



ABN 47 116 648 956

2011

NOTICE OF ANNUAL GENERAL MEETING,
EXPLANATORY STATEMENT AND PROXY FORM

The Annual General Meeting of the Company will be held at
Middletons, Level 32, 44 St Georges Terrace, Perth,
Western Australia, on 22 November 2011 at 12.00pm (WST).

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders of Chalice Gold Mines Limited ('Chalice') to which this Notice of Meeting relates will be held at 12.00pm (WST) on 22 November 2011 at Middletons, Level 32, 44 St Georges Terrace, Perth, Western Australia.

YOUR VOTE IS IMPORTANT

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

VOTING IN PERSON

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

VOTING BY PROXY

All Shareholders who are entitled to attend and vote at the meeting have the right to appoint a proxy to attend and vote for them. The proxy does not have to be a Shareholder. Shareholders holding two or more Shares can appoint either one or two proxies. If two proxies are appointed, the appointing Shareholder can specify what proportion of their votes they want each proxy to exercise.

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

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

so that it is received no later than **12.00pm (WST) on 20 November 2011**, being not less than 48 hours prior to the commencement of the meeting. Proxy forms received later than this time will be invalid. Where the proxy form is executed under power of attorney, the power of attorney must be lodged in the same way as the proxy form.

BODIES CORPORATE – CORPORATE REPRESENTATION

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.

VOTING ENTITLEMENTS

The Board has determined that, for the purpose of voting at the meeting, Shareholders are those persons who are the registered holders of the Company's shares at 4.00pm (WST) on 18 November 2011.

ENQUIRIES

The Company welcomes enquiries in respect of matters covered in this Annual 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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting (**Meeting**) of the Shareholders of Chalice Gold Mines Limited (the **Company**) will be held at Middletons, Level 32, 44 St Georges Terrace, Perth, Western Australia on 22 November 2011 at 12.00pm (WST).

AGENDA

FINANCIAL REPORT

To receive and consider the Company's Financial Report and the reports of the directors and auditor for the year ended 30 June 2011.

RESOLUTION 1 - TO ADOPT THE REMUNERATION REPORT

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

"To adopt the Remuneration Report for the financial year ended 30 June 2011."

Note: The vote on Resolution 1 is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement

The Company will disregard any vote cast on Resolution 1 by, or on behalf of:

- (a) a member of the key management personnel as disclosed in the Remuneration Report (**Key Management Personnel**); and
 - (b) a closely related party (such as close family members and any controlled companies) of those persons,
- unless the vote is cast by a person as a proxy for a person entitled to vote in accordance with a direction on the Proxy Form.

The Chairman of the meeting intends to vote all available (directed and undirected) proxies in favour of Resolution 1.

RESOLUTION 2 - RE-ELECTION OF TIMOTHY GOYDER AS A DIRECTOR

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

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

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

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

"To elect as a Director of the Company, Mr Michael Griffiths who retires by rotation in accordance with the Company's constitution and the ASX Listing Rules and, being eligible, offers himself for re-election."

RESOLUTION 4 - ELECTION OF JUAN JEFFERY AS A DIRECTOR

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

"That Mr Juan Jeffery, having been appointed as a Director on 7 July 2011, is elected as a Director in accordance with the Company's constitution and the ASX Listing Rules."

RESOLUTION 5 – INCREASE IN NON-EXECUTIVE DIRECTOR REMUNERATION

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

"That, for the purposes of clause 14.8 of the Company's Constitution, ASX Listing Rule 10.17 and all other purposes, the maximum aggregate remuneration to be paid to all the non-executive Directors in any financial year be increased from \$150,000 to \$450,000."

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 5 by the Directors or any associate of a Director.

However the Company need not disregard a vote if:

- (a) it is cast by that person 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 chairman 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.

Further, a member of Key Management Personnel and their closely related parties (other than as the Chairman of the meeting) may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 5.

RESOLUTION 6 – RATIFICATION OF SHARE ISSUE - PLACEMENT

To consider and, if thought fit, to pass 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 32,000,000 Shares at 30 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 Resolution 6 by any person or entity or any of their associates that participated in the placement.

However the Company need not disregard a vote if:

- (a) it is cast by that person 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 chairman 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 – APPROVAL OF EMPLOYEE LONG TERM INCENTIVE PLAN

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

"That for the purpose of ASX Listing Rule 7.2, exception 9 and for all other purposes, Shareholders approve the Employee Long Term Incentive Plan ("Plan"), the terms and conditions of which are summarised in the Explanatory Statement, and the grant of Performance Rights under the Plan and the issue of Shares upon the vesting of such Performance Rights as required."

