as it seeks to develop the Zara Project in Eritrea.

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**(E) RESOLUTION 5 – RATIFICATION OF SHARE ISSUE - PLACEMENT**

ASX Listing Rule 7.1 prohibits a company from issuing equity securities (which includes ordinary shares and options) representing more than 15% of its share capital in any 12 month period without shareholder approval (subject to certain exceptions). ASX Listing Rule 7.4 allows a company to seek ratification for a permitted and prior issue of equitable securities that have been made within the 12 month period. The effect of such ratification is that the issue is then deemed to have been one to which shareholder approval has been obtained thus not counting towards the 15% referred to in this paragraph.

Resolution 5 seeks ratification of the issue of 16,300,000 Shares on 10 September 2009 at 27 cents per share raising \$4,401,000 before issue costs (“**the Placement Shares**”).

The funds raised under the Placement Shares will be predominantly applied to the Company’s advancement of the Zara Project in Eritrea and in particular be applied towards completion of the scheduled Scoping Study. Pursuant to ASX Listing Rule 7.5 the following additional information is advised in relation to the Placement Shares:

- (a) the number of Shares issued was 16,300,000;
- (b) the Shares were issued on 10 September 2009 at 27cents per Share raising \$4,401,000 before issue costs;
- (c) the Shares ranked equally from the date of issue with all existing Shares in the Company;
- (d) the Shares were issued to persons and entities being clients of Southern Cross Equities Limited.
- (e) the purpose of the issue was to provide funds for the working capital of the Company and in particular the continued development of the Zara Project in Eritrea.

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**(F) RESOLUTION 6 – RATIFICATION OF SHARE ISSUE – INCIDENTAL SCHEME SHARES**

ASX Listing Rule 7.1 prohibits a company from issuing equity securities (which includes ordinary shares and options) representing more than 15% of its share capital in any 12 month period without shareholder approval (subject to certain exceptions). ASX Listing Rule 7.4 allows a company to seek ratification for a permitted and prior issue of equitable securities that have been made within the 12 month period. The effect of such ratification is that the issue is then deemed to have been one to which shareholder approval has been obtained thus not counting towards the 15% referred to in this paragraph.

Resolution 6 seeks ratification of the issue of 1,613,727 Shares on 26 August 2009 in consideration for the acquisition by the Company of partly paid shares and options in Sub-Sahara Resources NL in conjunction with the recently completed Scheme of Arrangement as between the Company and Sub-Sahara Resources NL (“**Incidental Scheme Shares**”).

Pursuant to ASX Listing Rule 7.5 the following additional information is advised in relation to the Incidental Scheme Shares:

- (a) the number of Shares issued were 1,613,737;
- (b) the Shares were issued in consideration for the acquisition by the Company of 38,590,000 partly paid shares and 3,800,000 options in the capital of Sub-Sahara Resources NL in conjunction with the recently completed Scheme of Arrangement as between the Company and Sub-Sahara Resources NL. The acquisition of these partly paid shares and options was designed to enable the Scheme to be completed and to enable Sub-Sahara Resources NL to become a wholly owned subsidiary of Chalice Gold Mines which it now is;
- (c) the Shares were issued on 26 August 2009 and ranked equally from the date of that issue with all existing Shares in the Company;
- (d) the Shares were issued to various holders of partly paid shares and options in Sub-Sahara Resources NL and for the purposes of completing the Scheme and as generally referred to in sub-paragraph (b) above;
- (e) the purpose of the issue was to facilitate the matters referred to in sub-paragraph (b) above.

The Directors **unanimously recommend** Shareholders approve this Resolution.



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**(G) RESOLUTION 7 – ISSUE OF OPTIONS TO DOUGLAS JONES**

Resolution 7 seeks Shareholder approval for the Company to issue 2,500,000 unlisted Options to Dr Douglas Jones, a Director of the Company, or his nominee on the terms set out below.

Shareholder approval for the issue of the Options, the subject of Resolution 7 is sought for the purposes of:

- (a) Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, for example directors of a company;
- (b) Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- (c) Listing Rule 10.11, which requires the grant of securities to a director of a company to be approved by shareholders.

**Purpose of the Options Issue**

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

Dr Jones, with his considerable experience not only as a Geologist but as one who has been integrally involved in the development of exploration and mining projects overseas (including Africa), will be an important member of the Chalice Gold Mines team in taking the Zara Project in Eritrea going forward.

