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INVESTMENT HIGHLIGHTS

- Koka Gold Deposit:
 - High grade, open pit gold deposit
 - Feasibility Study completed
 - Strong economics
 - Low technical risk
- Aggressive exploration programs underway to expand resource base
- Highly anomalous gold values detected over 15km long trend
- Strategic ground position in emerging gold and base metal province
- Experienced Board and Management with extensive expertise in African gold sector



CHAIRMAN'S LETTER

Dear Shareholder

I am pleased to present Chalice Gold's 2010 Annual Report after what has been, in many respects, a landmark year for our Company.

At a time of considerable investor interest and activity in the global gold sector, I am confident that Chalice has established the foundations required to build a first-rate international gold mining company focused on East Africa and underpinned by the high-quality Zara Project in Eritrea.

We believe that the Nubian Shield, in which the Zara Project is located, is highly prospective and offers similar potential to some of the better-known parts of West Africa, such as Ghana and Burkina Faso, but is still very much in its infancy in terms of exploration. Most of our 615 square kilometre tenement package at Zara remains virtually untouched by modern exploration.

Notwithstanding this exciting potential, our first priority at the Zara Project was to progress development of the high-grade Koka gold deposit to provide us with a pathway to initial production and cashflow.

We expect that this high-grade, open-cut deposit – which contains a resource of 840,000oz of gold at a grade of 5.3g/t gold, including an Ore Reserve of 4.6 million tonnes at a grade of 5.1g/t for 760,000oz of gold – offers an outstanding opportunity to develop a high-margin gold operation, with an expected head grade not seen in the Western Australian gold sector for some years.

In October 2009, the Company completed a detailed Scoping Study for the development of the Koka gold deposit and, given the positive results, we moved immediately to undertake a full Feasibility Study. Both of these technical studies were undertaken by leading industry consultants Lycopodium Minerals Pty Ltd, AMC Consultants Pty Ltd and Knight Piésold.

The Feasibility Study, which was completed in early July 2010, confirmed that the deposit can support a robust gold operation producing 104,000oz per year with low cash operating costs of US\$338 per oz and an initial mine life of seven years.

The Feasibility Study forecast initial capital costs for the Project – including mine equipment, mining pre-strip, processing plant infrastructure and other owner's costs – totalling US\$122 million, with an additional \$9 million in sustaining capital over the life of mine.



The other key metrics and financials of the Project are extremely robust. Using a gold price of US\$1,200 per oz, the mine is estimated to generate earnings before interest, tax, depreciation and amortisation ("EBITDA") over its life of US\$589 million, with an annual average EBITDA of US\$84 million and a capital payback period of slightly over two years. Using a 5% discount rate, the Net Present Value of the Project is in the order of US\$200 million.

With this strong foundation now in place, I am pleased to report that Chalice has, in cooperation with the Eritrean Government, commenced the permitting process for the Koka Project to facilitate the grant of a Mining Licence to enable development to commence during 2011.

In parallel with the permitting process, the Company has appointed Gryphon Partners, an international resources corporate advisory group, to assist in obtaining finance for the development of this project. We are targeting first production from the Koka Project in 2013.

I am confident that the financial robustness of the Project will draw interest from a wide range of institutions to fund its development.

In June 2010, the Company achieved an important objective by consolidating 100% ownership of the Zara Project (subject to government participation rights) by exercising its option to acquire all of the shares in Dragon Mining (Eritrea) Ltd which held the remaining 20% free-carried interest in the project.

The consideration for this acquisition was \$8 million, together with the issue of 2 million ordinary shares in Chalice. A further payment of \$4 million is due upon the delineation of a combined 1 million ounce mineral reserve within the central Zara leases.

Following completion of the Feasibility Study, the Company is now also directing its attention towards unlocking the substantial exploration potential

within its large tenement position in Eritrea. As I mentioned in opening, we believe the Nubian Shield offers numerous outstanding opportunities to build our gold resource base in East Africa, initially within an economic trucking distance of the proposed mine at Koka.

Particular attention will initially focus on drilling near-mine targets, including the Konate prospect – an area which contains substantial artisanal workings and located just 5 km south of the Koka deposit – and a deep penetration 3D IP survey within the Koka-Konate Corridor.

The IP survey is due to commence during October 2010 and will hopefully provide the Company with new targets similar to the Koka gold deposit. Initial results from drilling at Konate have been most encouraging and we are looking forward to reporting further results from this campaign in the near future.

In addition, the Company will be undertaking a substantial regional aeromagnetic survey covering our current granted tenements of 615 square kilometres. This geophysical information will be a major step forward to providing new targets hidden by complex geology and rugged topography.

Regionally, the Company has also completed a broad stream sediment sampling program (BLEG) throughout its granted land package. Initial results from this program have been impressive and follow-up sampling is now being undertaken to target potential host rocks that may be the source of these outstanding BLEG results.

The next financial year will create further opportunities for significant growth as we look to unlock the enormous potential of near-mine and regional targets. This is explained in more detail in the body of this Annual Report.

Financially, the Company is now in a solid position with approximately \$16 million in cash at bank to expedite permitting and financing of the Koka gold deposit and carry out focused and well-managed exploration activities.

As previously advised, the Company has also decided to dual list its shares on the Toronto Stock Exchange (TSX) during October 2010, which will again broaden our shareholder and investor base.

In preparation of our TSX listing, we welcomed the appointment to our Board in May this year of Stephen Quin, a highly experienced Mining Geologist. Stephen's input has been extremely valuable and we look forward to drawing on his considerable experience in mine development as we develop the Koka Project and add value to our resource base in East Africa.

In conclusion, we are very positive about Chalice's future and, while there will be challenges ahead, I strongly believe we will be able to provide shareholders with an opportunity for strong capital growth in the medium term.

On behalf of the Board, I would like to thank our loyal shareholders, employees and consultants for their continued support in building Chalice.

Kind regards



Tim R B Goyder
Executive Chairman

12 MONTH STRATEGIC OUTLOOK

Grow the near mine resource base

- Following the promising results of an initial 2,500 metres drilling program at Konate in September 2010, further diamond drilling is being undertaken.
- The Konate prospect and the 6 km x 1 km structural corridor hosting the Koka resources and reserves will be covered by a deep-penetration 3D Induced Polarisation (IP) survey planned to commence in October 2010. This state-of-the-art geophysical system is designed to map potentially ore-hosting structures and alteration within the Koka-Konate corridor to 500 metres or more. This will allow better targeting of drilling, particularly for buried mineralisation in this highly prospective area.
- Previous shallow penetration IP indicates a strongly resistive zone developing to the south of Koka. This geophysical anomaly has a similar response to the main Koka deposit and, as at Koka, may reflect intense silicification accompanying gold mineralisation. This zone remains untested and drilling will commence once the 3D IP survey is completed.

