



**CHALICE GOLD MINES LIMITED**

**ANNUAL INFORMATION FORM**

**September 28, 2012**

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## GLOSSARY

### Symbols

-	Nil	Mt	million tones
g	grams	oz	ounces
g/t Au	grams per tonne of gold	t	tonne
kg	kilograms	t/m	tonnes per metre
km	kilometres	V	volts
m	metres	kV	kilovolts
mm	millimetres		

### Equivalent values

	kg	lb
kg	1	2.204662
t	1,000	2,204.62

### Definitions

“2011 AGM” .....	The Annual General Meeting of Chalice held on November 22, 2011.
“A\$” .....	Australian dollar
“AIF” .....	this Annual Information Form dated September 28, 2012
“AM” .....	the morning of a day
“AMC” .....	AMC Consultants Pty Ltd
“AngloGold” .....	AngloGold Ashanti Australia Limited
“Archean Star” .....	Archean Star Resources Inc.
“Arabian Nubian Resources” .....	Arabian Nubian Resources Limited
“ASTC Rules” .....	the settlement operating rules of the ASX
“ASX” .....	ASX Limited
“ASX Listing Rules” .....	the listing rules of the ASX
“Avoca” .....	Avoca Resources Limited
“AWR” .....	Africa Wide Resources Ltd.
“Board” .....	Board of directors of the Company
“Bonus Issue” .....	the issuance of Shares to Shareholders by way of capitalization of profits or reserves
“Bonus Shares” .....	Shares which would have been issued upon the Bonus Issue

<b>“Bullion Minerals”</b> .....	Bullion Minerals Limited
<b>“C\$”</b> .....	Canadian dollar
<b>“Chalice Annual Financial Report”</b> .....	the Company’s annual financial report for the year ended June 30, 2012
<b>“CIM Definition Standards”</b> .....	CIM Definition Standards on Mineral Resources and Mineral Reserves prepared by the CIM Standing Committee on Reserve Definitions 2005
<b>“Company” or “Chalice”</b> .....	Chalice Gold Mines Limited and its subsidiaries on a consolidated basis, except where otherwise noted or the context otherwise indicates
<b>“Constitution”</b> .....	the constitution of Chalice
<b>“Corporations Act”</b> .....	<i>Corporations Act 2001 (Australia)</i> , as amended
<b>“Dragon Mining”</b> .....	Dragon Mining Limited
<b>“Eligible Persons”</b> .....	persons eligible to participate in the Option Plan
<b>“ENAMCO”</b> .....	the Eritrean National Mining Corporation
<b>“Gnaweeda Gold Project”</b> .....	a project in Australia that is not yet considered material to the Company
<b>“Hurum”</b> .....	an exploration license comprising approximately 275km <sup>2</sup> in Eritrea
<b>“JORC Code”</b> .....	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, the JORC Code 2004 Edition, effective December 2004, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
<b>“Kent”</b> .....	Kent Exploration Inc
<b>“Koka Gold Deposit”</b> .....	the Koka deposit that is part of the Zara Project in Eritrea, East Africa
<b>“Koka Gold Mine”</b> .....	Koka Gold Mine covering the Koka deposit that is part of the Zara Project in Eritrea, East Africa
<b>“London Africa”</b> .....	London Africa Limited, a company acquired by Arabian Nubian Resources.
<b>“LTIP”</b> .....	an employee long term incentive plan approved by Shareholders at the 2011 AGM.
<b>“Mogoraib North”</b> .....	an exploration license comprising approximately 550km <sup>2</sup> in Eritrea

“MHJV” .....	The Mogoraib North and Hurum joint venture which is owned 60 percent by Chalice and 40 per cent by ENAMCO (including a 10 per cent free carried interest) and will be funded in accordance with each party’s paid participating interest, being two thirds Chalice and one third ENAMCO.
“Named Executive Officer” .....	each of the following individuals: (i) the Chief Executive Officer of the Company; (ii) the Chief Financial Officer of the Company; (iii) each of the Company’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year whose total compensation was, individually, more than C\$150,000 for that financial year; and (iv) each individual who would be a Named Executive Officer under (iii) above but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of the most recently completed financial year-end
“NI 43-101” .....	National Instrument 43-101 – <i>Standards of Disclosure for Mineral Projects</i>
“NI 71-102” .....	National Instrument 71-102 – <i>Continuous Disclosure and Other Exemptions relating to Foreign Issuers</i>
“Option Plan” .....	an employee and consultant stock option plan approved by Shareholders on November 25, 2010
“Performance Rights” .....	a right to be issued a Share upon the satisfaction of certain performance conditions that are attached to the right as determined by the Board.
“SCG” .....	Shanghai Construction Group Co. Ltd
“SEDAR” .....	the System for Electronic Documents Analysis and Retrieval maintained by the Canadian Securities Administrators
“SFECO” .....	China SFECO Group, a subsidiary of Shanghai Construction Group Co. Ltd.
“Shares” .....	ordinary shares in the capital of the Company
“Shareholder” .....	Shareholders of the Company or other entity
“Stock Exchange Listing Rules”	the listing rules of any stock exchange in the world which the Company is listed on
“Sub-Sahara” .....	Sub-Sahara Resources NL
“Teck” .....	Teck Resources Limited
“TSX” .....	Toronto Stock Exchange

“TSX-V” .....	TSX Venture Exchange
“US\$” .....	United States or US dollar
“Wilga Gold Project” .....	an Australian project sold to AngloGold in December 2009
“Yandearra Project” .....	a project in Australia that was not considered material to the Company and was relinquished during 2011
“Zara Mining SC” .....	Zara Mining Share Company, a company incorporated in Eritrea and which was owned 60 per cent by Chalice and 40 per cent by ENAMCO
“Zara Project” .....	a project consists of six contiguous granted licenses granted to Zara Mining SC covering an area totalling 575 km <sup>2</sup> situated in northern Eritrea, approximately 160 km northwest of Eritrea’s capital, Asmara and was owned 60 per cent by Chalice and 40 per cent by ENAMCO.

## **PRESENTATION OF INFORMATION**

In this AIF, the terms the “Company” and “Chalice” mean Chalice Gold Mines Limited and its subsidiaries on a consolidated basis, except where otherwise noted or the context otherwise indicates.

Unless otherwise noted, the financial information contained in this AIF is given at or for the year ended June 30, 2012. Where material changes have occurred subsequent to June 30, 2012 and are otherwise not disclosed in the Chalice Annual Financial Report, separate disclosure is provided in this AIF; in particular, under the heading “Recent Developments”.

## **FORWARD-LOOKING INFORMATION**

This document may contain forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements). These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements.

Forward-looking statements relate to future events or future performance and reflect Company management’s expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the likelihood of exploration success, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, will, may would, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of

development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review on SEDAR at [sedar.com](http://sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking statements.

## **FINANCIAL INFORMATION AND ACCOUNTING PRINCIPLES**

Unless otherwise indicated, references in this AIF to "C\$" are to Canadian dollars, references to "US\$" are to US dollars and references to "A\$" are to Australian dollars.

All financial information in the AIF is derived from the Company's financial statements which were prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act. In accordance with Accounting Standard AASB 101 Presentation of Financial Statements, compliance with the Australian equivalents to International Financial Reporting Standards ensures that financial information complies with International Financial Reporting Standards.

## **EXCHANGE RATES**

### **Canadian Dollars per Australian Dollar**

The following table sets out the high and low rates of exchange in Canadian dollars for one Australian dollar during the periods noted, the average rates of exchange during such periods and the rates of exchange at the end of such periods.

<u>Calendar Year Ended</u>	<u>C\$ per A\$</u>			
	<u>High</u>	<u>Low</u>	<u>Average Rate</u>	<u>End Rate</u>
June 30, 2012	1.0755	0.9981	1.0350	1.0411
June 30, 2011	1.0424	0.9014	0.9896	1.0346
June 30, 2010	0.9822	0.8633	0.9304	0.8993

On September 27, 2012, the exchange rate provided by the Bank of Canada was C\$1.0244 = A\$1.00.

### **Canadian Dollars per US Dollar**

The following table sets out the high and low rates of exchange in Canadian dollars for one US dollar during the periods noted, the average rates of exchange during such periods and the rates of exchange at the end of such periods.

<u>Calendar Year Ended</u>	<u>C\$ per US\$</u>			
	<u>High</u>	<u>Low</u>	<u>Average Rate</u>	<u>End Rate</u>
June 30, 2012	1.0561	0.9440	1.0032	1.0248
June 30, 2011	1.0634	0.9445	1.0018	0.9765
June 30, 2010	1.1655	0.9961	1.0555	1.0606

On September 27, 2012, the noon rate provided by the Bank of Canada was C\$0.9814 = US\$1.00.

## **HISTORICAL GOLD PRICES**

The following table shows the average gold prices during each of the calendar years noted below.

<u>Year</u>	<b>Average Gold Price (US\$/oz)</b>
2012 year to September	1,626
2011	1,573
2010	1,226
2009	974

On September 27, 2012 the AM rate for the gold price was US\$1,755/oz.<sup>1</sup>

## **BASIS OF PRESENTATION**

All references to mineral reserves or mineral resources are references to the gross mineral reserves or mineral resources per property, unless reference is made to “attributable” mineral reserves or mineral resources which refers only to Chalice’s attributable portion of the mineral reserves and/or mineral resources. All information with respect to mineral reserves or mineral resources is reported in accordance with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators (“**NI 43-101**”) and the CIM Definition Standards and “kg” refers to kilograms, “g” refers to grams, “g/t Au” refers to grams per tonne of gold, “Mt” refers to million tonnes, “m” refers to metres, “t” refers to tonnes, “t/m” refers to tonnes per metre, “mm” refers to millimetres, “km” refers to kilometres, “V” refers to volts, “kV” refers to kilovolts and “oz” refers to ounces.

## **DESIGNATED FOREIGN ISSUER STATUS**

Chalice listed on the TSX on November 26, 2010. Upon that listing Chalice became a reporting issuer in the province of Ontario. However, in accordance with National Instrument 71-102 – *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, Chalice will be a “designated foreign issuer” (as is defined in NI 71-102) for the balance of the current financial year and until such time as it ceases to satisfy the requirements to be a designated foreign issuer. As such, the Company will not be subject to the same ongoing reporting requirements as most other reporting issuers in Canada. Generally, Chalice will comply with Canadian ongoing reporting requirements if it complies with the regulatory requirements of ASX, which is a “foreign regulatory authority” (as defined in NI 71-102) and files any documents required to be filed with or furnished to ASX on the Canadian SEDAR.

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

Chalice Gold Mines Limited was incorporated on October 13, 2005 under the Corporations Act under registration number ACN 116 648 956. On March 24, 2006, the Company was listed on the ASX and on November 26, 2010 it was listed on the TSX.

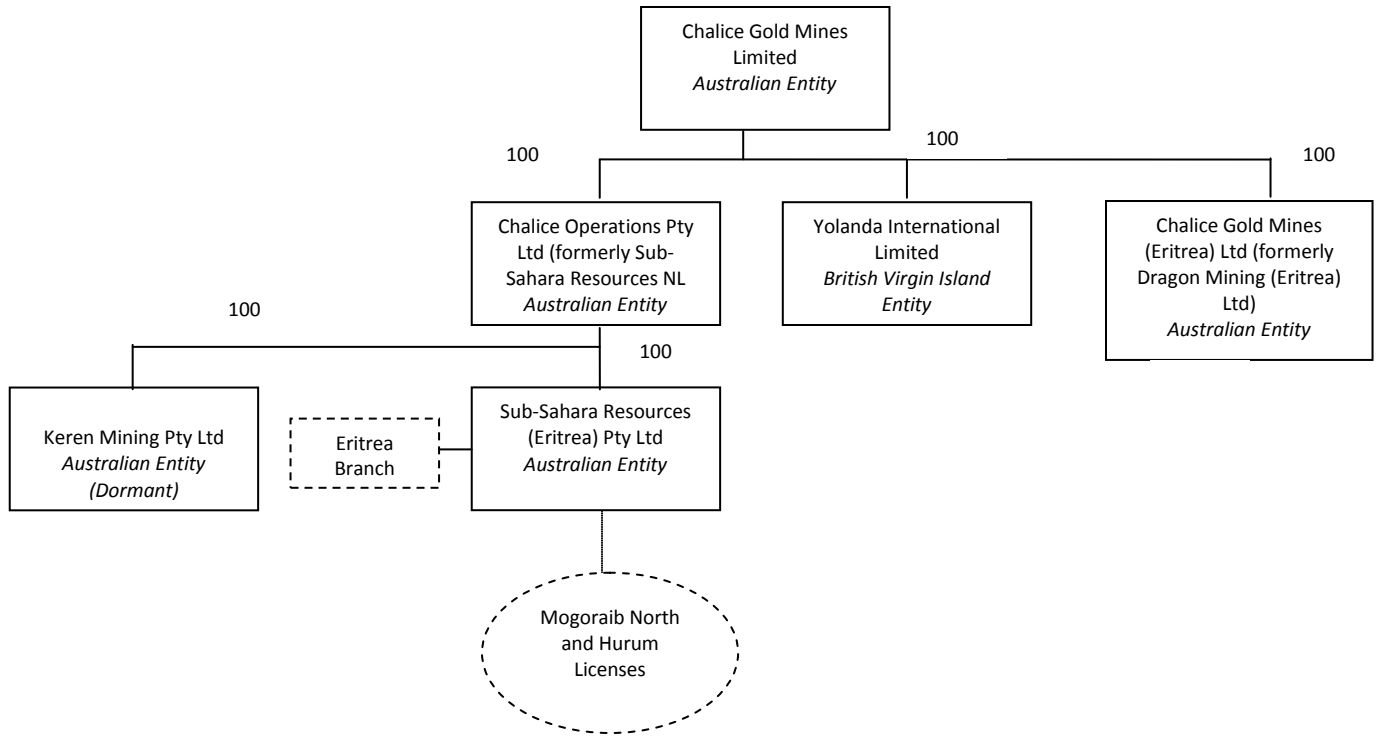
The head and registered office of the Company is located at: Level 2, 1292 Hay Street, West Perth, Western Australia 6005, Australia, telephone: +(618) 9322 3960, facsimile: +(618) 9322 5800.