**Terms of the Options**

- 1,250,000 Options will have an exercise price of 35 cents and will vest on 31 March 2010; and
- 1,250,000 Options will have an exercise price of 45 cents and will vest on 31 March 2011.

The Options have an expiry date of 31 March 2014.

Subject to Shareholder approval, the Options will otherwise be issued on the terms and conditions established under the Employee Share Option Plan, which was approved by shareholders at the 2008 Annual General Meeting.

**Part 2E of the Corporations Act**

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

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

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

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

- (a) Dr Jones is the Managing Director of the Company and is the person to whom the financial benefit, in the nature of Options, is to be given. As a Director, Dr Jones is a related party of the Company for the purposes of the Corporations Act;
- (b) the financial benefit to be given is the grant of 2,500,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the Employee Share Option Plan;
- (c) those Directors who have no interest in the outcome of Resolution 7 (being all Directors other than Dr Jones) recommend that the Shareholders vote in favour of Resolution 7 on the basis that the Options to be granted

provide Dr Jones with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;

- (d) Dr Jones makes no recommendation in relation to Resolution 7 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge; however in the event that Dr Jones wishes to exercise the same he would need to pay the appropriate exercise price in relation to the Options and if he were to exercise all 2,500,000 of the Options he would be required to pay \$1,000,000. These proceeds would be used for the Company's general working capital requirements at the appropriate time. The exercise price and exercise date for the Options are set out below; and
- (f) based on a Black & Scholes valuation method, the Company estimates that each Option, the subject of Resolution 7, has a value of:
- (i) 18.2 cents for the Options with an exercise price of 35 cents; and
- (ii) 17.4 cents for the Options with an exercise price of 45 cents;

with the the assumptions detailed in the table below:

Exercise Price	35 cents	45 cents
Market value of underlying Shares at time of setting exercise price	25 cents	25 cents
Expiry date	31 March 2014	31 March 2014
Expected volatility	102%	102%
Risk free interest rate	5.41%	5.41%
Annualised dividend yield	Nil	Nil
The value of the Options	\$228,094	\$217,332
The aggregate value of the Options is \$445,426		

- (g) over the past 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares traded on ASX was 7 cents on 24 November 2008 and the highest was 40 cents on 9 September. At the close of trading on 25 September 2009 the Share price was 38 cents;
- (h) following the passing of Resolution 7, Dr Jones will hold an interest in 185,000 Shares and 2,500,000 Options;
- (i) Dr Jones does not currently receive a salary directly from Chalice Gold Mines, however, Liantown Resources Limited, a company of which Dr Jones is the Managing Director charges Chalice Gold Mines, at cost, approximately \$100,000 per annum for the services of Dr Jones;
- (j) there are no taxation consequences for the Company arising from the issue of the Options (including fringe benefits tax);
- (k) the Company currently has 137,420,537 Shares and 6,825,000 Options on issue. Assuming that Dr Jones exercises all of the Options to be granted to him pursuant to Resolution 7, Dr Jones' interest including all the Shares and Options currently held would represent approximately 1.8% of the Company's expanded capital;
- (l) the Options will be issued within one month of Shareholder approval; and
- (m) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of Shareholders to approve Resolution 7.

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## **(H) RESOLUTION 8 – ISSUE OF OPTIONS TO MICHAEL GRIFFITHS**

Resolution 8 seeks Shareholder approval for the Company to issue 750,000 unlisted Options to Michael Griffiths, a Director of the Company, or his nominee on the terms set out below.

Shareholder approval for the issue of the Options, the subject of Resolution 8 is sought for the purposes of:

- (d) Division 3 of Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to “related parties”, for example directors of a company;
- (e) Listing Rule 7.1, which generally prohibits a company from issuing more than 15% of its capital within a 12 month period without shareholder approval; and
- (f) Listing Rule 10.11, which requires the grant of securities to a director of a company to be approved by shareholders.

### **Purpose of the Options Issue**

The purpose of the proposed grant of Options is to provide Mr Griffiths with an added incentive in carrying out his duties as an Executive Director of the Company. Given the size of the Company and its need to preserve cash, the issue of Options is a valuable part of the compensation to be provided to Mr Griffiths. Mr Griffiths was previously the Managing Director of Sub-Sahara Resources NL and has been instrumental in the development of the Zara Gold Project in Eritrea.