Generate a pipeline of regional targets

- Highly encouraging results from BLEG stream geochemical sampling over the Zara North and Central licences have highlighted highly anomalous gold values over a strike length of at least 15 km from the Konate prospect in the south to recently identified artisanal workings 10 km north of Koka. Infill sampling to better define the source of the anomalies is currently ongoing which will potentially generate further gold targets to test with drilling.
- The Company plans to fly a heli-borne magnetic and radiometric survey over the Zara Project licences. The survey, which will commence in October 2010, will involve flying 12,700 line-kms at a 100 metre line spacing. Adjoining areas currently under application may also be flown, subject to grant of the mineral rights. Following grant, the Company also plans to fly 3,891 line-kms of VTEM, radiometrics and magnetics over the Mogoraib application north of Bisha Mine where the main target is gold and base metal VHMS mineralisation.



Permit the Koka Gold Deposit

- The Company has commenced the permitting process for the development of a mining operation on the Koka gold deposit. The Company and the government of Eritrea are committed to progress this as expeditiously as possible so that development can commence in 2011.

Fund the development of the Koka Gold Deposit

- The Company has commenced discussions over financing the development of the Koka gold deposit. Whilst the type of financing has not been determined, a mixture of debt and equity is likely. The Company is confident that, due to the robust economics of the project, funding is achievable on commercially attractive terms.

ACTIVITIES REVIEW

ACHIEVEMENTS

Merger with Sub-Sahara Completed	✓	Aug 2009
Acquisition of 11% interest in Zara from Africa Wide Resources	✓	Aug 2009
Positive Scoping Study completed – Feasibility Study commences	✓	Oct 2009
5,000m infill drilling program completed	✓	Feb 2010
Near mine and regional exploration commences	✓	Mar 2010
Announcement of revised Resource and maiden Reserve at Koka	✓	Jun 2010
Acquired remaining 20% interest in Zara from Dragon Mining	✓	Jun 2010
Feasibility Study completed – Project robust and viable	✓	Jul 2010
Koka permitting process commences	✓	Aug 2010
National Instrument 43-101 Technical Report on the Koka Gold Deposit completed	✓	Oct 2010
Completion of Social and Environmental Impact reports	✓	Oct 2010
Grow the near mine resource base		In progress
Generate a pipeline of regional targets		In progress
Permit the Koka Gold Deposit		In progress
Fund the development of the Koka Gold Deposit		In progress

ERITREA – ZARA PROJECT

Chalice's Zara Project encompasses in excess of 600 sq km of prospective land in the Nubian Shield, a gold belt that hosts several major gold deposits, including the world class Sukhari gold mine in neighbouring Egypt, along with Chalice's feasibility stage Koka gold deposit and Konate prospect.

Koka Gold Deposit Feasibility Study

The key financial outcomes of the Feasibility Study, which was undertaken by Lycopodium Minerals Limited with inputs from AMC Consultants Pty Ltd and Knight Piésold Pty Ltd, are shown below. **All figures are in US dollars except where noted.**

Key Financial Outcomes

100% Project Financial Outcomes* (Unleveraged)	Gold Price		
	\$900	\$1,200	\$1,500
Life-of-mine EBITDA	\$381M	\$589M	\$797M
Average annual EBITDA	\$54M	\$84M	\$114M
NPV5% after-tax cash flows	\$99M	\$196M	\$293M
IRR after-tax	22%	35%	45%
Payback period (years)	2.8	2.1	1.8

* The Eritrean government has a statutory 10% non-contributing interest with their share of pre-production and capital expenditure being repaid from production cash flows. The Government has the right to acquire and pay for a further 20% full contributing interest.

Feasibility Study Assumptions and Parameters

Base Case Assumptions		
Gold price base case	US\$/oz	900
Foreign exchange rate	AUD/US\$	0.85
Foreign exchange rate	Eritrean Nakfa/US\$	15.00
Fuel price	\$/litre	1.00
Fiscal Parameters		
Corporate tax rate	%	38
Royalty *	%	5.0
Base Case Mine Parameters		
Ore milled (Mt)	Mt	4.6
Waste mined (Mt)	Mt	48.3
Strip ratio	T:t	10.4
Average gold grade	g/t	5.10
Total contained gold	Oz	760,000
Estimated gold recovery	%	96.3
Total recovered gold	Oz	730,780
Life of Mine	Years	7
Average annual gold production	Oz	104,000
Base Case Cost Parameters		
Pre-production capital	\$M	122
Sustaining capital and mine closure	\$M	9
Average total cash costs (\$/oz)	\$/oz	338
* The gross royalty is negotiable to a maximum of 5%.		

Eritrean Government Project Participation Rights

The Government of Eritrea has a 10% non-contributing interest in any mining operation but may acquire, on the basis of an independently determined valuation, an additional 20% contributing interest.

Operating Cost Estimates

Operating cash costs over the life of the project are projected to average \$338/oz, with the operating cost components summarised below:

	\$/t milled	\$/t mined	\$/recoverable oz
Average mining costs	20.46	1.92	129.80
Processing cost	24.78	2.33	157.20
General and administration	7.36	0.69	46.70
Refining charges	0.63	0.06	4.00
Operating cash costs (LOM)	53.23	5.00	337.70

Capital Costs Estimates

The Feasibility Study is based on capital pricing as of the second quarter of 2010. The level of accuracy of the capital costs estimates is within $\pm 15\%$.

The pre-production capital costs are estimated at \$122 million, including contingency and escalation, but excluding 2010 sunk costs that will be funded from existing cash resources. Sustaining capital expenditures over the operation's mine life is estimated at \$9 million, including closure costs of \$1.3 million, with the balance met by the salvage value of the plant and equipment.

The cost breakdown for pre-production capital expenditures, assuming an owner-operator scenario, is shown below:

Estimate +15%	\$M	\$M	\$M	\$M
Description	Cost Estimate	Contingency	Escalation	Total Cost
Mining equipment	18.8	0.9	0.3	20.0
Mine pre-strip	11.3	0.0	0.4	11.7
Process plant	18.3	2.2	1.6	22.1
Reagents and plant services	4.9	0.6	0.4	5.9
Infrastructure	22.9	3.2	2.0	28.1
Construction indirect	10.5	1.4	0.3	12.2
Management costs	7.1	0.7	0.7	8.5
Owners' costs	12.1	0.4	1.0	13.5
Total	105.9	9.4	6.7	122.0