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<sup>1</sup> Source: London Bullion Market Association AM Gold Fix



## Inter-corporate Relationships



## BUSINESS OF THE COMPANY

### Overview

Chalice, which was listed on ASX on March 24, 2006 and on the TSX on November 26, 2010, is an exploration and development company focused on exploration, discovery and development of gold and base metal projects.

Based in Perth, Western Australia, Chalice is principally involved in advancing exploration projects in Eritrea, East Africa. Chalice has two exploration licenses at Mogoraib North and Hurum in Eritrea which were granted in January 2011.

Chalice also has an interest in a joint venture in Australia. This project is not considered to be material to the Company. The financial commitment of holding of this project is not significant.

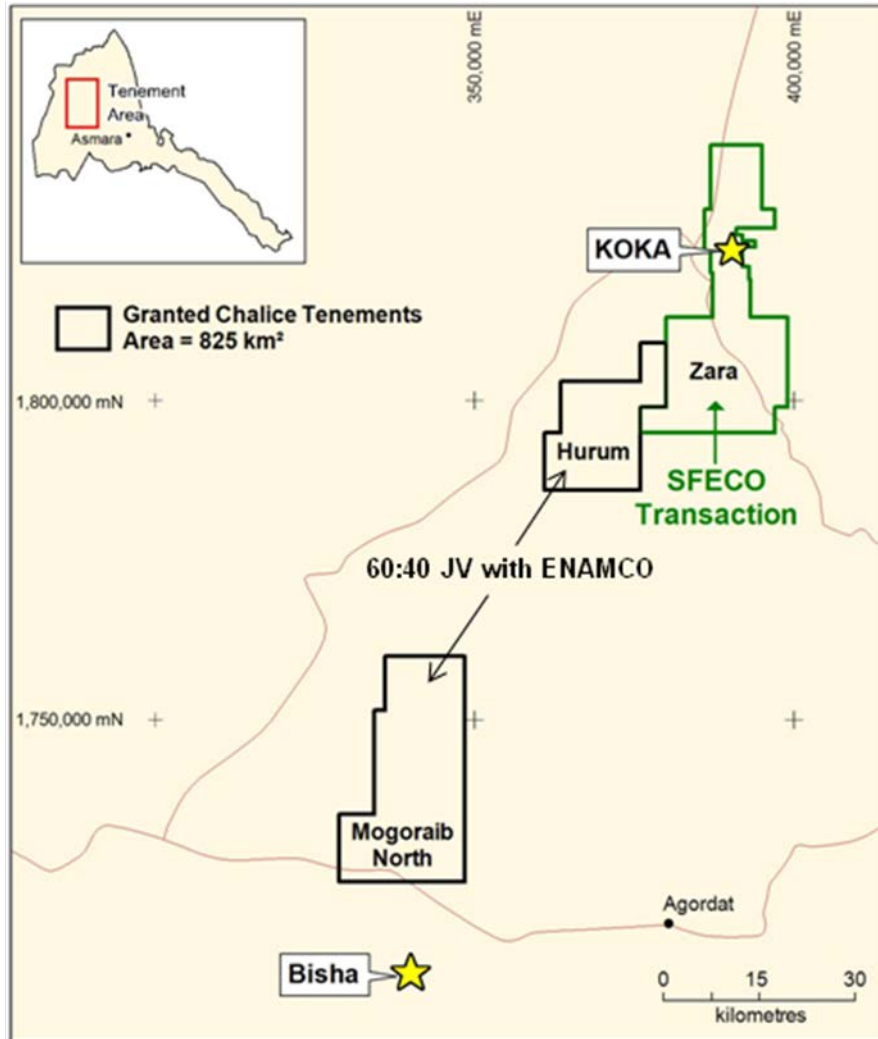


Figure 1: Chalice project locations in Eritrea

## RECENT DEVELOPMENTS

Following completion of due diligence by SFECO, in April 2012 Chalice signed a Sale and Purchase Agreement to sell its 60 per cent interest in Zara Mining SC for US\$80 million (including a deferred payment of US\$2 million on the first gold pour at the Koka Gold Mine). The sale of the 60 per cent interest to SFECO was in addition to a previous agreement to sell a 30 per cent interest to ENAMCO in June 2011 for approximately US\$34 million. This 30 per cent was in addition to ENAMCO's statutory 10 per cent free carried interest.

Both transactions were completed on September 4, 2012 for a combined consideration of US\$114 million. Following the payment of applicable taxes in Eritrea, Chalice had approximately A\$83 million cash on hand. The Company will now commence the evaluation of resource projects for acquisition in addition to advancing its remaining exploration projects in Eritrea.

Following the recent completion of the sale of the Company's interest in the Zara Project, the Board has undertaken a review of its capital management options and determined that these funds exceed its current capital requirements, providing justification to return some of this capital to shareholders. On September 24, 2012, Chalice announced a proposed capital reduction and return, subject to shareholder approval, of up to A\$25 million (10 cents per share) to

those persons or entities that are shareholders as at the appropriate record date. As at the date of this AIF the record date has not been determined and the capital reduction and return is subject to shareholder approval and timely receipt of a requested tax ruling from the Australian Taxation Office.

## **Development of the Business**

### *Fiscal Year Ended June 30, 2012*

On June 29, 2012, the shareholders of Chalice approved the disposal of Chalice's 60 per cent interest in the Zara Project in Eritrea, East Africa and, as noted elsewhere, this transaction was completed on September 4, 2012.

On June 13, 2012, Chalice agreed to sell its remaining 13.5 per cent interest in the Gnaweeda Project to Archean Star Resources Inc ("Archean Star"). The consideration for the sale is 5 million common shares in Archean Star which is listed on the TSX Venture Exchange ("TSX-V"). The agreement is subject to TSX-V approval.

On April 30, 2012, Chalice agreed to enter into a joint venture with Eritrean National Mining Corporation ("ENAMCO") in relation to its Mogoraib North and Hurum Projects in Eritrea ("MHJV"). The MHJV is owned 60 percent by Chalice and 40 per cent by ENAMCO (including a 10 per cent free carried interest) and will be funded in accordance with each party's paid participating interest, being two thirds Chalice and one third ENAMCO.

On April 30, 2012, Chalice reached an agreement with Dragon Mining Limited ("Dragon") for the payment of A\$1.5 million in full consideration for setting aside the trailing payment of A\$4 million in the event that a one million ounce Mineral Reserve is delineated at the Zara Project. The payment was subject to the completion of the sale of the Zara Project by Chalice to China SFECO Group ("SFECO").

On April 27, 2012, the Board of Shanghai Construction Group Co Ltd ("SCG") approved the agreement to acquire Chalice's 60 per cent interest in Zara Mining SC for US\$78 million plus a deferred payment of US\$2 million. A conditional Sale and Purchase Agreement was executed between SCG subsidiary, SFECO and Chalice.

On April 17, 2012, Chalice and SFECO agreed the consideration payable for the sale of Chalice's 60 per cent interest in the Zara Project.

On April 13, 2012, notification was received by Chalice from SFECO that it has completed its due diligence in respect to the purchase of Chalice's 60 per cent interest in Zara Mining SC.

On January 25, 2012, Chalice agreed to revise the terms with ENAMCO for the sale of Chalice's 30 per cent interest in the Zara Project. Under the revised agreement, ENAMCO made an interim payment of approximately US\$3 million to Chalice and the balance of US\$31 million payable to Chalice on completion of the sale to SFECO.

On January 16, 2012, Zara Mining SC was granted two mining licences covering the Koka Gold Deposit at the Zara Project.

On December 28, 2011, Chalice entered into a conditional shortform agreement to sell its remaining 60 per cent interest in Zara Mining SC to SFECO. The agreement was subject to SFECO being satisfied with its due diligence.

On December 13, 2011, Chalice signed a Letter of Intent with SFECO setting out a proposal for terms upon which SFECO may acquire Chalice's interest in the Zara Project.

On November 2, 2011, Chalice's 60 per cent owned subsidiary Zara Mining SC executed a Mining Agreement with the Government of the State of Eritrea. The Mining Agreement contained the provisions governing the future development and operation of the Zara Project. Zara Mining SC also applied for a mining licence for a period of 18 years.

On July 29, 2011, Chalice and ENAMCO executed a Shareholders' Agreement to incorporate and regulate their relationship and obligations as shareholders of Zara Mining SC.

*Fiscal Year Ended June 30, 2011*

On June 15, 2011, Chalice and ENAMCO reached an agreement for ENAMCO's acquisition of a 30 per cent participating interest in the Zara Project from Chalice for US\$32 million represented by shares in the operating company, Zara Mining SC. In addition, ENAMCO was to pay Chalice approximately US\$2 million (subject to audit), which represents a reimbursement to Chalice of ENAMCO's pro-rata share of exploration costs expended to date on the Zara Project which fall outside the proposed Koka Gold Deposit mining license. The 30 per cent interest is additional to ENAMCO's free-carried 10 per cent which is also represented by shares in Zara Mining SC. In the event that ENAMCO failed to pay for the 30 per cent interest acquired from Chalice, it would be required to transfer to Chalice, and at no cost to Chalice, its 30 per cent shareholding in Zara Mining SC.

In May 20, 2011, Chalice placed 32,000,000 Shares at an issue price of A\$0.30 per Share to sophisticated and institutional investors to raise gross proceeds of A\$9.6 million.

On January 27, 2011, Chalice signed agreements with the Eritrean Government on two new exploration licenses in Eritrea – Mogoraib North and Hurum.

On November 15, 2010, the Eritrean Government advised of its intention to purchase, at fair value, a 30 per cent paid participating interest in the Zara Project through ENAMCO. This paid participating interest is in addition to ENAMCO's 10 per cent carried interest.

On November 9, 2010, Chalice received conditional listing approval from the TSX to have its Shares listed for trading on the TSX and trading commenced on November 26, 2010.

In September 2010, Chalice completed a fully underwritten pro-rata entitlements issue of 30,172, 269 Shares on the basis of one new Share for every six Shares held and at an issue price of A\$0.42 per Share to raise approximately A\$12.7 million before the costs of issue.

In July 2010, Chalice completed a feasibility study for the Koka Gold Deposit which is within the Zara Project. Details of the feasibility study were announced to ASX on July 13, 2010.

*Fiscal Year ended June 30, 2010*

In June 2010, Chalice exercised an option to acquire all the shares in Dragon Mining (Eritrea) Limited which held a 20 per cent interest in the Zara Project. Exercise of this option took Chalice's interest in the Zara Project to 100 per cent (subject to Eritrean Government project participation rights). The consideration paid to acquire Dragon Mining's interest was A\$8 million and 2 million Shares. The Shares were subject to a 12 month escrow period. There was provision for a further payment of A\$4 million due upon delineation of a 1 million oz gold ore reserve directly within the Zara Project.

In May 2010, Chalice placed 21,613,080 Shares at an issue price of A\$0.42 per Share to sophisticated and institutional investors to raise gross proceeds of A\$9.1 million.

In May 2010, Chalice acquired an additional 8.2 per cent interest in London Africa taking the Company's total holding to 20 per cent. London Africa holds approximately 1,169 km<sup>2</sup> of prospective ground under an exploration license in the Akordat-Orota region of central Eritrea. London Africa is an unlisted United Kingdom public company. London Africa was subsequently acquired by Arabian Nubian Resources. Chalice swapped its shares in London Africa for the same percentage holding in Arabian Nubian Resources.

