



CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

**Half Year Report
31 December 2009**

Chalice Gold Mines Limited

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Chalice Gold Mines Limited

Directors' Report

For the half year ended 31 December 2009

Your directors submit the financial report of the Company for the half year ended 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Timothy R B Goyder	Executive Chairman
Douglas A Jones	Managing Director
Michael R Griffiths	Executive Director (Appointed 26 August 2009)
Anthony W Kiernan	Non-executive Director

REVIEW OF OPERATIONS

1. Merger with Sub-Saharan Resources NL

On 14 August 2009, Chalice Gold Mines Limited ("Chalice") and East Africa-focused gold explorer Sub-Saharan Resources NL ("Sub-Saharan") merged by way of a Scheme of Arrangement ("Scheme") following approval by an overwhelming majority of Sub-Saharan shareholders and the Supreme Court of Western Australia.

The merger combined Chalice's strong cash position with Sub-Saharan's 69% interest in the high grade Zara Project in Eritrea, East Africa. Chalice has also acquired an 11.12% interest in the Zara Project from Africa Wide Resources Limited for \$1.6 million (including a \$0.4 million reimbursement of previous costs). 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% (the Eritrean Government is entitled to a 10 per cent free carried interest on the grant of a Mining Lease and the right (but not the obligation) to purchase a further interest, up to 30%, based on an independently determined value).

As noted below, subsequent to balance date Chalice acquired an option to purchase Dragon Mining Ltd's 20% interest in the project.

Under the Scheme, Sub-Saharan shareholders received 1 Chalice share for every 10.73 Sub-Saharan shares held at the Record Date. Other security classes, comprising all partly paid shares and options were offered Chalice shares based on a valuation calculated in accordance with usual valuation models. A total of 48,320,537 Chalice shares were issued as consideration for all the shares in Sub-Saharan.

2. Zara Project, Eritrea

The first six months was a pivotal period for Chalice with substantial progress achieved at the Zara Project. This included the completion of an independent Scoping Study based on the flagship Koka Gold Deposit (JORC resource of 5.04Mt @ 5.8g/t for 944,000oz) and the commencement of in-fill drilling which has so far delivered excellent results.

The Company also expanded its strategic exploration footprint in this largely under-explored region during the period and laid the foundations for a significantly expanded regional exploration campaign in 2010 targeting highly prospective areas in close proximity to the Koka Gold Deposit. Priority targets include the Koka East and Koka South prospects, which lie in a similar geological setting to the Koka Gold Deposit and offer good potential to discover repeats of this mineralisation.

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- **Koka Gold Deposit Scoping Study Results**

During the period, the Company completed an independent Scoping Study undertaken by Lycopodium Minerals. The Scoping Study estimates that the Koka Gold Project will have capital costs of US\$97.8 million and average cash operating costs of US\$424 per oz over a project life of approximately six years, with annual production averaging approximately 110,000 oz per annum. A full Feasibility Study has commenced and is expected to be completed by mid-2010.

Key parameters of the project as outlined in the Scoping Study are as follows:

Parameter	
Average gold production	~110,000 oz per annum
Life of mine	~ 6 years
Total capital costs	US\$97.8 million
Total cash costs	US\$424 per oz
Total gold mined	712,000 oz
Gold recoveries	95%
Gold produced	677,000 oz
Plant capacity	500,000 tpa
Mining costs	US\$241 per oz
Processing costs	US\$169 per oz
G&A costs	US\$14 per oz
Total mined	45.3 million tonnes
Ore milled	3.4 million tonnes
Strip ratio	12.4

The parameters exclude any funding costs, taxation and royalties.

The Project is 80% owned by Chalice and 20% owned by Dragon Mining Limited. The Government is entitled to a 10% free carried interest. In addition, the Government has the right to purchase up to a further 30% in the Project based on an independently determined market value. As noted below, subsequent to balance date Chalice acquired an option to purchase Dragon Mining Limited's 20% interest in the project.

- **Koka Gold Deposit Infill Drilling Results at Zara**

To the date of this report, assays have been received from 15 holes from a 31-hole, 5,000 metre in-fill diamond drilling program designed to bring further confidence to the high-grade mineralisation of the Koka Main Zone and to be used as part of the final resource estimation for the Feasibility Study. Results received to date from the in-fill drilling program have all achieved significant intersections of quartz stockwork mineralisation within the Koka Main Zone and continue to support the robust, high- grade nature of the deposit. Detailed results are available by viewing the Company's announcements to the Australian Securities Exchange.

