

chalice GOLD MINES

ANNUAL REPORT 2012

CORPORATE DIRECTORY

DIRECTORS

Tim Goyder	Executive Chairman
Douglas Jones	Managing Director
Anthony Kiernan	Non-executive Director
Stephen Quin	Non-executive Director

COMPANY SECRETARIES

Richard Hacker
Leanne Forgione

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ASX

Share Code: CHN

TSX

Share Code: CXN

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CHAIRMAN'S LETTER

DEAR SHAREHOLDER

I am pleased to report to you on what has been a pivotal year for Chalice with the successful sale of the Zara Gold Project in Eritrea to China SFECO Group and the Eritrean National Mining Corporation ("ENAMCO") for combined proceeds of US$114 million before tax.

As a result of this transaction and after paying all applicable taxes Chalice now has approximately AUD$81 million in the bank and is on the hunt for high-quality resource assets that will underpin the next chapter of our development as an international mining company.

The Zara Project was acquired for approximately $7 million through the merger with Sub-Sahara Resources in 2009. Chalice immediately embarked on the process of consolidating ownership of the asset, agreeing Eritrean Government equity, and advancing the Zara Project towards production, including the completion of a scoping and feasibility study.

Following final mine permitting in November 2011, it was with mixed feelings that the Board agreed to sell the Company's remaining 60 per cent interest in the Zara Project to China SFECO Group. This decision was reached after taking a multitude of factors into consideration, with the Board concluding that it was in the best interests of shareholders.

After a lengthy completion period due to the need to obtain both Chinese and Eritrean Government approvals, the sale was finally completed on 4 September 2012.

The sale of the Zara Project has put the Company in an enviable position to acquire new projects, particularly where our peers are finding it difficult to obtain finance for the development of projects in the current market.

An in-house business development team has been established and a focused effort has commenced to assess potential assets for acquisition. While precious metals and copper assets are the most likely targets, the Board remains open to considering other commodities where there is potential to generate significant shareholder returns.

The Board has also resolved, subject to shareholder approval to undertake a capital reduction and return of 10 cents per share to shareholders (approximately $25 million). Following a review of the Company's current capital requirements, the Board has decided that a return to shareholders is justified, enabling some of the proceeds of the Zara transaction to be distributed to shareholders while retaining cash of approximately $55 million to pursue new growth opportunities.

The Company has requested a Class Ruling on behalf of shareholders from the Australian Taxation Office ("ATO") to confirm the tax implications for shareholders on the basis that this is a return of capital. Details of the tax implications to shareholders will be released on receipt of the Class Ruling from the ATO.

Subject to receipt of the ATO Class Ruling and shareholder approval, it is hoped the capital reduction and return would be completed in early December 2012. Full details will be outlined to shareholders in due course.

The Company has two remaining exploration projects in Eritrea, Mogoraib North and Hurum. During the year, Chalice entered into a 60:40 joint venture arrangement with ENAMCO on these assets. Funding will be on a two-thirds Chalice and one-third ENAMCO basis, taking into account the Eritrean Government's 10 per cent free-carried interest.

Mogoraib North is the subject of an active drilling campaign that will be carried out between October and December 2012. While the primary targets are Volcanic Hosted Massive Sulphide systems similar to the world-class Bisha deposit, which lies just 10 km to the south of Mogoraib North, there also appears to be promising gold potential similar to the Zara Project. A $1 million exploration program is planned between now and the end of the year which should provide an initial test of the potential of these targets.

In conclusion, I would like to thank the Board, management team and staff for their substantial efforts over recent months in what has been both a challenging and rewarding period for the Company. I would also like to thank our shareholders for your patience and continued support.

With a substantial cash reserve, Chalice is in an enviable position in the junior resource sector and I am confident that a high-quality asset can be acquired with the potential to generate significant shareholder returns into the future.

Yours faithfully

TIM GOYDER

Executive Chairman

REVIEW OF OPERATIONS

SALE OF THE ZARA PROJECT

Activities during the year focused on completing the sale of the Zara Project in Eritrea, East Africa to China SFECO Group ('SFECO') (a subsidiary of Shanghai Construction Group Co. Ltd), and to the Eritrean National Mining Corporation ('ENAMCO').

In April 2012 Chalice signed an Agreement to sell its 60 per cent interest in the Zara Project for US$80 million (including a deferred payment of US$2 million on the first gold pour at the Koka Gold Mine) to SFECO. The sale of the 60 per cent interest was in addition to the agreement to sell 30 per cent interest to ENAMCO in June 2011 for approximately US$34 million. ENAMCO also holds a statutory 10 per cent free carried interest in the project. Both transactions were completed on 4 September 2012 for a combined consideration of US$114 million. Following the payment of applicable taxes in Eritrea, Chalice had approximately AUD$81 million cash at bank.

Chalice will now commence the evaluation of resource projects for acquisition in addition to advancing its remaining exploration projects in Eritrea being the Mogoraib North and the Hurum Exploration Licences as outlined below.

CAPITAL MANAGEMENT FOLLOWING COMPLETION OF THE SALE OF THE ZARA PROJECT

Following completion of the sale of the Zara Project, the Board undertook a review of its capital management options and determined that the funds on hand exceeded its current capital requirements, providing justification to return some of this capital to shareholders.

Following this Board review and subject to shareholder approval, the Board proposes to undertake an equal capital reduction and return of up to $25 million (10 cents cash per share) to shareholders as at the appropriate record date.

The Company has requested a Class Ruling on behalf of shareholders from the Australian Taxation Office ("ATO") to confirm the tax implications for shareholders on the basis that this is a return of capital. Details of the tax implications to shareholders will be released on receipt of the Class Ruling from the ATO.

Subject to receipt of the ATO Class Ruling and shareholder approval, it is hoped the capital reduction and return would be completed in early December 2012.

Following completion of the capital return and capital reduction, it is expected that Chalice will have cash on hand of approximately $55 million. These funds will be used to pursue quality acquisition opportunities in the resource sector. The Company has an in-house Business Development team which is currently actively assessing opportunities, with a particular focus on advanced gold and copper-gold projects both in Australia and overseas.

EXPLORATION IN ERITREA

Mogoraib North – Hurum Joint Venture (Chalice 60% and ENAMCO 40%)

Following the formation of a joint venture between ENAMCO and Chalice covering the Mogoraib North and Hurum Exploration Licences (the 'MHJV') in early May 2012, ENAMCO reimbursed Chalice approximately US$750,000 (representing one-third of historical project-to-date expenditures incurred at Mogoraib North and Hurum). Exploration expenditure within the MHJV will be funded as to two-thirds Chalice and one-third ENAMCO.

ENAMCO's 40% interest includes its statutory 10% free carried interest.

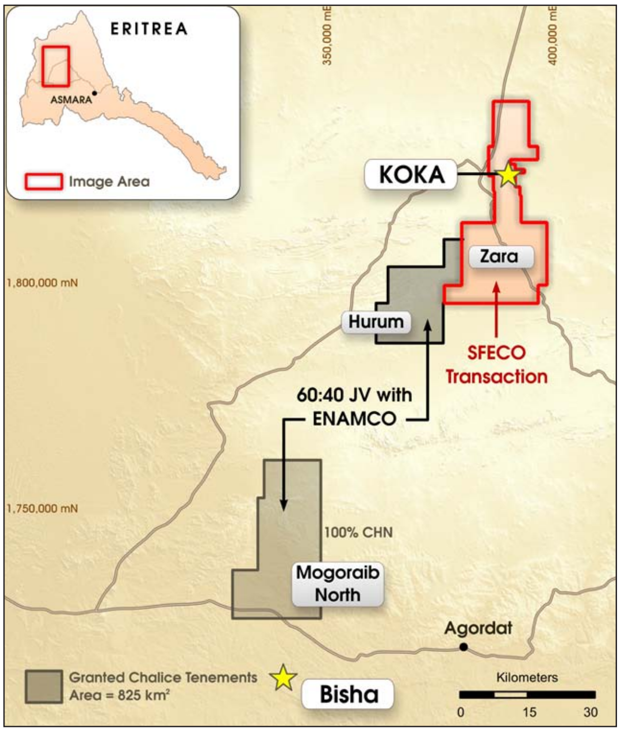


Figure 1 Ground position in Eritrea following completion of the sale of the Zara Project

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) (Figure 2). 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.

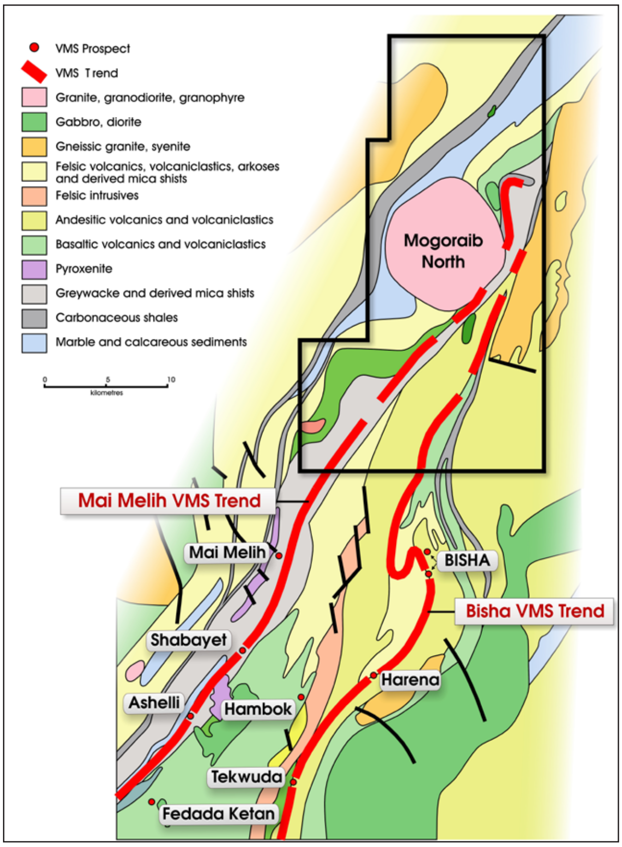
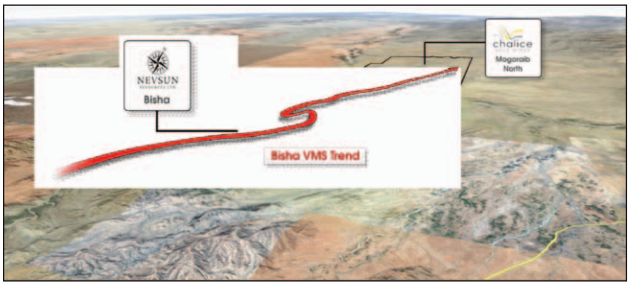


Figure 2 Geology of the Mogoraib North project showing interpreted VHMS trends



The Mogoraib North Project in relation to the Bisha Mine

Drilling in progress at Mogoraib North

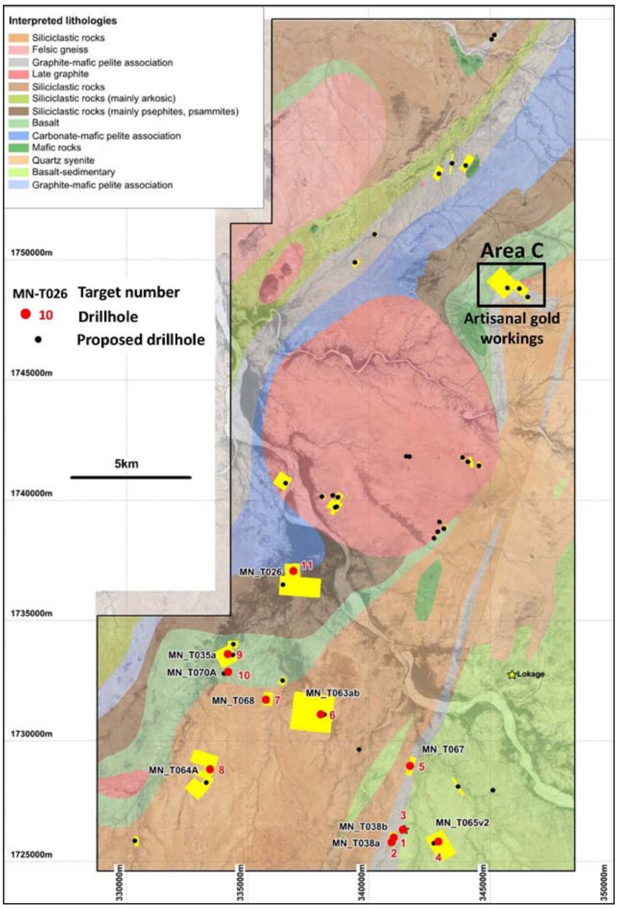


Figure 3 Mogoraib North geology showing locations of VTEM targets and drill holes completed in 2012

The drilling is 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 in mid-2011 and subsequently further refined by geological mapping, ground-based geophysics (gravity) and geochemical sampling. Although no massive sulphides have been intersected in the holes completed to date, one hole (MOGD 007) intersected high silver (up to 2.8 g/t) and barium values in highly sulphidic carbonaceous shales that potentially reflects a distal VHMS setting. 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 (Figure 4). This geochemical signature is identical to that found over the Koka 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.