In March 2010, Chalice placed 20,000,000 Shares at an issue price of A\$0.36 per Share to sophisticated and institutional investors to raise gross proceeds of A\$7.2 million.

In February 2010, Chalice was granted an option (expiring June 30, 2010) to acquire Dragon Mining's 20 per cent interest in the Zara Project. Upon exercise of the option, Chalice would hold 100 per cent of the Zara Project, subject to the Eritrean Government participation rights. As noted above, the option was exercised in June 2010.

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

In December 2009, Teck Resources Limited ("**Teck**") advised that it had earned a 70 per cent interest in the Gnaweeda Gold Project by incurring expenditure of A\$1.5 million in accordance with a previously granted option agreement. Due to the new strategic focus on Eritrea, Chalice elected to dilute its 30 per cent interest in the Gnaweeda Gold project by not contributing to the proposed exploration program to be undertaken in 2010. As noted below, Kent Exploration Inc. ("**Kent**") entered into an agreement with Teck pursuant to which Kent had the right to earn 100 per cent of Teck's 70 per cent interest in the Gnaweeda Gold Project.

In October 2009, Chalice completed a scoping study for the Koka Gold Deposit within the Zara Project. Details of the scoping study were announced to ASX on October 30, 2009. As well as completing the feasibility study, Chalice had been undertaking additional exploration on the Zara Project aimed at targeting near-mine opportunities at Koka East and Koka South. This exploration was to remain a key focus of Chalice's activities in-country in addition to completion of the feasibility study.

In September 2009, Chalice placed 16,300,000 Shares at an issue price of A\$0.27 per Share to sophisticated and institutional investors to raise gross proceeds of A\$4.4 million.

In August 2009, Chalice merged with Sub-Sahara Resources NL ("**Sub-Sahara**"), holder of a 69 per cent interest in the Zara Project, through a scheme of arrangement which provided that shareholders of Sub-Sahara received one Share for every 10.73 Sub-Sahara shares held by them. Sub-Sahara shareholders collectively gained an interest of approximately 39 per cent 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 per cent interest in the Zara Project for A\$1.2 million from Africa Wide Resources Ltd. ("**AWR**"). The acquisition of this further interest, coupled with the 69 per cent interest acquired through the merger with Sub-Sahara, resulted in Chalice having an 80 per cent interest in the Zara Project.

In December 2009 the Company acquired an 11.8 per cent interest in London Africa.

## **Exploration - Eritrea**

### **Mogoraib North – Hurum Joint Venture**

Following the formation of a joint venture between ENAMCO and Chalice covering the Mogoraib North and Hurum Projects in early May 2012, ENAMCO has paid Chalice approximately US\$750,000 (representing one-third of historical project-to-date expenditures incurred at Mogoraib North and Hurum). Ongoing exploration expenditure will be funded in accordance with each party's paid participating interest, being two-thirds Chalice and one-third ENAMCO.

### **Mogoraib North Exploration**

Diamond drilling targeting potential Volcanic Hosted Massive Sulphide (VHMS) deposits commenced during the year on the Company's 555 sq km Mogoraib North property, which lies just north of the world-class Bisha VMS mine (owned by Nevsun Resources Limited and ENAMCO). Some 2,356 metres in 11 holes were completed before drilling was suspended due to the onset of the wet season in north-east Africa.

The drilling was designed to test bedrock Electro-Magnetic ("**EM**") conductors that potentially reflect VHMS bodies similar to the nearby Bisha deposit. The conductors were identified by a Versatile Time domain Electro-Magnetic

(VTEM) survey completed mid-2011 and subsequently further refined by ground-based geophysics (gravity) and geochemical sampling. Although no massive sulphides have been intersected in the holes completed to date, one hole (MOGCD 007) intersected high silver (up to 2.8 g/t) and barium values in highly sulphidic carbonaceous shales that potentially reflects a distal VHMS system. Drilling is expected to recommence in October 2012 with follow-up of the MOGD 007 intersection a high priority.

In addition, artisanal gold workings were identified in the north-central part of the tenement associated with anomalous stream sediment gold values. Soil and rock chip sampling over the area (termed Area C) identified coincident gold-bismuth-tellurium-molybdenum anomalism centred on the artisanal workings and a swarm of porphyritic felsic dykes. This geochemical signature is identical to that found over the Koka Gold Deposit and is characteristic of Intrusive Related Gold Systems (IRGS) such as those found in the Tintina Belt of Alaska and the Yukon (e.g. Fort Knox, Pogo). Follow-up soil sampling to define the extent of anomalism is planned, with drilling to commence in November 2012.

### **Hurum Exploration**

The Company completed a first-pass reconnaissance exploration program on the 275sq km Hurum property, which lies along strike from the Zara Project and covers similar geological elements. Stream sediment and soil sampling defined several gold and pathfinder element anomalies associated with artisanal gold workings and alteration zones that require further work.

### **Australian Exploration Projects**

#### **Gnaweeda Gold Project**

In early June 2012, Chalice agreed to sell its remaining 13.5 per cent interest in the Gnaweeda Gold Project to Archean Star. Archean Star, which is listed on the TSX-V, is in the process of earning up to 100 per cent in the project from Teck. The consideration for the sale was A\$375,000 satisfied by the issue of 5 million common shares in Archean Star. The agreement is subject to the approval of TSX-V.

### **Employees**

As at the date of this AIF, the Company has an aggregate of 37 employees, comprising 28 in Eritrea, one in Canada and eight in the head office in Perth, Western Australia.

The Company is dependent upon the services of key executives, including the Executive Chairman and Managing Director. See "*Risk Factors – Dependence on Key Personnel*".

### **Environmental Protection**

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. To date, applicable environmental legislation has had no material, financial or operational affects upon the operation of the Company. See also "*Risk Factors – Environmental Risks*".

## **DIVIDEND POLICY**

To date, no dividends have been paid to Shareholders. There are no restrictions in Chalice's constituting documents that would restrict or prevent Chalice from paying dividends. However, it is not contemplated that any dividends will be paid on the Shares in the immediate future. Any decision to pay dividends on the Shares in the future will be made by the board of directors of the Company on the basis of the earnings, financial requirements and other conditions existing at such time and will be subject to any restrictions imposed by the terms of any debt facilities or other contractual obligations of Chalice.

As noted above under 'Recent Developments', Chalice announced on September 24, 2012 it proposed a capital reduction and return, subject to shareholder approval of up to A\$25 million (10 cents per share).

## DESCRIPTION OF SHARE CAPITAL

As of September 28, 2012 there were 250,030,886 Shares issued and outstanding. All issued Shares are fully paid. As of September 28, 2012 the Company had 5,100,000 options outstanding. Each option entitles the holder thereof to acquire one Share with exercise prices ranging from A\$0.20 to A\$0.70 as detailed below:

Grant Date	Expiry Date	Exercise Price (A\$)	Balance Unexercised
December 1, 2007	December 1, 2012	\$0.25	500,000
August 1, 2008	July 31, 2013	\$0.20	500,000
November 17, 2009	March 31, 2014	\$0.35	1,250,000
November 17, 2009	March 31, 2014	\$0.45	1,250,000
November 25, 2010	April 30, 2014	\$0.55	187,500
November 25, 2010	April 30, 2014	\$0.65	187,500
November 25, 2010	April 30, 2014	\$0.70	375,000
September 14, 2011	September 14, 2014	\$0.45	750,000
December 16, 2011	November 30, 2014	\$0.45	100,000

As of September 28, 2012, the Company had 400,000 performance rights (each, a “performance right”) outstanding. Each Performance Right entitles the holder thereof to one Share. All Performance Rights have a nil exercise price.

### *Rights Attaching to Shares*

#### **General**

The rights attaching to the Shares arise from a combination of the Company’s Constitution (the “Constitution”), the Corporations Act, the ASX Listing Rules and general law.

A summary of the more significant rights is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of the Shareholders of the Company. To obtain a more definitive understanding and statement, persons should seek legal advice.

#### **Voting Rights**

Subject to the Constitution and any rights or restrictions at the time being attached to Shares, at a general meeting of the Company every Shareholder present in person, or by proxy, attorney or representative has one vote on a show of hands, and upon a poll, one vote for each Share held by the Shareholder. In the case of an equality of votes, the chairperson has a casting vote.

#### **Dividends**

Subject to the Corporations Act, Stock Exchange Listing Rules and any rights or restrictions attached to Shares, the Company may pay dividends as the Board. The directors may determine the method and time for payment of the dividend.

#### **Winding up**

Subject to the Corporations Act, Stock Exchange Listing Rules and any rights or restrictions attached to Shares, on a winding up of the Company any surplus must be divided among the Shareholders in proportion which the amount paid on the Shares bears to the total amount paid and payable on the Shares of all Shareholders.

#### **Transfer of Shares**

Generally, shares are freely transferable, subject to satisfying the requirements of the Stock Exchange Listing Rules, ASTC Rules, the ACH Clearing Rules and the Corporations Act. The Board may decline to register any transfer of shares but only where permitted to do so by the Corporations Act, Stock Exchange Listing Rules, the ASTC Rules, the ACH Clearing Rules or under the Constitution.

## Calls on Shares

Subject to the Corporations Act and the terms of issue of a Share, the Company may, at any time, make calls on Shareholders for all, or any part of, the amount unpaid on the share. If a Shareholder fails to pay a call or instalment of a call, the Company may, subject to the Corporations Act and Stock Exchange Listing Rules, commence legal action for all, or part of the amount due, enforce a lien on the Share in respect of which the call was made or forfeit the Share in respect of which the call was made.

## Further Increases in Capital

Subject to the Corporations Act, Stock Exchange Listing Rules, the ASTC Rules and the ACH Clearing Rules and any rights attached to a class of Shares, the Company (under the control of the board of directors) may allot and issue Shares and grant options over Shares, on any terms, at any time and for any consideration, as the directors resolve.

## Variation of Rights Attaching to Shares

Subject to the Corporations Act, Stock Exchange Listing Rules, the ASTC Rules and the ACH Clearing Rules and the terms of issue of Shares in a particular class, the Company may vary or cancel rights attached to Shares in that class by either special resolution passed at a general meeting of the holders of the Shares in that class, or with the written consent of the holders of at least 75 per cent of the votes in that class.

## General Meeting

Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive notices, accounts and other documents required to be furnished to Shareholders under the Constitution, the Corporations Act and Stock Exchange Listing Rules.

## SECURITIES AUTHORISED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

### Employee Share Option Plan

The Company has an employee and consultant stock option plan (the “**Option Plan**”) which was approved by Shareholders on November 25, 2010.

The following table sets out information as of June 30, 2012 with respect to equity securities of the Company which have been and are authorised for issuance as compensation.

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options (A\$)	The number of securities available for future issuance will be determined from time to time by taking 15 per cent of the then number of ordinary Shares on issue in Chalice and then deducting from that figure the number of outstanding options as at that time
Equity compensation plans approved by Shareholders	8,350,000	0.45	25,054,632
Equity compensation plans not approved by Shareholders	-	-	-
Total	8,350,000	0.45	25,054,632



## *Option Plan*

The material features of the Option Plan are set out below.

### **Eligibility**

Under the terms of the Option Plan, the Board (at its discretion) may offer free options to persons (“**Eligible Persons**”) who are full-time or part-time employees (including a person engaged by the Company under a consultancy agreement) or to directors (both executive and non-executive) of the Company or any subsidiary, based on a number of criteria, including contribution to the Company, period of employment, potential contribution to the Company in the future, and other factors the board considers relevant.

Under ASX Listing Rules, an issue of options to directors, irrespective of whether made under the Option Plan or not, requires specific Shareholder approval.

### **Number of Options**

The maximum number of options issued under the Option Plan at any one time is 15 per cent of the total number of Shares on issue in the Company, provided that the Board may increase this percentage, subject to the Corporations Act and Stock Exchange Listing Rules.

There are no other restrictions on the maximum percentage of number of options that may be issued to any single person or entity (other than as noted above on an issue of options to directors).

### **Terms of Options**

Each option entitles the holder, on exercise, to one Share in the Company.

There is no issue price for the options. The exercise price for the options will be determined by the Board in its discretion, provided that the exercise price shall not be less than the weighted average sale price of Shares sold on ASX during the five business days prior to the date of issue or such other period as determined by the Board in its discretion. The expiry date of the options is determined by the Board.

Shares issued on exercise of options will rank equally with other Shares of the Company.

Options are personal to the Eligible Persons and may not be transferred other than to a nominee of the Eligible Person. The options may be issued on terms not allowing an exercise until a certain event or fact has taken place, such as a length of time of service or the achieving of a specified event. The Board may determine the vesting period (if any).