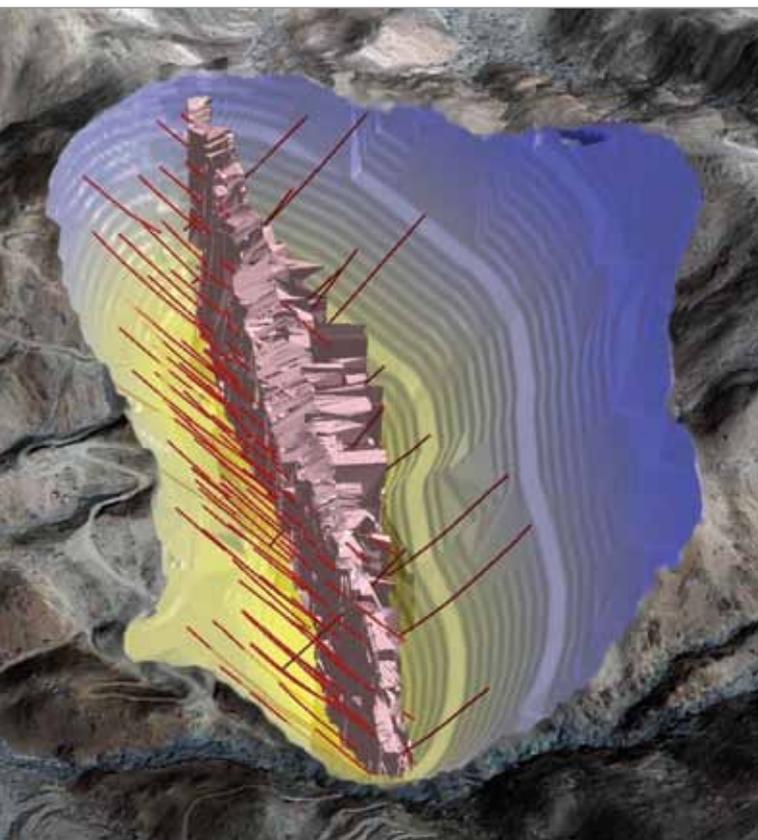


Figure 1: 3D perspective view of Koka open pit and resource model showing drill hole traces.

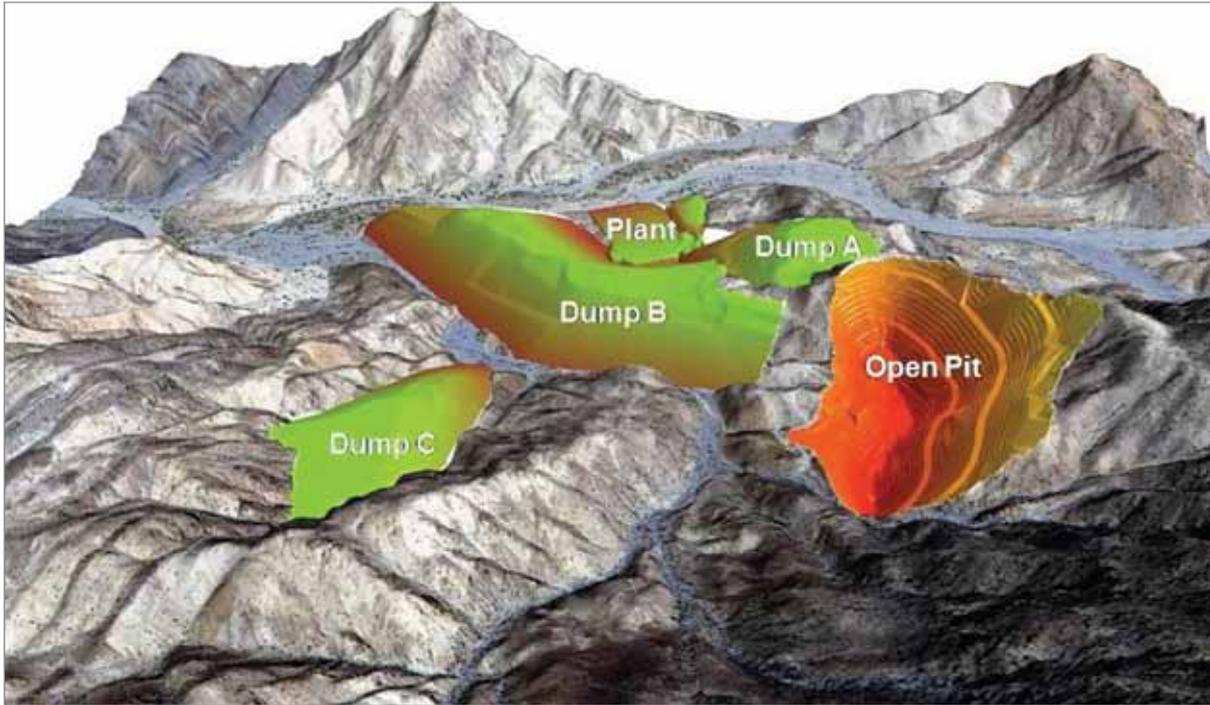


Figure 2: Koka open-pit, plant and waste dump layout.

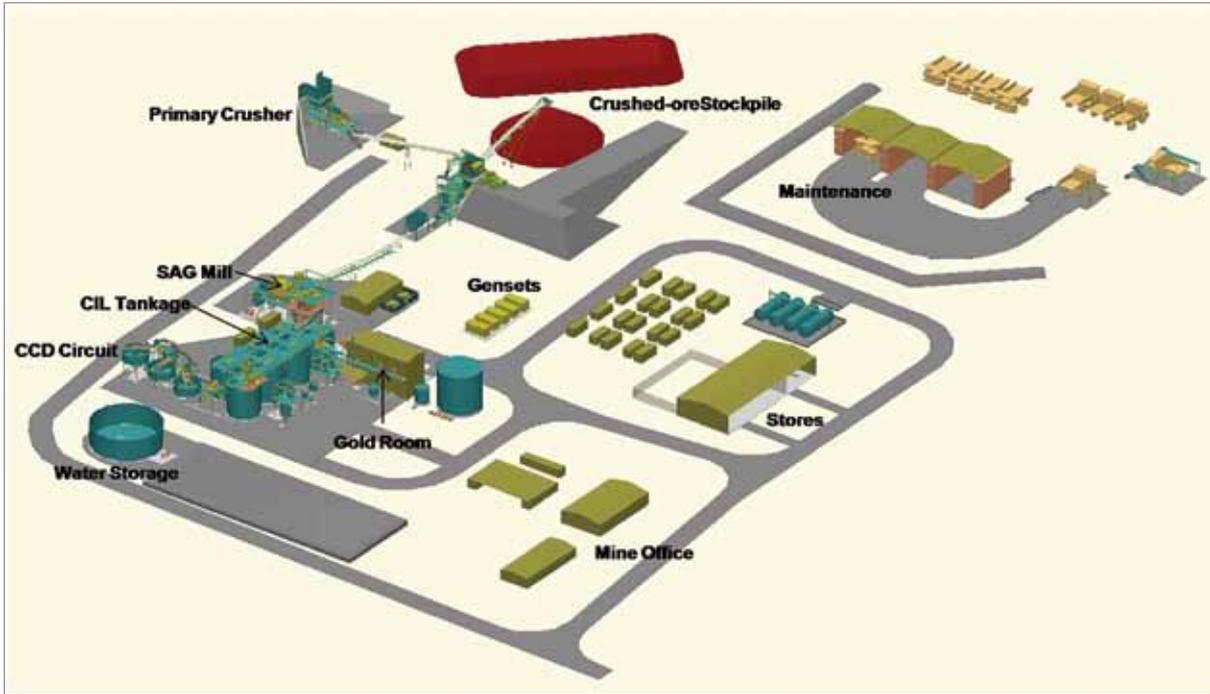


Figure 3: Layout of proposed Koka ore processing facility and mine support infrastructure.

