



# ANNUAL REPORT 2013

# CORPORATE DIRECTORY

## CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

Annual Financial Report  
30 June 2013

### DIRECTORS

Timothy Goyder Executive Chairman  
William Bent Managing Director  
Douglas Jones Executive Director  
Anthony Kiernan Non-executive Director  
Stephen Quin Non-executive Director

### JOINT COMPANY SECRETARIES

Richard Hacker  
Leanne Forgione

### PRINCIPAL PLACE OF BUSINESS & REGISTERED OFFICE

Level 2, 1292 Hay Street  
WEST PERTH WA 6005

**Tel:** (+61)(8)9322 3960

**Fax:** (+61)(8)9322 5800

**Web:** [www.chalicegold.com](http://www.chalicegold.com)

**Email:** [info@chalicegold.com](mailto:info@chalicegold.com)

### AUDITORS

#### HLB Mann Judd

Level 4, 130 Stirling Street  
PERTH WESTERN AUSTRALIA 6000

### SHARE REGISTRY

#### Australia

##### Computershare Investor Services Pty Limited

Level 2, Reserve Bank Building  
45 St Georges Terrace  
PERTH WESTERN AUSTRALIA 6000

**Tel:** 1300 557 010

#### Canada

##### Computershare Investor Services

100 University Avenue, 9th Floor  
TORONTO ONTARIO M5J 2Y1

### HOME EXCHANGE

#### Australian Securities Exchange Limited

Exchange Plaza  
2 The Esplanade  
PERTH WESTERN AUSTRALIA 6000

### TORONTO STOCK EXCHANGE

The Exchange Tower  
P.O. Box 421  
130 King Street West  
TORONTO ONTARIO M5X 1J2

#### ASX

**Share Code:** CHN

#### TSX

**Share Code:** CXN

# CONTENTS

	PAGE
CHAIRMAN AND MANAGING DIRECTORS REPORT	2
OPERATING AND FINANCIAL REVIEW	4
SCHEDULE OF TENEMENTS	6
DIRECTORS' REPORT	7
AUDITOR'S INDEPENDENCE DECLARATION	21
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	22
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	23
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	24
CONSOLIDATED STATEMENT OF CASH FLOWS	25
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	26
DIRECTORS' DECLARATION	61
INDEPENDENT AUDITOR'S REPORT	62
CORPORATE GOVERNANCE REPORT	64
ASX ADDITIONAL INFORMATION	72

# CHAIRMAN AND MANAGING DIRECTORS REPORT

**With a cash balance of \$55 million, Chalice remains focused on securing high quality mining projects with strong cash flow generation potential.**

We are pleased to report on the progress Chalice has made during the last 12 months where we have focused on securing a cornerstone asset or assets to leverage off our cash position of approximately \$55 million following settlement of the sale of the Zara Gold Project in Eritrea late last year and a return of capital of \$25 million (10 cents per share).

Our primary focus has been, and continues to be on targeting high quality mining projects globally with strong cash flow generation potential. Our experienced technical team has made good progress in reviewing primarily gold and copper projects globally and prioritising robust, lower risk projects for further evaluation.

The Board also approved a second leg to Chalice's strategy, targeting a limited number of high quality "drill ready" exploration opportunities, in low risk mining jurisdictions on a deal by deal basis. The rationale being to take advantage of both the ongoing tightness in the equity markets for junior exploration companies and the significant decline in drilling costs.

## THE FIRST STEPS IN IMPLEMENTING OUR STRATEGY

### EXPLORATION OPPORTUNITIES: "DRILL READY TARGETS"

Due to the softening market conditions, particularly in the exploration sector, we were pleased to be able to close two exciting exploration deals within the second leg of our strategy during September 2013.

The first deal gives Chalice significant exposure to GeoCrystal Limited's Webb Diamond Project in the West Arunta region of the Gibson Desert in Western Australia, via a 10.1% placement in GeoCrystal. Chalice has an option to acquire an interest of up to 19.9% of GeoCrystal and further rights to participate in all capital raisings such that Chalice may acquire an interest of up to 51% in the company. The Webb Diamond Project shows potential to be a large kimberlite field, with more than 80 discrete aeromagnetic anomalies with the potential to be diamond bearing kimberlite pipes.

The second deal gives Chalice the right to earn up to 70% of both the Oodnadatta and Marla Projects in South Australia, by funding \$5.5 million. Both projects are in a province with high iron oxide-copper-gold-uranium (IOCGU) endowment that hosts deposits such as Olympic Dam, Prominent Hill and Carrapateena. The initial commitment is \$800,000 to undertake the first phase of exploration at Oodnadatta and Marla IOCGU Projects.