An option will lapse upon the first to occur of the expiry date and the Board making a determination that the Eligible Person has acted fraudulently, dishonestly or in breach of his or her respective obligations to the Company. Options are required to be forfeited within three months of an employee ceasing to be employed (other than through retirement, permanent illness or incapacity). In the event of retirement, permanent illness or incapacity, the Board has discretion to allow a longer period before the prospective options lapse.

If, in the opinion of the Board, any of the following has occurred or is likely to occur including: the Company entering into a scheme of arrangement; the commencement of a takeover bid for the Company’s Shares; or a party acquiring a sufficient interest in the Company to enable them to replace the Board; then the Board may, at its discretion, declare an option to be free of any conditions of exercise. Options which are so declared may, subject to the lapsing conditions set out above, be exercised at any time on or before their expiry date and in any number.

## **New Issues**

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

## **Bonus Issues**

If the Company makes an issue of Shares to Shareholders by way of capitalization of profits or reserves (“**Bonus Issue**”), each option holder holding any options which have not expired at the time of the record date for determining entitlements to the Bonus Issue shall be entitled to have issued to him upon exercise of any of those options the number of Shares which would have been issued under the Bonus Issue (“**Bonus Shares**”) to a person registered as holding the same number of Shares as that number of Shares to which the option holder may subscribe pursuant to the exercise of those options immediately before the record date determining entitlements under the Bonus Issue (in addition to the Shares which he or she is otherwise entitled to have issued to him or her upon such exercise). The Bonus Shares will be paid by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the Bonus Issue and upon issue rank pari passu in all respects with the other Shares issued upon exercise of the options.

## **Reconstruction of Capital**

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

## **Taxation**

Under current taxation laws any taxation liability in relation to the options or the Shares issued on exercise of the options will fall on the option holders. The Company will not be liable to fringe benefits tax in relation to options or Shares issued under the Option Plan.

## **Participation by Directors**

Although directors are eligible to be offered options under the Option Plan, any issuance of options to directors requires specific Shareholder approval due to the requirements of ASX Listing Rules and the Corporations Act.

### *Employee Long Term Incentive Plan*

The Company has an employee long term incentive plan (the “**LTIP**”) which was approved by Shareholders on November 22, 2011.

The following table sets out information as of June 30, 2012 with respect to equity securities of the Company which have been and are authorised for issuance as compensation.

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon vesting of performance rights	Weighted-average exercise price of outstanding performance rights(A\$)	The number of securities available for future issuance will be determined from time to time by taking 15 per cent of the then number of ordinary Shares on issue in Chalice and then deducting from that figure the number of outstanding performance rights as at that time
Equity compensation plans approved by security holders	900,000	-	4,100,000
Equity compensation plans not approved by security holders	-	-	-
Total	900,000	-	4,100,000

The material features of the LTIP are set out below.

### 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 LTIP to employees (including the Named Executive Officers) or an approved nominee to achieve certain objectives.

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

### Rules

Performance Rights granted under the LTIP 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 LTIP (and the terms and conditions to be attached to the LTIP) are summarised as follows:

- (a) **Eligible Participants:** All full-time employees and permanent part-time employees (including the Named Executive Officers) of the Company are eligible participants under the LTIP. As noted above, Shareholder approval is required before any Director or related party of the Company can participate in the LTIP.
- (b) **Limits on Entitlements:** The maximum number of Shares that is issuable under the LTIP, when combined with the number of Shares issued during the previous five years pursuant to the LTIP or any other employee incentive scheme of the Company (including the Option Plan) 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 per cent 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 LTIP does not set out a maximum number of Shares that may be made issuable to any one person or company, other than the 5 per cent limit referred to above.
- (d) **Consideration Payable:** Performance Rights will be granted for no consideration.
- (e) **Vesting:** The Performance Rights granted under the LTIP 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 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.
- (g) **Disability, Redundancy or Death:** Under the LTIP, upon the total and permanent disability, redundancy or death of a participant, as defined in the LTIP, 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 Stock Exchange 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.

- (h) **Restriction on dealing with Shares:** Shares issued to a participant under the LTIP 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 Stock Exchange 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 LTIP:** The Board may at any time and from time to time by resolution alter the LTIP. However, any amendment to the LTIP is subject to any restrictions or procedural requirements relating to the amendment or the rules of an employee incentive scheme imposed by the Stock Exchange Listing Rules or applicable securities laws.
- (p) **Suspension or Termination:** The Board may suspend or terminate the LTIP at any time, without notice, but the suspension or termination will not affect any existing grants of Performance Rights already made.

## PRICE RANGE AND TRADING VOLUME OF SHARES

The Shares are currently listed on ASX and TSX. The following table sets forth the reported high and low sale prices and the trading volume of the Company's Shares on each exchange for the financial year ended June 30, 2012.

ASX	High (A\$)	Low (A\$)	Volume
<b>2012</b>			
June	0.22	0.19	6,118,200
May	0.23	0.19	7,509,200
April	0.26	0.22	2,383,500
March	0.28	0.22	7,207,600
February	0.28	0.24	3,960,100
January	0.28	0.24	4,630,300
<b>2011</b>			
December	0.34	0.25	10,676,200
November	0.31	0.24	4,620,800
October	0.30	0.25	6,767,500
September	0.39	0.26	11,223,100
August	0.34	0.25	5,760,800
July	0.34	0.28	13,248,900

<b>TSX</b>	<b>High (CAD\$)</b>	<b>Low (CAD\$)</b>	<b>Volume</b>
<b>2012</b>			
June	0.22	0.19	71,800
May	0.25	0.21	124,100
April	0.25	0.23	112,500
March	0.29	0.21	103,600
February	0.30	0.17	440,900
January	0.30	0.21	387,000
<b>2011</b>			
December	0.38	0.26	525,400
November	0.36	0.25	171,800
October	0.38	0.20	39,400
September	0.38	0.33	74,200
August	0.37	0.30	181,700
July	0.35	0.27	554,400

## PRIOR SALES

The following table summarizes the issuance by the Company of Shares or securities convertible into Shares in the most recent financial year to June 30, 2012. No Shares were issued during the financial year ended June 30, 2012.

### Options:

<b>Date of Issue</b>	<b>Description</b>	<b>Number of Options</b>	<b>Expiry Date</b>	<b>Exercise Price Per Option (A\$)</b>
August 30, 2011 <sup>(1)</sup>	Option Plan	500,000	March 31, 2014	0.40
September 14, 2011	Option Plan	750,000	September 14, 2014	0.45
November 22, 2011 <sup>(2)</sup>	Option Plan	2,500,000	November 30, 2014	0.50
December 16, 2011	Option Plan	100,000	November 30, 2014	0.45

<sup>(1)</sup> 500,000 options were cancelled on February 16, 2012

<sup>(2)</sup> 2,500,000 options were cancelled on September 7, 2012.

### Performance Rights:

<b>Date of Issue</b>	<b>Description</b>	<b>Number of Performance Rights</b>	<b>Expiry Date</b>	<b>Exercise Price (A\$)</b>
December 15, 2011 <sup>(1)</sup>	Performance Rights Plan	750,000	June 30, 2015	-
December 16, 2011 <sup>(2)</sup>	Performance Rights Plan	500,000	June 30, 2015	-
December 16, 2011	Performance Rights Plan	250,000	November 30, 2015	-
December 16, 2011	Performance Rights Plan	150,000	November 30, 2015	-

<sup>(1)</sup> 750,000 performance rights were cancelled on February 17, 2012

<sup>(2)</sup> 500,000 performance rights were cancelled on September 7, 2012.

## ESCROWED SECURITIES

To the knowledge of the Company, there are no securities held in escrow.

## PRINCIPAL SHAREHOLDERS

To the best of the knowledge of the directors and executive officers of the Company, except as set out in the table below, there are no persons who, as of the date hereof, are the direct or indirect beneficial owners of, or exercise control or direction over 10 per cent or more of the outstanding Shares.

<u>Name of Shareholder</u>	<u>Designation of Class</u>	<u>Type of Ownership</u>	<u>Number of Shares</u>	<u>Percentage of Class as of the date hereof</u> %
Franklin Resources Inc	Ordinary	indirect beneficial	31,107,008	12.44
Timothy Goyder	Ordinary	direct and indirect beneficial <sup>(1)</sup>	33,724,342	13.49

(1) The indirect beneficial interest of Timothy Goyder is by way of his control of (i) Plato Prospecting Pty Ltd. (as trustee for the TRB Goyder Superannuation Fund) which has 1,187,675 Shares and (ii) Lotaka Pty Ltd which has 11,667 Shares.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth, as at the date of this AIF, the name, province or state and country of residence of each director and executive officer of the Company, as well as such individual's position within the Company principal occupation within the five preceding years and periods of service as a director (if applicable).

Each of the directors of the Company will hold office until the next annual meeting of Shareholders or until such director's successor is elected and qualified or until the director's earlier death, resignation or removal. One-third of the directors (except the Managing Director) are required to retire from office each year and submit themselves for re-election (if they wish) and in any event no director may retain office for more than three years without submitting themselves for such re-election. Re-appointment of directors is not automatic.

As at the date of this AIF, an aggregate 35,440,316 Shares (representing approximately 14.17 per cent of all issued and outstanding Shares as at that date) are beneficially owned or controlled or directed (directly or indirectly) by all of the directors and executive officers of the Company as a group. In addition, directors and officers have an interest in 4,625,000 unlisted options and 250,000 performance rights.

<b>Name, province or state and country of residence and position with the Company</b>	<b>Present principal occupation if different from office held and principal occupation for the past five years</b>	<b>Appointed</b>	<b>Number of Shares owned, controlled or directed <sup>(1)</sup></b>
Timothy Rupert Barr Goyder Perth, Western Australia Executive Chairman	Mr. Goyder was initially appointed as a non-executive director in October 2005 and subsequently appointed Executive Chairman in November 2008. During the period 2001 to 2007 Mr. Goyder was the principal and owner of Grimwood Davies Limited which was subsequently acquired by Boart Longyear Limited in January 2008.	October 25, 2005	33,724,342
Dr Douglas Alan Jones Perth, Western Australia Managing Director	Prior to being appointed Managing Director in December 2009 Dr Jones was a non-executive director of Chalice and also the Managing Director of Liantown Resources Limited (listed on ASX). Dr Jones	November 11, 2008	296,278

Name, province or state and country of residence and position with the Company	Present principal occupation if different from office held and principal occupation for the past five years	Appointed	Number of Shares owned, controlled or directed <sup>(1)</sup>
	remains a director of Liontown Resources Limited and 2 other TSX and AIM listed entities.		
Stephen Paul Quin <sup>(2)(3)</sup> West Vancouver, BC, Canada Non-executive Director	Stephen is President & CEO of Midas Gold Corp. and its predecessor since January 2011. Stephen was, until December 2010, President and COO of Capstone Mining Corp. and President & CEO of its predecessor, Sherwood Mining Corp. from 2005 until the combination with Capstone in 2008. He is also a director of TSX-listed Mercator Minerals Ltd., TSX Venture-listed Troon Ventures and NASDAQ-listed Blue Wolf Mongolia Holdings Corp.	May 3, 2010	26,321
Anthony William Kiernan <sup>(2)(3)</sup> Perth, Western Australia Non-executive Director	Mr. Kiernan is a former lawyer and business consultant and a director of four other entities listed on ASX.	February 15, 2007	1,162,041
Richard Keith Hacker Perth, Western Australia Chief Financial Officer and Company Secretary	Mr. Hacker is Chief Financial Officer and Company Secretary of Chalice.	August 1, 2008	231,334

(1) The information as to Shares beneficially owned or over which any of the directors or executive officers exercises controls or direction (directly or indirectly) not being within the knowledge of the Company has been furnished by the respective director or executive officer individually.

(2) Member of the Audit Committee.

(3) Member of the Remuneration Committee.

Biographical information for each member of the Board and the executive officers of the Company in addition to the information above, is set out below.

### **Timothy Goyder – Executive Chairman**

Mr. Goyder has over 35 years of experience in the resource industry as a prospector, investor, company director and as the owner and operator of a large contract drilling company.

Mr. Goyder has been involved in a range of exploration projects and in the formation and management of various publicly listed companies. He is currently a director of Uranium Equities Limited and Strike Energy Limited and chairman of Liontown Resources Limited, all entities being listed on the ASX.

### **Dr Douglas Jones, PhD, AusIMM, CPGeo – Managing Director**

Dr Jones is a geologist and has 34 years of experience in international mineral exploration, having worked extensively in Australia, Africa (where he was instrumental in the discovery of the Siguri gold mine in Guinea), the Americas and Europe. His career has covered exploration for volcanic and sediment-hosted zinc-copper-lead, gold in a wide range of geological settings and IOCG style copper-gold. He is also a director of Liontown Resources Limited (listed on ASX), a director of TSX and AIM listed Minera IRL Limited and TSX and AIM listed Serabi Mining Plc. Dr Jones was also previously a director of Moto Gold Mines Limited.