Artisanal workings at Mogoraib North – Area C

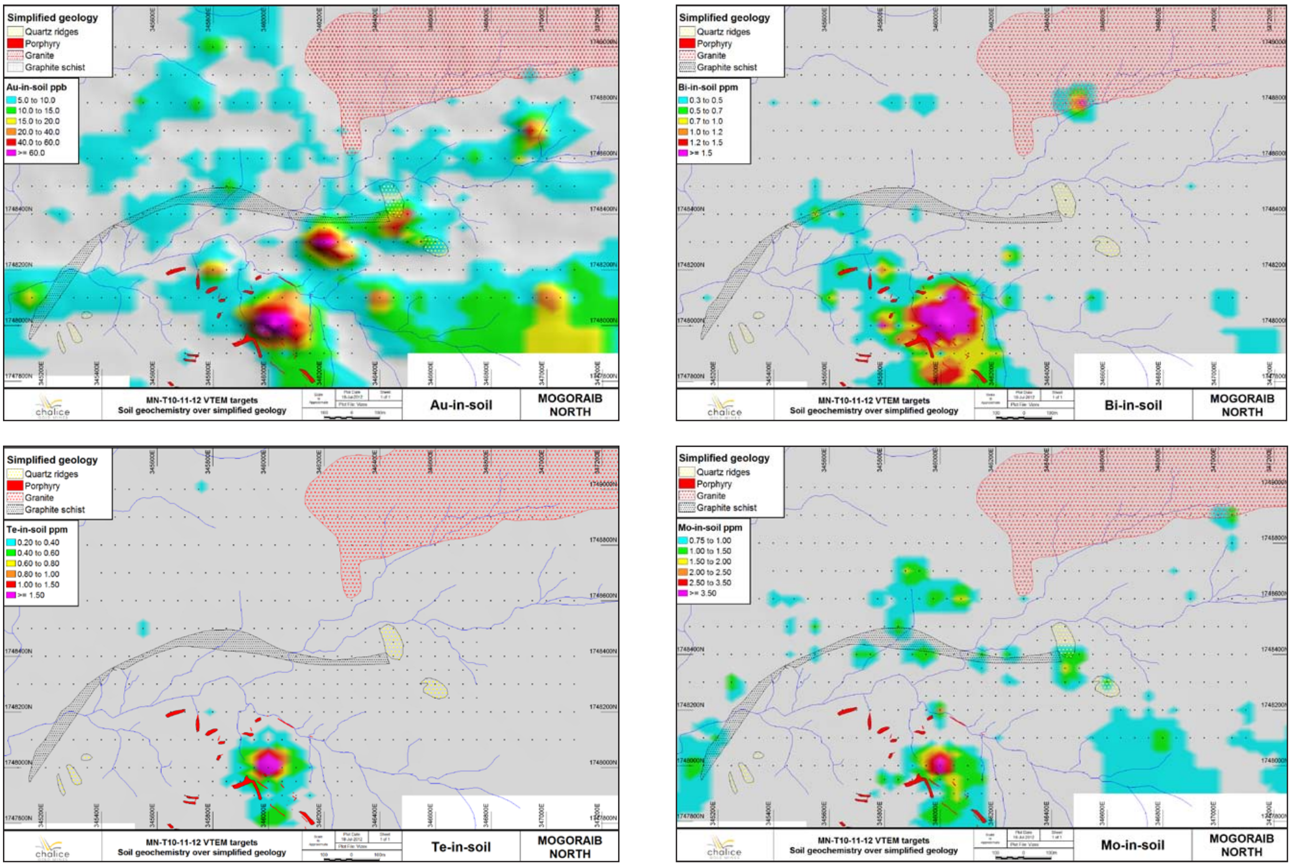


Figure 4 Area C Anomaly showing coincident gold, bismuth, tellurium and molybdenum soil anomalies – the characteristic geochemical signature of Intrusive Related Gold Systems (IRGS)

HURUM EXPLORATION

The Company completed a first-pass reconnaissance exploration program on the 275 sq 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.

GNAWEEDA PROJECT

On 13 June 2012, the Company announced it had agreed to sell its remaining 13.5% interest in the Gnaweeda Gold Project to Archean Star Resources Inc. The consideration for the sale was 5 million common shares in Archean Star.
On 4 October 2012, the Company terminated the agreement to sell its interest due to non-performance by Archean Star. The Company's 13.5% interest in the Project remains with all commensurate rights.

SCHEDULE OF TENEMENTS

PROJECTS - ERITREA

	LICENCE TYPE	NATURE OF INTEREST	CURRENT EQUITY
Mogoraib North	Exploration Licence	Owned	60%
Hurum	Exploration Licence	Owned	60%

PROJECTS - AUSTRALIA

TENEMENT #	NATURE OF INTEREST	CURRENT EQUITY
E51/0926	Owned	13.5%
E51/0927	Owned	13.5%

COMPETENT PERSONS STATEMENT

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

FORWARD LOOKING STATEMENTS

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 Chalice Gold Mines Limited (the Company) does not intend, and does not assume any obligation to update these forward-looking statements except as required by law or regulation.

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, 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; the ultimate outcome for shareholders of any Class Ruling received from the Australian Tax Office ("ATO") in relation to any proposed capital return, whether shareholders would vote in favour of such a return of capital if put before them at a meeting of the shareholders, as well as those factors detailed from time to time in the Company's interim and annual financial statements, all of which are filed and available for review on SEDAR at 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.

The Directors present their report together with the financial report of the Chalice Gold Mines Limited ('Chalice') and its subsidiaries (together 'the Group') for the financial year ended 30 June 2012 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

1. DIRECTORS

T R B GOYDER

Executive Chairman

Tim has over 30 years experience in the resource industry. He has been involved in the formation and management of a number of publicly-listed and private companies and is currently a director of Uranium Equities Limited, Strike Energy Limited and Chairman of Liontown Resources Limited, all listed on ASX.

D A JONES PhD, AusIMM, CPGeo

Managing Director

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

A W KIERNAN LLB

Non-executive Director

Tony, previously a lawyer, is a corporate advisor with extensive experience in the administration and operation of listed public companies. He is Chairman of BC Iron Limited, Uranium Equities Limited, Venturex Resources Limited and is a director of Liontown Resources Limited, all listed on ASX. Tony is Chairman of the Audit Committee and Remuneration Committee.

S P QUIN PGeo,FGAC, FSEG, MIOM3

Independent Non-executive Director

Stephen 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 & 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. Stephen is a member of the Audit and Remuneration Committees.

M R GRIFFITHS BSc Dip Ed, AusIMM, GAIC

Non-executive Director (resigned 21 November 2011)

Mike is a geologist with considerable experience in the minerals exploration sector in both Eritrea and Africa. Mike resigned as a director on 21 November 2011. Mike is currently a director of TSX listed Currie Rose Limited and Chairman of ASX listed Mozambi Coal Limited.

J JEFFERY BSc (Engineering), BSc (honours), MBA (Marketing)

Executive Director/Chief Operating Officer (appointed 7 July 2011, resigned 21 November 2011)

Juan resigned as a director on 21 November 2011.

2. CHIEF FINANCIAL OFFICER AND COMPANY SECRETARIES

R K HACKER

B.Com, ACA, ACIS

Chief Financial Officer/Company Secretary

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

L FORGIONE

B.Com, CA

Company Secretary

Leanne is a Chartered Accountant who has over 10 years of accounting and governance experience within the mining and energy industries. Leanne is also joint Company Secretary of Liontown Resources Limited.

3. DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	DIRECTORS' MEETINGS	AUDIT	REMUNERATION	NOMINATION
Number of meetings held:	5	2	1	-
Number of meetings attended:				
T R B Goyder	5	-	1	-
D A Jones	5	1	-	-
A W Kiernan	4	2	1	-
M R Griffiths	1	-	-	-
S P Quin	5	2	1	-
J Jeffery	1	-	-	-

The Company has an audit committee, a remuneration committee and a nomination committee of the board of directors. Members acting on the committees during the year were:

AUDIT	REMUNERATION	NOMINATION
A W Kiernan (Chairman)	A W Kiernan (Chairman)	Full Board
S P Quin	T R B Goyder (resigned from Committee on 1 March 2012)	
	S P Quin	

4. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were advancing the Koka gold deposit in Eritrea to development and conducting mineral exploration and evaluation. The sale of the Company's interest in the Zara Project, which was completed in September 2012, saw a significant change in the nature of the Company's activities. Exploration of the Company's other projects continued in Eritrea.

5. REVIEW OF OPERATIONS

5.1 THE ZARA PROJECT, ERITREA

Sale of the Zara Project to China SFECO Group

In April 2012 Chalice signed a Sale and Purchase Agreement ('SPA') to sell its 60 per cent interest in the Zara Project for US$80 million (including a deferred payment of US$2 million on the first gold pour at the Koka Gold Mine) to China SFECO Group ('SFECO'), a subsidiary of Shanghai Construction Group Co. Ltd. The sale of the 60 per cent interest was in addition to a previous agreement to sell a 30 per cent interest to the Eritrean National Mining Company ('ENAMCO') in June 2011 for approximately US$34 million. ENAMCO at that stage had a free carried 10 per cent interest in the Zara Project.

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

5.2 EXPLORATION - ERITREA

Mogoraib North Exploration

Diamond drilling targeting potential Volcanic Hosted Massive Sulphide (VHMS) deposits commenced during the year on the Company's 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 is 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 in mid-2011 and subsequently further refined by ground-based geophysics and geochemical sampling.

Drilling is expected to recommence in October 2012. In addition, artisanal gold workings were identified in the north-central part of the tenement and in-fill soil samples and rock chip samples were collected from the area to follow-up anomalous gold-in-soil samples obtained in a previous reconnaissance program. Assays from this sampling and the diamond drilling program are pending.

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). Exploration expenditure will be funded in accordance with each party's paid participating interest, being two-thirds Chalice and one-third ENAMCO.

6. FINANCIAL REVIEW

6.1 RESULTS FOR THE YEAR

The loss of the Group for the year ended 30 June 2012 was $4,135,214.

Significant items for the year include:

- corporate and administration costs totalling $2,092,923; and
- corporate personnel costs of $1,525,680 which includes $215,280 of non-cash equity settled payments for share options and performance rights issued to directors and employees.

6.2 FINANCIAL POSITION

As at 30 June 2012, the Group had net assets of $47,036,529, including $3,074,530 in cash and cash equivalents, and an excess of current assets over current liabilities of $43,816,076. Following completion of the sale of the Zara Project subsequent to year end, at the date of this report, Chalice has approximately $81 million cash on hand.

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as referred to in section 5, there are no significant changes in the state of affairs of the Group since balance date.

8. REMUNERATION REPORT – AUDITED

This report outlines remuneration arrangements in place for directors and executives of Chalice Gold Mines Limited.

The Remuneration Report is presented under the following sections:

8.1 Message from the Board

8.2 Introduction

8.3 Principles of compensation

8.4 Key management personnel remuneration

8.5 Equity instruments

8.6 Service agreements

8.1 MESSAGE FROM THE BOARD

As indicated in last year's Remuneration Report and particularly in the context of Chalice evolving from an exploration company to a development company, the Board undertook a review of its approach to remuneration. The focus of the review was to ensure alignment between the business strategy, remuneration and shareholder interests, as well as being cognisant of the approaches adopted by other ASX listed companies in the mining sector.

For the 2012 financial year, the Company made the following key changes to its remuneration structure:

- implementation of a Long Term Incentive Plan ('LTIP') (which was approved by shareholders at the Company's AGM held in November 2011); and
- a revision to the structure of director fees to include a base fee and committee fee component (reflective of the varying workloads of each director).

These changes to the Company's approach were an important step forward in aligning the remuneration policy with the strategic direction of its business. However, in light of the sale of the Company's main asset, the Zara Project, as outlined in Section 5 of this report, further changes to the application of the policy may be required as the future direction of the Company becomes more evident.

8.2 INTRODUCTION

The information provided in this Remuneration Report has been audited as required by section 308 (3C) of the *Corporations Act 2001*. Information regarding the remuneration of Key Management Personnel ('KMP') is required by Corporations Regulations 2M.3.03. KMP are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group. The following were the KMP for the Group at any time during the year:

Tim Goyder	Executive Chairman
Douglas Jones	Managing Director
Juan Jeffery	Chief Operating Officer and Executive Director (resigned as a director and employee 21 November 2011)
Mike Griffiths	Non-executive Director (resigned 21 November 2011)
Anthony Kiernan	Non-executive Director
Stephen Quin	Non-executive Director
Richard Hacker	Chief Financial Officer and Joint Company Secretary
Michael Kelly	General Manager – Zara Mining Share Company

8.3 PRINCIPLES OF COMPENSATION

8.3.1 Remuneration governance

Remuneration committee

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 & Non-executive Director
Stephen Quin	Independent Non-Executive Director

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.

An additional member will be appointed to the Remuneration Committee when the size of the full Board is increased.

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 proposed LTI Plan. 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.

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 47% 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 the comments below).