Both transactions provide Chalice shareholders exposure to high quality exploration plays, with potential to host world class deposits. Drilling is expected to commence on both projects in the December quarter 2013.

In Eritrea, our Phase 2 drilling program at Mogoraib North identified similar widths and grades of mineralisation to those obtained in the Phase 1 drilling. Whilst confirming the presence of a new VMS system with promise to find an economic deposit, the mineralisation discovered in our two drilling programmes remains uneconomic due to the low grades and thicknesses identified. Our focus over the next six months will be on renewing our exploration license, followed by working with our JV partner ENAMCO (40%) to assess the best way forward for the Mogoraib North JV.

## PROPOSED MERGER WITH COVENTRY RESOURCES INC

In late September 2013, Chalice announced a proposed merger with Coventry Resources Limited, owner of the Cameron Gold Project in Canada by way of a Statutory Plan of Arrangement ("Merger") under the British Columbia Business Corporations Act. The Cameron Project is a quality exploration and development asset, with a solid resource, in a low-risk, favourable mining jurisdiction. The Project has good grades, excellent exploration upside potential and access to good infrastructure with a local labour force with strong mining experience.

At the time of writing the transaction is still subject to due diligence and Coventry shareholder approval. Key attractions of the Coventry deal are the ability to preserve our strong cash balance and the low holding costs of the Cameron Project. If we are successful in closing the deal this will provide us with plenty of flexibility as we look to add value to the Coventry assets and at the same time continue to look at further complementary transactions.

## THE YEAR AHEAD

We are confident we are well positioned to execute our growth strategy, with a strong Board, an experienced technical team and a strong balance sheet. We look forward building on our successful start to securing a portfolio of high quality assets with the potential to create significant value for our shareholders.



TIM GOYDER



BILL BENT





# OPERATING AND FINANCIAL REVIEW

## 1 OPERATING HIGHLIGHTS

### 1.1 SALE OF THE ZARA PROJECT, ERITREA

During the year, the Company completed the sale of its interest in the Zara Gold Project in Eritrea to China SFECO Group ('SFECO') and the Eritrean National Mining Corporation ('ENAMCO'). The consideration for the SFECO transaction (for a 60 per cent interest in Zara) was US\$78 million (\$76.9 million) and a further US\$2 million is payable upon commencement of commercial production at the Koka Gold Mine. The ENAMCO transaction (for a 30 per cent interest in Zara, in addition to a 10 per cent free carried interest) was US\$34 million (\$33.1 million).

### 1.2 CAPITAL REDUCTION AND RETURN

Following completion of the sale of the Zara Project in September 2012 and payment of profits tax in Eritrea, Chalice had approximately \$81 million cash on hand. Following this, the Board determined those funds exceeded the Company's capital requirements, and resolved to return some of the capital to shareholders.

Shareholder approval was obtained at the Company's 2012 Annual General Meeting for a return of capital of 10 cents per share totalling approximately \$25 million. Prior to the return of capital, the Company had received a Class Ruling from the Australian Taxation Office advising that the distribution would be treated as a return of capital.

### 1.3 EXPLORATION - ERITREA

Chalice's exploration activities in Eritrea at the Mogoraib North Project are operated under an agreement between Chalice and ENAMCO, where exploration expenditure is funded two thirds Chalice and one-third ENAMCO (as ENAMCO has a 10% free carry).

During the year, the Company completed approximately 8,099 metres of diamond drilling at the Mogoraib North Project. The Project is located 15km north of the Bisha polymetallic VMS deposit, currently operated by Bisha Mining Share Company (60% Nevsun Resources (TSX: NSU) and 40% ENAMCO). The exploration program undertaken during the second half of 2012 intersected a zone of massive sulphides with highly anomalous copper and zinc values at Mogoraib River, which prompted a further drilling campaign during the first half of 2013.

This follow-up drilling confirmed the presence of a VMS system of substantial dimensions; however, economic grades and widths have not yet been intersected.

## 1.2 FINANCIAL PERFORMANCE

The Group reported a net profit after income tax of \$43.7 million for the year (2012: net loss of \$4.1 million) which was predominantly related to the sale of the Zara Project in Eritrea.