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 7 by any Director (except one who is ineligible to participate in any employee incentive scheme of the Company) or any of their associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person 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 chairman 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.

Further, a member of Key Management Personnel and their closely related parties (other than as the Chairman of the meeting) may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 7.

RESOLUTION 8 – GRANT OF PERFORMANCE RIGHTS TO MR JUAN JEFFERY

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

“That, for the purposes of ASX Listing Rule 10.14 and for all other purposes, approval is given to grant 750,000 Performance Rights (and the issue of Shares following any vesting of the Performance Rights) to the Chief Operating Officer and Executive Director, Mr Juan Jeffery, in accordance with the Company’s Employee Long Term Incentive Plan and on the terms set out in the Explanatory Statement.”

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 8 by Mr Juan Jeffery and any of his associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person 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 chairman 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.

Further, a member of Key Management Personnel and their closely related parties (other than as the Chairman of the meeting) may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 8.

RESOLUTION 9 – GRANT OF OPTIONS TO MR TIMOTHY GOYDER

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

“That, for the purposes of ASX Listing Rule 10.14), Chapter 2E of the Corporations Act 2001 and for all other purposes, approval is given to grant 2,500,000 options to the Executive Chairman, Mr Timothy Goyder, in accordance with the Company’s Employee Share Option Plan and on the terms set out in the Explanatory Statement.”

Voting Exclusion Statement

The Company will disregard votes cast on Resolution 9 by Mr Timothy Goyder and any of his associates.

However the Company need not disregard a vote if:

- (a) it is cast by that person 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 chairman 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.

Further, a member of Key Management Personnel and their closely related parties (other than as the Chairman of the meeting) may not vote as a proxy on this resolution if the appointment does not specify how the proxy is to vote.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 9.

By order of the Board



Richard Hacker

Company Secretary
6 October 2011

EXPLANATORY STATEMENT

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 Middletons, Level 32, 44 St Georges Terrace, Perth, Western Australia on 22 November 2011 at 12.00pm (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.

FINANCIAL STATEMENT AND REPORTS

The Corporations Act requires the Company to lay before the Annual General Meeting the Financial Report, Directors' Report (including the remuneration report) and the Auditor's Report for the last financial year that ended before the Annual General Meeting.

No resolution is required for this item, but Shareholders will be provided with a reasonable opportunity to ask questions or make comments in relation to these reports. The Company's auditor will also be present at the meeting and Shareholders will be given the opportunity to ask the auditor questions about the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company and the independence of the auditor.

RESOLUTION 1 – TO ADOPT THE REMUNERATION REPORT

Section 298 of the Corporations Act requires the annual Directors' 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 2011 is set out in the Directors' Report contained in the 2011 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. However, the vote on this resolution is only advisory and does not bind the Directors or the Company. The Directors will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the meeting when reviewing the Company's remuneration policies.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on Resolution 1 by marking either "For", "Against" or "Abstain" on the proxy form. The Chairman of the meeting intends to vote all available proxies (directed and undirected) in favour of Resolution 1.

The Board unanimously recommends that Shareholders vote in favour of this resolution.

RESOLUTION 2 – RE-ELECTION OF TIMOTHY GOYDER AS A DIRECTOR

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

Mr Goyder was elected as Director of the Company on 13 October 2005 and in accordance with the Company's Constitution and the ASX Listing Rules retires. Mr Goyder, being eligible, has offered himself for re-election as a Director of the Company.

Mr Goyder is Executive Chairman of the Company with over 30 years of experience in the resources industry. Mr Goyder has been instrumental in advancing the Company's Zara Project in Eritrea since Chalice acquired the asset in 2009. Mr Goyder's experience in the resource sector and relationship with the Eritrean government will be pivotal to the future success of the project.

The Board (other than Mr Goyder) unanimously recommends that Shareholders vote in favour of this resolution.

RESOLUTION 3 – RE-ELECTION OF MICHAEL GRIFFITHS AS A DIRECTOR

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

Mr Griffiths was elected as a Director of the Company on 26 August 2009 and in accordance with the Company's Constitution and the ASX Listing Rules retires. Mr Griffiths, being eligible, has offered himself for re-election as a non-executive Director of the Company.

Mr Griffiths is a geologist with extensive experience in the mineral exploration sector in both Eritrea and Africa generally and was the Managing Director of Sub Sahara Resources NL when it merged with Chalice. From 1 July 2011, Mr Griffiths resigned as an executive of the Company but remained as a non-executive Director. His experience and long standing relationship with the Eritrean government, which spans over a decade, will continue to be an asset to the Company as it advances the Zara Project through to production.