### **Stephen Quin – Non-executive Director**

Mr Quin is a mining geologist with over 30 years' experience in the mining and exploration industry. Stephen is based in Vancouver, Canada, and has been the President and CEO of Midas Gold Corp. and its predecessor since January 2011. Stephen was, until December 2010, President and COO of Capstone Mining Corp. and President & CEO of its predecessor, Sherwood Mining Corp. from 2005 until the combination with Capstone in 2008. He is also a director of TSX-listed Mercator Minerals Ltd., TSX Venture-listed Troon Ventures and NASDAQ-listed Blue Wolf Mongolia Holdings Corp. Stephen has extensive experience in the resources sector, and in the financing, development and operation of production companies.

### **Anthony Kiernan, LLB - Non-executive Director**

Mr. Kiernan is a former solicitor with substantial experience in the administration and operation of listed public companies particularly in the resources sector. He is chairman of BC Iron Limited, Uranium Equities Limited and Venturex Resources Limited and a director of Liontown Resources Limited, all of which are listed on the ASX.

### **Richard Hacker, B.Com, ACA, ACIS – Chief Financial Officer and Company Secretary**

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

### **Terms of Directors and Executive Officers**

No directors of the Company have set terms, although three months notice of termination is required for Douglas Jones and Timothy Goyder. As directors of the Company and other than as contractually bound, their respective terms are in part governed by the Constitution of the Company which, as detailed above, requires one-third of the directors (other than the Managing Director) to retire at each general meeting of the Company, and, if they wish, offer themselves for re-election.

### **Audit Committee**

The Audit Committee of Chalice consists of:

Anthony Kiernan	-	Non-executive director (Chair)
Stephen Quin	-	Independent non-executive director

During the year the Audit Committee held two meetings.

### **Remuneration Committee**

The Remuneration Committee of Chalice consists of:

Anthony Kiernan	-	Non-executive Director (Chair)
Stephen Quin	-	Independent Non-executive Director

During the year the Remuneration Committee held one meeting.

## Compensation Discussion & Analysis

The Board is responsible for ensuring Chalice's remuneration strategy is aligned with Company performance and shareholder interests and equitable for participants. To assist with this, the Board has established a Remuneration Committee consisting of the following directors:

Anthony Kiernan	Chair of the Remuneration Committee
Stephen Quin	Independent Non-Executive Director

Both Mr Kiernan and Mr Quin are members of several Remuneration Committee's of publicly listed company's and therefore provide a significant depth of experience in relation to executive remuneration particularly in relation to the mining and resources sectors.

Tim Goyder was initially a member of the Remuneration Committee, however, due to his role of Executive Chairman of the Company, it was determined that he should resign as a member of the Committee so that the Committee consists only of non-executive directors and/or independent non-executive directors.

The Remuneration Committee's objective is to support and advise the Board in fulfilling its oversight responsibility by focusing on the Company's approach to Board and executive remuneration plus the use of equity generally across the company. Further detail of the role of the Remuneration Committee is set out in the Remuneration Committee Charter that can be accessed on the Chalice website at [www.chalicegold.com](http://www.chalicegold.com).

### *Use of remuneration consultants*

To ensure the Remuneration Committee is fully informed when making remuneration decisions, the Remuneration Committee may seek external advice, as required, on remuneration policies and practices.

During the year advice was sought from Ernst & Young in relation to the design and implementation of the LTIP. Furthermore, the Company obtained benchmark data for the resources sector from Godfrey Remuneration Group Pty Ltd ('Godfrey') to assist in the setting of executive remuneration. The Company did not receive any specific advice on salaries or remuneration policy from Godfrey and were not retained by the Company.

		A\$
Executive compensation related fees	- Ernst & Young	7,364
	- Godfrey	990
Other fees	- Ernst & Young	\$84,975
	- Godfrey	Nil

### *Remuneration report approval at 2011 Annual General Meeting*

The Remuneration Report for the financial year ended 30 June 2011 received negative shareholder support at the 2011 Annual General Meeting (AGM) with a vote of 36 per cent of those voting not in favour of approving the 2011 Remuneration Report. The Basis of the negative vote was not as to the quantum of remuneration, but to the form of remuneration to non-executive directors and the perceived lack of independent directors on the Board (see generally comments below).

Since the 2011 AGM, the Board has consulted with key shareholders to determine the reasons for voting against the 2011 Remuneration Report.

The table below sets out the summary of feedback received from key shareholders in relation to the Company's Remuneration Policy or application thereof and the Company's response to those concerns

Shareholder feedback	Discussion
The vesting of a significant proportion of long term incentives grants should, not in their opinion, occur less than three years from date of grant.	A significant proportion of previously issued Long Term Incentives ('LTI') to directors and named executives officers, including performance rights and share options, some of which vested in less than 3 years, have lapsed due to the sale of the Zara Project, ie. the performance conditions could no longer be met. The Board will consider increasing vesting periods for future issues of LTI to directors and named executives officers. However, there may be certain circumstances whereby shorter vesting periods are warranted such as for retention purposes.
The issue of share options with only a premium exercise price to the current share price is not, in their opinion, a sufficient performance hurdle.	Vested share options issued to directors and named executives officers, the majority of which have been approved by shareholders in previous years, will remain in full force and effect. However, as noted in the 2011 Remuneration Report, the Company has implemented an LTIP to issue performance rights which will provide for additional performance hurdles where warranted. In future it is the Board's intention to utilize performance rights rather than share options as the means of providing long term incentives to directors and named executives officers.
Non-executive directors should not, in their opinion, receive share options or performance rights.	The Board is of the opinion that share options are an important component of attracting and retaining quality non-executive directors, particularly in the small cap resources sector. However, the concerns of shareholders have been noted and the issue of share options in future will be taken into consideration as compared to the likely increase in fixed directors' fees should share options not be issued.
Members of the Remuneration Committee should consist of non-executive directors only.	The Remuneration Committee now consists of non-executive directors only.

### Remuneration principles and components of remuneration

The Company has adopted the following principles in its remuneration framework:

1. The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors and executives of the highest calibre, while incurring a cost which is acceptable to shareholders and appropriate for the Company's size; and
2. Directors' and officers' interests need to be aligned with the creation of shareholder value and Company performance by:
  - providing fair, consistent and competitive compensation and rewards to attract and retain high calibre employees;
  - ensuring that total remuneration is competitive with its peers by market standards;

- incorporating in the remuneration framework both short and long term incentives linked to the strategic goals and performance of the individuals and the Company and shareholder returns;
- demonstrating a clear relationship between individual performance and remuneration; and
- motivating employees to pursue and achieve the long term growth and success of the Company.

The following table is an overview of the components of remuneration:

	Element	Non-executive directors	Executives
Fixed remuneration	Base salary	×	✓
	Base fee	✓	×
	Committee fees	✓	×
	Superannuation	✓ <sup>(1)</sup>	✓
	Consultancy fees	✓ <sup>(2)</sup>	×
	Other benefits	✓	✓
Variable remuneration	Short term incentives (STI)	×	✓
	Share options	✓ <sup>(3)</sup>	✓
	Performance rights	×	✓

<sup>(1)</sup>Only applies to Australian non-executives.

<sup>(2)</sup>Some directors are paid consultancy fees on an arm's length basis (refer below).

<sup>(3)</sup>Non-executive directors are eligible to participate in the share option plan at the discretion of the Board (refer below for further details).

### Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate fees to be paid to non-executive directors for their role as a director are to be approved by shareholders at a general meeting. At the 2011 AGM, Shareholders approved an aggregate amount of A\$450,000 per year (including superannuation).

The fee structure for non-executive directors is reviewed annually and the Remuneration Committee and the Board will consider advice from external consultants, which includes comparative analyses of the fees paid to non-executive directors of comparable companies in the resources sector with similar market capitalisations when undertaking the annual review process. Generally, the Company will position itself within the 50<sup>th</sup> and 75<sup>th</sup> percentile band of the comparative market data.

For the 2012 financial year (effective 1 July 2011), non-executive directors received a fee of A\$45,000 (inclusive of superannuation), the members of the Audit Committee and Remuneration Committee also received an additional A\$5,000 for their roles. The additional payments recognise the additional time commitment by non-executive directors who serve on committees.

The non-executive directors are not entitled to receive retirement benefits. Non-executive directors, at the discretion of the Board, may participate in the Option Plan, subject to the usual approvals required by shareholders. However, the Board has noted the concerns of shareholders regarding the issue of share options to non-executive directors and will balance the cost benefit of issuing share options to attract and retain quality directors against paying higher fixed directors' fees.

Non-executive directors are not eligible to participate in the LTIP.

Apart from their duties as directors, some non-executive directors may undertake work for the Company on a consultancy basis pursuant to the terms of consultancy services agreements. The nature of the consultancy work varies depending on the expertise of the relevant non-executive director. Under the terms of these consultancy agreements, non-executive directors would receive a daily rate or monthly retainer for the work performed at a rate comparable to market rates that they would otherwise receive for their consultancy services.

The table below sets forth all annual and long term compensation for services rendered in all capacities to Chalice for the financial year ended June 30, 2012 in respect of the non-executive directors:

Name	Fees earned (A\$)	Share-based awards (A\$)	Option-based awards (A\$)	Non-equity incentive plan compensation (A\$)	Pension (Superannuation) value (A\$)	All other compensation (A\$) <sup>(2)</sup>	Total (A\$)
Anthony Kiernan <sup>(1)</sup>	203,196	-	-	-	3,888	2,445	209,529
Stephen Quin	42,083	-	56,085	-	-	2,445	60,537

<sup>(1)</sup> Mr. Kiernan provided consultancy and legal services to the Company during the year and was paid A\$160,000 for such services.

<sup>(2)</sup> Relates to Directors and Officers insurance premium costs paid by the Company.

#### *Outstanding Option-Based and Share-Based Awards*

The following table sets out, for each non-executive director, information concerning all option-based and Share-based awards outstanding as of June 30, 2012.

Name	Option-based awards				Share-based awards	
	Number of securities underlying unexercised options (#)	Option exercise price (A\$)	Option expiration date	Value of unexercised in-the-money options (A\$)	Number of Shares or units of Shares that have not vested (#)	Market or payout value of Share-based awards that have not vested (A\$)
Anthony Kiernan (Non-executive Director)	500,000	0.25	December 1, 2012	-	-	-
Stephen Quin (Non-executive Director)	187,500	0.55	April 30, 2014	-	187,500	-
	187,500	0.65	April 30, 2014			
	375,000	0.75	April 30, 2014			

#### *Value Vested or Earned During the Year*

The following table sets out, for each non-executive director, information concerning the value of incentive plan awards, option-based and share-based awards, as well as non-equity incentive plan compensation, vested or earned during the financial year ended June 30, 2012.

Name	Option-based awards – Value vested during the year (A\$)	Share-based awards – Value vested during the year (A\$)	Non-equity incentive plan compensation – Value earned during the year (A\$)
Anthony Kiernan (Non-executive Director)	-	-	-
Stephen Quin (Non-executive Director)	56,085	-	-

### Executive remuneration

The executive remuneration consists of fixed remuneration and variable remuneration in the form of share options and performance rights. During the 2012 financial year, an LTIP was implemented with the intention to more closely align executive remuneration with the interests of shareholders. The LTIP was approved by the Company's shareholders at the 2011 AGM and the structure of the plan is detailed below.

#### Fixed remuneration

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate for the position and competitive in the market. The Company aims to pay within the 50<sup>th</sup> and 75<sup>th</sup> 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.

Fixed remuneration is reviewed at appropriate times (and no less than on an annual basis) by the Remuneration Committee and approved by the Board having regard to the Company and individual performance, relevant comparable remuneration for similarly capitalised companies in the mining industry and independently compiled market data. Executives receive their fixed remuneration in the form of cash.

#### Variable remuneration - STIP

As detailed in the 2011 Remuneration Report, the Remuneration Committee recommended to the Board that a formal Short Term Incentive Plan ('STIP') be implemented. It was proposed that the objectives of the plan would be closely linked to the development of the Koka Gold Mine, which, subsequent to year end, was sold as part of the Zara Project.

Due to the sale of the Zara Project, a formal STIP has not been implemented; however, the Board retains discretion to reward outstanding individual performance subject to the Company's cash position and financial outlook.

No cash bonuses were paid during the financial year ended June 30, 2012.

#### Variable remuneration – stock option plan

Equity grants to executives have previously been delivered in the form of employee share options granted under the Option Plan which was approved by shareholders in 2010. Options were issued at an exercise price determined by the Board at the time of issue. Previous grants of options are taken into account when considering new grants.

Generally, no performance hurdles were set on options issued to executives. The Company believed that as options were issued at a price in excess of the Company's current share price at the date of issue of those options, there was an inherent performance hurdle as the share price of the Company's shares had to increase before any reward could accrue to the executive.