### **Terms of the Options**

- 375,000 Options will have an exercise price of 50 cents and will vest on 1 September 2010; and
- 375,000 Options will have an exercise price of 50 cents and will vest on 1 September 2011.

The Options have an expiry date of 1 September 2012.

Subject to Shareholder approval, the Options will otherwise be issued on the terms and conditions established under the Employee Share Option Plan, which was approved by shareholders at the 2008 Annual General Meeting.

### **Part 2E of the Corporations Act**

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

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

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

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

- (a) Mr Griffiths is an Executive Director of the Company and is the person to whom the financial benefit, in the nature of Options, is to be given. As a director, Mr Griffiths is a related party of the Company under the Corporations Act;
- (b) the financial benefit to be given is the grant of 750,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the Employee Share Option Plan;
- (c) those Directors who have no interest in the outcome of Resolution 8 (being all Directors other than Mr Griffiths) recommend that the Shareholders vote in favour of Resolution 8 on the basis that the Options to be granted provide Mr Griffiths with an appropriate incentive in recognition of his extensive knowledge and experience as a Geologist and particularly in relation to the continued development of the Zara Project in Eritrea;

- (d) Mr Griffiths makes no recommendation in relation to Resolution 8 on the basis that he has an interest in the outcome of the resolution;
- (e) the Options will be issued free of charge; however in the event that Mr Griffiths wishes to exercise the same he would need to pay the appropriate exercise price in relation to the Options and if he were to exercise all 750,000 of the Options he would be required to pay \$375,000. These proceeds would be used for the Company's general working capital requirements at the appropriate time; the exercise price and exercise date for the Options are set out below; and
- (f) based on a Black & Scholes valuation method, the Company estimates that each Option, the subject of Resolution 8, has a value of 20.9 cents for the Options with an exercise price of 50 cents with the assumptions detailed in the table below:

Exercise Price	50 cents
Market value of underlying Shares at time of setting exercise price	\$0.37
Time to expiration of Options	1 September 2012
Volatility	96.57%
Risk free interest rate	5.30%
Annualised dividend yield	Nil
The value of the Options	\$156,479

- (g) over the past 12 months prior to the date of this Notice of Meeting, the lowest recorded price of Shares traded on ASX was 7 cents on 24 November 2008 and the highest was 40 cents on 9 September. At the close of trading on 25 September 2009 the Share price was 38 cents;
- (h) following the passing of Resolution 8, Mr Griffiths will hold an interest in 600,960 Shares and 750,000 Options;
- (i) Mr Griffiths receives a salary of \$300,000 per annum (including superannuation);
- (j) there are no taxation consequences for the Company arising from the issue of the Options (including fringe benefits tax);
- (k) the Company currently has 137,420,537 Shares and 6,825,000 Options on issue. Assuming that Mr Griffiths exercises all of the Options to be granted to him pursuant to Resolution 8, Mr Griffiths' interest including all the Shares and Options currently held will represent approximately 1% of the Company's expanded capital;
- (l) the Options will be issued within one month of Shareholder approval; and
- (m) neither the Directors nor the Company are aware of any other information that would be reasonably required by the Shareholders to make a decision whether it is in the best interests of the Company to pass Resolution 8.

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**(I) RESOLUTION 9 – ISSUE OF OPTIONS TO CORPORATE ADVISERS**

Resolution 9 seeks shareholder approval for the Company to issue 1,000,000 unlisted Options to each of Southern Cross Equities Limited ("SCE") and Thomas Weisel Partners Canada Inc ("TWP") (collectively the "Corporate Advisers").

SCE was mandated by Chalice Gold to raise \$4,401,000 in new equity by way of a placement of 16,300,000 Shares to institutional and sophisticated investors at a price of 27 cents per share ("the Placement"). The Placement was completed on 10 September 2009 and is the subject of Resolution 5.

As part of the fee payable to SCE in relation to the Placement, SCE was also to receive, subject to shareholder approval, 1,000,000 Options. Additionally, TWP provided Chalice Gold Mines with certain advice in relation to the Placement including introducing certain interested parties to SCE. In consideration of this corporate advice Chalice Gold Mines has agreed, subject to shareholder approval, to issue 1,000,000 Options to TWP and on the same terms and conditions as to those to be issued to SCE.

