



**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 Level 31, Allendale Square, 77 St Georges Terrace, Perth, Western Australia, on 25 November 2010 at 12pm (WST).

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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') to which this Notice of Meeting relates will be held at 12pm (WST) on 25 November 2010 at:

Level 31, Allendale Square, 77 St Georges Terrace, 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 12pm (WST) on 23 November 2010.

**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 the attendance of shareholders at the General Meeting. 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 Level 31, Allendale Square, 77 St Georges Terrace, Perth, Western Australia on 25 November 2010 at 12pm (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 2010 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 2010 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 ANTHONY KIERNAN 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, Anthony Kiernan who retires by rotation in accordance with the Company's constitution and, being eligible, offers himself for re-election."*

##### RESOLUTION 3 - ELECTION OF STEPHEN QUIN AS A DIRECTOR

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

*"That Stephen Quin, having been appointed to the Board of Chalice Gold Mines Limited effective 3 May 2010 is hereby elected as a Director in accordance with the Company's Constitution and the ASX Listing Rules."*

##### RESOLUTION 4 – 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 21,613,080 Shares at 42 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 5 – RATIFICATION OF SHARE ISSUE – DRAGON MINING TRANSACTION

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 2,000,000 Shares to Dragon Mining Limited on the terms and conditions set out in the Explanatory Statement.”*

**NB:** The 2,000,000 Shares, the subject of this Resolution, formed part of the purchase price paid by Chalice to acquire Dragon Mining Limited’s 20% interest in the Zara Gold Project in Eritrea.

### Voting Exclusion Statement

The Company will disregard votes cast on this Resolution by Dragon Mining Limited or person or entity associated with Dragon Mining Limited.

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 – ISSUE OF OPTIONS TO STEPHEN QUIN

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 Stephen Quin, a director of the Company, of 750,000 options over ordinary shares in Chalice Gold Mines Limited each with the exercise price per option as set out below and on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting:*

- (a) 187,500 Options at 55 cents;
- (b) 187,500 Options at 65 cents; and
- (c) 375,000 Options at 75 cents.”

**NB:** The Options, the subject of this Resolution, and the terms were agreed subject to shareholder approval, at the time Mr Quin was appointed as a Director of the Company on 3 May 2010.

### Voting Exclusion Statement

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

However, the Company need not disregard a vote if:

- (a) it is cast by Mr Quin (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 7 – AMENDMENT TO THE COMPANY CONSTITUTION

To consider and, if thought fit, to pass the following resolution as a special resolution:

That, pursuant to section 136 of the Corporations Act 2001 (Cth) and for all other purposes, with effect from the close of this Meeting, the Constitution of the Company is amended by replacing clauses 21.1(a) and 21.3(a) with the following:

Clause 21.1

"(a) Subject to the Corporations Act and the Listing Rules, the Directors may determine that a dividend (whether interim, final or otherwise) is payable and fix the:

- (i) amount;
- (ii) time for payment; and
- (iii) method of payment."

Rule 21.3

"(a) Not used"

**RESOLUTION 8 – APPROVAL OF THE EMPLOYEE SHARE OPTION PLAN**

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

*"That for the purpose of ASX Listing Rule 7.2, exception 9 and for all other purposes, the shareholders of the Company approve the Employee Share Option Plan, the terms and conditions of which are summarised in the Explanatory Memorandum".*

**Voting Exclusion Statement**

The Company will disregard any votes cast on this Resolution by:

- (1) any director of Chalice; and
- (2) an associate of that person.

However, the Company need not disregard a vote if:

- (3) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (4) it is cast by the person chairing 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 – APPROVAL OF ISSUE OF SHARES**

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

*"That for the purpose of ASX Listing Rule 7.1 and for all other purposes, the Directors be authorised to allot and issue up to 35,000,000 fully paid ordinary shares in the capital of the Company on the terms and conditions as set out in the Explanatory Memorandum".*

NB: At the date of this Notice no decision has been made to issue shares nor is there any proposal before the Board in that regard.**Voting Exclusion Statement**

The Company will disregard any votes cast on this Resolution by:

- (1) any person who may participate in the proposed issue and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares if Resolution 9 is passed; and
- (2) an associate of that person.

However, the Company need not disregard a vote if:

- (3) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(4) it is cast by the person chairing 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 23 November 2010 at 5pm WST.