The vesting period for share options is at the discretion of the Board and the expiry date of share options is usually between 3 and 5 years.

Upon cessation of employment, participants have 3 months from the date of cessation to exercise the share options. This requirement may be waived at the Board's discretion.

It is the Board's preference to issue Performance Rights under the new LTIP rather than share options.

### Variable remuneration – new employee long term incentive plan (LTIP)

Within the context of the review of the Company's remuneration approach the Company introduced an LTIP, with the objectives of:

- aligning employee incentives with personal and Company performance;
- balance the short term with the long term Company focus; and
- assist in attracting and retaining high calibre employees by providing an attractive long term retention tool that builds an 'ownership of the Company' mindset.

Under the LTIP, the Board has the discretion to make annual awards of Performance Rights to executives and employees. The level of the award of Performance Rights is dependent on an employee's position within the Company. Subject to the performance criteria set out in the terms of the LTIP, Performance Rights held by an employee may convert into shares in the Company. In the event the performance criteria are not achieved, the employee's Performance Rights lapse with no shares being issued. Previous grants of Performance Rights are taken into account when considering new grants.

Details of Performance Rights granted during the year are shown below:

Executive	Number of Rights	Performance Condition	Achievement date	Status
Mr J Jeffery <sup>(1)</sup>	250,000	Practical completion of the plant at the Company's Koka Gold Mine	June 30, 2013	Lapsed
	250,000	First gold pour from the Koka Gold Mine	September 30, 2013	Lapsed
	250,000	Commercial gold production from the Koka Gold Mine for a period of 6 months	June 30, 2014	Lapsed
Mr M Kelly <sup>(2)</sup>	166,667	Practical completion of the plant at the Company's Koka Gold Mine	June 30, 2013	Lapsed
	166,667	First gold pour from the Koka Gold Mine	September 30, 2013	Lapsed
	166,666	Commercial gold production from the Koka Gold Mine for a period of 6 months	June 30, 2014	Lapsed
Mr R Hacker	125,000	Retention – Service period only	October 1, 2012	
	125,000	Retention – Service period only	October 1, 2013	

<sup>(1)</sup>Mr Jeffery's Performance Rights lapsed on February 17, 2012 as Mr Jeffery ceased employment with the Company.

<sup>(2)</sup>Mr Kelly's Performance Rights lapsed on September 7, 2012 as the Company completed the sale of the Zara Project and thus the performance conditions set for Mr Kelly were no longer able to be achieved.

### Link between performance and executive remuneration

The focus of executive remuneration over the financial year was fixed remuneration and the share options and performance rights (ie. growing the value of the Company as reflected through share price). The current review of the Company's remuneration approach seeks to ensure that executive remuneration is appropriately aligned with the business strategy and shareholder interests.

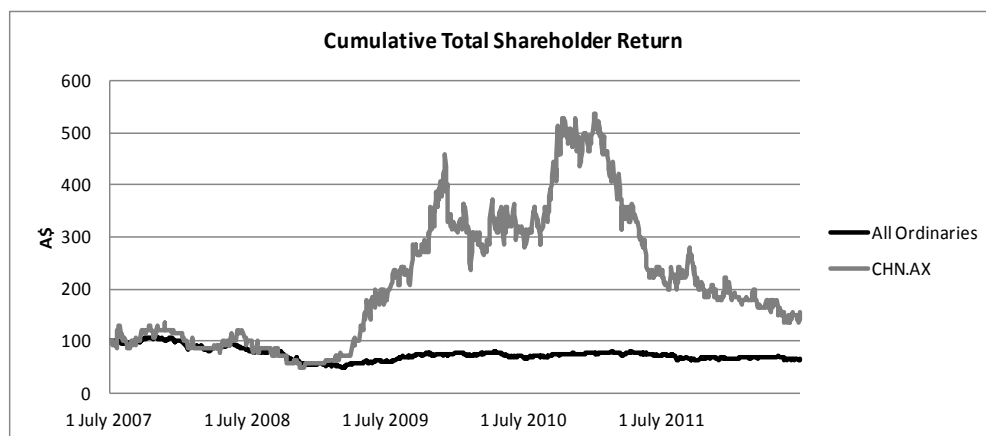
The share price performance over the last 5 years is as follows:

	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011	June 30, 2012
Share price	A\$0.14	A\$0.25	A\$0.39	A\$0.33	A\$0.20

### Cumulative total shareholder return

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on its Shares with the cumulative total return of the ASX All Ordinaries over the period July 1, 2007 to June 30, 2012. The graph illustrates the cumulative return on a A\$100 investment in Shares made in July 1, 2007 as

compared with the cumulative return on a A\$100 investment in the ASX All Ordinaries made on the same date. The Share performance as set out in the graph does not necessarily indicate future price performance.



### Summary Compensation Table

#### Information for the year ended June 30, 2012

The following table sets out information concerning the compensation earned from the Company and any of the Company's subsidiaries during the financial year ended June 30, 2012 and for the previous financial year by each of Company's Named Executive Officers.

The Company has reported compensation in the table below for the financial year ended June 30, 2012, in accordance with applicable requirements, as the Company believes this discloses all significant elements of the compensation awarded to, earned by, paid to, or payable to Named Executive Officers of the Company.

Name and principal position	Year	Salary (A\$)	Share-based awards (A\$) <sup>(1)</sup>	Option-based awards (A\$) <sup>(1)</sup>	Non-equity incentive plan compensation (A\$)		Pension value (Superannuation) (A\$)	All other compensation (A\$) <sup>(2)</sup>	Total compensation (A\$)
					Annual incentive plans	Long-term incentive plans			
Timothy Goyder (Executive Chairman)	2012	263,761	-	-	-	-	23,739	2,445	289,945
	2011	229,358	-	-	-	-	20,642	2,601	252,601
Dr Douglas Jones (Managing Director and Chief Executive Officer)	2012	284,404	-	-	-	-	25,596	2,445	316,235
	2011	284,404	-	269,740	-	-	25,596	2,601	582,341
Michael Griffiths (non-executive Director) <sup>(3)</sup>	2012	49,331	-	11,800	-	-	5,701	51,414	118,246
	2011	275,229	-	95,072	-	-	24,771	2,601	397,673
Richard Hacker (Chief Financial Officer)	2012	229,358	36,753	-	-	-	20,642	3,599	290,352
	2011	239,358	-	-	-	-	21,542	3,189	264,089



Name and principal position	Year	Salary (A\$)	Share-based awards (A\$) <sup>(1)</sup>	Option-based awards (A\$) <sup>(1)</sup>	Non-equity incentive plan compensation (A\$)	Pension value (Superannuation) (A\$)	All other compensation (A\$) <sup>(2)</sup>	Total compensation (A\$)	Name and principal position
Juan Jeffery (Chief Operating Officer) <sup>(4)</sup>	2012	218,056	-	-	-	-	25,536	82,740	326,332
	2011	-	-	-	-	-	-	-	-
Michael Kelly (General Manager – ZMSC) <sup>(5)</sup>	2012	341,235	-	-	-	-	-	-	341,235
	2011	-	-	-	-	-	-	-	-
Harry Wilhelmij (In-country Manager)	2012	250,800	-	-	-	-	-	-	250,800
	2011	190,209	-	-	-	-	-	-	190,209

<sup>(1)</sup> The fair value of the options and Performance Rights is calculated at the date of grant using a Black-Scholes Option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the proportion of the fair value of the options allocated to this reporting period. In valuing the options and Performance Rights market conditions have been taken into account.

<sup>(2)</sup> Relates to Directors and Officers insurance premium costs paid by the Company, long service leave payments made to Mr Griffiths and Mr Jeffery's termination.

<sup>(3)</sup> Mr Griffiths resigned as a non-executive director on November 21, 2011.

<sup>(4)</sup> Mr Jeffery commenced in July 2011 and ceased employment with the Company in February 2012.

<sup>(5)</sup> Mr Kelly commenced in September 2011.

#### *Incentive Plan Awards*

#### **Outstanding Option-Based and Share-Based Awards**

The following table sets out, for each Named Executive Officer, information concerning all option-based and Share-based awards outstanding as at June 30, 2012.

Name	Option-based Awards				Share-based Awards	
	Number of securities underlying unexercised options (#)	Option exercise price (A\$)	Option expiration date	Value of unexercised in-the-money options (A\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (A\$)
Timothy Goyder (Executive Chairman) <sup>(1)</sup>	2,500,000	0.50	November 30, 2015	-	-	-
Dr Douglas Jones (Managing Director and Chief Executive Officer)	1,250,000	0.35	March 31, 2014	-	-	-
	1,250,000	0.45	March 31, 2014	-	-	-
Michael Griffiths (Executive Director)	750,000	0.50	September 1, 2012	-	-	-
Juan Jeffery (Chief Operating Officer) <sup>(2)</sup>	-	-	-	-	-	-

Richard Hacker (Chief Financial Officer and Company Secretary)	500,000	0.20	July 31, 2013	-	250,000	75,000
Michael Kelly (General Manager – ZMSC) <sup>(3)</sup>	-	-	-	-	500,000	-
Harry Wilhelmij (In- country Manager)	375,000	0.45	September 14, 2014	-	-	-

<sup>(1)</sup> At the Company's 2011 Annual General Meeting, Shareholders approved the issue of 2,500,000 options to Mr Goyder. The options were issued with an exercise price of A\$0.50 and had, as a condition of vesting, successful completion of obtaining debt and/or equity funding for the development of the Zara Project. No expense was recognised in 2012 as the directors considered it was unlikely that the options would vest. Subsequent to year end, the sale of the Zara Project was completed. Therefore, the vesting conditions of the options are not able to be achieved and the options issued were cancelled on September 7, 2012.

<sup>(2)</sup> Mr Jeffery was granted 750,000 performance rights on December 15, 2011, which subsequently lapsed on Mr Jeffery's resignation.

<sup>(3)</sup> Mr Kelly was appointed to General Manager – Zara Mining Share Company on September 1, 2011. On December 16, 2011, Mr Kelly was granted 500,000 performance rights with specific performance hurdles relating to the Zara Project. No expense was recognised in 2012 as the directors considered it unlikely that the options would vest. Subsequent to year end, the sale of the Zara Project was completed and therefore the performance hurdles are unable to be achieved. The performance rights were cancelled on September 7, 2012.

### **Incentive Plan Awards - Value Vested or Earned During the Year**

The following table sets out, for each Named Executive Officer, information concerning the value of incentive plan awards, option-based and share-based awards, as well as non-equity incentive plan compensation vested or earned during the financial year ended June 30, 2012.

<b>Name</b>	<b>Option-based awards – Value vested during the year (A\$)</b>	<b>Share-based awards – Value vested during the year (A\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year (A\$)</b>
Timothy Goyder (Executive Chairman)	-	-	-
Dr Douglas Jones (Managing Director and Chief Executive Officer)	-	-	-
Michael Griffiths (Executive Director)	11,800	-	-
Richard Hacker (Chief Financial Officer and Company Secretary)	-	36,753	-
Harry Wilhelmij (In- country Manager)	40,971	-	-

### *Superannuation (Pension Plan) Benefits*

The Company pays superannuation benefits of 9 per cent of base salary to private superannuation funds for all Australian-based employees in accordance with Australian statutory requirements.

### *Termination and Change of Control Benefits*

The following table outlines the termination and other benefits present within each employment agreement for each of the Named Executive Officers:

	<b>Termination</b>	<b>Diminution of Responsibility</b>
Tim Goyder (Executive Chairman)	Mr. Goyder's employment agreement may be terminated by the Company or Mr. Goyder upon giving three months notice.	If Mr Goyder's role in the Company undergoes a material variation or diminution of responsibilities, including a material change in authority or in his reporting relationship to the Board, he may terminate his employment and would then receive a payment equal to 12 months salary. (A\$275,229)
Douglas Jones (Managing Director and Chief Executive Officer)	Dr Jones' employment agreement may be terminated by the Company or Dr Jones upon giving three months notice.	If Dr Jones' role in the Company undergoes a material variation or diminution of responsibilities, including a material change in authority or in his reporting relationship to the Board, he may terminate his employment and would then receive a payment equal to 12 months salary. (A\$284,404)
Other Named Executive Officers	All other key management personnel employment agreements may be terminated by the Company or the employee upon giving three months notice.	Nil
Non-Executive Directors	Nil	Nil

*Additional Information regarding Directors and Executive Officers*

**Corporate cease trade orders, bankruptcies, penalties or sanctions**

To the Company's knowledge, none of the directors or executive officers of Chalice is, or has been within the ten years before the date of this AIF, a director, chief executive officer or chief financial officer of any company, including Chalice, that:

- (i) was subject to a cease trade or similar order or an order that denied such company access to any statutory exemptions under securities legislation, for a period of more than 30 consecutive days that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (ii) was subject to a cease trade or similar order or an order that denied such company access to any statutory exemptions under securities legislation, for a period of more than 30 consecutive days that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the Company's knowledge, none of the directors or executive officers of Chalice, or no Shareholder holding a sufficient number of securities of Chalice to affect materially the control of Chalice is, or has been within the ten years before the date of this AIF, a director or executive officer of any company, including Chalice, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the Company's knowledge, none of the directors or executive officers of Chalice or a Shareholder holding sufficient securities of Chalice to affect materially the control of Chalice, or a personal holding company of any such persons has, within the ten years before the date of this AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted and proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

To the Company's knowledge, none of the directors or executive officers of Chalice or a Shareholder holding a sufficient number of securities of Chalice to affect materially the control of Chalice, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court, or regulatory body that would likely be considered important to a reasonable investor in making an investment decision with the exception of Mr. Stephen Quin, a director of Bear Lake Gold Ltd., which was party to a settlement agreement that was approved by the Ontario Superior Court of Justice on August 10, 2010. The settlement agreement provides for the settlement, release and dismissal of all claims asserted by the plaintiffs thereto against Bear Lake Gold Ltd. and the individual proposed defendants and does not in any way contain or constitute any admission of liability by Bear Lake Gold Ltd. or its officers, directors or employees.