For the purposes of ASX Listing Rule 7.3, the following information is provided to Shareholders:

- (a) 1,000,000 unlisted Options over ordinary shares in the Company will be issued to each of SCE and TWP subject to shareholder approval being 2,000,000 Options in all;
- (b) the said Options will be issued as soon as practicably possible following the holding of this Meeting and in any event no later than one month after any approval is obtained;
- (c) the Options will not be listed on Australian Securities Exchange Limited and will have an exercise price of 35 cents each, expiring 24 months from the date of issue. Upon exercise, each Option will be converted into 1 fully paid ordinary Share in the capital of the Company and are otherwise to be issued on the terms and conditions set out in Annexure A to this Explanatory Statement;
- (d) as noted above, the Options are being issued to SCE as part of its fee in relation to the Placement and to TWP for providing corporate advice to Chalice Gold Mines in relation to the Placement. The Placement is the subject of Resolution 5 herein;
- (e) no funds will be raised from the issue of Options, however in the event that Options are exercised, the funds raised from such exercise (being 35 cents per Option) will be applied to the working capital requirements of the Company as at that time;
- (f) the allotment of the Options will occur at one time and any Shares arising from the issue of the Options will rank equally from the date of issue with all existing Shares in the Company.

The Directors **unanimously recommend** Shareholders approve this Resolution.

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## GLOSSARY OF TERMS

The following is a glossary of terms and abbreviations used frequently throughout this Explanatory Memorandum and in the Notice of Meeting. Additional terms used only occasionally are defined where used in their first instance in the body of this Explanatory Memorandum.

“**ASX**” means ASX Limited.

“**ASX Listing Rules**” means the Listing Rules of ASX.

“**Board of Directors**” or “**Board**” means the board of Directors.

“**Business Day**” means a day, other than Saturdays, Sundays or any other day.

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

“**Corporations Act**” means the Corporations Act 2001 (Commonwealth of Australia).

“**Director**” means a director of Chalice.

“**Options**” means an option to acquire a Share in the capital of the Company by the payment of a certain exercise price and within a defined period.

“**Shares**” means fully paid ordinary shares in the capital of the Company.

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## PROXY FORM

**APPOINTMENT OF PROXY  
CHALICE GOLD MINES LIMITED  
ABN 47 116 648 956**

I/We

being a shareholder of Chalice Gold Mines Limited entitled to attend and vote at the Annual General Meeting, hereby

appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Annual General Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting to be held at 11.00 am (WST) on 16 November 2009 at Frasers Kings Park Function Centre, Room 1, Fraser Avenue, West Perth, Western Australia and at any adjournment thereof. If no directions are given, the Chairman will vote in favour of all of the resolutions.

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### Voting on Business of the Annual General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Tim Goyder	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Election of Michael Griffiths	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Election of Douglas Jones	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Ratification of Share Issue - Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Ratification of Share Issues – Incidental Scheme Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Issue of Options to Douglas Jones	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Issue of Options to Michael Griffiths	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Issue of Options to Corporate Advisers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you do **not** wish to direct your proxy how to vote, please place a mark in this box

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of the interest. The Chairman will vote in favour of all of the resolutions if no directions are given.

**YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE.**

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

Signed this                      day of                      2009

**By:**

**Individuals and joint holders**

Signature
Signature
Signature

**Companies (affix common seal if appropriate)**

Director
Director/Company Secretary
Sole Director and Sole Company Secretary

**CHALICE GOLD MINES LIMITED**

**ABN 47 116 648 956**

**Instructions for Completing 'Appointment of Proxy' Form**

1. A shareholder entitled to attend and vote at a meeting is entitled to appoint not more than two proxies to attend and vote on their behalf. Where more than one proxy is appointed, such proxy must be allocated a proportion of the shareholder's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a shareholder of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the proxy form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
  - Directors of the company;
  - a Director and a Company Secretary of the company; or
  - for a proprietary company that has a sole Director who is also the sole Company Secretary – that Director.

If a person who witnesses the affixing of a common seal and who is the sole Director and sole Company Secretary of the company must state that next to his or her signature.
4. Completion of a proxy form will not prevent individual shareholders from attending the meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the meeting.
5. Where a proxy form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.
6. To vote by proxy, please complete and sign the proxy form enclosed and either:
  - (a) send the proxy form by post to Chalice Gold Mines Limited, GPO Box 2890, Perth, WA, 6001; or
  - (b) send the proxy form by facsimile to the Company on facsimile number +61 8 9322 5800,so that it is received no later than 11.00 am (WST) on 14 November 2009.