By order of the Board



Company Secretary  
1 October 2010

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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 ('Chalice') to be held at Level 31, Allendale Square, 77 St Georges Terrace, Perth, Western Australia on 25 November 2010 at 12pm (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 2010 is set out in the Director's Report contained in the 2010 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 a resolution 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 ANTHONY KIERNAN 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 Kiernan was elected as a Director of the Company on 15 February 2007 and pursuant to the Company's Constitution retires. Mr Kiernan, being eligible, has offered himself for re-election as a Director of the Company.

Mr Kiernan is a Non-executive Director of the Company. Mr Kiernan is a lawyer and general corporate advisor with extensive experience in the administration and operation of listed public companies. Mr Kiernan is Chairman of BC Iron Limited, Uranium Equities Limited, Venturex Resources Limited and is a director of Liantown Resources Limited.

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### **(C) RESOLUTION 3 – ELECTION OF STEPHEN QUIN AS A DIRECTOR**

Mr Stephen Quin was appointed to the Board of Chalice on 3 May 2010. 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 Quin is currently President and Chief Operating Officer of Toronto Stock Exchange ("TSX") listed copper producer Capstone Mining Corp. and has over 30 years experience in the mining and exploration industry. Mr Quin was previously President and CEO of Sherwood Copper Corp, prior to its merger with Capstone, which he co-founded and was responsible for the feasibility, permitting, financing and on time and on budget start up of the Minto copper-gold-silver mine in the Yukon, Canada. Prior to joining Sherwood, Mr Quin was Executive Vice President of Miramar Mining Corp. a TSX listed gold producer and explorer, where he was responsible for the acquisition and subsequent exploration of the world class Hope Bay Gold Project in Nunavut, Canada. Miramar was subsequently acquired by Newmont.

Based in Vancouver, Canada, Mr Quin will use his extensive experience in the Canadian markets and resources sector to assist the Company as it seeks to list on the TSX and advance its flagship Zara Gold Project in Eritrea through to production.

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### **(D) RESOLUTION 4 – 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 4 seeks ratification of the issue of 21,613,080 Shares on 31 May 2010 at 42 cents per share raising \$9,077,494 before issue costs ("**the Placement Shares**").

Of the funds raised under the Placement Shares, \$8,000,000 was paid to Dragon Mining Limited as part of the purchase price for the acquisition of Dragon Mining Limited's 20% interest in the Zara Project in Eritrea. The balance of the funds raised were applied to working capital. 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 21,613,080;
- (b) the Shares were issued on 31 May 2010 at 42 cents per Share raising \$9,077,494 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 unrelated parties, being Frankin Resources Inc. and persons and entities being clients of Southern Cross Equities Limited; and
- (e) the purpose of the issue was to provide funds for the acquisition of Dragon Mining Limited's 20% interest in the Zara Project in Eritrea.

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

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#### **(E) RESOLUTION 5 – RATIFICATION OF SHARE ISSUE – DRAGON MINING TRANSACTION**

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 2,000,000 Shares on 22 June 2010 to Dragon Mining Limited as part of the consideration payable by the Company for the acquisition by the Company of Dragon's 20% interest in the Zara Project and all the shares in Dragon Mining (Eritrea) Limited. In addition to the shares issued as part of the consideration, a further \$8,000,000 was paid to Dragon and a further \$4,000,000 is payable upon delineation of a 1 million oz Ore Reserve at the Zara Project in Eritrea. This Resolution seeks only the ratification of the issue of the Shares

Pursuant to ASX Listing Rule 7.5 the following additional information is advised in relation to the issue:

- (a) the number of Shares issued was 2,000,000;
- (b) the Shares were issued as part the consideration for the acquisition by the Company of Dragon's 20% interest in the Zara Project and all the shares in Dragon Mining (Eritrea) Limited;
- (c) the Shares were issued on 22 June 2010 and ranked equally from the date of that issue with all existing Shares in the Company;
- (d) the Shares were issued to Dragon Mining Limited; and
- (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.



## **(F) RESOLUTION 6 – ISSUE OF OPTIONS TO STEPHEN QUIN**

Resolution 6 seeks Shareholder approval for the Company to issue 750,000 unlisted Options to Stephen Quin, 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 6 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 Mr Quin with an added incentive in carrying out his duties as a Non-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 Quin.