RESERVES AND RESOURCES

AMC Consultants Pty Ltd has completed Mineral Resource and Ore Reserve estimates for Chalice for the Koka Gold Deposit in Eritrea as at 1 June 2010, as detailed below:

Koka Mineral Resource

The Mineral Resource estimate, classified and reported in accordance with the JORC Code, is listed in Table 1. Mineral Resources are reported inclusive of Ore Reserves.

Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Oz)
Indicated Resource	5.0	5.3	840,000

Table 1: Koka Gold Deposit Mineral Resource Estimate as at 1 June 2010 Reported at 1.2 g/t Au Cut-Off

Koka Ore Reserve

The Koka Ore Reserve estimate, classified and reported in accordance with the JORC Code, is listed in Table 2. This is the first Ore Reserve estimate reported for Koka.

Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Oz)
Probable Reserve	4.6	5.1	760,000

Table 2: Koka Gold Deposit Ore Reserve Estimate as at 1 June 2010

The statement has been compiled by independent consultants, AMC Consultants Pty Ltd ("AMC"), and incorporates data from 139 diamond drill holes totalling ~23,000m.

INFILL DRILLING AT KOKA

An infill diamond drilling program, comprising ~5,000 metres in 30 holes, was completed during the year. The drilling was designed to further increase the Company's confidence in the high-grade mineralisation of the Koka Main Zone and provide a basis for a revised Resource estimate and maiden Reserve estimate for the Koka Feasibility Study noted above. Some of the better intersections are summarised in Table 3 below, while complete results can be found in the Company's news releases.

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
ZARD128	170.1	9740	4960	102	-52	44	75	31	6.48
including						44	46	2	38.22
including						52	55	3	18.68
						79	82	3	7.78
						104	108	4	3.25
						116	117	1	31.48
						143	144	1	100.54
ZARD 129	113	9740	4980	102	-50	10	19	9	6.13
						32	40	8	9.47
ZARD 130	98	9740	5000	102	-52	6	12	6	26.92
						29	46	17	4.66
ZARD 131	102.4	9700	5000	102	-50	17	20	4	5.15
						23	29	6	3.17
						42	53	11	4.68
						68	69	1	11.02

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
						90	92	2	27.78
ZARD 132	101.9	9620	5000	102	-51	9	27	18	29.30
including						9	11	2	49.14
including						14	15	1	71.28
including						18	19	1	188.25
including						24	27	3	45.15
						41	43	2	5.57
						50	53	3	13.02
ZARD 133	Terminated due to deviation								
ZARD 134	99.5	9660	5000	102	-51	5.70	12	6.3	9.93
						23	24	1	21.70
						38	39	1	20.25
						45	56	11	8.29
ZARD135	130.40	9620	4980	102	-51	38	44	6	12.37
including						42	44	2	33.82
						65	70	5	17.22
including						67	68	1	79.14
						75	82	6	5.27
						98	100	2	5.08
						110	115	5	21.90
including						111	113	2	46.53
ZARD136	129.00	9660	4980	102	-51	29	32	3	8.65
						39	49	10	9.97
						69	70	1	29.13
						81	87	5	5.49
						96	101	5	3.60
						109	111	2	18.75
ZARD137	179.4	9620	4940	102	-51	121	122	1	25.95
						130	134	4	32.76
including						130	131	1	127.77
ZARD138	90	9820	5000	102	-50	NSI – drilled into hanging wall of ore shoot			
ZARD139	147.70	9820	4980	102	-50	15	17	2	3.62
						51	59	8	1.35
						72	74	2	10.58
						126	132	6	1.28
						134	135	1	12.09
ZARD140	220	9660	4920	102	-50	NSI – drilled beneath ore shoot			
ZARD	130	9780	4980	102	-50	31	40	9	4.68
						45	51	6	7.51

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
						58	59	1	15.06
						74	75	1	12.47
						98	101	3	5.23
						127	129	2	4.95
ZARD142	90	9780	5000	102	-50	10.2	12.5	2.3	5.97
						17	20	3	3.97
						37	39	2	6.33
ZARD143	194	9780	4960	102	-50	27	30	3	1.46
						46	53	7	18.71
including						47	50	3	39.04
						63	68	5	2.85
						76	78	2	43.99
						97	101	4	6.51
						160	161	1	15.93
ZARD144	200	9620	4920	102	-50	200	202	2	9.85
ZARD145	173.4	9819	4956	102	-50	28	30	2	51.35
						46	51	5	2.23
						111	112	1	101.00
						123	126	3	4.97
ZARD146	170.5	9620	4965	102	-52	69	74	5	40.28
including						69	72	3	66.59
						116	118	2	8.65
ZARD147B	230.4	9780	4940	102	-51	52	75	23	5.58
including						53	54	1	36.93
including						73	74	1	27.45
						95	100	5	3.27
						106	127	21	9.30
including						108	109	1	73.75
including						113	114	1	28.54
including						117	118	1	53.23
including						123	124	1	14.58
						132	134	2	7.32
						141	146	5	3.51
						157	160	3	41.66
including						157	158	1	121.20
						183	186	3	8.73
ZARD148	167	9659	4962	102	-52	43	58	15	2.14
including						57	58	1	19.65
						62	64	2	4.91
						88	92	6	4.98

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
						116	117	1	19.72
ZARD149	216.6	9821	4938	102	-50	45	52	7	3.05
						82	98	16	11.07
including						82	84	2	21.52
including						88	89	1	37.82
including						94	95	1	81.54
						107	125	18	5.30
including						111	112	1	39.13
including						117	118	1	16.73
						132	133	1	9.81
						157	158	1	37.81
						166	169	3	4.26
						173	174	1	37.69
ZARD150	171.8	9700	4961	102	-50	68	75	7	4.02
						92	96	4	5.35
ZARD 151B	275.5	9700	4920	102	-50	NSI – drilled beneath ore shoot			
ZARD152	265.9	9740	4910	102	-50	137	138	1	6.09
ZARD153B	129.5	9698	4981	102	-50	35	40	5	3.79
						45	54	9	6.28
including						51	52	1	28.97
						69	77	8	2.31
						83	87	4	11.30
including						85	86	1	42.25
						116	117	1	13.68
ZARD154	188.4	9698	4942	102	-50	96	102	6	4.84
						123	124	1	9.52
ZARD155B	204.1	9660	4939	102	-52	107	109	2	20.63
						124	125	1	35.67
						146	147	1	18.66
ZARD156	229	9821	4901	102	-50	102	104	2	9.43
						144	148	4	2.05
						159	163	4	2.04
ZARD157	201.7	9739	4940	102	-52	77	81	4	24.89
including						80	81	1	84.63
						119	125	6	2.95

Table 3: Koka Deposit Infill Drilling - Significant Intercepts

Note: The metres quoted are down hole metres and gold grades are uncut with up to 2 metres of internal dilution (<0.25g/t gold). All samples were prepared at the Africa Horn Laboratory in Asmara, Eritrea and then analysed by Genalysis Laboratories in Perth, Western Australia.