(Please note that the Financial Report dated 27 September 2012 refers to ***36%*** *of those voting not in favour of approving the 2011 Remuneration Report. The preceding paragraph reflects the correct percentage of* ***47%.****)*

Since the 2011 AGM, the Board has further 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.	As at the date of this Report, a significant proportion of previously issued Long Term Incentives ('LTI') to KMP, 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 KMP. 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 KMP, 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 Employee Long Term Incentive Plan to issue performance rights which will provide for additional performance hurdles where warranted. In future it is the Board's intention to utilise performance rights rather than share options as the means of providing long term incentives to KMPs.
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.

8.3.2 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 and appropriate calibre and, while incurring a cost which is acceptable to shareholders and appropriate for the Company's size; and
2. Key management personnels' 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 appropriate 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	✓#	✓
	Consultancy fees	✓##	×
	Other benefits	✓	✓
Variable remuneration	Short term incentives (STI)	×	✓
	Share options	✓###	✓
	Performance rights	×	✓

 # Only applies to Australian non-executives.

Some directors are paid consultancy fees on an arm's length basis (refer below).

Non-executive directors are eligible to participate in the share option plan at the discretion of the Board and subject to shareholder approval where required (refer below for further details).

8.3.3 Non-executive director remuneration

The Company's 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 $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 50th and 75th percentile band of the comparative market data.

For the 2012 financial year (effective 1 July 2011), non-executive directors received a fee of $45,000 (inclusive of superannuation), the members of the Audit Committee and Remuneration Committee also received an additional $5,000 for their roles on each of those Committees. 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 Employee Share 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 Company's 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. 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 remuneration of non-executive directors for the years ended 30 June 2012 and 30 June 2011 is detailed further in this Remuneration Report. The amounts listed under 'Salary & Fees' includes both director fees and consultancy fees received by non-executive directors.

8.3.4 Executive remuneration

The executive remuneration consists of fixed remuneration and may also comprise 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 50th and 75th percentile band of benchmark data, but the Board has the discretion to pay above this to attract and retain key employees in achieving the Company's strategic goals.

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.

The fixed remuneration for executives is detailed further in this Report.

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 30 June 2012.

Variable remuneration – share option plan

Equity grants to executives have previously been delivered in the form of employee share options granted under the Company's Employee Share 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.

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 Employee 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 ordinary fully paid shares in the Company. In the event performance criteria are not achieved, the employee's performance rights lapse with no shares being issued. Details of performance rights granted during the year are shown below:

EXECUTIVE	NUMBER OF RIGHTS	PERFORMANCE CONDITION	ACHIEVEMENT DATE	STATUS
Mr J Jeffery[1]	250,000	Practical completion of the plant at the Company's Koka Gold Mine	30 June 2013	Lapsed
	250,000	First gold pour from the Koka Gold Mine	30 September 2013	Lapsed
	250,000	Commercial gold production from the Koka Gold Mine for a period of 6 months	30 June 2014	Lapsed
Mr M Kelly[2]	166,667	Practical completion of the plant at the Company's Koka Gold Mine	30 June 2013	Lapsed
	166,667	First gold pour from the Koka Gold Mine	30 September 2013	Lapsed
	166,666	Commercial gold production from the Koka Gold Mine for a period of 6 months	30 June 2014	Lapsed
Mr R Hacker	125,000	Retention – Service period only	1 October 2012	
	125,000	Retention – Service period only	1 October 2013	

(1) Mr Jeffery's performance rights lapsed on 17 February 2012 as Mr Jeffery ceased employment with the Company.

(2) Mr Kelly's performance rights lapsed on 7 September 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.

A summary of the LTIP is set out below:

KEY DESIGN FEATURE	DESIGN
Eligibility	All full-time employees and permanent part-time employees (including executive directors and the managing director) of the Company are eligible participants. Shareholder approval is required before any director or related party of the Company can participate in the LTIP.
Award quantum	The award quantum will be determined in consideration of total remuneration of the individual, market relativities and business affordability. The LTIP does not set out a maximum number of shares that may be issuable to any one person, other than the 5% limit of the total number of issued shares.
Performance conditions	The performance conditions that must be satisfied in order for the performance rights to vest are determined by the Board. The performance conditions may include one or more of the following: • Employment of a minimum period of time; • achievement of specific objectives by the participant and/or the Company. This may include the achievement of share price targets and other major long term milestone targets; or • such other performance objectives as the Board may determine.
Vesting	Vesting will occur at the end of a defined period, usually three years, and upon the achievement of the performance conditions.
Term and lapse	The term of the performance rights is determined by the Board in its absolute discretion, 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 as described below.
Price Payable by Participant	No consideration.
Cessation of Employment	If an employee leaves the Company prior to the expiration of the relevant vesting period for a particular award of performance rights, generally such performance rights would lapse except in certain limited situations such as disability, redundancy or death.

8.3.5 Link between performance and executive remuneration

The focus of executive remuneration over the financial year was fixed remuneration and the share options (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:

	30 JUNE 2008	30 JUNE 2009	30 JUNE 2010	30 JUNE 2011	30 JUNE 2012
Share price	$0.14	$0.25	$0.39	$0.33	$0.20

On 4 September 2012, the Company completed the sale of the Zara Project to SFECO and ENAMCO for gross proceeds of US$114 million. At the date of this report Chalice has a cash backed value of $0.33 per share.

8.4 KEY MANAGEMENT PERSONNEL REMUNERATION (AUDITED)

		SHORT-TERM PAYMENTS			POST-EMPLOYMENT PAYMENTS			SHARE-BASED PAYMENTS		
Key Management Personnel		Salary & fees $	Non-monetary benefits $	Total $	Superannuation benefits $	Other $	Termination benefits $	Long Term Incentives [4] $	Total $	Proportion of remuneration performance related
Directors										
T R B Goyder[1]	2012	263,761	2,445	266,206	23,739	-	-	-	289,945	-%
	2011	229,358	2,601	231,959	20,642	-	-	-	252,601	-%
D A Jones	2012	284,404	6,235	290,639	25,596	-	-	-	316,235	-%
	2011	284,404	2,601	287,005	25,596	-	-	269,740	582,341	46%
A W Kiernan	2012	203,196	2,445	205,641	3,888	-	-	-	209,529	-%
	2011	165,527	2,601	168,128	2,973	-	-	-	171,101	-%
M R Griffiths	2012	49,331	955	50,286	5,701	50,459	-	11,800	118,246	10%
	2011	275,229	2,601	277,830	24,771	-	-	95,072	397,673	24%
S P Quin	2012	42,083	2,445	44,528	-	-	-	56,085	100,613	56%
	2011	35,000	2,601	37,601	-	-	-	163,039	200,640	81%
J Jeffery [2]	2012	218,056	1,490	219,546	25,536	-	81,250	-	326,332	-%
	2011	-	-	-	-		-	-	-	-%
Executive										
R K Hacker	2012	229,358	3,599	232,957	20,642	-	-	36,753	290,352	13%
	2011	239,358	3,189	242,547	21,542	-	-	-	264,089	-%
M P Kelly [3]	2012	341,235	-	341,235	-	-	-	-	341,235	-%
	2011	-	-	-	-	-	-	-	-	-%
Total Compensation	**2012**	**1,631,424**	**19,614**	**1,651,038**	**105,102**	**50,459**	**81,250**	**104,638**	**1,992,487**	
	2011	**1,228,876**	**16,194**	**1,245,070**	**95,524**	**-**	**-**	**527,851**	**1,868,445**	

(1) 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 $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 7 September 2012.

(2) Mr Jeffery was granted performance rights on 15 December 2011, which subsequently lapsed on Mr Jeffery's resignation.

(3) Mr Kelly was appointed to General Manager – Zara Mining Share Company on 1 September 2011. On 16 December 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 performance rights 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 7 September 2012.

(4) 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 portion 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.

Details of performance-related remuneration

The proportion of remuneration that is performance related, including the STI and LTI components is tailored to individual executives. As discussed in section 8.3.4 the Company has not formally implemented an STIP due to the sale of the Zara Project. As the Company's future direction becomes evident, the proportion of performance related remuneration will be re-assessed.

8.5 EQUITY INSTRUMENTS (AUDITED)

8.5.1 Employee share options

Details of options over ordinary shares in the Group that were granted as compensation to key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

	NUMBER OF OPTIONS GRANTED DURING 2012	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE $	EXERCISE PRICE $	EXPIRY DATE	NUMBER OF OPTIONS VESTED DURING 2012
Directors						
T R B Goyder	2,500,000	22 November 2011	0.07	0.50	30 November 2014	-

The options granted to Mr Goyder were to vest on the achievement of obtaining sufficient finance (either debt or equity) for the development of the Koka Gold Mine.

Subsequent to the reporting date, Mr Goyder's options lapsed as the vesting conditions set were no longer achievable due to the sale of the Zara Project.

During the reporting period, no shares were issued on the exercise of options previously granted as compensation.

Details of the vesting profile of the options granted as remuneration to each key management person of the Group are outlined below.

	NUMBER GRANTED	DATE GRANTED	% VESTED IN YEAR	% FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS
Director					
T R B Goyder	2,500,000	22 November 2011	-	-	Upon obtaining debt or equity finance for the Koka Gold Mine
S Quin	187,500	25 November 2010	100%	-	30 April 2012
	187,500	25 November 2010	-	-	30 April 2013
M Griffiths	375,000	16 November 2009	100%	-	1 September 2011

The movement during the reporting period, by value of options over ordinary shares in the Group held by each key management person is detailed below:

	VALUE OF OPTIONS GRANTED IN YEAR(1) $	VALUE OF OPTIONS EXERCISED IN YEAR(1) $	VALUE OF OPTIONS LAPSED IN YEAR(1) $
T R B Goyder	163,513	-	-

(1) For details on the valuation of the options, including the models and assumptions, please refer to note 15.

b) Employee long term incentive plan - performance rights

Details of performance rights granted as compensation to KMP during the reporting period and details of performance rights that vested during the reporting period are as follows:

	NUMBER OF RIGHTS GRANTED DURING 2012	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE $	EXPIRY DATE	NUMBER OF RIGHTS VESTED DURING 2012
Executives					
J Jeffery(1)	750,000	15 December 2011	0.29	30 June 2015	-
M Kelly(2)	500,000	16 December 2011	0.30	30 June 2015	-
R Hacker	250,000	16 December 2011	0.30	1 October 2014	-

(1) Mr Jeffery's performance rights lapsed on 17 February 2012.

(2) Mr Kelly's performance rights lapsed on 7 September 2012.

During the reporting period, no shares were issued on the exercise of performance rights previously granted as compensation.

Details of the vesting profile of performance rights granted as remuneration to each KMP of the Group are outlined below.

	NUMBER GRANTED	DATE GRANTED	% VESTED IN YEAR	% FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS
Executive					
J Jeffery(1)	750,000	15 December 2011	-	100%	-
M Kelly(2)	500,000	16 December 2011	-	-	-
R Hacker	125,000	16 December 2011	-	-	1 October 2012
	125,000	16 December 2011	-	-	1 October 2013

(1) Mr Jeffery's performance rights lapsed on 17 February 2012.

(2) Mr Kelly's performance rights lapsed on 7 September 2012.

The movement during the reporting period, by value of performance rights over ordinary shares in the Group held by each KMP is detailed below:

	VALUE OF PERFORMANCE RIGHTS GRANTED IN YEAR(1) $	VALUE OF PERFORMANCE RIGHTS EXERCISED IN YEAR(1) $	VALUE OF PERFORMANCE RIGHTS LAPSED IN YEAR(1) $
J Jeffery	217,500	-	217,500
M Kelly	150,000	-	-
R Hacker	75,000	-	-

(1) For details on the valuation of the options, including the models and assumptions, please refer to note 15.

8.6 SERVICE AGREEMENTS

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

	TERMINATION	DIMINUTION OF RESPONSIBILITY	OTHER PROVISIONS
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.	Standard Chalice terms and conditions of employment.
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.	Standard Chalice terms and conditions of employment.
Other Key Management Personnel	All other Key Management Personnel employment agreements may be terminated by the Company or the employee upon giving three months notice.	Nil	Standard Chalice terms and conditions of employment.
Non-Executive Directors	Nil	Nil	

9. DIVIDENDS

No dividends were declared or paid during the year and the directors recommend that no dividend be paid.

10. LIKELY DEVELOPMENTS

The Group will continue activities in the exploration and evaluation of minerals tenements with the objective of developing a significant minerals business. Following the sale of the Company's major asset, the Zara Project, the Company will focus on the evaluation of resource projects for acquisition and also the exploration of the Company's remaining projects in Eritrea.

11. EVENTS SUBSEQUENT TO REPORTING DATE

11.1 COMPLETION OF THE SALE OF THE ZARA PROJECT

On 15 June 2011, Chalice executed a Deed of Acquisition with ENAMCO for the sale to ENAMCO of a 30 per cent participating interest in Chalice's Zara Project for US$32 million. This 30 per cent was in addition to ENAMCO's then existing 10 per cent free carried interest.

On 27 April 2012, the Company agreed to sell its remaining 60 per cent interest in the Zara Project to SFECO for US$80 million, including a deferred consideration of US$2 million payable upon commencement of first commercial production of the Koka Gold Mine.

On 4 September 2012, the transactions with SFECO and ENAMCO were settled, resulting in a net profit after tax of approximately $43.4 million. On completion of both transactions and after the payment of all applicable taxes in Eritrea, Chalice had approximately $83 million cash at bank.