The Board (other than Mr Griffiths) unanimously recommends that Shareholders vote in favour of this resolution.

RESOLUTION 4 – ELECTION OF JUAN JEFFERY AS A DIRECTOR

Mr Juan Jeffery was appointed to the Board of Chalice on 7 July 2011. 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 Jeffery is a dual qualified engineer and geologist with 28 years of international experience including geology, geotechnical and mine engineering, operations management, business improvement project delivery and engineering management.

During this period Mr Jeffery held senior management and executive roles in mining operations and consulting engineering in Asia-Pacific and Africa with multinational corporations including BHP Limited, URS Corporation and Parsons Brinckerhoff.

Mr Jeffery will use his extensive experience to lead a team in the development of the Zara Project.

The Board (other than Mr Jeffery) unanimously recommends that Shareholders vote in favour of this resolution.

RESOLUTION 5 – INCREASE IN NON-EXECUTIVE DIRECTOR REMUNERATION

Under clause 14.8 of the Company's Constitution and ASX Listing Rule 10.17, the upper limit on the aggregate non-executive Directors' remuneration may only be increased with Shareholder approval. The initial upper limit was set upon the Company listing on the ASX in March 2006.

Shareholder approval is sought to increase the upper limit on the aggregate non-executive Directors' remuneration from \$150,000 to \$450,000 (inclusive of all superannuation payments) in any financial year.

The Directors are seeking Shareholder approval to increase the upper limit on the aggregate non-executive Directors' remuneration for the following reasons:

- (a) to ensure the Company maintains the ability to remunerate competitively and attract and retain high calibre non-executive Directors;
- (b) to allow for some growth in non-executive Directors' remuneration in the future to reflect market competitiveness for non-executive Directors with the skills and experience appropriate for the Company's business; and
- (c) to create some capacity to appoint additional non-executive Directors, if necessary, to ensure an adequate mix of skills and experience as the Company evolves from a gold explorer to a gold producer.

The Board believes that the proposed increase in aggregate remuneration is appropriate for the Company and is in line with the remuneration paid by similar companies.

The following information is provided for the purposes of ASX Listing Rule 10.17:

- (a) the total maximum amount payable to the non-executive Directors of the Company, if Shareholder approval is given, will increase by \$300,000 from \$150,000 to \$450,000 for any financial year; and
- (b) the Board considers that the total maximum amount payable to the non-executive Directors of the Company in remuneration is reasonable and commensurate with the role of directors of publicly listed mining development companies of similar size and complexity, having regard to the duties and responsibilities of the position and is in line with external and independent remuneration benchmark data.

The non-executive Directors (Mr Tony Kiernan, Mr Mike Griffiths and Mr Stephen Quin) have an interest in this resolution and accordingly do not make a recommendation to Shareholders as to how to vote. The executive Directors (Mr Timothy Goyder, Dr Douglas Jones and Mr Juan Jeffery) have no interest in this resolution and recommend that Shareholders vote in favour of this resolution. The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 5.

RESOLUTION 6 – 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 first obtaining shareholder approval (subject to certain exceptions). ASX Listing Rule 7.4 allows a company to seek ratification for permitted issues of equity 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 issued with shareholder approval and are counted towards the 15% limit.

Resolution 6 seeks ratification of the issue on 26 May 2011 of 32,000,000 Shares at 30 cents per Share which raised \$9,600,000 before costs (the "Placement Shares").

The funds raised under the placement were applied to working capital for the advancement of the Company's projects in Eritrea and for general working capital.

The following information is provided in accordance with ASX Listing Rule 7.5.

- (a) The number of Placement Shares issued was 32,000,000.
- (b) The Placement Shares were issued on 26 May 2011 at 30 cents per Placement Share raising \$9,600,000 before costs.

- (c) The Placement Shares ranked equally from the date of issue with all existing Shares in the Company.
 - (d) The Placement Shares were issued to unrelated parties, being clients of Southern Cross Equities Limited.
 - (e) The purpose of the issue was to provide funds for the advancement of the Company's projects in Eritrea and for general working capital.
- The Board unanimously recommends that Shareholders vote in favour of this resolution.

RESOLUTION 7 – APPROVAL OF EMPLOYEE LONG TERM INCENTIVE PLAN

Background

Resolution 7 seeks Shareholder approval for the Company's Employee Long Term Incentive Plan (the "Plan").