Note 2: NSI = No Significant Intersections

NEAR MINE EXPLORATION

Chalice recognises that it could further enhance the economics of the already robust mine proposed for the Koka deposit by expanding the near-mine resource base. While efforts initially focused on delivering a completed feasibility study for Koka following the merger with Sub-Sahara Resources NL ("Sub-Sahara"), in the latter half of the year attention turned to evaluating the significant exploration potential at the Zara Project with some exciting results.

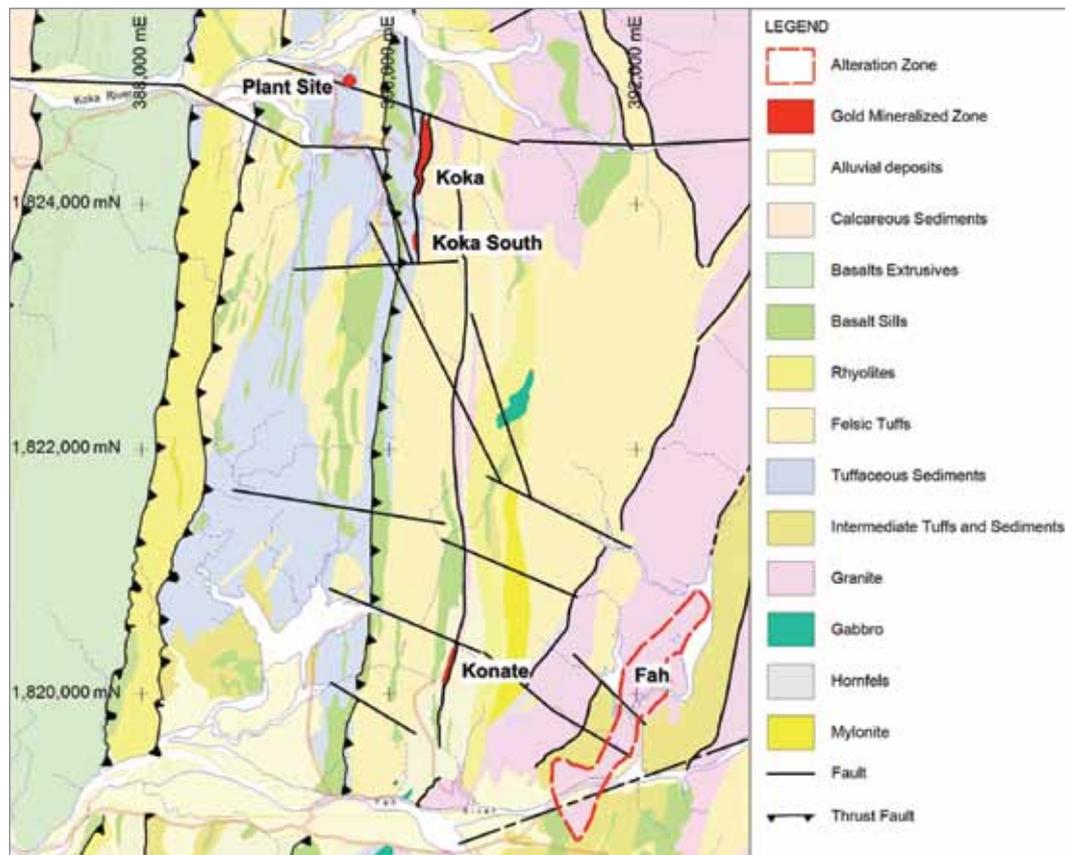


Figure 4: Geology and prospects within the Koka-Konate Corridor

Konate

Drilling has been undertaken at the Konate prospect, which is located approximately 5 km south of the Koka Deposit, and has a geological setting similar to that of Koka. Drilling commenced in early July 2010 and, by mid-September, 2,500m of drilling has been completed in 15 holes.

Initial results from this drilling were encouraging, with best intersections to date of 3m @ 12.79g/t gold from 120m (drill hole ZARD 177) and 4m @ 11.65g/t gold from 109m (drill hole ZARD 185) within broader zones of lower grade gold mineralisation.

Hole ZARD 185 intersected fresh quartz stockwork mineralisation in a microgranite host over a down-hole width of 30m (close to true width) from 109m depth. Better grade mineralisation is associated with higher concentrations of sulphides, predominantly pyrite, including the high grade intersection 4m @ 11.65g/t. This is a style of mineralisation similar to that hosting the high grade mineral resources and mineral reserves in the Koka deposit.

ZARD 177 was drilled 65 metres north of ZARD 185 on an oblique 40 metre section and intersected quartz stockwork mineralisation over a 22m width. Better gold values were again associated with pyrite concentrations and included the high-grade intersection of 3m @ 12.79g/t.

A complete list of significant intersections from these two holes is shown in Table 4.

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
ZARD177	209	390616	1820420	240	-60	120	123	3	12.79
						133	136	3	2.3
						138	139	1	2.19
						141	142	1	2.25
ZARD185	205	390605	1820346	240	-60	109	113	4	11.65
						119	139	20	1.39
including						119	122	3	3.28
including						133	139	6	2.08
including						135	139	4	2.73

Table 4: Konate Prospect – Significant Intercepts

The Konate prospect and the 6 km x 1 km structural corridor connecting it to Koka will be covered by a deep-penetration 3D Induced Polarisation (IP) survey planned to commence in October 2010. The survey is expected to map out the three-dimensional structural and alteration architecture of this complex and highly prospective zone and allow better targeting of drilling, particularly for buried mineralisation. Historical shallow IP indicates that gold mineralisation at both Koka and Konate is associated with strongly resistive zones, reflecting silicification associated with the gold mineralisation. The resistive zones are locally also associated with chargeable zones, reflecting sulphides accompanying mineralisation. Definition of zones with this association of resistive and chargeable zones will provide better focusing on drill targets that otherwise may have only subtle surface expressions, as in the southern part of the Koka Deposit.



Drilling at Konate

Koka South

A six-hole, 890 metre diamond drilling program was completed during the year at the Koka South prospect, located immediately along strike to the south of the Koka Deposit.

The drilling, which covered a strike length of 200 metres, was designed to follow up previous intercepts of up to 1 metre grading 92 g/t Au associated with Koka-style quartz stockwork mineralisation in altered microgranite. Further intercepts of similar style were achieved from the program, highlighting the potential for additional gold resources in narrow high-grade zones that may be accessible from future underground development off the Koka pit.

Better intercepts from this drilling are summarised in Table 5 below:

Hole	Depth (m)	North (Local)	East (Local)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
ZARD 169	202.3	390204.1	1823777	012	-60	59	62	3	23.72
						Including 1m @ 70.07 g/t			
						89	90	1	1.27
						94	95	1	1.22
						103	105	2	4.86
						115	118	3	8.58
						Including 1m @ 20.47 g/t			
						122	124	2	30.74
						126	127	1	2.86
ZARD 170	133	390160.8	1823754	102	-50	No significant intercepts			
ZARD 171	130.6	390154.4	1823914	102	-50	83	84	1	8.77
						95	97	2	24.04
						Including 1m @ 47.11 g/t			
ZARD 172	98.3	390187.9	1823805	102	-50	56	57	1	2.85
						59	60	1	91.93
ZARD 173	180	390152.6	1823714	102	-50	No significant intercepts			
ZARD 174	155.3	390283.8	1823940	282	-62	120	121	1	8.19

Table 5: Koka South Prospect – Significant Intercepts

Although drill holes ZARD 170 and ZARD 173 failed to intersect mineralisation, these holes were poorly sited due to access issues and may have passed beneath the high-grade zone intersected in ZARD 172 and the historical hole ZARD 110. Previous shallow penetration IP indicates a strongly resistive zone developing to the south, which is similar to the response over the main Koka deposit. This target remains untested and further drilling will be conducted once the planned 3D IP survey is completed and a rock-breaker capable of building access tracks is available.