The net profit from the sale of the Zara Project in Eritrea to ENAMCO and SFECO was \$43.8 million after taxes. Total disposal consideration was \$110.9 million, which was made up of \$76.9 million attributable to the sale of the 60 per cent interest to SFECO and \$33 million was attributable to the sale of the 30 per cent interest to ENAMCO. Costs associated with the sale of the Zara Project included taxes payable in Eritrea of \$25.5 million, transaction costs of \$0.7 million and the carrying value of net assets disposed of \$39.4 million. In addition, the Company also discharged its contractual obligation (arising from the earlier purchase by the Company of Dragon's interest in the project) to Dragon Mining Limited by a payment of \$1.5 million.

The Group recorded \$4.9 million in foreign exchange gains (2012: \$0.02 million) which represents the impact of movements in the Australian Dollar against the US Dollar on the Company's US Dollar cash balances. At 30 June 2013, the Group had approximately US\$52.2 million cash on hand.

Corporate administrative expenses of \$3.6 million (2012: \$3.6 million) were predominately made up of personnel expenses of \$1.6 million (2012: \$1.5 million) and costs associated with business development costs of \$0.7 million (2012: nil).

During the year, exploration and evaluation costs associated with the Hurum Exploration Licence in Eritrea were written off following relinquishment and the Group also booked an impairment of the carrying value of the Gnaweeda Project and its investment held in Arabian Nubian Resources Limited. Total write offs were \$1.7 million (2012: \$0.2 million).

### 1.3 STATEMENT OF CASH FLOWS

Cash and cash equivalents at 30 June 2013 were \$56.4 million. This compares to a net cash balance of \$3.1 million at 30 June 2012. Cash outflows for operating activities increased by 11% to \$3.1 million (2012: \$2.8 million).

Net cash flows from investing activities increased from a net out flow of \$4.2 million in 2012 to a net inflow of \$76.5 million in 2013. This was mainly due to the sale of the Zara Project in Eritrea, whereby net cash received was approximately \$80.1 million. Payments for mining, exploration and evaluation decreased by 48% to \$4.5 million (2012: \$8.6 million) and payments for property, plant and equipment decreased by 76% to \$0.6 million (2012: \$2.5 million) due to reduced exploration activities following the sale of the Zara Project during the year.

Financing cash flows for the year include a capital return of \$25 million to shareholders of 10 cents per share.

The effect of exchange rates on cash and cash equivalents at 30 June 2013 was an increase of \$4.9 million (2012: \$0.02 million). The Company held approximately US\$52.2 million at 30 June 2013.

### 1.4 FINANCIAL POSITION

At balance date the Group had net assets of \$61,764,356, and an excess of current assets over current liabilities of \$55,910,837.

Current assets increased by 9% to \$56.8 million (2012: \$52.0 million). Cash and cash equivalents increased by 1719% to \$56.4 million (2012: \$3.1 million) due to the receipt of proceeds from the sale of the Zara Project in Eritrea. As the sale of the Zara Project was realised in 2013, the Company had a nil balance in assets held for sale (2012: \$48.5 million).

Non-current assets increased by 64% to \$5.9 million (2012: \$3.6 million) due to an increase in the exploration and evaluation activities at the Company's Mogoraib North Project in Eritrea. During the year approximately \$3.3 million (Chalice's share) was spent on exploration activities which included two drilling programs and geophysical analysis.

Current liabilities decreased by 90% to \$0.9 million (2012: \$8.6 million). Following the sale of the Zara Project, liabilities held for sale (2012: \$4.7 million) and unearned income (2012: \$3.0 million) were realised during the year.

### 1.5 BUSINESS STRATEGY AND OUTLOOK

With a significant cash balance of \$56.4 million at year end, Chalice moved into the business development and acquisition mode. The emphasis has been principally on targeting advanced exploration or development-stage opportunities within the gold, copper and coking coal sectors having the potential to generate significant long term cash flow. Opportunities introduced to the Company in other commodities are considered on a case-by-case basis.

As a secondary focus, the Company is also evaluating earlier stage exploration opportunities where high value drill targets have been identified. The Company believes that there are significant opportunities to participate in quality exploration projects due to tight financial markets, particularly in relation to junior explorers. Subsequent to year end, Chalice entered into two such transactions. The risks which could adversely impact the achievement of these objectives primarily include foreign exchange fluctuations between the Australian Dollar and US Dollar along with commodity price fluctuations.

### 1.6 APPOINTMENT OF A NEW MANAGING DIRECTOR

During the year, the Company appointed Mr William (Bill) Bent as Managing Director (commencing on 1 February 2013).

Mr Bent's details are included in section 1 of the Directors' Report.

The previous Managing Director, Dr Jones, remains on the Company's Board as an Executive Director, focusing on the geological and technical development of the Company.