The Options and the terms (including the exercise price) were agreed with Mr Quin, subject to Shareholder approval, at the time of his appointment to the Board of the Company in May 2010. Chalice shares closed at 48 cents on the day of his appointment, which represented a lower price than the agreed exercise prices as herein shown.

Based in Vancouver, Canada, Mr Quin will use his extensive experience in the Canadian markets and resources sector to assist the Company as it seeks to list on the Toronto Stock Exchange.

### **Terms of the Options**

Mr Quin will be issued 750,000 Options expiring 30 April, 2014 as follows:

Tranche 1: 187,500 Options with an exercise price of 55 cents, vesting on issue;

Tranche 2: 187,500 Options with an exercise price of 65 cents, vesting on April 30, 2011;

Tranche 3: 187,500 Options with an exercise price of 75 cents, vesting on April 30, 2012; and

Tranche 4: 187,500 Options with an exercise price of 75 cents, vesting on April 30, 2013.

Subject to Shareholder approval, the Options will otherwise be issued on the terms and conditions established under the Employee Share Option Plan.

### **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 Quin 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 Mr Quin:

- (a) Mr Quin is a Non-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 Quin 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 750,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the the Company's Employee Share Option Plan;
- (c) those Directors who have no interest in the outcome of Resolution 6 (being all Directors other than Mr Quin) recommend that Shareholders vote in favour of Resolution 6 on the basis that the Options to be granted provide Mr Quin with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities;
- (d) Mr Quin makes no recommendation in relation to Resolution 6 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 Quin 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 \$506,250. 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;
- (f) Using an Black & Scholes valuation model, the Company estimates that each Option, the subject of Resolution 6, has the following values based on the following assumptions:

Exercise Price	55 cents	65 cents	75 cents
Market value of underlying Shares at time of setting exercise price	48 cents	48 cents	48 cents
Expiry date	30 April 2014	30 April 2014	30 April 2014
Expected volatility	78%	78%	78%
Risk free interest rate	4.94%	4.94%	4.94%
Annualised dividend yield	Nil	Nil	Nil
The value of the Options	27.8 cents	26 cents	24.5 cents
The aggregate value of the Options is \$192,750			

- (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 32 cents on 8 February 2010 and the highest was 74 cents on 27 September 2010. At the close of trading on 29 September 2010 the Share price was 69 cents. The closing price of Chalice Shares on the day Mr Quin was appointed to the Board (3 May 2010) was 48 cents;
- (h) following the passing of Resolution 6, Mr Quin will hold an interest in 26,321 Shares and 750,000 Options;
- (i) Mr Quin receives directors fees of \$35,000;
- (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 211,205,886 Shares and 13,075,000 Options on issue. Assuming that Mr Quin exercises all of the Options to be granted to him pursuant to Resolution 6, Mr Quin's interest including all the Shares and Options currently held would represent approximately 0.3% of the Company's expanded capital;
- (l) the Options will be issued within one month of Shareholder approval with the right to exercise being subject to the terms of issue; 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 6.

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**(G) RESOLUTION 7 – AMENDMENT TO THE COMPANY CONSTITUTION**

This is a special resolution proposing amendments to the Company's constitution (Constitution). A special resolution requires the approval of 75% of the votes of those Shareholders present at the meeting and entitled to vote on the resolution.

The need to amend the Constitution arises as a result of a recent amendment to section 254T of the *Corporations Act 2001 (Cth)* (Corporations Act) pursuant to the *Corporations Amendment (Corporate Reporting Reform) Act 2010 (Cth)* (Amending Act) relating to the payment of dividends.

The nature of the amendment to the Corporations Act is as follows:

1. Under the former section 254T of the Act a company could only pay dividends out of its profits.
2. The Amending Act replaces the profits test with a new 3 tiered test, which provides that a company must not pay a dividend unless:
  - (a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
  - (b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and
  - (c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

**Rule 21.1(a)**

The current Rule 21.1(a) of the Constitution provides that, subject to the Listing Rules, the Directors may determine that a dividend is payable and fix the amount, time for payment and method of payment. This is now inconsistent with the amendments made to the Corporations Act as referred to above. The proposed amendment to Rule 21.1(a) ensures that the Directors comply with the new section 254T of the Corporations Act by making the Directors' ability to determine dividends subject to the Corporations Act.