As at 30 June 2012, the Zara Project was recognised as an asset held for sale and a discontinued operation. Refer to note 10.

11.2 DRAGON MINING LIMITED PAYMENT

As outlined in note 21, a contingent liability existed as at 30 June 2012 for a payment to Dragon Mining Limited of $1.5 million. On 11 September 2012, Chalice settled this obligation.

11.3 CAPITAL REDUCTION AND RETURN

Following the recent completion of the sale of the Company's interest in the Zara Project in Eritrea, Chalice currently has approximately $81 million cash on hand. 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 24 September 2012, Chalice announced a proposed capital reduction and return, subject to shareholder approval, of up to $25 million (10 cents per share) to those persons or entities that are shareholders as at the appropriate record date. At the date of this report 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.

12. DIRECTORS' INTERESTS

The relevant interest of each director in the shares, rights or options over such instruments issued by Chalice and other related bodies corporate, as notified by the directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	ORDINARY SHARES	OPTIONS OVER ORDINARY SHARES
T R B Goyder	33,724,342	-
D A Jones	296,278	2,500,000
S P Quin	26,321	750,000
A W Kiernan	1,137,041	500,000

13. SHARE OPTIONS AND PERFORMANCE RIGHTS

Unissued shares under option

At the date of this report 5,100,000 unissued ordinary shares of the Company are under option on the following terms and conditions:

EXPIRY DATE	EXERCISE PRICE ($)	NUMBER OF SHARES
1 December 2012	0.25	500,000
31 July 2013	0.20	500,000
31 March 2014	0.35	1,250,000
31 March 2014	0.45	1,250,000
30 April 2014	0.55	187,500
30 April 2014	0.65	187,500
30 April 2014	0.75	375,000
14 September 2014	0.45	750,000
30 November 2014	0.45	100,000

These options do not entitle the holder to participate in any share issue of Chalice or any other body corporate.

Performance rights

At the date of this report 400,000 performance rights have been issued on the following terms and conditions:

EXPIRY DATE	EXERCISE PRICE ($)	NUMBER OF SHARES
30 June 2015	Nil	250,000
30 June 2015	Nil	150,000

Shares issued on exercise of options or performance rights

During or since the end of the year, no options or performance rights were exercised.

14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

During the year the Group paid insurance premiums of $14,672 in respect of directors and officers 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.

The amount of insurance paid is included in KMP remuneration on page 18.

15. NON-AUDIT SERVICES

During the year HLB Mann Judd, the Company's auditors, performed no other services in addition to their statutory duties.

16. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 24 and forms part of the Directors' Report for the year ended 30 June 2012.

This Report is made in accordance with a resolution of the Directors:

Tim R B Goyder

Executive Chairman

Dated at Perth the 10th day of October 2012

COMPETENT PERSONS AND QUALIFIED PERSON STATEMENT

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

FORWARD LOOKING STATEMENTS

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 Chalice Gold Mines Limited (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. 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.

HLB Mann Judd
Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Chalice Gold Mines Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Chalice Gold Mines Limited.

Perth, Western Australia	**W M CLARK**
10 October 2012	**Partner, HLB Mann Judd**

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HLB Mann Judd (WA Partnership) is a member of HLB International, a worldwide organisation of accounting firms and business advisers.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED 2012 $	2011 $
Continuing operations			
Other income	3(a)	369,678	615,748
Reversal of share of loss of associate	11	-	1,508
Loss on sale of exploration and evaluation assets		(147,091)	-
Exploration expenditure not capitalised		(96,820)	(15,720)
Change in fair value of options held through profit and loss		-	(2,978)
Impairment of exploration and evaluation assets	9	(126,431)	(41,130)
Corporate administrative expenses	3(b)	(3,618,603)	(3,911,155)
Depreciation and amortisation expense		(99,454)	(474,327)
Loss before tax from continuing operations		**(3,718,721)**	**(3,828,054)**
Income tax expense	5	-	-
Loss for the year from continuing operations		**(3,718,721)**	**(3,828,054)**
Discontinued operations			
Loss from discontinued operations (net of tax)	10	(416,493)	-
Loss for the year		**(4,135,214)**	**(3,828,054)**
Loss for the year attributable to:			
Owners of the parent		(4,093,565)	(3,828,054)
Non-controlling interests		(41,649)	-
		(4,135,214)	**(3,828,054)**
Other comprehensive income/(loss)			
Net change in fair value of available for sale investments	18(b)	(34,000)	12,000
Exchanges differences on translation of foreign operations	18(b)	2,562,582	(5,776,792)
Other comprehensive income/(loss) for the year		2,528,582	(5,764,792)
Total comprehensive loss for the year		**(1,606,632)**	**(9,592,846)**
Total comprehensive loss for the year attributable to:			
Owners of the parent		(1,564,983)	(9,592,846)
Non-controlling interests		(41,649)	-
		(1,606,632)	**(9,592,846)**
Basic and diluted loss (cents per share)	6	(1.6)	(1.8)
Basic and diluted loss (cents per share) from continuing operations	6	(1.5)	(1.8)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED	
		2012 $	2011 $
Current assets			
Cash and cash equivalents	22	3,074,530	10,193,836
Trade and other receivables	7	486,635	478,080
Assets held for sale – Zara Project	10(a)	48,483,409	-
Total current assets		52,044,574	10,671,916
Non-current assets			
Financial assets	8	862,640	919,136
Exploration and evaluation assets	9	2,482,857	36,492,204
Property, plant and equipment	12	275,419	1,508,705
Total non-current assets		3,620,916	38,920,045
Total assets		55,665,490	49,591,961
Current liabilities			
Trade and other payables	13	859,855	941,382
Unearned income	14	2,979,441	-
Employee benefits	15	93,883	177,607
Liabilities held for sale – Zara Project	10(a)	4,670,319	-
Total current liabilities		8,603,498	1,118,989
Non-current liabilities			
Other	16	25,463	45,091
Total non-current liabilities		25,463	45,091
Total liabilities		8,628,961	1,164,080
Net assets		47,036,529	48,427,881
Equity			
Issued capital	17	64,200,112	64,200,112
Accumulated losses	18(a)	(16,202,389)	(12,108,824)
Reserves	18(b)	(4,636,037)	(3,663,407)
Total equity attributable to the owners of the parent		43,361,686	48,427,881
Non-controlling interests		3,674,843	-
Total equity		47,036,529	48,427,881

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	CONSOLIDATED								
	ISSUED CAPITAL $	ACCUMULATED LOSSES $	SHARE BASED PAYMENTS RESERVE $	INVESTMENT REVALUATION RESERVE $	FOREIGN CURRENCY TRANSLATION RESERVE $	NON-CONTROLLING INTEREST RESERVE $	TOTAL ATTRIBUTABLE TO OWNERS OF THE PARENT $	NON-CONTROLLING INTEREST $	TOTAL $
Balance at 30 June 2011	64,200,112	(12,108,824)	2,029,301	14,000	(5,706,708)	-	48,427,881	-	48,427,881
Net change in fair value of available for sale investments	-	-	-	(34,000)	-	-	(34,000)	-	(34,000)
Exchange differences on translation of foreign operations	-	-	-	-	2,562,582	-	2,562,582	-	2,562,582
Loss for the year	-	(4,093,565)	-	-	-	-	(4,093,565)	(41,649)	(4,135,214)
Total comprehensive loss for the year	-	(4,093,565)	-	(34,000)	2,562,582	-	(1,564,983)	(41,649)	(1,606,632)
Share based payments	-	-	215,280	-	-	-	215,280	-	215,280
Recognition of non-controlling interest on incorporation of subsidiary	-	-	-	-	-	(3,716,492)	(3,716,492)	3,716,492	-
Balance at 30 June 2012	64,200,112	(16,202,389)	2,244,581	(20,000)	(3,144,126)	(3,716,492)	43,361,686	3,674,843	47,036,529
Balance at 30 June 2010	41,254,947	(8,280,770)	1,501,450	2,000	70,084	-	34,547,711	-	34,547,711
Net change in fair value of available for sale investments	-	-	-	12,000	-	-	12,000	-	12,000
Exchange differences on translation of foreign operations	-	-	-	-	(5,776,792)	-	(5,776,792)	-	(5,776,792)
Loss for the year	-	(3,828,054)	-	-	-	-	(3,828,054)	-	(3,828,054)
Total comprehensive loss for the year	-	(3,828,054)	-	12,000	(5,776,792)	-	(9,592,846)	-	(9,592,846)
Share issue – rights issue (net after costs)	12,044,217	-	-	-	-	-	12,044,217	-	12,044,217
Share placement (net after costs)	9,107,198	-	-	-	-	-	9,107,198	-	9,107,198
Exercise of options	1,793,750	-	-	-	-	-	1,793,750	-	1,793,750
Share based payments	-	-	527,851	-	-	-	527,851	-	527,851
Balance at 30 June 2011	64,200,112	(12,108,824)	2,029,301	14,000	(5,706,708)	-	48,427,881	-	48,427,881

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED	
		2012 $	2011 $
Cash flows from operating activities			
Cash receipts from operations		155,134	244,230
Cash paid to suppliers and employees		(3,171,481)	(3,016,741)
Interest received		265,079	376,724
Net cash used in operating activities	22	**(2,751,268)**	**(2,395,787)**
Cash flows from investing activities			
Payments for mining exploration and evaluation		(8,590,119)	(13,079,323)
Acquisition of property, plant and equipment		(2,457,989)	(863,056)
Tax payment for acquisition of exploration assets		-	(3,048,675)
Repayment of loan by non-controlling interests		3,126,262	-
Interim payment received	14	2,979,441	-
Proceeds from sale of exploration and evaluation assets		695,203	-
Stamp duty paid on acquisition of exploration assets		-	(1,034,819)
Net cash used in investing activities		**(4,247,202)**	**(18,025,873)**
Cash flows from financing activities			
Proceeds from issue of shares		-	24,066,103
Payments for share issue costs		-	(1,120,938)
Net cash from financing activities		**-**	**22,945,165**
Net increase/(decrease) in cash and cash equivalents		(6,998,470)	2,523,505
Cash and cash equivalents at the beginning of the year		10,193,836	7,688,905
Effect of exchange rate fluctuations on cash held		(18,235)	(18,574)
Cash and cash equivalents at 30 June	22	**3,177,131**	**10,193,836**

The above statement of cash flows should be read in conjunction with the accompanying notes.

1. SIGNIFICANT ACCOUNTING POLICIES

Chalice Gold Mines Limited is a dual listed Australian Securities Exchange ('ASX') and Toronto Stock Exchange ('TSX') listed public company domiciled in Australia at Level 2, 1292 Hay Street, Perth, Western Australia. The consolidated financial report comprises the financial statements of Chalice Gold Mines Limited ('Company') and its subsidiaries ('the Group') for the year ended 30 June 2012.

(a) Basis of preparation and statement of compliance

The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. Chalice is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising of the consolidated financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The financial report was authorised for issue by the directors on 10 October 2012.

(b) Adoption of new and revised standards

In the year ended 30 June 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011. It has been determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, the Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011:

- AASB 124 Related Party Disclosures (amendment) effective 1 July 2011
- AASB 132 Financial Instruments
- Improvements to AASB's

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. The following standards and interpretations have been recently issued or amended and have not been adopted by the Group for the annual reporting period ending 30 June 2012, outlined below:

- AASB 10 Consolidated Financial Statements
- AASB 11 Joint arrangements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits
- AASB 9 Financial Instruments

As a result of this review the directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to the Group's accounting policies.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Chalice Gold Mines Limited ('Company' or 'Parent') and its subsidiaries as at 30 June each year (the 'Group'). Interests in associates are equity accounted and are not part of the consolidated Group.

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Investments in subsidiaries held by Chalice Gold Mines Limited are accounted for at cost in the financial statements of the parent entity less any impairment charges.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(d) Significant accounting judgements, estimates and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Group.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Recoverability of exploration expenditure

The recoverability of the carrying amount of exploration and evaluation expenditure carried forward and it is dependent on the future successful outcome from exploration activity or alternatively the sale of the respective areas of interest. Where exploration results are unsuccessful, or no further work is to be undertaken, the directors will then assess whether an impairment write-down is required, which will be recognised in the statement of comprehensive income.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled share-based payments at fair value at the grant date using a Black-Scholes Option model taking into account the terms and conditions upon which the instruments were granted. The details and assumptions used in determining the value of these transactions are detailed in note 15.

(iii) Impairment of available for sale assets

The Group follows the guidance of *AASB 139 Financial Instruments: Recognition and Measurement* to determining when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(e) Foreign currency translation

The functional currency of the Company is Australian dollars, and the functional currency of subsidiaries based in Eritrea is United States dollars (US$). The presentation currency of the Group is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of the exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss as incurred. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at exchange rates as at the date of the initial transaction.

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Chalice Gold Mines Limited at the rate of exchange ruling at the balance date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of recognised foreign currency translation reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the board.

Operating segments that meet the quantitative criteria as described in AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the buyer.

(ii) Services rendered

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at balance date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due and the costs incurred or to be incurred cannot be measured reliably.