To date, the Company has granted long term incentives in the form of options under the Company's Employee Share Option Plan (the "ESOP"). The ESOP will remain in place. However, in addition to the ESOP, the Board believes that the Company will benefit from the flexibility of establishing an alternative equity based plan allowing the Board to grant performance-based rights linked to measurable achievements which contribute to the short term operational performance of the Company and the long term growth of the Company ("Performance Rights"). Performance Rights convert into ordinary shares in the Company when the particular vesting conditions are met. The Board also wishes to establish the Plan to enable the Board to grant long term incentives in the form of rights which will vest only on the satisfaction of appropriate performance conditions as determined by the Board.

The Board believes that grants of Performance Rights made to eligible participants under the Plan will provide a powerful tool to underpin the Company's employment strategy, and that the implementation of the Plan will:

- (a) enable the Company to recruit and retain the talented people needed to achieve the Company's business objectives;
- (b) link the reward of key staff with the achievements of strategic goals and the long term performance of the Company;
- (c) align the financial interest of participants of the Plan with those of Shareholders; and
- (d) provide incentives to participants of the Plan to focus on superior performance that creates Shareholder value.

ASX Listing Rule 7.1 provides that an entity must not issue or agree to issue more than 1.5% of its total equity securities (which would include Performance Rights capable of being converted into ordinary shares) without the approval of shareholders, unless one of the exceptions contained 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 three years before the date of the issue, 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 the Plan, Shareholder approval is sought pursuant to ASX Listing Rule 7.2, exception 9. As the Plan is a new employee incentive scheme, no prior approval under Exception 9 of ASX Listing Rule 7.2 has been given and no securities have been issued under the Plan. Any issue of Performance Rights to a Director would require separate Shareholder approval.

Summary of the Plan

Participation

A Performance Right is a right to be issued a Share upon the satisfaction of certain performance conditions that are attached to the Performance Right, as determined by the Board.

As part of the Company's strategy, the Board wishes to be in a position to grant Performance Rights under the Plan to employees (including the Managing Director and other Executive Directors) or an approved nominee to achieve the objectives outlined above.

In accordance with the requirements of the ASX Listing Rules, prior Shareholder approval will be required before any Director or related party of the Company can participate in the Plan.

Rules

Performance Rights granted under the Plan to eligible participants will be subject to performance conditions as determined by the Board from time to time. These performance conditions must be satisfied in order for the Performance Rights to vest. Upon Performance Rights vesting, the Performance Rights will automatically be exercised and the participant will be granted Shares (at no cost to the participant) as soon as reasonably practicable to satisfy the Performance Rights.

The main features of the Plan (and the terms and conditions to be attached to the Plan) are summarised as follows:

- (a) **Eligible Participants:** All full-time employees and permanent part-time employees (including the Executive Directors and the Managing Director) of the Company are eligible participants under the Plan. As noted above, Shareholder approval is required before any Director or related party of the Company can participate in the Plan.

- (b) **Limits on Entitlements:** The maximum number of Shares that is issuable under the Plan, when combined with the number of Shares issued during the previous five years pursuant to the Plan or any other employee incentive scheme of the Company (including the ESOP) but disregarding any offer made, or Performance Rights acquired or Shares issued by way of or as a result of:
- (i) an offer to a person situated at the time of receipt of the offer outside Australia; or
 - (ii) an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
 - (iii) an offer made under a disclosure document,

must not exceed 5% of the total number of issued Shares. As of the date hereof, the total number of issued Shares was 250,030,886.

- (c) **Individual Limits:** The Plan does not set out a maximum number of Shares that may be made issuable to any one person or company, other than the 5% limit referred to above.
- (d) **Consideration Payable:** Performance Rights will be granted for no consideration.
- (e) **Vesting:** The Performance Rights granted under the Plan and the performance conditions that must be satisfied in order for the Performance Rights to vest, will be determined by the Board and expressed in a written invitation ("**Invitation**") made by the Company to the eligible participant which is subject to acceptance by the eligible participant (or their nominee) within a specified period. The performance conditions may include one or more of:
- (i) employment of a minimum period of time;
 - (ii) achievement of specific performance objectives by the employee and/or by the Company; or
 - (iii) such other performance objectives as the Board may determine and set out in the Invitation.

The Board will determine whether performance conditions have been met and Performance Rights therefore have vested. Upon Performance Rights becoming vested, the Company shall issue Shares to the eligible participant (or, if applicable, their nominee) without further action being required on the part of the eligible participant.