**Proxy forms received later than this time will be invalid.**



**Appointment of Corporate Representative**

**Section 250D of the Corporations Law**

This is to certify that by a resolution of the directors of:

.....

**(Company),**

*(Insert name of company)*

the Company has appointed:

.....,

*Insert name of corporate representative*

in accordance with the provisions of section 250D of the Corporations Law, to act as the body corporate representative of that company at the meeting of the members of Chalice Gold Mines Limited to be held on 16 November 2009 and at any adjournments of that meeting.

**DATED** 2009

**Executed by** the Company )  
 )

in accordance with its constituent documents

.....  
Signed by authorised representative

.....  
Signed by authorised representative

.....  
Name of authorised representative (print)

.....  
Name of authorised representative (print)

.....  
Position of authorised representative (print)

.....  
Position of authorised representative (print)

**INSTRUCTIONS FOR COMPLETION**

Under Australian law, an appointment of a body corporate representative will only be valid if the Certificate of Appointment is completed precisely and accurately.

Please follow the following instructions to complete the Certificate of Appointment:

1. Execute the Certificate following the procedure required by your company's constitution or other constituent documents.
2. Print the name and position (eg director) of each company officer who signs this Certificate on behalf of the company.
3. Insert the date of execution where indicated.
4. Send or deliver the Certificate to Chalice Gold Mines Limited registered office or fax the Certificate to the registered office at (+61 8) 9322 5800.

## ANNEXURE A

Terms and conditions of the Chalice Gold Mines Options are:

- (a) each Chalice Gold Mines Option has an exercise price of \$0.35;
- (b) subject to (i) below, each Chalice Gold Mines Option entitles the holder to subscribe for and be allotted one fully paid ordinary share in the capital of Chalice Gold Mines ("Share") at the exercise price for the Chalice Gold Mines Option referred to in (a) above;
- (c) the Chalice Gold Mines Options are exercisable at any time on or prior to 5.00 pm (Perth, Western Australia time) on the date which is two years from the Completion Date ("Expiry Date") by completing an Option Exercise Form and delivering it to the registered office of Chalice Gold Mines together with the payment for the number of Shares in respect of which the Chalice Gold Mines Options are exercised. A Chalice Gold Mines Option not exercised on or before the Expiry Date will lapse;
- (d) Chalice Gold Mines Options may be transferred at any time before lapsing;
- (e) Chalice Gold Mines Options are transferable by any standard form of transfer. Executed transfers will be recorded in Chalice Gold Mines's option register on lodgement of the transfer at any office of Chalice Gold Mines's share registrar;
- (f) all Shares issued upon exercise of the Chalice Gold Mines Options will rank pari passu in all respects with Chalice Gold Mines's then issued Shares from the date of issue. Chalice Gold Mines will apply for official quotation by ASX of all Shares issued upon exercise of the Chalice Gold Mines Options, if other Shares are listed at that time;
- (g) there are no participating rights or entitlements inherent in the Chalice Gold Mines Options and holders of Chalice Gold Mines Options will not be entitled to participate in new issues of capital offered to shareholders during the currency of the Chalice Gold Mines Options unless the Chalice Gold Mines Options are first exercised in accordance with these terms and conditions. However, Chalice Gold Mines must ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced and the holder of Chalice Gold Mines Options will be notified of the proposed issue at least 9 Business Days before the record date. This will give the holder of Chalice Gold Mines Options the opportunity to exercise those Chalice Gold Mines Options prior to the date for determining entitlements to participate in any such issue;
- (h) in the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of Chalice Gold Mines prior to the Expiry Date, the rights of the holders of Chalice Gold Mines Options will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation;
- (i) if there is a bonus issue to Chalice Gold Mines shareholders, the number of Shares over which a Chalice Gold Mines Option is exercisable will be increased by the number of Shares which the holder of the Chalice Gold Mines Option would have received if the Chalice Gold Mines Option had been exercised before the record date for the bonus issue; and
- (j) Shares allotted and issued pursuant to the exercise of the Chalice Gold Mines Options will be allotted and issued on the above terms and conditions not more than 14 days after the receipt of a properly executed Option Exercise Form and the exercise price in respect of the Chalice Gold Mines Option.

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