Chalice Gold Mines Limited

Directors' Report

For the half year ended 31 December 2009

In addition to the infill drilling, a four-hole geotechnical program designed to provide data on ground conditions in the pit highwall has been completed (results pending). This may potentially allow the re-optimisation of the pit shells to incorporate steeper pit walls and hence significantly improve the economics of the project.

The Independent Resource Estimate for the Koka deposit was prepared by Mr Brian Wolfe, whilst employed as a Specialist Resource Geologist for Coffey Mining Pty Ltd. Mr Wolfe, who is a Member of the Australasian Institute of Mining and Metallurgy, has sufficient experience in the field of Resource Estimation to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and consents to the release of information in the form and context in which it appears here.

- Investment in London Africa Limited

Chalice has invested in the United Kingdom-based company London Africa Limited ("London Africa") which holds a number of Prospecting Licences in Eritrea. Chalice has subscribed for 1.6 million shares in London Africa at 12.5p per share for GBP200,000 (A\$358,000) giving Chalice an 11.8% interest in the company. The funds will be applied to a work program currently being undertaken and managed by London Africa.

The London Africa tenements cover 1,562 square kilometres in the prospective Akordat-Orata area in Eritrea, which lies immediately south of Chalice's Zara Project. The investment has increased the Company's strategic footprint in this highly prospective region of northern Eritrea.

3. Australian Projects Overview

Following the merger with Sub-Sahara, the Company's strategic focus shifted from its Australian projects at Yandearra, Gnaweeda and Wilga to the Zara Project in Eritrea. In particular:

- Following the election by Atlas Iron Limited ("Atlas") to withdraw from an option agreement to acquire the iron ore rights at the Yandearra Project in the West Pilbara, the Company has rationalised the project ground position to a single Exploration Licence covering the area most prospective for gold mineralisation.
- Teck Resources Limited ("Teck") has advised that they have exercised the second option under the terms of the option agreement by incurring expenditure of \$1,500,000 and have therefore earned a 70% interest in the Gnaweeda Gold Project. A joint venture has been constituted and each parties are required contribute pro rata to the ongoing exploration or dilute its interest. Teck has also entered into an exclusivity agreement with TSX Venture Exchange listed company Kent Exploration Inc. ("Kent") which contemplates Kent earning 100% of Teck's interest in the project by spending \$3 million, subject to Teck retaining a 75% claw-back.
- Chalice agreed to sell its interest in the Wilga Joint Venture to AngloGold Ashanti Australia Limited ("AGAA") for \$20,000.

4. Corporate

During the period, Chalice raised \$4,401,000 (before issue costs) to fund the ongoing development of the Zara Project through the placement of 16,300,000 shares at 27 cents per share ("the Placement"). The Placement was made to institutional and sophisticated investors.

At 31 December 2009, the Company had \$7.3 million cash on hand.

Chalice Gold Mines Limited
Directors' Report
For the half year ended 31 December 2009

EVENTS AFTER BALANCE SHEET DATE

Subsequent to period end Chalice acquired an option to purchase the 20 per cent interest in the Zara Project in Eritrea, East Africa held by Dragon Mining Ltd. Chalice can exercise the option at any time until 30 June 2010 by paying Dragon A\$8 million and issuing it two million Chalice shares (subject to a 12 month escrow). Chalice has agreed to pay Dragon a further A\$4 million on delineation of a 1,000,000 ounce economically mineable gold ore reserve at the Zara Project within the currently held joint venture licences. In addition, Chalice will also forgive a potential debt owed by Dragon Mining Ltd upon completion of a bankable feasibility study which is payable out of 50% of production cash flows. A capital raising will be required to be undertaken before 30 June 2010 to enable the Company to exercise the option.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 7 and forms part of this directors' report for the half-year ended 31 December 2009.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306 (3) of the Corporations Act 2001.



TIMOTHY GOYDER
Executive Chairman

Dated at Perth this 11th day of March 2010

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Chalice Gold Mines Limited for the half-year ended 31 December 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 review; and
- b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Chalice Gold Mines Limited and the entities it controlled during the period.