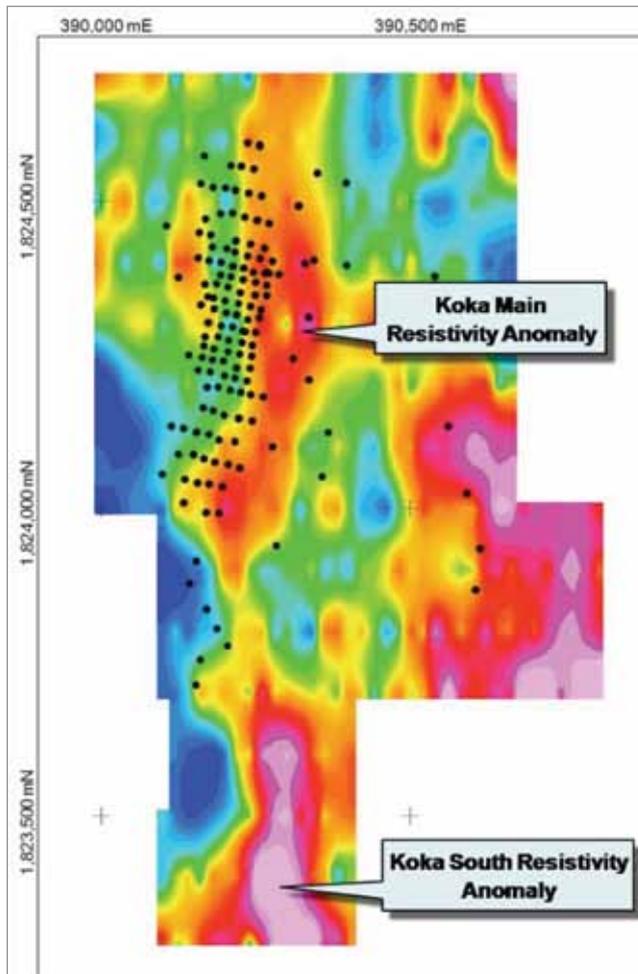


Figure 5: IP Resistivity anomalies associated with the Koka and Koka South mineralised zones showing drillhole distribution.

Regional Geochemical Sampling

The Company undertook a regional drainage BLEB (Bulk Leach Extractable Gold) sampling program covering the Zara North, Central and South licences. This program returned highly encouraging results from the Zara North and Central licences, highlighting strong gold anomalies extending over a strike length of at least 15km from the Konate prospect in the south to previously unknown artisanal workings 10km north of Koka (Figure 6). In total, 59 samples were collected, with numerous samples containing greater than 10 parts per billion (ppb) gold (a level considered significantly anomalous) and the best sample returning 362ppb gold. Other samples returned values of between five and 10ppb gold, a level still considered anomalous.

The high tenor of these samples and their value as an indicator of extensive gold mineralisation is highlighted by the fact that sampling downstream from the Koka gold deposit itself returned a highest value of 75ppb gold. The survey high value of 362ppb is the highest value obtained to date from all Zara Project BLEB samples collected since project inception and is an order of magnitude higher than most of those obtained in the lead up to the Koka discovery.

Infill sampling to better define the source of the anomalies is currently in progress.

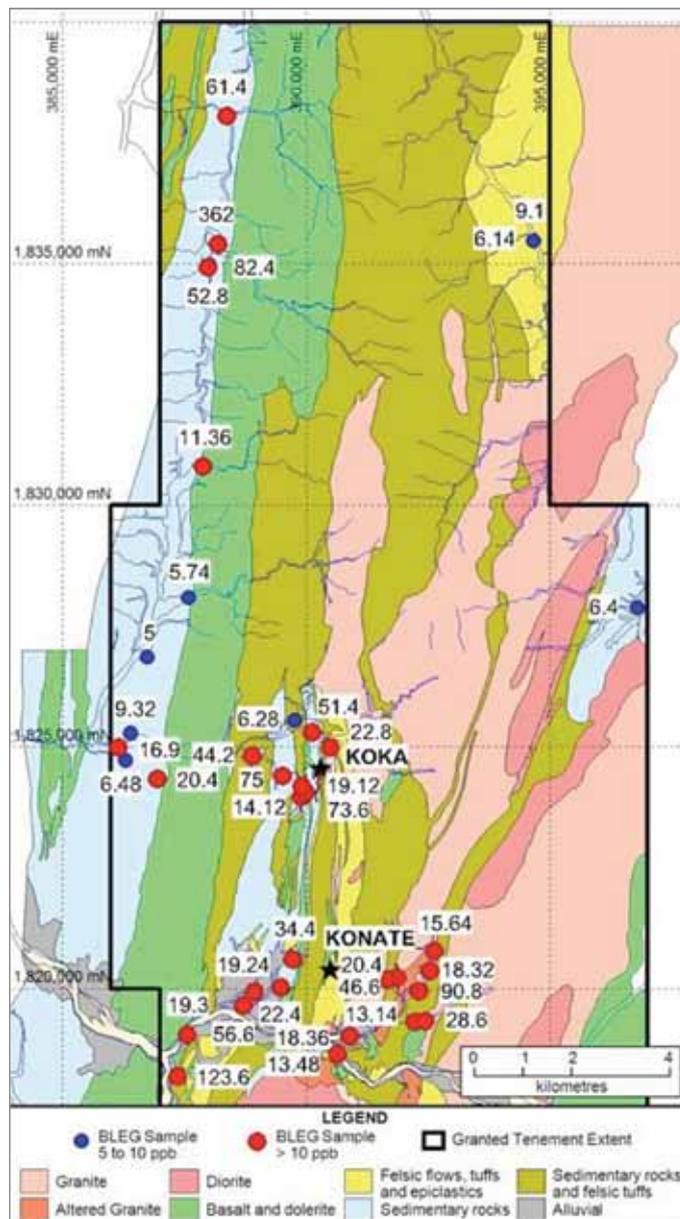


Figure 6: Geology of the northern half of the Zara tenements showing anomalous BLEB results

REGIONAL EXPLORATION IN ERITREA

In addition to the 615 square km Zara Project, Chalice has made applications for five prospecting licences and two exploration licences for an area of 19,570 square km in Eritrea (Figure 7). The application areas were selected on the basis of regional alteration and structural interpretations covering 38,000 km² of northern Eritrea using a combination of Landsat, Aster and Quickbird satellite imagery. The structural interpretation defined the large scale structural architecture of northern Eritrea and identified areas with structural settings regarded as favourable for gold deposition. Areas identified as having coincident structural and alteration targets were selected for applications. Additional areas were selected on the basis of 'Bisha-style' signatures suggestive of volcanic-hosted massive sulphide (VHMS) mineralisation. The Bisha mine is currently being put into production and will be a significant producer of gold, copper and zinc commencing late 2010.