# SCHEDULE OF TENEMENTS

## PROJECTS – ERITREA

PROJECT NAME	LICENCE TYPE	STATUS	REGISTERED HOLDER	CURRENT EQUITY
Mogoraib North	Exploration Licence	Owned	Sub-Sahara Resources (Eritrea) Pty Ltd	60%

## PROJECTS – AUSTRALIA

PROJECT NAME	TENEMENT #	STATUS	REGISTERED HOLDER	CURRENT EQUITY
Gnaweeda Project	E51/0926	Owned	Chalice Gold Mines Limited and Teck Australia Pty Ltd	12.03%
	E51/0927	Owned	Chalice Gold Mines Limited and Teck Australia Pty Ltd	12.03%
Marla	EL4655	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4656	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4657	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4658	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4659	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4660	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4661	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
Oodnadatta	EL4679	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4682	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4683	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4684	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4686	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4687	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4688	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL4959	Owned	GE Resources Pty Ltd	0% - earning up to 70%.
	EL5144	Owned	GE Resources Pty Ltd	0% - earning up to 70%.



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 2013 and the independent auditor's report thereon. The names and details of the Company's directors in office during the financial year and until the date of this report is as follows. Directors were in office for the entire period unless otherwise stated.

## 1. DIRECTORS

### TIMOTHY R B GOYDER

Executive Chairman

Tim has considerable experience in the resource industry as an executive and investor. 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. Director since 2005 and appointed Chairman in 2008.

### WILLIAM B BENT

MBA, AusIMM, IChemE

Managing Director

Bill joined Chalice in February 2013, and has over 22 years of industry and consulting experience. Prior to joining Chalice, Bill held a senior executive role with Mirabela Nickel and was Director of Strategy with PriceWaterHouseCoopers Advisory and an Associate Director at Mainsheet Corporate for a combined period of five years. Bill holds a BSc in Chemical Engineering and an MBA. Managing Director since February 2013.

### DOUGLAS A JONES

PhD, AusIMM, CPGeo

Executive Director

Doug is a geologist with over 35 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 TSX and AIM-listed Minera IRL Limited and Serabi Mining Plc and was previously a director of Liontown Resources Limited. Doug held the position of Managing Director up to February 2013 and was appointed Executive Director on the appointment of Mr Bent. Doug has been a director of the Company since 2008.

### ANTHONY W KIERNAN

LLB

Non-executive Director

Tony, previously a practising 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 and South Boulder Mines Limited, all listed on ASX. Tony is Chairman of the Audit Committee and Remuneration Committee and has been a director since 2007.

### STEPHEN 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 and has been a director since 2010.

## DIRECTORS' REPORT (CONTINUED)

### 2. CHIEF FINANCIAL OFFICER AND JOINT COMPANY SECRETARIES

#### RICHARD K HACKER

B.Com, ACA, ACIS

Chief Financial Officer/Joint Company Secretary

Richard is a Chartered Accountant and Chartered Secretary with 20 years 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. Company Secretary since 2005.

#### LEANNE FORGIONE

B.Com, CA

Joint 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. Joint Company Secretary since 2012.

### 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	3	2	-
Number of meetings attended:				
T R B Goyder	5	-	-	-
W B Bent	2	-	-	-
D A Jones	5	-	-	-
A W Kiernan	5	3	2	-
S P Quin	5	3	2	-

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) S P Quin	A W Kiernan (Chairman) S P Quin	Full Board

### 4. OPERATING AND FINANCIAL REVIEW

The directors of Chalice Gold Mines Limited present the Operating and Financial Review of the consolidated entity, prepared in accordance with section 299A of the Corporations Act 2001 for the year ended 30 June 2013. The information provided in this review forms part of the Directors' Report and provides information to assist users in assessing the operations, financial position and business strategies of the Company. Please refer to page 4 for further details.

### 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the progress documented above, the state of affairs of the Company was not affected by any other significant changes during the year.

### 6. REMUNERATION REPORT - AUDITED

This report for the year ended 30 June 2013 outlines remuneration arrangements in place for directors and executives of Chalice Gold Mines Limited in accordance with the requirements of the Corporations Act 2001 (the "Act") and its regulations. This information has been audited as required by section 308 (3c) of the Act.

The Remuneration Report is presented under the following sections:

- 6.1 Message from the Board
- 6.2 Introduction
- 6.3 Principles of compensation
- 6.4 Key management personnel remuneration
- 6.5 Equity instruments
- 6.6 Service agreements

#### 6.1 MESSAGE FROM THE BOARD

Last year, the Company reviewed its remuneration policy and structure to ensure the same was aligned to business strategy, shareholder interests and effective executive remuneration and retention. These objectives are designed to be achieved through the implementation of both a short term and long term incentive plan. With the sale of the Zara Project in the second half of 2012, the appointment of a new Managing Director in early 2013, and the Group moving more to an acquisition mode, the Board and Remuneration Committee needed to ensure the suitability and application of the plans in driving future direction and strategy.