- (f) **Term and Lapse:** The term of the Performance Rights is determined by the Board in its absolute discretion and will be specified in the Invitation but will ordinarily have a three year term up to a maximum of five years. Performance Rights are subject to lapsing if performance conditions are not met by the relevant measurement date or expiry date (if no other measurement date is specified) or if employment is terminated for cause or in circumstances other than as described in the next paragraph.
- (h) **Disability, Redundancy or Death:** Under the Plan, upon the total and permanent disability, redundancy or death of a participant, as defined in the Plan, the Board will assess the employee's performance and determine, in light of their performance and the conditions set out in the Invitation, the number of Shares in respect of any unvested Performance Rights which the employee is entitled to receive within:
- (i) 6 months from the date of the occurrence of the disability, redundancy or death; or
 - (ii) such longer period as the Board may determine, not being longer than the original expiry time of the Performance Rights.

Generally in these circumstances, Performance Rights which have not vested within the 6 months or such longer period determined by the Board following the total and permanent disability, redundancy or death of a participant, will automatically lapse.

However, the Board will also have the discretion in these circumstances to pay the participant the market value of the Shares in lieu of granting the Performance Rights. The Board may also, subject to compliance with the ASX Listing Rules and the Corporations Act, decide that the calculation of the number of Shares should not be reduced on a pro-rata basis because the participant's employment was reduced as a result of the total and permanent disability, redundancy or death, or bring forward the date on which the Shares will vest in the participant.

- (g) **Restriction on dealing with Shares:** Shares issued to a participant under the Plan will not be subject to dealing restrictions, other than the Company's Share Trading Policy.
- (i) **Forfeiture:** If a participant acts fraudulently or dishonestly, is in breach of his or her obligations to the Company or ceases to be employed by the Company for any reason other than disability, redundancy or death, the Board will have the discretion to deem any Performance Rights to have lapsed.
- (j) **Assignment:** Without the approval of the Board, Performance Rights may not be transferred, assigned or novated, except, upon death, a participant's legal personal representative may elect to be registered as the new holder of such Performance Rights and exercise any rights in respect of them.
- (k) **Takeover Bid or Change of Control:** The Board will have the discretion to determine the amount of Performance Rights vest in this circumstance.
- (l) **Winding up:** The Board will have the discretion to determine the amount of Performance Rights vest in this circumstance.
- (m) **Alteration in Share Capital:** If there is a reorganisation of the share capital of the Company, the number of Shares, to which an eligible participant is entitled to receive upon vesting of a Performance Right, will be adjusted in the way specified by the ASX Listing Rules from time to time.

- (n) **No Participation Rights:** There are no participation rights or entitlements inherent in the Performance Rights and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights.
- (o) **Amendments to Plan:** The Board may at any time and from time to time by resolution alter the Plan. However, any amendment to the Plan is subject to any restrictions or procedural requirements relating to the amendment or the rules of an employee incentive scheme imposed by the ASX Listing Rules or applicable securities laws.
- (p) **Suspension or Termination:** The Board may suspend or terminate the Plan at any time, without notice, but the suspension or termination will not affect any existing grants of Performance Rights already made.

Relief under the Corporations Act

The Company has applied to ASIC for technical relief from certain provisions of the Corporations Act in respect of the Plan. This is due to the fact that Performance Rights (rather than shares or options) does not neatly fall under ASIC's Class Order for employee incentive schemes. The relief required relates to not having to issue a prospectus for the Performance Rights, not having to hold a financial services licence to advise employees about the Plan and relief from the security hawking prohibitions in connection with the Plan. The Company expects ASIC to grant this relief. Performance Rights will not be issued under the Plan (subject to other relevant exceptions being available under the Corporations Act) until the relief is granted.

The Board unanimously recommends that Shareholders vote in favour of this resolution. The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 7.

RESOLUTION 8 – GRANT OF PERFORMANCE RIGHTS TO MR JUAN JEFFERY

Background

Resolution 8 seeks Shareholder approval for the grant of Performance Rights to Juan Jeffery, an Executive Director under the Company's Employee Long Term Incentive Plan (the "**Plan**"). The Plan is the subject of Shareholder approval under Resolution 7.

It is proposed to issue 750,000 Performance Rights to Mr Juan Jeffery who is the Chief Operating Officer and an Executive Director of the Company. Under his employment agreement, Mr Jeffery is currently entitled to receive fixed remuneration of a base salary of \$325,000 plus statutory superannuation of \$29,250 per annum. In addition, subject to the Board's discretion, Mr Jeffery may be entitled to a variable Short Term Incentive ("STI") cash bonus of up to 25% of his base salary (depending on the achievement of certain short term objectives) and/or a Long Term Incentive ("LTI") in the form of the grant of options or Performance Rights.