(iii) Interest received

Interest income is recognised in the statement of comprehensive income as it accrues, using the effective interest method. The interest expense component of finance lease payments is recognised in the statement of comprehensive income using the effective interest method.

(h) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and spread over the lease term.

(ii) Depreciation

Depreciation is calculated on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The depreciation rates used in the current and comparative periods are as follows:

- plant and equipment 7%-40%
- fixtures and fittings 11%-22%
- motor vehicles 18.75%- 25%

The residual value, if not insignificant, is reassessed annually.

(i) Income tax and other taxes

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the country where the company's subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance date.

Income tax in the statement of comprehensive income comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred income tax is provided on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Other taxes

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST') or other taxes, except where the amount of GST or other taxes incurred are not recoverable from the taxation authority. In these circumstances, the GST or other taxes incurred, are recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office ('ATO') is included as a current asset or liability in the statement of financial position.

Other taxes payable in foreign jurisdictions are included as a current payable in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows. Taxes paid in foreign jurisdictions are classified as investing cash flows in the statement of cash flows.

(k) Impairment

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cashflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are recognised in the statement of comprehensive income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the statement of comprehensive income. Receivables with a short duration are not discounted.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of six months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(m) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses (see accounting policy (k)).

(n) Non-current assets held for sale and discontinued operations

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable AIFRS. Then, on initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of comprehensive income, income and expenses from the discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

Property, plant and equipment and tangible assets once classified as held for sale are not depreciated or amortised.

(o) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The carrying values of plant and equipment are reviewed for impairment at each balance date in line with the Group's impairment policy (see accounting policy (k)).

(p) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value, through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets at initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognised in profit or loss.

(ii) Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option-pricing models.

(q) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) are derecognised when:

- the rights to receive cash flows from the asset have expired; and/or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risk and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership.

When it has neither transferred nor retained substantially all of the risk and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involved in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss

(r) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of a financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be, recognised are not included in a collective assessment of impairment.

If there are objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed in subsequent periods.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(s) Exploration, evaluation, development and tenement acquisition costs

Exploration, evaluation, development and tenement acquisition costs in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest is carried forward as an asset in the statement of financial position so long as the following conditions are satisfied:

1) the rights to tenure of the area of interest are current; and

2) at least one of the following conditions is also met:

   (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

   (ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities. General and administrative costs are only included in the measurement of exploration and evaluation expenditures where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made. Where a decision is made to proceed with development, accumulated expenditure will be amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

(t) Trade and other payables

Trade and other payables are stated at amortised cost. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(u) Provisions and employee benefits

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Employee benefits

(i) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as superannuation, workers' compensation insurance and payroll tax.

(ii) Long service leave and other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. This benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit cost method.

(iii) Superannuation

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(iv) Share-based payment transaction

The Group currently provides benefits under an Employee Share Option Plan.

The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model and further details are provided at note 15.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(a) the extent to which the vesting period has expired; and

(b) the number of awards that, in the opinion of the directors, will ultimately vest. This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(v) Share capital

(i) Ordinary share capital

Ordinary shares and partly paid shares are classified as equity.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(w) Investments in associates

The Group's investment in associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems it has significant influence if it has over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in the associate is not tested separately; rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of its associates' post acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables and loans, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

(x) Joint venture interests

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes join control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealised gains and losses on such transactions between the Group and its joint venture. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

2. SEGMENT REPORTING

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the allocation of costs; whether they are corporate related costs or exploration and evaluation costs. Results of both segments are reported to the Board of Directors at each Board meeting. Exploration expenditure is reflected as a segment as exploration expenditure occurs in one geographical area – Eritrea.

	EXPLORATION AND EVALUATION		CORPORATE		TOTAL	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Other Income	-	-	171,911	232,230	171,911	232,230
Loss on sale of exploration and evaluation assets	(147,091)	-	-	-	(147,091)	-
Exploration costs not capitalised	(96,820)	(15,720)	-	-	(96,820)	(15,720)
Impairment of exploration and evaluation assets	(126,431)	(41,130)	-	-	(126,431)	(41,130)
Corporate and administrative expenses	-	-	(3,618,603)	(3,911,155)	(3,618,603)	(3,911,155)
Segment loss before tax	**(370,342)**	**(56,850)**	**(3,446,692)**	**(3,678,925)**	**(3,817,034)**	**(3,735,775)**
Unallocated income/(expenses)						
Net financing income					197,767	383,518
Depreciation					(99,454)	(474,327)
Reversal of associates net loss					-	1,508
Loss from discontinued operations					(416,493)	-
Change in fair value of options					-	(2,978)
Loss before income tax					**(4,135,214)**	**(3,828,054)**

	EXPLORATION AND EVALUATION		CORPORATE		TOTAL	
	30 JUNE 2012	30 JUNE 2011 $	30 JUNE 2012	30 JUNE 2011 $	30 JUNE 2012 $	30 JUNE 2011 $
Segment assets:						
Exploration and evaluation assets	2,482,857	36,492,204	-	-	2,482,857	36,492,204
Other	371,349	1,124,354	390,705	862,431	762,054	1,986,785
	2,854,206	**37,616,558**	**390,705**	**862,431**	**3,244,911**	**38,478,989**
Unallocated assets					3,937,170	11,112,972
Assets held for sale					48,483,409	-
Total assets					**55,665,490**	**49,591,961**
Segment liabilities	(3,544,485)	(745,807)	(414,157)	(418,273)	(3,958,642)	(1,164,080)
Liabilities held for sale					(4,670,319)	-
Total liabilities					**(8,628,961)**	**(1,164,080)**

3. REVENUE AND EXPENSES

	CONSOLIDATED	
	2012 $	2011 $
(a) Other income		
Corporate and administration service fees	171,911	232,230
Net finance income	197,767	383,518
	369,678	615,748
(b) Corporate administrative expenses		
Consultants	105,752	381,751
Costs associated with assets held for sale	539,691	-
Insurance	100,227	103,253
Legal fees	111,940	136,358
Travel	388,253	356,438
Head office costs	199,127	192,670
Regulatory and compliance	434,455	519,486
Personnel expenses (note 3(c))	1,525,680	1,826,970
Other	213,478	394,229
	3,618,603	3,911,155
(c) Personnel expenses		
Wages and salaries	1,018,393	899,082
Directors' fees	107,796	71,000
Other associated personnel expenses	81,721	128,826
Contributions to defined contribution plans	135,755	132,643
(Decrease)/increase in liability for annual leave	(39,272)	35,413
(Decrease)/increase in liability for long service leave	6,007	32,155
Equity-settled share- based payment transactions	215,280	527,851
	1,525,680	1,826,970

4. AUDITORS' REMUNERATION

Audit services		
HLB Mann Judd:		
Audit and review of financial reports	51,500	43,815
	51,500	43,815

5. INCOME TAX

The prima facie income tax expense on pre-tax accounting result on operations and discontinued operations reconciles to the income tax benefit in the financial statements as follows:

	CONSOLIDATED	
	2012 $	2011 $
Accounting loss from continuing operations	(3,718,721)	(3,828,054)
Accounting loss from discontinuing operations	(416,493)	-
Accounting loss before income tax	(4,135,214)	(3,828,054)
Income tax calculated at the Australian corporate rate of 30%	(1,240,564)	(1,148,416)
Non-deductible expenses	306,437	745,138
Deferred tax assets and liabilities not recognised	934,127	403,278
Income tax expense reported in the statement of comprehensive income	-	-

The tax rate used in the above reconciliation is the corporate rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

Unrecognised deferred tax balances

The following deferred tax assets and liabilities have not been brought to account:

	CONSOLIDATED	
	2012 $	2011 $
Deferred tax assets comprise:		
Revenue losses available for offset against future taxable income	4,157,557	3,084,217
Share issue expenses	457,721	642,948
Accrued expenses and liabilities	73,115	78,320
	4,688,393	3,805,485
Deferred tax liabilities comprise:		
Exploration costs capitalised	(112,500)	(188,939)
Accrued income	(559)	(14,003)
Net deferred tax assets recognised	(113,059)	(202,906)
Income tax benefit not recognised directly in equity during the year:		
Share issue costs	47,218	302,725

Deferred tax liabilities have not been recognised in respect of these taxable temporary differences as the entity is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

6. EARNINGS PER SHARE

Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 30 June 2012 was based on the loss attributable to ordinary equity holders of the parent of $4,093,565 [2011: loss of $3,828,054] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2012 of 250,030,886 [2011: 209,469,399].

	CONSOLIDATED	
	2012 $	2011 $
Loss attributable to ordinary shareholders		
Loss attributable to ordinary equity holders of the parent from continuing operations	3,718,721	3,828,054
Loss attributable to ordinary equity holders of the parent from a discontinued operation	374,844	-
Net loss attributable to ordinary equity holders of the parent for basic earnings	4,093,565	3,828,054
Net loss attributable to ordinary equity holders of the parent adjusted for the effect of dilution	4,093,565	3,828,054

Diluted earnings per share have not been disclosed as the impact from options and performance rights is anti-dilutive.

7. TRADE AND OTHER RECEIVABLES

Other trade receivables	357,417	181,355
Asset sale proceeds receivable	54,523	-
Prepayments	74,695	296,725
	486,635	478,080

8. FINANCIAL ASSETS

Non-current		
Available for sale investments	710,442	744,442
Bond in relation to office premises	60,063	88,070
Bank guarantee and security deposits	92,135	86,624
	862,640	919,136

9. EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED	
	2012 $	2011 $
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of year	36,492,204	27,056,158
Transferred to property, plant and equipment (note 12)	(27,412,053)	-
Expenditure incurred	7,970,928	10,943,633
Acquisition of exploration and evaluation assets from Dragon Mining Limited:		
– Eritrean profits tax paid on behalf of Dragon Mining Limited	-	3,048,675
– Stamp duty	-	1,034,819
Impairment of exploration and evaluation assets	(126,431)	(41,130)
Exploration and evaluation assets not capitalised	(96,820)	-
Sale of exploration and evaluation assets	(900,172)	-
Effects of movements in exchange rate	569,964	(5,549,951)
Transferred to assets held for sale – Zara Project (note 10 (a))	(14,014,763)	-
Total exploration expenditure	2,482,857	36,492,204

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

10. DISCONTINUED OPERATIONS

(a) Zara Project

On 27 April 2012, the Company reached agreement to sell its 60 per cent interest in the Zara Project in Eritrea to China SFECO Group ('SFECO') for US$80 million, including a deferred consideration of US$2 million payable upon commencement of first commercial production at the Koka Gold Mine. The sale to SFECO is in addition to an agreement to sell a 30 per cent interest (plus a 10 per cent free carried interest) in the Zara Project to the Eritrean National Mining Corporation ('ENAMCO') in June 2011.

As at 30 June 2012, there were a number of conditions precedent to completing the sale of the Zara Project to SFECO including the settlement of the sale to ENAMCO. As such, the Zara Project was classified as a disposal group held for sale and as a discontinued operation. The disposal to both SFECO and ENAMCO was completed on 4 September 2012 (refer to note 26).

	2012 $	2011 $
Revenue	-	-
Expenses - depreciation	(416,493)	-
Loss for the year from discontinued operation	(416,493)	-

The major classes of assets and liabilities of the Zara Project classified as held for sale as at 30 June 2012:

	2012 $	2011 $
Assets		
Cash at bank (note 22)	102,601	-
Trade and other receivables	783,963	-
Property, plant and equipment (note 12)	33,582,082	-
Exploration and evaluation expenditure (note 9)	14,014,763	-
	48,483,409	-
Liabilities		
Trade and other payables	707,271	-
Loans and borrowings	3,963,048	-
	4,670,319	-
Net assets	43,813,090	-
Included in other comprehensive income:		
Exchange differences on translation of foreign operations	2,152,704	-
Reserve of disposal group classified as held for sale	2,152,704	-
Net Cash flows from (used in) discontinued operation		
Net cash used in operating activities	-	-
Net cash used in investing activities	(5,175,709)	-
Net cash from financing activities	-	-
Net cash flows for the year	(5,175,709)	-

11. INVESTMENTS IN ASSOCIATES

	CONSOLIDATED	
	2012 $	2011 $
Reconciliation of movements in investments in associates:		
Balance at 1 July	-	684,934
Differences in fair value on loss of significant influence	-	1,508
Transfer of balance on loss of significant influence	-	(686,442)
Balance at 30 June	-	-

12. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED					
	PLANT AND EQUIPMENT $	OFFICE FURNITURE AND EQUIPMENT $	COMPUTER EQUIPMENT AND SOFTWARE $	MOTOR VEHICLES $	DEVELOPMENT ASSETS $	TOTAL $
Year ended 30 June 2012						
At 1 July 2011 net of accumulated depreciation and impairment	567,047	160,568	180,587	600,503	-	1,508,705
Reclassification from exploration and evaluation expenditure (note 9)	-	-	-	-	27,412,053	27,412,053
Additions	360,581	8,103	54,977	36,121	3,222,250	3,682,032
Exchange differences	24,461	(708)	(2,575)	28,213	1,734,131	1,783,522
Disposals	-	-	-	(12,864)	-	(12,864)
Depreciation charge for the year	(244,158)	(31,529)	(86,443)	(153,817)	-	(515,947)
Reclassification to assets held for sale (note 10)	(655,288)	(22,161)	(38,043)	(498,156)	(32,368,434)	(33,582,082)
At 30 June 2012 net of accumulated depreciation and impairment	52,643	114,273	108,503	-	-	275,419
At 30 June 2012						
Cost	105,834	386,808	437,202	-	-	929,844
Accumulated depreciation and impairment	(53,191)	(272,535)	(328,699)	-	-	(654,425)
Net carrying amount	52,643	114,273	108,503	-	-	275,419