**Perth, Western Australia
11 March 2010**

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

Chalice Gold Mines Limited
Condensed Statement of Comprehensive Income
For the half year ended 31 December 2009

		Consolidated	
	Note	31 December 2009 \$	31 December 2008 \$
Continuing Operations			
Net gain/ (loss) on sale of exploration and evaluation assets	3a	(146,677)	674,486
Fair value of options held through profit and loss		(5,098)	1,499
Other income	3b	376,025	524,911
Exploration costs not capitalised		(77,284)	(74,414)
Project transaction costs expensed		-	(280,118)
Corporate administrative expenses	3c	(1,667,498)	(827,657)
Merger costs expensed		(635,806)	-
Profit/(loss) before tax		(2,156,338)	18,707
Income tax expense/benefit		-	-
Profit/ (loss) for the period attributable to owners of the parent		(2,156,338)	18,707
Net change in fair value of available for sale investments		6,000	10,000
Exchanges differences on translation of foreign operations		(917,118)	-
Total comprehensive income after tax attributable to owners of the parent		(3,067,456)	28,707
Basic and diluted earnings per share		(0.03)	(0.00)

The accompanying notes form part of the financial statements.

Chalice Gold Mines Limited
Condensed Statement of Comprehensive Income
For the half year ended 31 December 2009

		Consolidated	
	Note	31 December 2009 \$	30 June 2009 \$
Current assets			
Cash and cash equivalents		7,269,886	9,623,637
Trade and other receivables		379,907	162,000
Total current assets		7,649,793	9,785,637
Non-current assets			
Financial assets		653,718	174,827
Exploration and evaluation assets	4	12,067,512	1,950,775
Property, plant and equipment		829,290	232,566
Total non-current assets		13,550,520	2,358,168
Total assets		21,200,313	12,143,805
Current liabilities			
Trade and other payables		690,240	151,640
Employee benefits		105,914	18,196
Other		277,627	3,182
Total current liabilities		1,073,781	173,018
Non-current Liabilities			
Other		50,000	47,207
Total non-current liabilities		50,000	47,207
Total liabilities		1,123,781	220,225
Net assets		20,076,532	11,923,580
Equity			
Issued capital	5	24,911,782	13,974,454
Reserves		25,980	654,018
Accumulated losses		(4,861,230)	(2,704,892)
Total equity		20,076,532	11,923,580

The accompanying notes form part of the financial statements.

Chalice Gold Mines Limited
Condensed Statement of Changes in Equity
For the half-year ended 31 December 2009

		Consolidated					
	Note	Share capital	Accumulated losses	Share based payments reserve	Investment revaluation reserve	Foreign currency translation reserve	Total equity
		\$	\$	\$	\$	\$	\$
Balance at 30 June 2009		13,974,454	(2,704,892)	618,018	36,000	-	11,923,580
Revaluation of available for sale investments		-	-	-	6,000	-	6,000
Exchanges differences on translation of foreign operations		-	-	-	-	(917,118)	(917,118)
Loss for the period		-	(2,156,338)	-	-	-	(2,156,338)
Total comprehensive income for the period		-	(2,156,338)	-	6,000	(917,118)	(3,067,456)
Share issue – merger by scheme of arrangement		6,802,388	-	-	-	-	6,802,388
Share placement (net after costs)		4,134,940	-	-	-	-	4,134,940
Share based payments		-	-	283,080	-	-	283,080
Balance at 31 December 2009	5	24,911,782	(4,861,230)	901,098	42,000	(917,118)	20,076,532
Balance at 30 June 2008		13,974,454	(2,140,356)	570,910	-	-	12,405,008
Revaluation of available for sale investments		-	-	-	10,000	-	10,000
Profit for the period		-	18,707	-	-	-	18,707
Total comprehensive income for the period		-	18,707	-	10,000	-	28,707
Share based payments		-	-	28,936	-	-	28,936
Balance at 31 December 2008	5	13,974,454	(2,121,649)	599,846	10,000	-	12,462,651

The accompanying notes form part of the financial statements.

Chalice Gold Mines Limited
Condensed Cash Flow Statement
For the half year ended 31 December 2009

Inflows/(Outflows)	Note	Consolidated	
		31 December 2009 \$	31 December 2008 \$
Cash flows from operating activities			
Cash receipts from operations		90,491	167,096
Cash paid to suppliers and employees		(1,628,091)	(737,869)
Interest received		121,210	256,221
Net cash used in operating activities		(1,416,390)	(314,552)
Cash flows from investing activities			
Payments for mining exploration and evaluation		(3,321,867)	(425,596)
Proceeds from disposal of available for sale financial assets		132,540	-
Proceeds from the sale of exploration assets		250,000	-
Payments for merger and restructuring costs		(635,806)	-
Cash acquired on completion of merger	6(a)	252,054	-
Acquisition of subsidiary	6(b)	(1,210,000)	-
Acquisition of equity investments		(372,766)	-
Acquisition of property, plant and equipment		(291,447)	(89,084)
Option fees received		164,509	250,000
Net cash used in investing activities		(5,032,783)	(264,680)
Cash flows from financing activities			
Proceeds from issue of shares		4,401,000	-
Payments for share issue costs		(266,060)	-
Other		(30,962)	-
Net cash used in financing activities		4,103,978	-
Net decrease in cash and cash equivalents		(2,345,195)	(579,232)
Cash and cash equivalents at the beginning of the period		9,623,637	9,972,766
Effects of exchange rate fluctuations on cash held		(8,556)	-
Cash and cash equivalents at 31 December 2009		7,269,886	9,393,534