At the date of this report these applications were still pending.

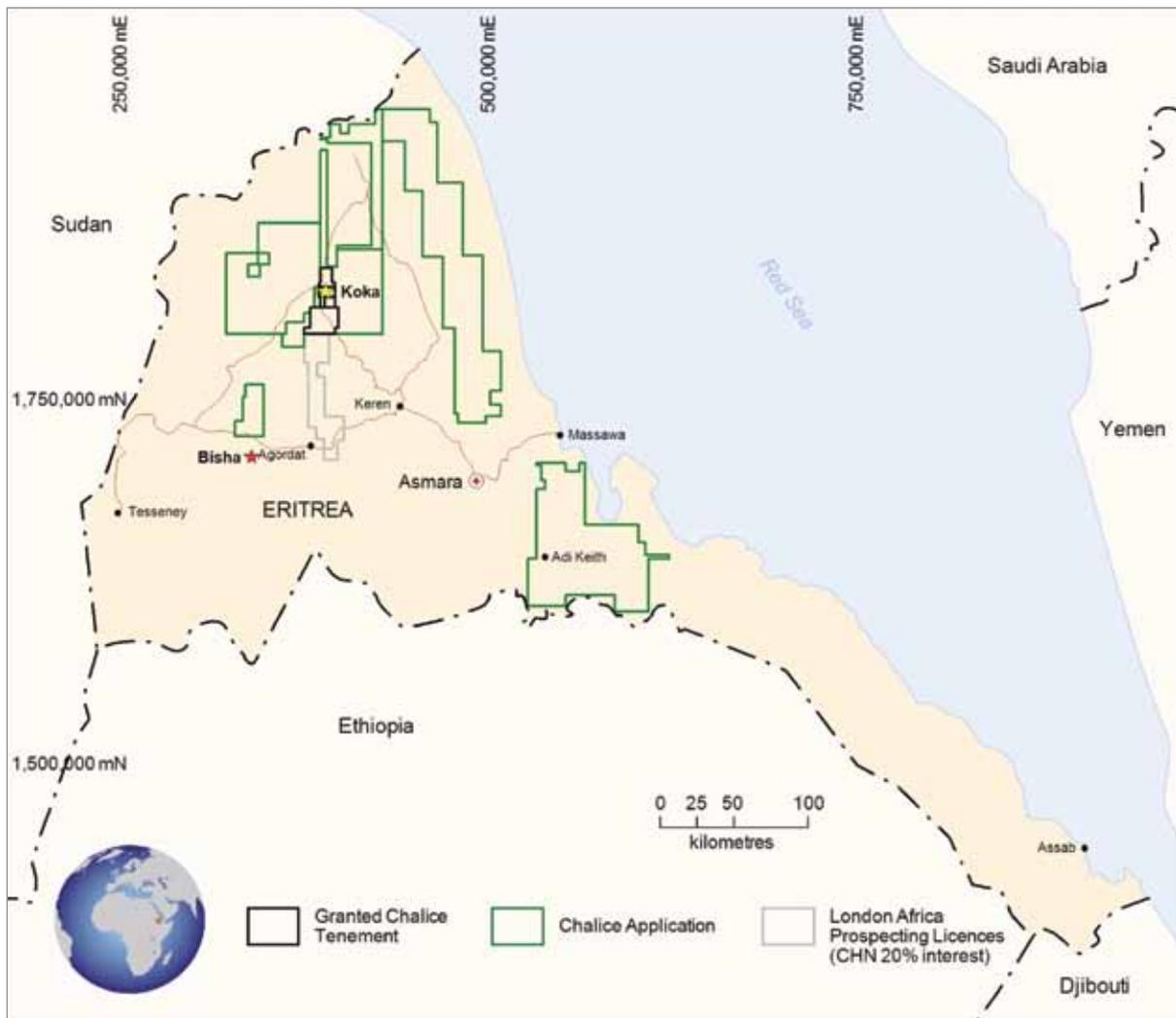


Figure 7: Eritrea - showing areas in which Chalice Gold Mines has interests.

AUSTRALIAN EXPLORATION PROJECTS

Wilga Gold Project

In December 2009, Chalice agreed to sell its interest in the Wilga joint venture to AngloGold Ashanti Australia Limited for A\$20,000.

Gnaweeda Gold Project

Teck Resources Limited ("Teck") advised that it had earned a 70% interest in the Gnaweeda Gold Project by incurring expenditure of A\$1.5 million. Due to the new strategic focus on Eritrea, Chalice elected to dilute its 30% by not contributing to the proposed exploration program to be undertaken in 2010.

In the fiscal year 2009, Kent Exploration Inc. ("Kent") entered into an agreement with Teck pursuant to which Kent had the right to earn 100% of Teck's 70% interest in the Gnaweeda Gold Project.

Kent subsequently completed an eight-hole, 1,576 metre diamond drill program at Gnaweeda. At the Bunarra prospect drilling intersected mineralisation to depths of over 200 metres, with the most significant intersections coming from drill hole BN003, with an 18m intersection grading 11.09 g/t gold, including 4m @ 37.76 g/t gold (inclusive of a 1m intersection @ 99.1 g/t gold), 1m @ 24.2 g/t gold and 3m @ 7.09 g/t gold.

Significant gold intersections from three wide-spaced drill holes at the Turnberry prospect included drill hole TB003 with 16m @ 2.46 g/t gold, including 3m @ 6.40 g/t gold, 3m @ 4.8 g/t gold and 1m @ 7.16 g/t gold.

CORPORATE

Merger with Sub-Sahara Resources NL

In August 2009, Chalice merged with Sub-Sahara, holder of a 69% interest in the Zara Project through a scheme of arrangement which provided that shareholders of Sub-Sahara received one Chalice share for every 10.73 Sub-Sahara shares held by them. Sub-Sahara shareholders collectively gained an interest of approximately 39% in the merged group. Sub-Sahara became a wholly-owned subsidiary of Chalice and was de-listed from the ASX.

At the time of the merger with Sub-Sahara, Chalice acquired a further 11.12% interest in the Zara Project for A\$1.2 million from Africa Wide Resources Ltd. The acquisition of this further interest, coupled with the 69% interest acquired through the merger with Sub-Sahara, resulted in Chalice having an 80% interest in the Zara Project.

Chalice has since acquired all of the shares in Dragon Mining (Eritrea) Limited and Dragon Mining Limited's 20% interest in the Zara Project taking Chalice's interest to 100% (subject to Eritrean Government project participation rights). The consideration paid was A\$8 million and 2 million ordinary shares in Chalice. There is a further payment of A\$4 million to be made upon delineation of a 1 million ounce gold mineral reserve directly within the central Zara licences.