	CONSOLIDATED					
	PLANT AND EQUIPMENT $	OFFICE FURNITURE AND EQUIPMENT $	COMPUTER EQUIPMENT AND SOFTWARE $	MOTOR VEHICLES $	DEVELOPMENT ASSETS $	TOTAL $
Year ended 30 June 2011						
At 1 July 2010 net of accumulated depreciation and impairment	344,876	206,993	193,291	512,334	-	1,257,494
Additions	422,170	1,675	91,782	347,429	-	863,056
Exchange differences	(37,172)	(7,775)	(6,527)	(86,044)	-	(137,518)
Depreciation charge for the year	(162,827)	(40,325)	(97,959)	(173,216)	-	(474,327)
At 30 June 2011 net of accumulated depreciation and impairment	567,047	160,568	180,587	600,503	-	1,508,705
At 30 June 2011						
Cost	1,027,765	466,464	466,927	894,596	-	2,855,752
Accumulated depreciation and impairment	(460,718)	(305,896)	(286,340)	(294,093)	-	(1,347,047)
Net carrying amount	567,047	160,568	180,587	600,503	-	1,508,705

13. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2012 $	2011 $
Trade payables	237,353	147,973
Services and withholding tax payable	234,183	80,153
Accrued expenses	388,319	713,256
	859,855	941,382

14. UNEARNED INCOME

Asset sale interim payment	2,979,441	-
	2,979,441	-

On 27 January 2012, Chalice received US$3 million from the Eritrean National Mining Corporation ('ENAMCO') as an interim payment for ENAMCO's acquisition of a 30 per cent interest in the Zara Project in Eritrea. Subsequent to year end, the sale to ENAMCO was completed with the balance of US$31 million being received (refer to note 26).

15. EMPLOYEE BENEFITS

Annual leave accrued	56,028	95,300
Provision for long service leave	37,855	82,307
	93,883	177,607

Share based payments

(a) Employee share option plan

The Group has an Employee Share Option Plan ('ESOP') in place. Under the terms of the ESOP, the Board may offer options for no consideration to full-time or part-time employees (including persons engaged under a consultancy agreement), executive and non-executive directors. In the case of the directors, the issue of options under the ESOP requires shareholder approval.

Each option entitles the holder, on exercise, to one ordinary fully paid share in the Company. There is no issue price for the options. The exercise price for the options is determined by the Board.

An option may only be exercised after that option has vested and any other conditions imposed by the Board on exercise satisfied. The Board may determine the vesting period, if any.

The number and weighted average exercise prices of share options is as follows:

	WEIGHTED AVERAGE EXERCISE PRICE $ 2012	NUMBER OF OPTIONS 2012
Outstanding at the beginning of the year	0.42	5,000,000
Forfeited during the year	0.40	(500,000)
Exercised during the year	-	-
Granted during the year	0.48	3,850,000
Exercisable at the end of the year	0.41	4,812,500
Outstanding at the end of the year	0.45	8,350,000

	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS
	2011	2011
Outstanding at the beginning of the year	0.30	10,075,000
Forfeited during the year	-	-
Exercised during the year	0.25	(5,825,000)
Granted during the year	0.68	750,000
Exercisable at the end of the year	0.60	3,250,000
Outstanding at the end of the year	0.42	5,000,000

The options outstanding at 30 June 2012 have a weighted average exercise price of $0.45 [2011: $0.42] and a weighted average contractual life of 4 years [2011: 5 years].

The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following table gives the assumptions made in determining the fair value of the options granted during the year.

	2012	2011
Weighted average share price at grant date	$0.29	$0.62
Weighted exercise price	$0.48	$0.68
Expected volatility (expressed as weighted average volatility)	62%	71%
Option life (expressed as weighted average life)	3 years	4 years
Expected dividends	-	-
Risk-free interest rate	3.02%	5.12%

Share options are granted under service conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

(b) Employee long term incentive plan

At the Company's 2011 Annual General Meeting, an Employee Long Term Incentive Plan ('LTIP') was approved by shareholders. Under the LTIP, the Board may issue performance rights to employees and directors. A performance right is a right to be issued an ordinary share upon the satisfaction of certain performance conditions that are attached to the performance right, the conditions of which are determined by the Board.

Performance rights are granted for no consideration and the term of the performance rights are determined by the Board in its absolute discretion, 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. There is no ability to re-test performance under the LTIP after the performance period.

The fair value of performance rights has been calculated at the grant date and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of fair value of the rights allocated to this reporting period.

The assessed fair value of the performance rights outstanding at 30 June 2012 was $0.30 per performance right (2011: Nil).

A summary of performance rights in the Group and the Company is as follows:

GRANT DATE	OPENING BALANCE	GRANTED	VESTED	LAPSED	CLOSING BALANCE	SHARE PRICE AT DATE OF ISSUE
15 December 2011	-	750,000	-	(750,000)	-	$0.29
16 December 2011	-	500,000	-	-	500,000	$0.30
16 December 2011	-	250,000	-	-	250,000	$0.30
16 December 2011	-	150,000	-	-	150,000	$0.30
	-	1,650,000	-	(750,000)	900,000	

The fair value of performance rights are determined by the share price at grant date and recognised as an expense based on the extent to which vesting conditions have been met.

Share based payment transactions

The expense recognised for during the year is shown in the following table:

	CONSOLIDATED	
	2012 $	2011 $
Share options granted in 2011 - equity settled	67,885	527,851
Share options granted in 2012 – equity settled	88,491	-
Performance rights granted in 2012	58,904	-
Total expenses recognised as personnel expenses	**215,280**	**527,851**

16. OTHER LIABILITIES

Non-current		
Lease make good provision	25,463	45,091
	25,463	45,091

17. ISSUED CAPITAL

There were 250,030,886 shares on issue at 30 June 2012 (2011: 250,030,886).

(a) Movements in ordinary shares on issue

	2012		2011	
	NO.	$	NO.	$
Balance at beginning of financial year	250,030,886	64,200,112	181,033,617	41,254,947
Shares issued under non-renounceable rights issue	-	-	30,172,269	12,672,353
Share placement	-	-	32,000,000	9,600,000
Shares issued on exercise of unlisted options	-	-	6,825,000	1,793,750
Cost of share issues	-	-	-	(1,120,938)
Balance at end of financial year	250,030,886	64,200,112	250,030,886	64,200,112

Issuance of Ordinary Shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, the ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds on liquidation.

(b) Share options

	2012	2011
	NO.	NO.
On issue at 1 July	7,000,000	13,075,000
Options forfeited	(2,500,000)	-
Options exercised during the year	-	(6,825,000)
Options issued during the year	3,850,000	750,000
On issue at 30 June	8,350,000	7,000,000

At 30 June 2012 the Company had 8,350,000 unlisted options on issue under the following terms and conditions:

NUMBER	EXPIRY DATE	EXERCISE PRICE $
500,000	1 December 2012	0.25
500,000	31 July 2013	0.20
1,250,000	31 March 2014	0.35
1,250,000	31 March 2014	0.45
750,000	1 September 2012	0.50
187,500	30 April 2014	0.55
187,500	30 April 2014	0.65
375,000	30 April 2014	0.75
750,000	14 September 2014	0.45
2,500,000	30 November 2014*	0.50
100,000	30 November 2014	0.45

*These options were issued with vesting conditions relating to obtaining debt or equity finance for the Koka Gold Mine. The options lapsed in September 2012 when the vesting conditions were no longer achievable due to the sale of the Zara Project (Note 10(a)).

(c) Performance rights

	2012 NO.	2011 NO.
On issue at 1 July	-	-
Issue of performance rights under the Employee Long Term Incentive Plan	1,650,000	-
Performance rights lapsed	(750,000)	-
On issue at 30 June	900,000	-

At 30 June 2012 the Company had 900,000 performance rights options on issue under the following terms and conditions:

NUMBER	TERMS	EXPIRY DATE	EXERCISE PRICE $
166,667*	Practical completion of the plant at the Company's Koka Gold Mine	30 June 2015	-
166,667*	First gold pour from the Koka Gold Mine	30 June 2015	-
166,666*	Commercial gold production from the Koka Gold Mine for a period of 6 months	30 June 2015	-
250,000	Retention – Service period only	1 October 2014	-
150,000	Retention – Service period only	1 October 2014	-

*These performance rights were issued with specific performance hurdles relating to the Zara Project. Subsequent to year end, the sale of the Zara Project was completed and therefore the performance rights are unable to be achieved. The performance rights were cancelled on 7 September 2012.

18. ACCUMULATED LOSSES AND RESERVES

(a) Movements in accumulated losses attributable to owners of the parent:

	CONSOLIDATED	
	2012 $	2011 $
Balance at beginning of financial year	(12,108,824)	(8,280,770)
Loss for the year attributable to owners of the parent	(4,093,565)	(3,828,054)
Balance at end of financial year	(16,202,389)	(12,108,824)

(b) Nature and purpose of reserves

Other capital reserves

(i) Share-based payment transactions

The share-based payment transaction reserve is used to recognise the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to note 15 for further details of these plans.

All other reserves as stated in the consolidated statement of changes in equity

(ii) Foreign currency translation reserve

The foreign currency reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of exchange variances resulting from net investments in foreign operations.

(iii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

19. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders.

The capital structure of the Group consists of equity attributable to equity holders, comprising issued capital, reserves and accumulated losses as disclosed in note 17 and 18.

The Board reviews the capital structure on a regular basis and considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through new share issues as well as the issue of debt, if the need arises.

(b) Market risk exposures

Market risk is the risk that changes in market prices such as foreign exchange rates, equity prices and interest rates will have on the Group's income or value of its holdings of financial instruments.

(i) Foreign exchange rate risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group does not hedge this exposure.

The Group manages its foreign exchange risk by constantly reviewing its exposure and ensuring that there are appropriate cash balances in order to meet its commitments.

At 30 June 2012, Chalice had the following exposures to USD foreign currency:

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Financial Assets		
Cash and cash equivalents	1,914,895	169,403
Financial Liabilities		
Trade and other payables	566,436	598,983

The following tables summarises the impact of increases/decreases in the relevant foreign exchange rates on the Group's post-tax result for the year and on the components of equity. The sensitivity analysis uses a variance of 10% movement in the USD against AUD.

		CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Impact on gain/(loss)	AUD/USD +10%	174,081	39,052
	AUD/USD -10%	(191,490)	(42,958)
Impact on equity	AUD/USD +10%	174,081	39,052
	AUD/USD -10%	(191,490)	(42,958)

(ii) Equity prices

The Group currently has no significant exposure to equity price risk.

(iii) Interest rate risk

At reporting date the Group's exposure to market risk for changes in interest rates relates primarily to the Group's short term cash deposits. The Group is not exposed to cash flow volatility from interest rate changes on borrowings, as it does not have any short or long term borrowings.

Chalice constantly analyses its exposures to interest rates, with consideration given to potential renewal of existing positions and the period to which deposits may be fixed.

At reporting date, the following financial assets were exposed to fluctuations in interest rates:

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Cash and cash equivalents	3,074,530	10,193,836

The following sensitivity analysis is based on the interest rate risk exposures in existence at reporting date. The sensitivity is based on a change of 100 basis points in interest rates at reporting date.

In the year ended 30 June 2012, if interest rates had moved by 100 basis points, with all other variables held constant, the post-tax result for the Group would have been affected as follows:

		CONSOLIDATED IMPACT ON PROFIT 2012 $	CONSOLIDATED IMPACT ON PROFIT 2011 $
Impact on gain/(loss)	100 bp increase	5,105	54,382
	100 bp decrease	(4,641)	(49,438)
Impact on equity	100 bp increase	5,105	54,382
	100 bp decrease	(4,641)	(49,438)

(c) Credit risk exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the notes to the financial statements.

It is not the Company's policy to securitise its trade and other receivables, however, receivable balances are monitored on an ongoing basis.

(d) Liquidity risk exposure

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board of Directors actively monitors the Group's ability to pay its debts as and when they fall due by regularly reviewing the current and forecast cash position based on the expected future activities.

The Group has non-derivative financial liabilities which include trade and other payables of $859,855 (2011: $919,136) all of which are due within 60 days.

(e) Net fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities approximate the net fair values.