Chalice Gold Mines Limited

Notes the Financial Statements

For the half year ended 31 December 2009

1. Significant accounting policies

(a) Statement of compliance

The interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2009 and any public announcements made by Chalice Gold Mines Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

(b) Basis of preparation

The interim report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

(c) Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2009.

(d) Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2009, the Group 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 2009.

During the current period, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segment reporting – new AASB 8 *Operating Segments*

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half year ended 31 December 2009. As a result of this review the Directors have determined that 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 the Company's accounting policies.

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Notes the Financial Statements

For the half year ended 31 December 2009

Principles of Consolidation

AASB 127 (revised) required the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must be re-measured to fair value and a gain or loss is recognised in profit or loss. This is consistent with the entity's previous accounting policy if significant influence is not retained.

The Group will in future allocate losses to non-controlling interests in subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as none of the non-controlling interests have a deficit balance. There have also been no transactions whereby an interest in an entity is retained after the loss of control of that entity, no transactions with non-controlling interests and no dividends paid out of pre-acquisition profits.

Business Combinations

All payments to purchase a business are now recorded at fair value at the acquisition date, with any contingent payments included at their respective fair values. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of the acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial recognition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

Segment Reporting

The Group has applied AASB 8 'Operating Segments' from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief decision maker. The chief decision-maker has been identified as the Board of Chalice Gold Mines Limited.

Chalice Gold Mines Limited
Notes the Financial Statements
For the half year ended 31 December 2009

2. Segment reporting

In August 2009, the Company completed a merger by Scheme of Arrangement with Sub-Sahara Resources NL, owners of the Zara Project in Eritrea, East Africa. Prior to this, the Company operated in one business and geographical segment being the mining and exploration industry in Australia. Upon completion of the merger, the Company has significantly reduced all Australian exploration activities and focused its efforts on exploration in Eritrea. Therefore, the Company now operates in only one material business and geographical segment being the mining and exploration industry in Eritrea.

3. Profit/(loss) before income tax expense

The following income and expense items are relevant in explaining the financial performance for the half-year:

(a) Net gain on sale of exploration and evaluation assets	2009	2008
	\$	\$
Consideration	20,000	841,000
Cost of tenements sold	(166,677)	(166,514)
Net gain/ (loss) on sale of exploration and evaluation assets	(146,677)	674,486
(b) Other Income	2009	2008
	\$	\$
Corporate and administration service fees	89,691	171,456
Net finance income	152,994	353,455
Profit on sale of shares	7,540	-
Other income	125,800	-
	376,025	524,911
(c) Corporate administrative expenses	2009	2008
	\$	\$
Depreciation and amortisation	94,276	33,153
Insurance	9,486	16,287
Legal fees	70,844	44,501
Head office costs	180,936	124,271
Personnel expenses	871,988	464,280
Regulatory and compliance	146,482	95,760
Other	293,486	49,405
	1,667,498	827,657

4 Exploration and evaluation expenditure

	31 December
	2009
	\$
Cost brought forward at 1 July 2009	1,950,775
Expenditure incurred during the period	3,278,207
Acquisitions through business combinations	7,790,909
Reimbursement of exploration costs on merger	455,304
Exploration costs not capitalised	(77,284)
Disposal of interests in tenements	(166,021)
Refund of tenement rental costs	(286,651)
Effect of movements in exchange rates	(877,727)
	12,067,512

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5. Issued capital

	31 December 2009 \$	30 June 2009 \$
Issued and fully paid ordinary shares	24,911,782	13,974,454
	No. (Thousands)	\$
Movements in ordinary shares on issue		
At 1 July 2009	72,800,000	13,974,454
Shares issued on completion of merger	48,320,537	6,802,388
Share placement (net proceeds after costs)	16,300,000	4,134,940
At 31 December 2009	137,420,537	24,911,782

6. Acquisition of subsidiaries

(a) Acquisition of Sub-Sahara Resources NL

On 14 August 2009, Chalice Gold Mines Limited acquired all the shares in Sub-Sahara Resources NL, owner of 68.88% of the Zara Project in Eritrea, following completion of a merger between the two companies by Scheme of Arrangement. The acquisition was satisfied by the issue of 48,320,537 ordinary shares as consideration for all the fully paid ordinary shares and partly paid shares of Sub-Sahara Resources NL.