The Company's executive remuneration structure is outlined in more detail in the Remuneration Report in the 2011 Annual Report. Broadly speaking, the Company aims to remunerate at a level which is both appropriate for the position and competitive in the market. The Company aims to pay within the 50th and 75th percentile band of benchmark data, but the Board has the discretion to pay above this to attract and retain key employees in achieving the Company's strategic goals.

The Board has the discretion to grant Performance Rights to any person it declares eligible upon the terms set out in the Plan. A Performance Right is, in effect, a contractual right to be issued with a Share in the Company on the satisfaction of certain conditions.

Based on the Plan (and as set out below), Shareholder approval is being sought to grant 750,000 Performance Rights to Mr Jeffery. These Performance Rights are subject to specific performance conditions and will not vest into Shares until such time as the performance conditions are met.

The Directors believe that it is appropriate to provide Mr Jeffery with an LTI element in his remuneration package. The Directors also believe that Performance Rights, rather than share options, are a better alternative to remunerate executives who are tasked with achieving certain specific strategic outcomes. The grant of Performance Rights is intended to align his performance with successful Company outcomes for the benefit of Shareholders and also to provide him with an incentive to remain with the Company.

The non-executive Directors are of the view that the remuneration for Mr Jeffery, including the proposed grant of Performance Rights, is reasonable having regard to the position of the Company, his duties and responsibilities and market levels of remuneration for Chief Operating Officers of similar companies. In arriving at their view, the non executive Directors were assisted by independent benchmarking data against peer companies in their decision making.

Performance Conditions

Subject to Shareholder approval, the Performance Rights to be issued will not vest (and the underlying Shares will not be issued) unless certain performance conditions have been satisfied. The grant of Performance Rights is designed to reward long term sustainable business performance which is aligned to the long term strategic objectives of the Company.

Mr Jeffery will be primarily responsible for the construction, commissioning and operation of the Company's Koka Gold Mine in Eritrea. As such, Mr Jeffery's performance conditions have been structured so that the Performance Rights will only vest on achievement of the following:

Number of Performance Rights	Performance Condition	Achievement Date
250,000	Practical completion of the plant at the Company's Koka Gold Mine	30 June 2013
250,000	First gold pour from the Koka Gold Mine	30 September 2013
250,000	Commercial gold production from the Koka Gold Mine for a period of 6 months	30 June 2014

The ability for Mr Jeffery to achieve the performance conditions is contingent upon the Company obtaining funding for the development of the Koka Gold Mine. Therefore, the performance condition achievement date for each performance condition will be adjusted for any delay in the Company obtaining funding after 28 February 2012.

For the purposes of the performance condition, "Commercial Production" means producing gold at no less than 80% of the final mine plan approved by the directors of Zara Mining Share Company (being the entity which will own and operate the Koka Gold Mine) prior to plant commissioning.

Regulatory information

Related party transaction

The Board is of the view that the remuneration package for Mr Jeffery, including the grant of the Performance Rights, is reasonable for the purposes of Chapter 2E of the Corporations Act, having regard to the circumstances of the Company and Mr Jeffery (including the responsibilities involved in each of his office).

Listing Rules

In accordance with ASX Listing Rule 10.14, the acquisition of securities by a director under an employee incentive scheme requires shareholder approval. The following information is provided for the purposes of ASX Listing Rule 10.15.

- The maximum number of Performance Rights that can be acquired by Mr Jeffery is 750,000.
- The price payable on the issue or exercise of each Performance Right is nil.
- No Performance Rights have been granted under the Plan.
- The Company's Executive Directors and the Managing Director (being persons referred to in ASX Listing Rule 10.14) are entitled to participate in the Plan. Mr Jeffery is an Executive Director.
- There is no loan proposed in relation to the proposed acquisition of the Performance Rights by Mr Jeffery.
- The Performance Rights will be issued as soon as practicable following the receipt of the ASIC relief referred to in Resolution 7 above and, in any event, no later than 12 months after the Annual General Meeting.

If the Plan is approved by Shareholders under Resolution 7 then the Company will be able to take advantage of ASX Listing Rule 7.2 (exception 9) and the issue of the Performance Rights will not count towards the Company's annual 15% placement capacity under ASX Listing Rule 7.1.

If the Plan is not approved by Shareholders under Resolution 7 the Performance Rights are still intended to be granted (subject to Shareholder approval of Resolution 8). However, the issue of the Performance Rights will count towards the Company's annual 15% placement capacity under ASX Listing Rule 7.1 (unless ratified by Shareholders at a later date).

Recommendation

The Board (other than Mr Jeffery) unanimously recommends that Shareholders vote in favour of Resolution 8.

The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 8.