20. PARENT ENTITY

	2012 $	2011 $
Financial position		
Assets		
Current assets	43,612,739	37,466,387
Non-current assets	9,119,742	18,643,038
Total assets	52,732,481	56,109,425
Liabilities		
Current liabilities	388,388	373,180
Non-current liabilities	25,462	45,091
Total liabilities	413,850	418,271
Net assets	52,318,631	55,691,154
Equity		
Issued capital	64,200,112	64,200,112
Accumulated losses	(14,106,062)	(10,552,259)
Reserves	2,224,581	2,043,301
Total equity	52,318,631	55,691,154
Financial performance		
Loss for the year	(3,553,803)	(1,889,834)
Total comprehensive income	(3,553,803)	(1,889,834)

Commitments and contingencies

(i) Contingencies

Other than as disclosed in note 21, the parent entity has no contingent assets or liabilities.

	2012 $	2011 $
(ii) Operating lease commitments		
Within 1 year	300,761	370,766
Within 2-5 years	1,555,573	1,058,200
Later than 5 years	-	207,170
	1,856,334	1,636,136

21. COMMITMENTS AND CONTINGENCIES

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. The amounts stated are based on the maximum commitments. The Group may in certain situations apply for exemptions under relevant mining legislation or enter into joint venture arrangements which significantly reduce working capital commitments. These obligations are not provided for in the financial report and are payable:

	CONSOLIDATED	
	2012 $	2011 $
Within 1 year	562,642	-
Within 2-5 years	382,631	3,509,114
Later than 5 years	-	-
	945,273	3,509,114
Office lease commitments		
Within 1 year	300,761	370,766
Within 2-5 years	1,555,573	1,058,200
Later than 5 years	-	207,170
	1,856,334	1,636,136

Contingent liability

On 22 June 2010, the Company acquired Dragon Mining Limited's ('Dragon') 20 per cent interest in the Zara Project for $8 million and 2 million Chalice shares. In addition, Chalice had an obligation to pay Dragon a further $4 million on delineation of a 1 million ounce reserve at the Zara Project.

During the 2012 financial year, the Company and Dragon agreed to set aside the trailing payment of $4 million in consideration for an up-front one-off payment of $1.5 million. The payment was subject to the completion of Chalice's sale of the Zara Project to SFECO.

At 30 June 2012, there was no present obligation to pay Dragon $1.5 million as the payment was conditional upon the completion of the sale of the Zara Project to SFECO. As a result, the payment to Dragon has not been recognised as a liability in the financial statements.

On 11 September 2012, Chalice paid Dragon $1.5 million.

22. CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Bank balances	2,208,187	2,177,448
Term deposits	858,451	8,000,000
Petty cash	7,892	16,388
	3,074,530	10,193,836

For the purpose of the statement of cash flows, cash and cash equivalents comprise of the following at 30 June:

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $
Bank balances	2,208,187	2,177,448
Term deposits	858,451	8,000,000
Petty cash	7,892	16,388
Cash at banks and short term deposits attributable to a discontinued operation (note 10)	102,601	-
Cash and cash equivalents in the statement of cash flows	3,177,131	10,193,836
Reconciliation of cash flows from operating activities		
Loss before tax from continuing operations	(3,718,721)	(3,828,054)
Loss before tax from discontinuing operations	(416,493)	-
Loss before tax	(4,135,214)	(3,828,054)
Adjustments for:		
Depreciation and amortisation	99,454	474,327
Loss from discontinued operations	416,493	-
Reversal of share of associate's loss	-	(1,508)
Foreign exchange losses	18,235	18,574
Changes in fair value of available-for-sale investments	-	2,978
Exploration assets expensed	96,820	15,720
Loss on sale of exploration and evaluation assets	147,091	-
Impairment of exploration and evaluation assets	126,431	41,130
Equity-settled share-based payment expenses	215,280	527,851
Operating loss before changes in working capital and provisions	(3,015,410)	(2,748,982)
(Increase) in trade and other receivables	240,540	(175,352)
(Increase)/decrease in financial assets	22,497	(9,415)
Increase in trade creditors and other liabilities	104,458	464,613
(decrease)/increase in provisions	(83,724)	67,570
(decrease)/increase in non-current financial assets	(19,629)	5,779
Net cash used in operating activities	(2,751,268)	(2,395,787)

23. RELATED PARTIES

Key management personnel

The following were key management personnel of the Group at any time during the reporting period and unless otherwise indicated were Key Management Personnel ('KMP') for the entire period:

Executive Directors

T R B Goyder (Executive Chairman)

D A Jones (Managing Director)

J Jeffery (Chief Operating Officer) (resigned as a director on 21 November 2011)

Non-executive Directors

A W Kiernan

S P Quin

M R Griffiths (resigned 21 November 2012)

Executives

R K Hacker (Chief Financial Officer)

M Kelly (General Manager – Zara Mining Share Company)

The KMP compensation included in 'personnel expenses' (see note 3 (c)) is as follows:

	CONSOLIDATED	
	2012 $	2011 $
Short-term employee benefits	1,651,038	1,245,070
Post-employment benefits	105,102	95,524
Termination benefits	81,250	-
Share-based payment	104,638	527,851
Other	50,459	-
	1,992,487	1,868,445

Individual director's and executive's compensation disclosures

The Group has transferred the detailed remuneration disclosures to the Directors' Report in accordance with Corporations Amendment Regulations 2006 (No. 4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Key Management Personnel remuneration and are designated as audited.

Loans to key management personnel and their related parties

No loans were made to KMP or their related parties.

Other key management personnel transactions with the Group

A number of KMP, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with management persons or their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate expense/(income) recognised during the year relating to key management personnel or their related parties were as follows:

KEY MANAGEMENT PERSONNEL	TRANSACTION	NOTE	2012 $	2011 $
A W Kiernan	Legal and consulting services	(i)	160,000	140,500
Other related parties				
Liontown Resources Limited	Corporate services	(ii)	(132,000)	(144,000)
Uranium Equities Limited	Corporate services	(iii)	(2,628)	(401)

(i) The Group used the consulting and legal services of Mr Kiernan during the course of the financial year. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(ii) The Group supplied corporate services including accounting and company secretarial services under a Corporate Services Agreement to Liontown Resources Limited. Messrs Goyder, Jones and Kiernan are directors of Liontown Resources Limited. Amounts were billed on a proportionate share of the cost to the Group of providing the services and are due and payable under normal payment terms.

(iii) The Group supplied minor corporate services during the year to Uranium Equities Limited. Messrs Goyder and Kiernan are both directors of Uranium Equities Limited. Amounts were billed at cost to the Group and are due and payable under normal payment terms.

Amounts payable to KMP at reporting date arising from these transactions were as follows:

Assets and liabilities arising from the above transactions	2012 $	2011 $
Current payables	(9,000)	(8,000)
Trade debtors	12,000	-
	3,000	(8,000)

Options and performance rights over equity instruments granted as compensation

The movement during the reporting period in the number of options and performance rights over ordinary shares in the Group held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	HELD AT 1 JULY 2011	GRANTED AS COMPENSATION	EXERCISED/ FORFEITED	HELD AT 30 JUNE 2012	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2012
T R B Goyder	-	2,500,000	-	2,500,000	-	-
A W Kiernan	500,000	-	-	500,000	-	500,000
D A Jones	2,500,000	-	-	2,500,000	-	2,500,000
M R Griffiths	750,000	-	-	750,000	375,000	750,000
S P Quin	750,000	-	-	750,000	187,500	562,500
J Jeffery	-	750,000	(750,000)	-	-	-
Executive						
R K Hacker	500,000	250,000	-	750,000	-	500,000
M P Kelly	-	500,000	-	500,000	-	-

	HELD AT 1 JULY 2010	GRANTED AS COMPENSATION	EXERCISED/ FORFEITED	HELD AT 30 JUNE 2011	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2011
T R B Goyder	2,000,000	-	(2,000,000)	-	-	-
A W Kiernan	500,000	-	-	500,000	-	500,000
D A Jones	2,500,000	-	-	2,500,000	1,250,000	2,500,000
M R Griffiths	750,000	-	-	750,000	375,000	375,000
S P Quin	-	750,000	-	750,000	375,000	375,000
Executive						
R K Hacker	500,000	-	-	500,000	-	500,000

Movements in ordinary shares

The movement during the reporting period in the number of ordinary shares in the Group held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	HELD AT 1 JULY 2011	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2012	SALES	HELD AT 30 JUNE 2012
T R B Goyder	27,257,249	6,467,093	-	33,724,342	-	33,724,342
A W Kiernan	1,062,041	100,000	-	1,162,041	-	1,162,041
D A Jones	296,278	-	-	296,278	-	296,278
M R Griffiths(1)	600,960	-	-	600,960	-	600,960
S P Quin	26,321	-	-	26,321	-	26,321
J Jeffery(2)	-	47,000	-	47,000	-	47,000
Executive						
R K Hacker	98,334	133,000	-	231,334	-	231,334
M P Kelly(3)	-	-	-	-	-	-

	HELD AT 1 JULY 2010	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2011	SALES	HELD AT 30 JUNE 2011
T R B Goyder	19,951,206	5,306,043	2,000,000	27,257,249	-	27,257,249
A W Kiernan	820,074	241,967	-	1,062,041	-	1,062,041
D A Jones	235,000	61,278	-	296,278	-	296,278
M R Griffiths	600,960	-	-	600,960	-	600,960
S P Quin	-	26,321	-	26,321	-	26,321
Executive						
R K Hacker	40,000	58,334	-	98,334	-	98,334

(1) Mr Griffiths resigned as a director on 21 November 2011.

(2) Mr Jeffery was appointed as director/chief operating officer on 7 July 2011 and resigned as a director on 21 November 2011. Mr Jeffery ceased employment on 15 February 2012.

(3) Mr Kelly was appointed as General Manager – Zara Mining Share Company on 1 September 2011.

No shares were granted to KMP during the reporting period as compensation.

24. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Chalice Gold Mines Limited and its subsidiaries listed in the following table:

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT $	
		2012	2011	2012	2011
Parent entity					
Chalice Gold Mines Limited	Australia				
Subsidiaries					
Chalice Operations Pty Ltd *(i)*	Australia	100	100	6,802,388	6,802,388
Yolanda International Limited	British Virgin Islands	100	100	1,210,000	1,210,000
Chalice Gold Mines (Eritrea) Pty Ltd *(ii)*	Australia	100	100	-	-
(i) Subsidiaries of Chalice Operations Pty Ltd					
Western Rift Pty Ltd	Australia	100	100	-	-
Keren Mining Pty Ltd	Australia	100	100	-	-
Universal Gold Pty Ltd	Australia	100	100	1,358,223	1,358,223
Sub-Sahara Resources (Eritrea) Pty Ltd	Australia	100	100	-	-
(ii) Subsidiaries of Chalice Gold Mines (Eritrea) Pty Ltd					
Zara Mining Share Company	Eritrea	90	-	37,772,732	-

25. JOINT VENTURE INTERESTS

(a) At the end of the financial year the Group held the following interests in exploration licences:

		CONSOLIDATED INTEREST	
	COUNTRY	2012	2011
		%	%
Mogoraib North and Hurum Exploration Licences	Eritrea	60%	100%

(b) Included in the assets and liabilities of the consolidated Group are the following items which represent the consolidated Group's interest in the assets and liabilities of the joint venture:

	2012 $	2011 $
Current assets		
Trade and other receivables	201,479	-
	201,479	-
Non-current assets		
Exploration and evaluation assets	2,106,444	-
Property, plant and equipment	21,779	-
	2,128,223	-
Total assets	**2,329,702**	-
Current liabilities		
Trade and other payables	332,818	-
	332,818	-
Total liabilities	**332,818**	-

Refer to note 21 for details of commitments of the joint venture. The joint venture has no contingent liabilities as at 30 June 2012.

26. SUBSEQUENT EVENTS

Completion of the sale of the Zara Project

On 15 June 2011, Chalice executed a Deed of Acquisition with the Eritrean National Mining Corporation ('ENAMCO') for the sale to ENAMCO of a 30 per cent participating interest in Chalice's Zara Project for US$32 million. This is in addition to the 10 per cent free carried interest of ENAMCO. ENAMCO also agreed to pay Chalice approximately US$2 million representing a reimbursement of exploration costs incurred by Chalice.

On 27 April 2012, the Company agreed to sell its remaining 60 per cent interest in the Zara Project to China SFECO Group ('SFECO') for US$80 million, including a deferred consideration of US$2 million payable upon commencement of first commercial production of the Koka Gold Mine.

On 4 September 2012, the transactions with SFECO and ENAMCO were settled, resulting in a net profit after tax of approximately $43.4 million. On completion of both transactions and after the payment of all applicable taxes in Eritrea, Chalice had approximately $83 million cash at bank.

As at 30 June 2012, the Zara Project was recognised as an asset held for sale and a discontinued operation. Refer to note 10.

Dragon Mining Limited payment

As outlined in note 21, a contingent liability was recognised for a payment to Dragon Mining Limited of $1.5 million. On 11 September 2012, Chalice settled the obligation.

Capital Reduction and Return

Following the recent completion of the sale of the Company's interest in the Zara Project in Eritrea, Chalice currently has approximately $81 million cash on hand. 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 24 September 2012, Chalice announced a proposed capital reduction and return, subject to shareholder approval, of up to $25 million (10 cents per share) to those persons or entities that are shareholders as at the appropriate record date. At the date of this report 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.