The net assets acquired in the business combination at the date of acquisition are as follows:

	Acquiree's carrying amount before business combination \$	Fair value adjustments \$	Fair value \$
Net assets acquired:			
Cash and cash equivalents	252,054		252,054
Trade and other receivables	463,165		463,165
Financial assets	57,810		57,810
Property, plant and equipment	426,162		426,162
Exploration and evaluation expenditure	7,396,018	(815,109)	6,580,909
Trade and other payables	(673,470)		(673,470)
Other liabilities	(304,243)		(304,243)
Net assets	7,617,496		6,802,387
Goodwill on consolidation			-
Total consideration satisfied by the issue of 48,320,537 ordinary shares			6,802,387
The cash inflow on acquisition is as follows:			
Net cash acquired with acquisition of Sub- Sahara Resources NL Group			252,054
Cash paid			-
Net cash inflow			252,054

Chalice Gold Mines Limited
Notes the Financial Statements
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Acquisition costs in relation to the merger of \$635,806 are included in the statement of comprehensive income.

If the combination had taken place at the beginning of the year, the loss for the Group would have been \$2,566,844.

(b) Acquisition of Yolanda International Limited

On 26 August 2009, Chalice Gold Mines Limited acquired all the shares in Yolanda International Limited, owner of 11.12% of the Zara Project in Eritrea, from Arica Wide Resources Limited. The acquisition was satisfied by payment of \$1,210,000 for all the fully paid ordinary shares in Yolanda International.

The net assets acquired in the business combination at the date of acquisition are as follows:

	Acquiree's carrying amount before business combination	Fair value adjustments	Fair value
	\$	\$	\$
Net assets acquired:			
Exploration and evaluation expenditure	1,210,000	-	1,210,000
Net assets	1,210,000		1,210,000
Goodwill on consolidation			-
Total consideration			1,210,000
The cash inflow on acquisition is as follows:			
Net cash acquired with acquisition of Sub-Sahara Resources NL Group			-
Cash paid			(1,210,000)
Net cash outflow			(1,210,000)

There were no associated costs of acquisition.

If the combination had taken place at the beginning of the year, the loss for the Group would not have changed.

7. Events Subsequent to Reporting Date

Subsequent to period end Chalice acquired an option to purchase the 20 per cent interest in the Zara Project in Eritrea, East Africa held by Dragon Mining Ltd. Chalice can exercise the option at any time until 30 June 2010 by paying Dragon A\$8 million and issuing it two million Chalice shares (subject to a 12 month escrow). Chalice has agreed to pay Dragon a further A\$4 million on delineation of a 1,000,000 ounce economically mineable gold ore reserve at the Zara Project within the currently held joint venture licences. In addition, Chalice will also forgive a potential debt owed by Dragon Mining Ltd upon completion of a bankable feasibility study which is payable out of 50% of production cash flows. A capital raising will be required to be undertaken before 30 June 2010 to enable the Company to exercise the option.

Chalice Gold Mines Limited
Notes the Financial Statements
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8. Share Options

	No. (thousands)
Movements in options over ordinary shares on issue:	
At 1 July 2009	6,825,000
Issue of options under Employee and Consultant Option Plan	<u>3,250,000</u>
At 31 December 2009	<u>10,075,000</u>

Chalice Gold Mines Limited
Directors Declaration
For the half year ended 31 December 2009

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 8 to 17:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Company's financial position as at 31 December 2009 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Dated this 11th day of March 2010

A handwritten signature in blue ink, appearing to read 'Tim Goyder', with a long horizontal stroke extending to the right.

TIMOTHY GOYDER
Executive Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Chalice Gold Mines Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed statement of financial position as at 31 December 2009, the condensed statement of comprehensive income, condensed statement of changes in equity, condensed statement of cash flows and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Chalice Gold Mines Limited and the entities it controlled during the half-year ended 31 December 2009 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Chalice Gold Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Chalice Gold Mines Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

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L DI GIALLONARDO
Partner

Perth, Western Australia
11 March 2010