**Rule 21.3(a)**

The current Rule 21.3(a) of the Constitution mirrors the former section 254T of the Act by providing that "no dividend may be paid otherwise than out of profits of the Company". This is now inconsistent with the amendment to the Corporations Act as referred to above and consequently this Rule is no longer required or relevant.

A copy of the Company's existing Constitution is available at the Company's registered office.

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**(H) RESOLUTION 8 – APPROVAL OF EMPLOYEE SHARE OPTION PLAN**

Listing Rule 7.1 provides that an entity must not issue or agree to issue more than 15% of its total equity securities without the approval of shareholders, unless one of the exceptions in ASX Listing Rule 7.2 applies.

An issue of equity securities under an employee incentive scheme will fall within exception 9 of ASX Listing Rule 7.2 if, within 3 years before the date of the issue one of the following occurred:

- (a) in the case of a scheme established before the entity was listed – a summary of the terms of the scheme were set out in the prospectus, produce disclosure statement or information memorandum; or
- (b) holders of ordinary securities have approved the issue of securities under the scheme as an exception to ASX Listing Rule 7.1.

In order to allow the Company to issue equity securities under its Employee Share Option Plan ('the Plan') in the future, Shareholder approval of the Plan is sought pursuant to ASX Listing Rule 7.2, exception 9.

The Company established and had approved by Shareholders a Plan on 28 November 2008. The Plan was available to both full-time and part-time employees, including directors and consultants. 3,250,000 options have been issued under the Plan since the Plan was last approved by Shareholders.

The Directors consider it appropriate to amend the current Plan, but only insofar as changing the definition of Listing Rules to broaden the same to now include the listing rules of any stock exchanges which Chalice may have its Shares listed. The Director consider this sensible in the light of the proposed application to list on TSX later this year. Shareholders should note that no application has been yet been made, nor approval given, for this listing.

This Resolution therefore seeks Shareholder approval to amend the Plan (but only in relation to the Listing Rules matter referred to above). As it is necessary to have any approved Plan put before Shareholders each 3 years, the Directors consider it appropriate to do it now.

The principal terms and conditions of the Plan are set out below.

Pursuant to the Plan, the Board may offer free options to employees and directors based on a number of criteria, including contribution to the Company, period of employment, potential contribution to the Company in the future and other factors the Board may consider relevant.

Each issued option entitles the holder upon exercise to one Chalice share, which will rank equally with all other Chalice shares. The maximum number of options that may be issued at any one time is 15% of the total number of Chalice shares on issue provided that the Board may increase this percentage, subject to the Corporations Act and the Listing Rules.

The exercise price of the options shall be such price as is determined by the Board in its discretion on or before the date of issue, provided that the exercise price shall not be less than the average sale price of Chalice shares during the five business days prior to the date of issue, or such other period as determined by the Board at its discretion.

Options may not be transferred other than to an associate of the holder, and quotation of the options on ASX will not be sought. However the Company will apply to ASX for official quotation of the Chalice shares issued on the exercise of the options.

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise are satisfied. The Board may determine the vesting period. An option will lapse upon the first to occur of:

- (a) the expiry date;
- (b) the holder acting fraudulently or dishonestly in relation to the Company;
- (c) within three (3) months of the holder ceasing to be employed by the Company; or
- (d) on certain conditions associated with a party acquiring a 90% interest in Chalice shares.

The Board may declare an option to be free of any conditions of exercise if in the opinion of the Board, any of the following has occurred or is likely to occur:

- (e) the Company entering into a scheme of arrangement;
- (f) the commencement of a takeover bid for the Chalice shares; or
- (g) a party acquiring a sufficient interest in the Company to enable that party to replace the Board.

Options which are so declared may, subject to the lapsing conditions set out above, be exercised at any time on or before their expiry date in any number.

There are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, the Company will ensure that the record date for determining entitlements to any such issue will be at least 6 business days after the issue is announced. Optionholders will be afforded the opportunity to exercise all options which they are entitled to exercise pursuant to the Plan prior to the date for determining entitlements to participate in such issue.