### **Conflicts of interest**

To the best of Chalice's knowledge, there are no known existing potential conflicts of interest among Chalice, its directors, officers or other members of management of Chalice as a result of their outside business interests as at the date hereof. However, certain of the directors, and officers and other members of management serve as directors, officers, and members of management of other public resource companies. Accordingly, conflicts of interest may arise which could influence these persons in evaluating possible acquisitions or in generally acting on behalf of Chalice. The directors and officers of Chalice have been advised of their obligations to act at all times in good faith in the interest of Chalice and to disclose any conflicts to Chalice if and when they arise.

### **Indemnification and insurance**

The Company has agreed to indemnify all the directors and against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company also pays insurance premiums in respect of directors and officer's indemnity insurance contracts, for current and former directors and officers. The insurance premiums relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

## **INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS**

As of the date hereof, none of the Company's directors or executive officers, nor any associate of such directors or executive officers is indebted to Chalice or has been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by Chalice or any of its subsidiaries.

## **RISK FACTORS**

The exploration for and development of natural resources is a speculative activity that involves a high degree of financial risk. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the business, prospects, financial condition and/or operating results of the Company and consequently on the value and/or market price of the Shares. The risks noted below do not necessarily comprise all those faced by the Company.

### **Mining Risks**

Mineral exploration and exploitation involves a high degree of risk, which cannot be fully mitigated, even with a combination of experience, knowledge and careful evaluation. While the discovery of a mineral deposit may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Substantial expenditures may be required to locate and establish mineral reserves and resources, to develop metallurgical processes to extract the metal from the material processed and to construct mining and processing facilities and

infrastructure at a particular site. It is impossible to ensure that the exploration programs in progress or planned by the Company or its joint venture partners will result in a profitable commercial mining operation. Even where commercial quantities of ore are discovered, there can be no assurance that a property will be brought into commercial production or that the funds required to exploit mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and metallurgy of the particular ore-body; proximity to infrastructure; metal prices, which can fluctuate widely; currency fluctuations; financing costs; production costs; and government regulations and any further changes thereto, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot accurately be predicted, but the combination of these factors could make a deposit uneconomic and/or may result in the Company not receiving an adequate return on invested capital.

Mining operations generally involve a high degree of risk. Such operations are subject to all the hazards and risks normally encountered in the exploration for, and development and production of gold, including unusual and unexpected geologic formations, formation pressures, seismic activity, rock bursts, fires, power outages, labour disruptions, cave-ins, landslides, flooding, explosions and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Mining operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability. In addition, operations could be materially adversely affected by the inability to obtain adequate machinery and parts, equipment or labour.

All of the foregoing factors are beyond the control of the Company. There can be no assurance that the Company's mineral exploration and future development activities will be successful and the occurrence of any of the foregoing factors could have a material adverse effect on the Company's business, prospects, financial condition and operating results. In the event that commercial viability is never attained, the Company may seek to transfer its property interests or otherwise realize value or may even be required to abandon its business and fail as a "going concern".

### **Exploration, Development and Operational Risks**

The success of the Company will be dependent on many factors including: the discovery and/or acquisition of mineral reserves and mineral resources; the successful conclusions to feasibility and other mining studies; access to adequate capital for project development and sustaining capital; design and timely construction of efficient mining and processing facilities within capital expenditure budgets; the securing and maintaining of title to tenements; obtaining permits, consents and approvals necessary for the conduct of exploration and potential mining operations; complying with the terms and conditions of all permits, consents and approvals during the course of exploration and mining activities; access to competent operational management and prudent financial administration, including the availability and reliability of appropriately qualified employees, contractors and consultants; the ability of the mining contractors to keep to budget; the ability to procure major equipment items and key consumables in a timely and cost-effective manner; the ability to access full power supply; and the extent and disruption of the rainy season.

The Company's profitability will depend, in part, on the actual economic returns and the actual costs of developing mines, which may differ significantly from the estimates made by the Company. Delays in the construction and commissioning of mining projects or other technical difficulties may result in the Company's current or future projected target dates for production being delayed or further capital expenditure being required. Any delay in the development of a project or cost overruns or operational difficulties once the project is fully developed may have a material adverse effect on the results of the Company.

In common with all new mining operations, there is uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in laboratory conditions. Feasibility studies derive estimates of expected or anticipated project economic returns. These estimates are based on a number of assumptions including: future gold and other metal prices; anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed; anticipated recovery rates of gold and other metals from the ore; anticipated capital expenditure and cash operating costs; and the anticipated return on investment. Actual cash operating costs, production and economic returns may differ significantly from those anticipated by such studies and

estimates. The costs, timing and complexities of mine development and construction can increase because of the remote location of many mining properties. New mining operations could experience unexpected problems and delays during development, construction and mine start-up. There can be no assurance that the Company will be able to complete development of any of its mineral projects at all or on time or on budget due to, among other things, and in addition to those factors described above, changes in the economics of the mineral projects, the delivery and installation of plant and equipment and cost overruns, or that the current personnel, systems, procedures and controls will be adequate to support the Company's operations. Should any of these events occur, it could have a material adverse effect on the Company's business, prospects, financial condition and operating results.

### **Additional Funding and Dilution**

The Company makes, and will continue to make, substantial capital expenditures related to exploration activities, and potentially future development and production. Historically, the Company has financed these expenditures with offerings of its equity securities. The Company will have further capital requirements to the extent it decides to expand its exploration activities, develop future mining operations, or take advantage of opportunities for acquisitions, joint ventures or other business opportunities that may be presented to it or which it may become aware of. In addition, the Company may incur major unanticipated liabilities or expenses. The Company's access to capital is largely determined by the strength of commodity prices, the state of the capital markets, the status of the Company's projects in relation to other resource companies, and its ability to compete for investor support of its projects. In addition, the location of the Company's properties in developing countries may make it more difficult for the Company to obtain debt financing from senior lenders. There can be no assurance that the Company will be able to obtain necessary financing in a timely manner on acceptable terms, if at all. Any failure of the Company to obtain required financing on acceptable terms could have a material adverse effect on the Company's business, prospects, financial condition and operating results and could cause the Company to cancel or postpone planned capital investments, forfeit all or parts of its interest in some or all of its properties or joint ventures and reduce or terminate its operations.

If additional financing is raised through the issuance of equity or convertible debt securities of the Company, the interests of Shareholders in the net assets of the Company may be diluted.

### **Future Capital Requirements**

The future capital requirements of the Company are yet to be determined due the sale of the Zara Project. As at the date of this AIF, the Company has approximately A\$81 million cash at bank allowing the Company to assess future projects for possible acquisitions.

### **Government Regulation**

The Company's mineral exploration, future development and production activities are subject to various laws and regulations governing prospecting, mining, development, royalties, permitting and licensing requirements, production, taxes, labour standards and occupational health, mine safety, protection of the environment, toxic substances, land use, water use, land claims of local people and other matters. Although the Company's exploration activities are currently carried out in material compliance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, development or production.

The mineral rights and interests of the Company are subject to government approvals, licenses and permits. Such approvals, licenses and permits are, as a practical matter, subject to the discretion of the applicable governments or governmental officials. No assurance can be given that the Company will be successful in obtaining or maintaining any or all of the various approvals, licenses and permits in full force and effect without modification or revocation. To the extent such approvals, licenses and permits are required and not obtained, the Company may be curtailed or prohibited from continuing or proceeding with planned exploration or future development of mineral properties. The costs and delays associated with obtaining permits and complying with these permits and applicable laws and regulations could stop or materially delay or restrict the Company or its joint venture partner from continuing or proceeding with existing or future operations or projects.

Failure to comply with applicable laws, regulations and permitting requirements, even if inadvertent, may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. There can be no assurance that compliance with these laws and regulations or changes thereto or the cost of rehabilitation of site operations which have been closed down or the failure to obtain necessary approvals, permits or licenses or successful challenges to the grant of such approvals, permits or licenses will not materially adversely affect the Company's business, prospects, financial condition, and operating results.

Amendments to current laws and regulations or fiscal tax regimes governing operations or more stringent implementation thereof could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties or reduction in the profitability of operations.

### **Risks Relating to International Operations**

The Company's exploration licences, the Mogoraib North and Hurum projects are located in Eritrea, East Africa. As at the date of this AIF, these are the only licences that the Company holds in Eritrea as the Company sold its principle asset in Eritrea. Although the licences are not yet material assets, the Company and its subsidiaries' may be subject to various political, economic and other uncertainties, including, among other things, the risks of war and civil unrest, expropriation, nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, taxation policies, border disputes, foreign exchange and repatriation restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, in the event of a dispute arising from foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts of its choice.

The Company also may be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict such developments or changes in laws or policy or to what extent any such developments or changes may have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

### **Eritrea and Political Risk**

The Company has sold its main asset, the Zara Project, which was located in Eritrea. The Company continues to maintain two exploration projects in Eritrea, however these are still in early exploration phase. Therefore the Company's activities in Eritrea are subject to sovereign risks, which may impede the Company's activities in relation to those projects or result in the impairment or loss of part or all of the Company's interest in the properties. These risks and uncertainties vary from time to time and include such matters as terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labor unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

### **Property Interests**

The operations of the Company require licenses, permits and in some cases renewals of existing licenses and permits from various governmental authorities. Management believes that the Company currently holds or has applied for all necessary licenses and permits to carry on the activities that it is currently conducting under applicable laws and regulations in respect of its properties, and also believes that the Company is complying in all material respects with

the terms of such licenses and permits. No guarantee can be given that the Company will be in a position to comply with all such conditions and obligations. In addition, the Company's ability to obtain, sustain or renew such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governmental authorities.

Furthermore, while it is common practice that permits and licenses may be renewed or transferred into other forms of licenses appropriate for ongoing operations, no guarantee can be given that a renewal or a transfer will be granted to the Company or, if they are granted, that the Company will be in a position to comply with all conditions that are imposed.

There can be no assurance that the Company's rights to its properties are valid and exist as set out in this AIF and will not be challenged by third parties claiming an interest in the property. Any property may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects or governmental actions.

### **Acquisition of Additional Mineral Properties**

If the Company loses or abandons its interest in one or more of its properties, there is no assurance that it will be able to acquire other mineral properties of merit, whether by way of option or otherwise, should the Company wish to acquire any additional properties.

Any gold exploration program entails risks relating to the location of ore bodies that are economically viable to mine, the development of appropriate metallurgical processes, the receipt of necessary governmental permits, licenses and consents and the construction of mining and processing facilities at any site chosen for mining. No assurance can be given that any exploration program will result in the discovery of new reserves or resources or the expansion of existing reserves or resources will be successful.

### **Environmental Regulations**

The Company's activities are subject to environmental laws and regulations in the various jurisdictions in which it operates which may materially adversely affect its future operations. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste, the protection of different species of plant and animal life, and the preservation of lands. These laws and regulations require the Company to acquire permits and other authorizations for certain activities. There can be no assurance that the Company will be able to acquire such necessary permits or authorizations on a timely basis, if at all. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Reclamation costs are uncertain and planned expenditures may differ from the actual expenditures required.

### **Dependence on Key Personnel**

The success of the Company will be largely dependent upon the performance of its directors and senior officers, consultants and employees, whose expertise and experience the Company considers to be very valuable. The Company depends on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. Failure to retain key individuals or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success. In addition, as the Company's business develops and expands, the Company believes that its future success may depend on its ability to attract and retain other highly skilled and qualified personnel, and there can be no assurance that the Company will be able to do so.