Investment in London Africa

During the year, Chalice acquired a 20% interest in London Africa Limited ("London Africa") which holds an exploration licence south of Chalice's Zara Project in Eritrea. London Africa is an unlisted United Kingdom public company.

Capital Raisings

During the year, Chalice placed approximately 57.9 million shares to raise gross proceeds of \$20.7 million. In addition to this, in September 2010, a fully underwritten non-renounceable pro rata entitlements issue was completed to raise a further \$12.6 million before costs of the issue.

Competent Persons Statement

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and consents to the release of information in the form and context in which it appears here.

The Mineral Resource estimate was prepared by Mr. John Tyrrell who is a Member of the Australasian Institute of Mining and Metallurgy. Mr. Tyrrell is a full time employee of AMC and has sufficient experience in gold resource estimation to act as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)'. Mr. Tyrrell consents to the inclusion of this information in the form and context in which it appears.

These mineral resource estimates were reported in a news release dated 4 June 2010 but are summarised here for convenience. Readers should review that news release for additional information, including the mineral resource estimates at different cut-off grades, the parameters used in the estimate and the required NI 43-101 disclosure.

The information in this statement of Ore Reserves is based on information compiled by Mr David Lee who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of AMC. Mr Lee has sufficient relevant experience to be a Competent Person as defined in the JORC Code. Mr Lee consents to the inclusion of this information in the form and context in which it appears.

These mineral reserve estimates were reported in a news release dated 4 June 2010 but are summarised herein for convenience. Readers should review that news release for additional information, including the mineral resource estimates at different cut-off grades, the parameters used in the estimate and the required NI 43-101 disclosure.

SUSTAINABLE DEVELOPMENT

Occupational Health & Safety

Chalice is committed to developing and sustaining high standards of health and safety for all its employees both in Eritrea and Australia. As part of this commitment, the Company has initiated a number of changes to accommodate the ever changing dynamics that have occurred over the past 12 months as the Company progresses from an explorer towards a gold producer.

These changes have resulting in a transformation of the Company's efforts to establish a series of modified policies and procedures that are designed to promote a safe harmonious work place, with a strong emphasis on employer to employee interaction.

In addition, one of the essential components of the current measures is to develop a clear understanding of culture and language differences so that appropriate action can be taken so as to avoid any misinterpretation that is often associated with the implementation of standards sometimes alien to the local population.

As part of this process, Chalice aims to comply with all applicable laws, regulations and standards in all jurisdictions of operation and develop a culture of safety from the top down. This will be strongly emphasised with all employees, consultants and contractors. To that end, the Company recognises that some local contractors will not have the same standard of health and safety nor the means to implement our standards. Accordingly, the Company will assist where possible and work with the contractor to ensure compliance.

During the year, security measures have been upgraded substantially. This upgrade was implemented with the co-operation of the Eritrean authorities and a very comprehensive safety and Crisis Management platform has been implemented following a thorough audit of all our existing procedures and policies. This includes activation of in-vehicle satellite tracking so that management can track all vehicle movements and provide assistance in the event of breakdown or accident.

The Company views this initiative as an ongoing process and will continually monitor and upgrade to provide maximum commitment to our staff, employees and contractors.

Community

Chalice understands the importance of being an active community participant and will continue to foster the well established long term relationship that has been developed over the past 5 years, since exploration commenced on the Zara Project.

Over the past few months, the company has formally engaged the local and regional communities as stakeholders in the development of the Koka Gold Deposit and Chalice expects to reach agreement with the communities on a detailed plan of involvement which will benefit all stakeholders. Ongoing discussions are being held with local communities and the Government regarding appropriate programs to assist and build capacity within both the local and broader Eritrean community.

All Chalice employees will be made aware of the relationship with the community and management will provide systems to identify, assess, monitor and control existing and potential impacts on the local community. Community leaders will also be encouraged to seek reasonable access to management.



Environment

The Company is committed to developing the most practical balance between economic development and protection of the environment. Up until now, environmental impacts have been minimal during the exploration phase and in areas still being explored, impacts will remain low. As the Company progresses towards mining, the number of people on site and the footprint of intense activity will increase and measures will be taken to minimise and mitigate possible negative impacts on both the environment and local community.

Whilst operating in Eritrea, Chalice will endeavour to:

- comply with and, where possible exceed Eritrean legislation and regulations.
- identify and manage environmental risk through assessment and audit with the view to prevent any effects before they arise.
- progressively develop, implement, and maintain environmental management systems consistent with international standards.
- educate and promote environmental awareness to all employees and contractors to increase their involvement and understanding of environmental responsibility and the management thereof.
- develop the personnel and resources to meet the Company's objectives, and
- increase interactivity between employees, managers and the various authorities to ensure delivery of common environmental objectives.

This will be an important part of the proposed community development plan in Eritrea to deliver a lasting legacy of environmental responsibility.



SCHEDULE OF TENEMENTS

Projects - Australia

Tenement #	Nature of Interest	Current Equity
E47/1748	Owned	100%
E51/0926	Owned	30%
E51/0927	Owned	30%

Projects - Eritrea

	License Type	Nature of Interest	Current Equity
Zara (1,2,3,4)	Exploration License	Owned	100%
Zara South	Prospecting License	Owned	100%
Zara North	Prospecting License	Owned	100%
Mogoraib	Prospecting License	Application	0%
Lower Anseba	Prospecting License	Application	0%
Hurum	Prospecting License	Application	0%
Seccai Reba	Prospecting License	Application	0%
Adobha Abyi	Prospecting License	Application	0%
Nakfa East	Prospecting License	Application	0%
Irafayle West	Prospecting License	Application	0%



DIRECTORS' REPORT

The Directors present their report together with the financial report of the Chalice Gold Mines Limited ('Chalice') and its subsidiaries (together 'the Group') for the financial year ended 30 June 2010 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act, the Directors report as follows:

1. DIRECTORS

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

T R B Goyder

Executive Chairman

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

D A Jones PhD, AusIMM, CPGeo

Managing Director

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

A W Kiernan LLB

Non-executive Director

Tony is a lawyer and general corporate advisor with extensive experience in the administration and operation of listed public companies. Tony is Chairman of BC Iron Limited, Uranium Equities Limited, Venturex Resources Limited and is a director of Liontown Resources Limited. Tony was formerly a director of North Queensland Metals Limited and Solbec Pharmaceuticals Limited (now named FYI Limited) in the previous 3 years.

M R Griffiths

Executive Director

(appointed 26 August 2009)

Mike is a Geologist with considerable experience in the minerals exploration sector in both Eritrea and Africa generally. Mike previously held the position of Managing Director of Sub-Sahara Resources NL.

S P Quin

Non-executive Director

(appointed 3 May 2010)

Stephen is a Mining Geologist with over 30 years experience in the mining and exploration industry. Stephen is based in Vancouver, Canada and is the President of TSX listed copper producer Capstone Mining Corp. Stephen has extensive experience in the resources sector, and in the development and operation of production companies.

2. COMPANY SECRETARY

R K Hacker B.Com, ACA, ACIS

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