If the Company makes an issue of Chalice shares to shareholders by way of capitalisation of profits or reserves ("**Bonus issue**"), each optionholder holding any options which have not expired at the time of the record date for determining entitlements to the bonus issue will be entitled to have issued to him upon exercise of any of those options the number of Chalice shares which would have been issued under the bonus issue to a person registered as holding the same number of

Chalice shares as that number of Chalice shares to which the optionholder may subscribe pursuant to the exercise of those options immediately before the record date determining entitlements under the bonus issue (in addition to the Chalice shares which he or she is otherwise entitled to have issued to him or her upon such exercise). The bonus shares will be paid by the Company out of the profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue rank pari passu in all respect with the other Chalice shares issued upon the exercise of the options.

In the event of any reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of the Company prior to the expiry of any options, the number of options to which each optionholder is entitled or the exercise price of his or her options or both or any other terms will be reconstructed in a manner determined by the Board which complies with the provisions of the Listing Rules.

Under current taxation laws, any taxation liability in relation to the options, or the Chalice shares issued on the exercise of the options will fall on the participants. The Company will not be liable to fringe benefits tax in relation to options or Chalice shares issued under the Plan.

In accordance with ASX Listing Rule 7.2, exception 9 any votes cast on Resolution 8 (other than by a person as proxy for a member who is entitled to vote where the instrument of proxy specifies how the proxy is to vote on the Resolution, or by the Chairman of the Meeting as an undirected proxy for a member who is entitled to vote) by, or on behalf of, a director of the entity, except one who is ineligible to participate in any employee incentive scheme in relation to the entity will be disregarded.

A copy of the complete rules of the Plan is available upon request by contacting the Company Secretary, Mr Richard Hacker on (08) 9322 3960.

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**(I) RESOLUTION 9 – APPROVAL OF ISSUE OF SHARES**

Listing Rule 7.1 prohibits a company from issuing securities representing more than 15% of its issued capital in any 12 month period without shareholder approval.

At the date of the Notice, the Company has made application to list on the Toronto Stock Exchange. In these circumstances and reflecting the stage of development of Chalice's Zara Project in Eritrea, the Board considers it would be prudent to have in place an authority to issue shares in excess of the Company's allowable (without shareholder approval) 15% share issue capacity should it be appropriate. Accordingly, approval is being sought to issue up to 35,000,000 Shares within 3 months of shareholder approval, if the Board considers that appropriate.

If no share issue is made pursuant to this resolution within the 3 months of its passing, then unless ASX agrees otherwise shareholder approval will lapse.

There is, at the date of this Notice, no proposal before the Board for the issue of these additional shares. The object of this resolution is to give the Board flexibility should circumstance arise that such an issue is appropriate.

Listing Rule 7.3 contains certain requirements as to the contents of a Notice sent to Shareholders for the purposes of Listing Rule 7.1 and the following information is included in this Explanatory Memorandum for that purpose:

- (a) the maximum number of Shares that could be issued pursuant to Resolution 9 is 35,000,000;
- (b) the issue price of the Shares would be no less than 90% of the volume weighted average price of the Company's Shares for the 10 day period prior to an issue of the Shares;
- (c) the funds would be used to advance exploration of the Company's projects in Eritrea and for working capital;
- (d) the Shares would be issued to sophisticated investors who would not be related parties of the Company;
- (e) it is anticipated that any Shares issued pursuant to this Resolution 9, would be issued no later than 3 months after the date of the Meeting or such later date as approved by ASX by way of ASX granting a waiver from the Listing Rules;
- (f) the Shares would be issued in a single allotment ;
- (g) any Shares issued pursuant to Resolution 9 would rank equally with existing ordinary shares on issue; and
- (h) a voting exclusion statement is included in this Notice.

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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 and which such meanings shall apply unless the context requires otherwise. 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.

“**Listing Rules**” means the Listing Rules and any other rules of any relevant stock exchange which the Shares of the Company are listed.

“**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.

“**Notice**” means this notice of meeting including the Explanatory Memorandum

“**Plan**” means the Employee Share Option Plan

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

**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 12pm (WST) on 25 November 2010 at Level 31, Allendale Square, 77 St Georges Terrace, 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**

		<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
Resolution 1	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Anthony Kiernan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Election of Stephen Quin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Ratification of Share Issue - Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Ratification of Share Issue – Dragon Mining Transaction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Issue of Options to Stephen Quin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Amendment to the Company's Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Approval of the Employee Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Approval of Issue of Shares	<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                      2010

**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 12pm (WST) on 23 November 2010.

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



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**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 25 November 2010 and at any adjournments of that meeting.

**DATED** 2010

**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)

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**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.