The Company requires specialist skills such as geologists, mining engineers, metallurgical engineers, electrical and mechanical engineers, financial accountants, human resource managers and procurement staff to conduct exploration and development at its other properties. At this time there is significant competition for these skills within the mining industry and there can be no assurance that the Company will be able to recruit and retain suitably qualified and experienced personnel.

### **Conflicts of Interest**

Certain directors and officers of the Company are or may become associated with other natural resource companies which may give rise to conflicts of interest. Such other companies may also compete with the Company for the acquisition of mineral property rights. In addition, certain directors and officers of the Company have either other full-time employment or other business or time restrictions placed on them and accordingly, the Company will not be the only business enterprise of these directors and officers.

### **Title to Properties**

Title to, and the area of, the Company's properties may be challenged or impugned and title insurance is generally unavailable. The Company does not carry title insurance on its properties. No assurances can be given that applicable governments will not revoke or significantly alter the conditions of the applicable exploration authorizations of the Company and that such exploration authorizations will not be challenged or impugned by third parties. The Company can never be certain that it will have valid title to its mineral properties. While the Company has applied for rights to explore various properties, and may also do so in the future, there is no certainty that such rights will be granted or granted on terms satisfactory to the Company. Local mining legislation of certain countries in which the Company operates requires the Company to grant to the government an interest in the Company's property rights. In addition, the properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects.

Mineral properties sometimes contain claims or transfer histories that examiners cannot verify, and transfers under foreign law are often complex. A successful claim that the Company does not have title to a property could cause the Company to lose its rights to that property, perhaps without compensation for its prior expenditures relating to the property.

### **Infrastructure**

Development and exploration activities depend on adequate infrastructure, including reliable roads, power sources and water supply. The Company's inability to secure adequate water and power resources, as well as other events outside of its control, such as unusual weather, sabotage, government or other interference in the maintenance or provision of such infrastructure, could materially adversely affect the Company's business, prospects, financial condition, and operating results.

### **Insurance and Uninsurable Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, rock bursts, ground or slope failures, cave-ins, fires, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, earthquakes and other environmental occurrences. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in development or mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance will not cover all the potential risks associated with its operations. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might

also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect the Company's business, prospects, financial condition, and operating results.

### **Gold Prices**

The development and success of any project of the Company will be primarily dependent on the future price of gold or other commodity prices. The Company is exposed to price risk as its future revenues will be based on a contract with a physical off-take partner at prices that will be determined by reference to market prices of gold at the delivery date. Gold prices are subject to significant fluctuation and are affected by a number of factors which are beyond the control of the Company. Such factors include, but are not limited to, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, consumption patterns, sales of gold, forward sales by producers, production, industrial and consumer demand, speculative activities, stability of exchange rates and political and economic conditions. The price of gold has fluctuated widely in recent years, and future price declines could cause any future development of and commercial production from the Company's properties to be impracticable. Depending on the price of gold, projected cash flow from planned mining operations may not be sufficient and the Company could be forced to discontinue any development and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mining properties is dependent on gold prices that are adequate to make these properties economic.

Furthermore, reserve calculations and life-of-mine plans using significantly lower gold prices could result in material write-downs of the Company's investment in mining properties and increased amortisation, reclamation and closure charges.

In addition to adversely affecting the Company's possible future reserve estimates and its financial condition, declining gold prices may impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

### **Commodity Hedging**

Currently the Company does not have a policy to hedge future commodity sales. If put into place, there is no assurance that a commodity hedging program designed to reduce the risk associated with fluctuations in commodity prices will be successful. Hedging may not protect adequately against declines in commodity prices. Although hedging may protect the Company from a decline in gold prices, it may also prevent the Company from benefiting fully from price increases. In addition, the Company may experience losses if a counter-party fails to purchase under a contract when the contract price exceeds the spot price for the commodity.

If the Company acquires a producing asset, the Board may review its hedging policies in the future.

### **Competition**

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies and individuals, including companies possessing greater financial, technical and other resources than itself with respect to the discovery and acquisition of interests in mineral properties, the recruitment and retention of qualified employees and other persons to carry out its mineral exploration activities. As a result, the Company may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. There can be no assurance that the Company will acquire any interest in additional operations that would yield reserves or result in commercial mining operations. There is no assurance that the Company will be able to compete successfully with others in acquiring such properties or prospects. If the Company is not able to acquire such interests, this could have a material adverse impact on its business, prospects, financial condition, and operating results.

Recent increases in commodity prices have encouraged increases in exploration, development and construction activities, which have resulted in increased demand for, and cost of, exploration, development and construction services and equipment (including mining fleet equipment). Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and could increase potential scheduling difficulties and costs due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs or result in project delays or both. Any such material increase in costs would adversely affect the Company's business, prospects, financial condition, and operating results.

### **Expected Continued Operating Losses**

The Company has a history of losses and there can be no assurance that the Company will ever be profitable. There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as consultants, personnel and equipment associated with advancing exploration, development and commercial production of its properties are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analysis and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties and other factors, many of which are beyond the Company's control.

The Company expects to continue to incur losses unless and until such time as it increases production, including by commencing production at additional properties, and generates sufficient revenues to fund its continuing operations. The development of the Company's properties will require the commitment of substantial resources to conduct the time-consuming exploration and development of properties. There can be no assurance that the Company will ever achieve profitability.

### **No History of Dividends**

The Company has never paid a dividend on its Shares and does not expect to do so in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board and will depend upon the capital requirements of the Company, results of operations and such other factors as the Board considers relevant.

### **Share Price Volatility**

Securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that such fluctuation will not affect the price of the Company's securities after the listing, and the market price of the Shares may decline below the listing price.

In addition, in the past, following periods of volatility in the market price of a company's securities, Shareholders have on occasion instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial cost and diversion of management attention and resources, which could significantly harm the Company's profitability and reputation.

### **Exchange Rate, Exchange Control and Export Restriction Risks**

Chalice's Mogoraib North and Hurum projects, are located in Eritrea, the currency exchange rules and regulations of the Eritrean Government may have a future impact on the repatriation of funds and overall investment in the country, if the projects progress to a development stage. The Eritrean Government also controls the flow of plant and equipment into the country and taxation imposts (including customs or import duties) currently existing, may be varied.

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Company does not hedge this exposure. The Company manages its foreign exchange risk by constantly reviewing its exposure and ensuring that there are appropriate cash balances in order to meet its commitments.

### **Environmental Risks**

Mining operations have inherent risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. Laws and regulations involving the protection and remediation of the environment and governmental policies for implementation of such laws and regulations are constantly changing and are generally becoming more restrictive. In addition, there may be unforeseen environmental liabilities, inherent in its activities, such as accidental spills or leaks or other circumstances resulting from mining operations which could subject the Company to extensive liabilities, which may be costly to remedy. The Company cannot give any assurance that, notwithstanding its precautions, breaches of environmental laws (whether inadvertent or not) or environmental pollution will not materially and adversely affect its financial condition and its results of operations.

### **Partner Risks**

The Company's business strategy includes continuing to seek new joint venture opportunities where appropriate. In pursuit of such opportunities, the Company may fail to select appropriate joint venture partners or negotiate acceptable arrangements, including arrangements to finance such opportunities or, where necessary, integrate the acquired businesses and their personnel into the Company's operations. The Company cannot assure that it can complete any business arrangement that it pursues, or is pursuing, on favourable terms, or that any business arrangements completed will ultimately benefit the Company's business.

In addition, the Company's joint venture partners may not be willing or able to fulfil their legal obligations or to fund their share of future development. The Company may be materially adversely affected if it is unable to find or replace joint venture partners.

### **Legal and Litigation Risks**

All industries, including the mining industry, are subject to legal claims, with and without merit. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company may become subject could have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

### **Labour Risks**

The Company believes that all of its operations have, in general, good relations with their employees. However, there can be no assurance that the Company's operations will not be affected by labour-related problems in the future, such as litigation for pay raises and increased benefits. There can be no assurance that work stoppages or other labour-related developments (including the introduction of new labour regulations in local countries of operation) will not materially adversely affect the results of operations or financial condition of the Company.

### **Risk of Payment Obligations**

Under the exploration licenses and certain other contractual agreements to which the Company or its subsidiaries are or may in the future become party, the Company or its subsidiaries are or may become subject to payment and other obligations. If such obligations are not complied with when due, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies. The Company may not have, or be able to obtain, financing for all such obligations as they arise.

## **Growth Risks**

The Company expects its growth will place significant demands on management and other resources and will require the Company to continue to develop and improve operational, financial and other internal controls. While the Company has in place personnel to manage the strategic, operational and expansion aspects of its operations, there can be no assurance that the Company will be able to continue to provide the necessary resources to support its growth. The Company's potential inability to manage its growth effectively may have a material adverse effect on its results of operations or financial condition.

## **Differing Rights and Obligations**

Chalice is a public limited company incorporated under the laws of Australia. The rights and obligations of holders of Shares are governed by Australian law, including the Corporations Act and by Chalice's Constitution. These rights and obligations differ in certain respects from the rights and obligations of Shareholders in corporations governed by Canadian federal or provincial statutes.

## **Enforceability of Civil Liabilities**

Most of the Company's directors and officers reside outside of Canada. In addition, all of the assets of such persons, and all of the properties of the Company, are located outside of Canada. It may not be possible for investors to effect service of process within Canada upon such persons and it may also not be possible to enforce against the Company and/or such persons judgements obtained in Canadian courts predicated upon the civil liability provisions of applicable securities laws in Canada.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

### **Legal Proceedings**

The Company is not subject to any legal proceedings material to Chalice to which Chalice or any of its subsidiaries is a party or of which any of Chalice's properties is the subject matter and no such proceedings are known to Chalice to be contemplated.

### **Regulatory Actions**

No penalties or sanctions have been imposed against Chalice by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately preceding the date hereof, no other penalties or sanctions have been imposed by a court or regulatory body against Chalice and Chalice has not entered into any settlement agreements before a court relating to provincial or territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date hereof.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer or principal holder of securities (as described under "*Principal Shareholders*") or any associate or affiliate of the foregoing has, or has had, any material interest in any transaction within the three most recently completed financial years prior to the date hereof or during the current financial year or any proposed transaction that has materially affected or is reasonably expected to materially affect the Company or any of its affiliates, except as disclosed elsewhere in this AIF.

## **AUDITOR, TRANSFER AGENT AND REGISTRAR**

The auditor of Chalice is HLB Mann Judd, located at Level 4, 130 Stirling Street, Perth, WA 6000, Australia. HLB Mann Judd was appointed the Auditor of the Company in October 2005 and is independent in accordance with the rules of professional conduct of the Institute of Chartered Accountants in Australia.

The Company's registrar and transfer agent in Australia for its Shares is Computershare Investor Services Pty Limited, at Level 2, Reserve Bank Building, 45 St. Georges Terrace, Perth, WA 6000, Australia.

The Company's registrar and transfer agent in Canada for its Shares is Computershare Investor Services Inc. at 100 University Avenue, Toronto, Ontario, M5J 2Y1.

### **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which have been entered into by the Company or any of the Company's subsidiaries (i) during the financial year ended June 30, 2012, (ii) before the beginning of the financial year ended June 30, 2012 but subsequent to December 31, 2001 and which are still in effect, or (iii) subsequent to June 30, 2012.

- a joint venture agreement dated January 10, 2006 between Teck (then Teck Cominco Australia Pty Ltd) and Bullion Minerals.
- an agreement dated January 27, 2011 between the Government of the State of Eritrea and Sub-Sahara Resources (Eritrea) Pty Ltd for the grant of exploration rights and License in Hurum.
- an agreement dated January 27, 2011 between the Government of the State of Eritrea and Sub-Sahara Resources (Eritrea) Pty Ltd for the grant of exploration rights and License in Mogoraib North.
- an agreement dated April 27, 2012 between Chalice Gold Mines (Eritrea) Pty Ltd, Shanghai Construction Group (Hong Kong) Limited, China SFECO Group and Chalice Gold Mines Limited for the sale of Chalice's 60 per cent shareholding in Zara Mining SC.

The material contracts described above, together with the Technical Report and any other documents regarding Chalice referred to in this AIF may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **EXPERTS**

The Company's auditor is HLB Mann Judd, who have prepared an independent auditor's report dated September 27, 2012 in respect of the Company's consolidated and parent company financial statements with accompanying notes as at and for the year ended June 30, 2012.

As of the date hereof, to Chalice's knowledge, the experts named in this section beneficially own, directly or indirectly, in the aggregate, less than one percent of the Shares.

### **ADDITIONAL INFORMATION**

Additional financial information is provided in the Company's 2012 Annual Report, which contains the Company's audited annual financial statements for the year ended June 30, 2012. Such documentation as well as additional information, including financial statements, relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).