1. In the opinion of the directors of Chalice Gold Mines Limited (the 'Company'):
   a. the financial statements, notes and the additional disclosures in the directors' report designated as audited, of the Group are in accordance with the Corporations Act 2001 including:
      i. giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

Dated at Perth the 10th day of October 2012

Signed in accordance with a resolution of the Directors:

TIM GOYDER

Executive Chairman

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Chalice Gold Mines Limited

Report on the Financial Report

We have audited the accompanying financial report of Chalice Gold Mines Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au
Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd

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Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Chalice Gold Mines Limited for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

(a) the financial report of Chalice Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the remuneration report of Chalice Gold Mines Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

Other matter

This independent auditor's report replaces our previous report issued on 27 September 2012 in respect of the financial report of the company issued on 27 September 2012. The company has re-issued its financial report for the year ended 30 June 2012 due to the circumstances disclosed on page 13 of the remuneration report relating to the voting at the 2011 Annual General Meeting.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

W M Clark

Perth, Western Australia
10 October 2012

W M CLARK
Partner

CORPORATE GOVERNANCE REPORT

APPROACH TO CORPORATE GOVERNANCE

Chalice Gold Mines Limited (Company) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition (Principles & Recommendations), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

The following governance-related documents can be found on the Company's website at www.chalicegold.com, under the section marked "Corporate", "Corporate Governance".

CHARTERS

Board

Audit Committee
Nomination Committee
Remuneration Committee

Policies and procedures

Policy and Procedure for Selection and (Re)Appointment of Directors
Process for Performance Evaluation
Policy on Assessing the Independence of Directors
Diversity Policy
Code of Conduct (summary)
Policy on Continuous Disclosure (summary)
Compliance Procedures (summary)
Procedure for the Selection, Appointment and Rotation of External Auditor
Shareholder Communication Policy
Risk Management Policy (summary)

The Company reports below on how it has followed (or otherwise departed from) each of the recommendations during the 2011/2012 financial year (Reporting Period). The information in this statement is current at 30 June 2012.

BOARD

Roles and responsibilities of the Board and Senior Executives (Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, directly to the Chair or the lead independent director, as appropriate.

The Company's Board Charter is disclosed on the Company's website.

Skills, experience, expertise and period of office of each Director
(Recommendation: 2.6)

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report.

The Board considers that its current composition is appropriate for the Company's current size and operations, and the following mix of skills and expertise which the directors possess is relevant to the Company's business: public company management experience; resource industry experience; geological qualifications; and legal qualifications. The Board has, as noted below, not a majority of directors who are independent.

As the Company's major asset, the Zara Project has sold, the Board's mix of skills and diversity will be reassessed in determining the future direction of the Company.

Director independence
(Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board does not have a majority of directors who are independent. Notwithstanding this, the Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise relevant to the Company's business. The Board will continue to monitor its composition as the Company's operations evolve and will appoint further independent directors when considered appropriate.

The Board considers the independence of directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds.

The Board has agreed on the following guidelines, as set out in the Company's Board Charter for assessing the materiality of matters:

- Statement of Financial Position items are material if they have a value of more than 1% of pro-forma net asset.
- Statement of Comprehensive Income items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 1% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The sole independent director of the Company is Stephen Quin. Mr Quin is independent as he is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment.

The non-independent directors of the Company (as defined in the ASX Guidelines) are Tim Goyder, Doug Jones and Anthony Kiernan. Mr Kiernan is however a non-executive director.

The non-independent Chair of the Board is Tim Goyder. The Chair is an executive director and does not satisfy the test of independence as set out in Box 2.1 of the Principles and Recommendations. The Board believes that Tim Goyder is the most appropriate person for the position as Chair because of his seniority and industry expertise. However, the Board has appointed Stephen Quin to act as lead independent director when any conflicts of interest arise.

The Managing Director is Doug Jones who is not Chair of the Board.

Independent professional advice
(Recommendation: 2.6)

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

Selection and (re)appointment of directors
(Recommendation: 2.6)

In determining candidates for the Board, the Nomination Committee (or equivalent) will follow a prescribed process whereby it would evaluate the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee (or equivalent) would identify the particular skills that will best increase the Board's effectiveness. Consideration would also be given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) would recommend an appropriate candidate for appointment to the Board. Any appointment made by the Board is subject to ratification by shareholders at the next general meeting under the Company's Constitution.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or one third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

The Company's Policy and Procedure for the Selection and (Re) Appointment of Directors is disclosed on the Company's website.

BOARD COMMITTEES

Nomination committee
(Recommendations: 2.4, 2.6)

The Board has not established a separate Nomination Committee. Given the current size and composition of the Board, the Board believes that there would be no efficiencies gained by establishing a separate Nomination Committee. Accordingly, the Board performs the role of the Nomination Committee. Items that are usually required to be discussed by a Nomination Committee would be marked as separate agenda items at Board meetings when required. Should the Board convene as the Nomination Committee it would carry out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board would deal with any conflicts of interest that may occur when convening in the capacity of the Nomination Committee by ensuring that the director with conflicting interests is not party to the relevant discussions.

The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time during the year as required.

The Board has adopted a Nomination Committee Charter which describes the role, composition, functions and responsibilities of the Nomination Committee.

The Company's Nomination Committee Charter is disclosed on the Company's website.

Audit committee
(Recommendations: 4.1, 4.2, 4.3, 4.4)

The Board has established an Audit Committee.

The Audit Committee is not structured in compliance with Recommendation 4.2. The formation of an Audit Committee in accordance with Recommendation 4.2 is not possible as the Board only has one independent director. The Audit Committee is comprised of Anthony Kiernan (Chair) and Stephen Quin. The Board considers this structure is the best mix of skills and expertise to carry out the function of an Audit Committee available to the Company and appropriate for its current needs. The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit Committee and which the Audit Committee applies to assist it to fulfil its function. The Audit Committee Charter makes provision for the Audit Committee to meet with the external auditor as required.

The Audit Committee held two meetings during the Reporting Period. Details of the directors who are members of the Audit Committee, and their attendance at Audit Committee meetings are set out in the following table:

NAME	NO. OF MEETINGS ATTENDED
Anthony Kiernan (Chair) (executive, non-independent)	2
Stephen Quin (non-executive, independent)	2

Details of each of the director's qualifications are set out in the Directors' Report. Neither member of the Audit Committee has formal accounting or financial qualifications however, each member is financially literate, has an understanding of the industry in which the Company operates and has considerable 'on board' experience.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

The Company's Audit Committee Charter and Procedure for Selection, Appointment and Rotation of External Auditor are disclosed on the Company's website.

Remuneration committee
(Recommendations: 8.1, 8.2, 8.3, 8.4)

The Board has established a Remuneration Committee.

The Remuneration Committee is not structured in accordance with Recommendation 8.2. The formation of a Remuneration Committee in accordance with Recommendation 8.2 is not possible as the Board has only one independent director.

The Remuneration Committee held one meeting during the Reporting Period. Details of the directors who are members of the Remuneration Committee and their attendance at Remuneration Committee meeting are set out in the following table:

NAME	NO. OF MEETINGS ATTENDED
Anthony Kiernan (Chair) (executive, non-independent)	1
Stephen Quin (non-executive, independent)	1

To assist the Remuneration Committee to fulfil its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Remuneration Committee.

Details of remuneration, including the Company's policy on remuneration, are contained in the 'Remuneration Report' which forms of part of the Directors' Report. Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance; however, non-executive directors, at the discretion of the Board may participate in the Company's Employee Share Option Plan (subject to shareholder approval). Pay and rewards for executive directors and senior executives consists of a base salary and may comprise performance incentives. Long term performance incentives may include options and performance rights granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The Company's Remuneration Committee Charter is disclosed on the Company's website.

PERFORMANCE EVALUATION

Senior executives
(Recommendations: 1.2, 1.3)

The Managing Director and Executive Chairman are responsible for evaluating the performance of senior executives. This is conducted by informal interviews, and via ongoing contact between the Managing Director, the Executive Chairman and the senior executives. As the Company grows, it will review the need for a formal evaluation process.

During the Reporting Period a performance evaluation of senior executives took place in accordance with the process disclosed.

Board, its committees and individual directors
(Recommendations: 2.5, 2.6)

The Chair evaluates the performance of the Board, individual directors, the Managing Director and any applicable committees of the Board. These evaluations are undertaken by each director completing a questionnaire which is then evaluated by the Chair. Any issues arising are addressed by the Chair with the Board.

During the Reporting Period, an evaluation of the Board, applicable committees, the Managing Director and individual directors took place in accordance with the process disclosed.

The Company's Process for Performance Evaluation is disclosed on the Company's website.

ETHICAL AND RESPONSIBLE DECISION MAKING

Code of conduct
(Recommendations: 3.1, 3.5)

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A summary of the Company's Code of Conduct is disclosed on the Company's website.

Diversity
(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy, which includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

However, due to changes to the Company's structure during the Reporting Period, the Board has not set measurable objectives for achieving gender diversity. The Board intends to revisit the establishment of measurable objectives during the forthcoming financial year.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

	PROPORTION OF WOMEN
Whole organisation	13 out of 37 (35%)
Senior executive positions	1 out of 3 (33.3%)
Board	0 out of 4 (0%)

The Company's Diversity Policy is available on the Company's website.

Continuous disclosure
(Recommendations: 5.1, 5.2)

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior executive level for that compliance.

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

Shareholder communication
(Recommendations: 6.1, 6.2)

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

The Company's Shareholder Communication Policy is disclosed on the Company's website.

Risk management
Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

The Audit Committee is empowered to monitor and review the integrity of financial reporting and the Company's internal financial control systems and risk management systems.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;
- the Board has developed and implemented a range of emergency response and other health and safety policies and procedures relevant to its operations in Eritrea;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The Board has also implemented a system to review, formalise and document the management of its material business risks. This system includes a risk register used by management to identify the Company's material business risks. In addition, the process of managing material business risks is allocated to members of senior management. The risk register is reviewed regularly and updated, as required.

The categories of risk to be reported on or referred to as part of the Company's systems and processes for managing material business risk include market-related, financial reporting, operational, environmental, human capital, sustainability, occupational health and safety, political, strategic, economic cycle/marketing, and legal and compliance.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks for the Reporting Period.

The Managing Director and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act (in relation to the Company's financial statements) and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

A summary of the Company's Risk Management Policy is disclosed on the Company's website.

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDINGS

Substantial shareholders

The number of shares held by substantial shareholders advised to the Company and their associated interests as at 26 September 2012 were:

SHAREHOLDER	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD %
Franklin Resources Inc	31,107,008	12.44
Timothy Rupert Barr Goyder	33,724,342	13.49
Lujeta Pty Ltd <The Margaret Account>	20,182,750	8.07

CLASS OF SHARES AND VOTING RIGHTS

At 26 September 2012 there were 2,649 holders of the ordinary shares of the Company, 7 holders of unlisted share options and 2 holders of performance rights. The share options and performance rights have been granted under the Company's Employee Share Option Plan and Employee Long Term Incentive Plan.

The voting rights to the ordinary shares set out in the Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or Classes of shares -

a) at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney: and

b) on a show of hands every person who is a member has one vote and on a poll every person in person or by proxy or attorney has one vote for each ordinary share held."

Holders of options or performance rights do not have voting rights.

Distribution of equity security holders as at 26 September 2012:

CATEGORY	NUMBER OF EQUITY SECURITY HOLDERS		
	ORDINARY SHARES	UNLISTED SHARE OPTIONS	PERFORMANCE RIGHTS
1 – 1,000	421	-	-
1,001 – 5,000	773	-	-
5,001 – 10,000	456	-	-
10,000 – 100,000	819	1	-
100,001 and over	180	6	2
Total	2,649	7	2

The number of shareholders holding less than a marketable parcel at 26 September 2012 was 668.

Twenty largest Ordinary Fully Paid Shareholders as at 26 September 2012

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD %
National Nominees Limited	41,861,881	16.74
Timothy R B Goyder	33,724,342	13.49
Lujeta Pty Ltd <The Margaret Account>	20,182,750	8.07
JP Morgan Nominees Australia Limited <Cash Income A/C>	18,962,641	7.58
HSBC Custody Nominees (Australia) Limited	14,569,608	5.83
Citicorp Nominees Pty Limited	4,984,956	1.99
Claw Pty Ltd	4,000,000	1.60
Calm Holdings Pty Ltd <Clifton Super Fund A/C>	3,850,000	1.54
Clement Pty Ltd <D&M Goyder Family S/Fund A/C>	3,800,000	1.52
Sundowner International Limited	3,664,782	1.47
Colbern Fiduciary Nominees Pty Ltd	3,000,000	1.20
Twynam Agricultural Group Pty Ltd	2,333,484	0.93
Canadian Register Control	2,296,247	0.92
Balfes (QLD) Pty Ltd <Balfes Super Fund A/C>	2,000,000	0.80
Buttonwood Nominees Pty Ltd	2,000,000	0.80
Dragon Mining Limited	2,000,000	0.80
Greenslade Holdings Pty Ltd	1,516,667	0.61
Mr Philip Scott Button + Ms Philippa Anne Nicol <Christopher Jordan A/C>	1,427,261	0.57
Teragoal Pty Ltd <Gray Family A/C>	1,400,000	0.56
UBS Nominees Pty Ltd	1,351,245	0.54
Total	168,925,864	67.56

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