RESOLUTION 9 – GRANT OF OPTIONS TO MR TIMOTHY GOYDER

Resolution 9 seeks Shareholder approval for the Company to issue 2,500,000 unlisted Options to Mr Timothy Goyder, a Director and Executive Chairman of the Company, or his nominee under the Company's Employee Share Option Plan on the terms set out below.

Shareholder approval for the issue of the Options, the subject of Resolution 9 is sought for the purposes of:

- 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; and
- ASX Listing Rule 10.11, which requires the grant of securities to a director of a company to be approved by shareholders.

If the issue of Options (Resolution 9) is approved by the Shareholders, Chalice will be able to rely on ASX Listing Rule 7.2, Exception 14 and will not need to apply for Shareholder approval under ASX Listing Rule 7.1. Accordingly, the issue of the Options will not count towards the Company's annual 15% placement capacity under ASX Listing Rule 7.1.

Purpose of the Options Issue

The purpose of the proposed grant of Options is to provide Mr Goyder with an added incentive in carrying out his duties as Executive Chairman of the Company. Given the size and stage 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 Goyder.

Terms of the Options

Mr Goyder will be issued 2,500,000 Options for nil consideration. The Options will expire on 30 November 2014 and have an exercise price of 50 cents.

The options will vest on the achievement of obtaining sufficient finance (either debt or equity) for the development of the Koka Gold Mine.

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 Goyder 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 Goyder:

- (a) Mr Goyder is the Executive Chairman 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 Goyder is a related party of the Company for the purposes of the Corporations Act.
- (b) The financial benefit to be given is the grant of 2,500,000 unlisted Options on the terms noted above and otherwise on the terms and conditions established under the Company's Employee Share Option Plan.
- (c) Those Directors who have no interest in the outcome of Resolution 9 (being all Directors other than Mr Goyder) recommend that Shareholders vote in favour of Resolution 9 on the basis that the Options to be granted provide Mr Goyder with an appropriate incentive in recognition of his extensive knowledge, experience and capabilities.
- (d) Mr Goyder makes no recommendation in relation to Resolution 9 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 Goyder wishes to exercise the Options he would need to pay the appropriate exercise price in relation to the Options (\$0.50 per Option). If he were to exercise all 2,500,000 of the Options he would be required to pay \$1,250,000. These proceeds would be used for the Company's general working capital requirements at the appropriate time. The exercise price and exercise date for the Options are set out below.
- (f) Using a Black & Scholes valuation model, the Company estimates that each Option, the subject of Resolution 9, has the following values based on the following assumptions:

Exercise Price	50 cents
Market Value on the ASX of underlying Shares at time of setting exercise price	30 cents
Expiry date	30 November 2014
Expected volatility	63%
Risk free interest rate	3.82%
Annualised dividend yield	Nil
The value of the Options	9.5 cents
The aggregate value of the Options	\$237,500

- (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 25 cents on 9 August 2011 and the highest was 78 cents on 8 October 2010. At the close of trading on 30 September 2011 the Share price on the ASX was 31 cents.

- (h) If Resolution 9 is passed, Mr Goyder will hold an interest in 29,199,342 Shares and 2,500,000 Options.
- (i) Mr Goyder receives a salary of \$250,000 (inclusive of superannuation).
- (j) There are no taxation consequences for the Company arising from the issue of the Options (including fringe benefits tax).
- (k) The Company currently has 250,030,886 Shares and 8,250,000 Options on issue. Assuming that Mr Goyder exercises all of the Options to be granted to him pursuant to Resolution 9, Mr Goyder's interest including all the Shares and Options currently held would represent approximately 12.27% of the Company's expanded capital.
- (l) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the Annual General Meeting. The right to exercise will be subject to the terms of their issue.
- (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 9.

Listing Rules

In accordance with ASX Listing Rule 10.14, the acquisition of securities by a director under an employee incentive scheme requires shareholder approval. The following information is provided for the purposes of ASX Listing Rule 10.15.

- (a) The maximum number of Options that can be acquired by Mr Goyder is 2,500,000.
- (b) The price payable on the issue of each Option is nil. The price payable on the exercise of each Option is \$0.50.
- (c) Details of the Options that have been issued to Directors or their associates (being persons referred to in ASX Listing Rule 10.14) under the Employee Share Option Plan are as follows.

Director	No. of Options	Issue Price	Exercise Price	Expiry Date
A W Kiernan	500,000	Nil	0.25	1 Dec 2012
D A Jones	1,250,000	Nil	0.35	31 Mar 2014
	1,250,000	Nil	0.45	31 Mar 2014
M R Griffiths	750,000	Nil	0.50	1 Sep 2012
S P Quin	187,500	Nil	0.55	30 Apr 2014
	187,500	Nil	0.65	30 Apr 2014
	375,000	Nil	0.75	30 Apr 2014

- (d) All Directors (being persons referred to in ASX Listing Rule 10.14) are entitled to participate in the Employee Share Option Plan. Mr Goyder is a Director.
- (e) There is no loan proposed in relation to the proposed acquisition of the Options by Mr Goyder.
- (f) The Options will be issued as soon as practicable following the date of Shareholder approval but in any event no later than 12 months after the Annual General Meeting.

Recommendation

The Board (other than Mr Goyder) unanimously recommends that Shareholders vote in favour of this resolution. The Chairman of the meeting intends to vote all undirected proxies in favour of Resolution 9.

GLOSSARY

The following is a glossary of terms and abbreviations used frequently throughout this Explanatory Statement 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 Statement.

"**ASIC**" means the Australian Securities and Investments Commission.

"**ASX**" means ASX Limited or the Australian Securities Exchange, as appropriate.

"**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 public holiday in Perth, Western Australia.

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

"**Corporations Act**" means the Corporations Act 2001 (Cwlth).

"**Director**" means a director of the Company.

"**Executive Director**" means an executive director of Chalice.

"**Managing Director**" means the managing director of Chalice.

"**Notice**" or "**Notice of Meeting**" means this notice of meeting including the Explanatory Statement.

"**Option**" means an unlisted option to subscribe for a Share.

"**Performance Right**" is defined in the commentary on Resolution 7.

"**Plan**" means the Employee Share Option Plan

"**Share**" means a fully paid ordinary share in the capital of the Company.

"**Shareholder**" means a holder of a Share.



CHALICE GOLD MINES LIMITED
 ABN 47 116 648 956

PROXY FORM

APPOINTMENT OF PROXY

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, as my/our proxy to act generally at the Annual General Meeting on my/our behalf and 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 of Chalice Gold Mines Limited to be held at 12.00pm (WST) on 22 November 2011 at Middletons, Level 32, 44 St Georges Terrace, Perth, Western Australia and at any adjournment of that meeting.

Voting on Business of the Annual General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Timothy Goyder as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Re-election of Michael Griffiths as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Election of Juan Jeffery as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Increase in Non-Executive Director Remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Ratification of Share Issue – Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Approval of the Employee Long Term Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Grant of Performance Rights to Mr Juan Jeffery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Grant of Options to Mr Timothy Goyder	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.

IMPORTANT If the Chairman of the Meeting is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote, please place a mark in this box with an 'X'. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolutions (or that they are connected directly or indirectly with the remuneration of a member of key management personnel) and that votes cast by him, other than as a proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolutions and your votes will not be counted in computing the required majority if a poll is called. The Chairman of the Meeting intends to vote undirected proxies in favour of each resolution. **Please note:** By marking this box you further acknowledge that the Chairman will be voting all available proxies in favour of Resolution 1 and all undirected proxies in favour of Resolutions 5, 7, 8 and, 9 even though these Resolutions are connected directly or indirectly with the remuneration of a member of key management personnel.



Signed this day of 2011

By:

Individuals and joint holders

Companies (affix common seal if appropriate)

Signature
Signature
Signature

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

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.

3. **Signing Instructions**

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all of the Shareholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate is included with the Notice of Annual General Meeting.

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. To vote by proxy, please complete and sign the proxy form enclosed and either send the proxy form:
 - (a) by post to Chalice Gold Mines Limited, GPO Box 2890, Perth, WA, 6001; or
 - (b) by facsimile to the Company on facsimile number +61 8 9322 5800,
 so that it is received no later than **12.00pm (WST) on 20 November 2011**, being 48 hours before the time of the meeting. Proxy forms received later than this time will be invalid.



APPOINTMENT OF CORPORATE REPRESENTATIVE

Section 250D of the Corporations Act 2001 (Cwlth)

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

..... *(Insert name of company)*

(Company), the Company has appointed:

....., *(Insert name of corporate representative)*,

in accordance with the provisions of section 250D of the Corporations Act 2001 (Cwlth), to act as the body corporate representative of that company at the Annual General Meeting of Chalice Gold Mines Limited to be held at 12.00pm (WST) on 22 November 2011 and at any adjournment of that meeting.

DATED 2011

Executed by the Company)
)

in accordance with its constituent documents

.....
Signed by authorised representative

.....
Signed by authorised representative

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

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

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

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

INSTRUCTIONS FOR COMPLETION

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

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

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



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