The plans link the achievement of these objectives to the variable compensation of the Managing Director and staff. Further details are provided in this report.

#### 6.2 INTRODUCTION

The remuneration report details the remuneration arrangements for Key Management Personnel ("KMP") who are defined as those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group directly or indirectly. The following were the KMP for the Group at any time during the year:

Tim Goyder	Executive Chairman
William Bent	Managing Director (appointed 1 February 2013)
Douglas Jones	Technical Director
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 (ceased employment 4 September 2012, following the sale of the Zara Project in Eritrea).

There were no changes in KMP after the reporting date and before the financial report was authorised for issue.

## DIRECTORS' REPORT (CONTINUED)

### 6.3 PRINCIPLES OF COMPENSATION

#### 6.3.1 Remuneration governance

##### Remuneration committee

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

Anthony Kiernan (Chair)

Stephen Quin

##### 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 financial year, the Remuneration Committee did not seek specific advice and recommendations from external consultants although independent salary and benchmarking data was utilised in setting remuneration packages for executives.

##### Remuneration report approval at 2012 Annual General Meeting

The Remuneration Report for the financial year ended 30 June 2012 received positive shareholder support at the 2012 Annual General Meeting ('AGM') with a vote of 97.5% in favour.

#### 6.3.2 Remuneration principles and components of remuneration

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

1. Seeking aggregate remuneration at a level which provides the Company with the ability to attract and retain directors and executives of the highest calibre at a cost which is acceptable to shareholders; and
2. Key management personnel interest needing to be aligned with 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).

### 6.3.3 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 roles as directors are to be approved by shareholders at a general meeting. The latest determination was at the 2011 AGM, whereby Shareholders approved an aggregate amount of \$450,000 per year (including superannuation). The Board will not seek any increase for the non-executive director pool at the upcoming 2013 Annual General Meeting.

The fee structure for non-executive directors is reviewed annually and the Remuneration Committee and the Board may consider advice from external consultants, and undertake comparative analyses of the fees paid to non-executive directors of comparable companies in the resources sector with similar market capitalisations. Generally, the Company will position itself within the 50th and 75th percentile band of the comparative market data.

For the 2013 financial year, non-executive directors received a fee of \$45,000 (inclusive of superannuation, where applicable). 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 ("ESOP"), subject to the usual approvals required by shareholders. The Board is conscious of the issue of share options to non-executive directors and will continue to 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 Long Term Incentive Plan ("LTIP").

Apart from their duties as directors, some non-executive directors may undertake additional work for the Company on a consultancy basis on market terms. The use of consultancy by non-executive directors in addition to their duties as directors enables the Company to better utilise the skills offered by the Board particularly in light of the Company's current small management team. Under the terms of these consultancy agreements, non-executive directors typically 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 2013 and 30 June 2012 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.

### 6.3.4 Executive remuneration

Executive remuneration consists of fixed remuneration and may also comprise variable remuneration in the form of performance based cash bonuses (Short Term Incentive Plan ("STIP")), share options and performance rights (issued under the terms of the ESOP and Long Term Incentive Plan ("LTIP") respectively). 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.



## DIRECTORS' REPORT (CONTINUED)

### Variable remuneration - STIP

Until 2013, the Board had not implemented a formal Short Term Incentive Plan ("STIP"); instead, it retained the discretion to reward individual performance subject to the Company's cash position and financial outlook.

Following the sale of the Zara Project and the appointment of Mr Bent as the Managing Director of the Company, the Board implemented a formal STIP which is to include cash bonuses to executives upon achievement of predefined targets. The maximum bonus percentage ("MBP") ranges between 10% and 50% of an executive's fixed annual salary depending on the position held. The STIP is based on achieving "Base" and "Stretch" targets for the year. Achieving the base target attracts 50% of the relevant MBP and achieving the stretch target or better attracts up to 100% of the relevant MBP.

The targets set by the Remuneration Committee and the Board in relation to STIP targets for KMP are broadly aligned with the following key strategic objectives for the period ended 30 June 2014:

- (i) the acquisition by the Company of a significant project. In relation to the acquisition of a project, the Board has discretion and needs to be satisfied that the acquisition is "significant" in the context of the Company. Stretch targets are based on the price and quality of any asset acquired by the Company;
- (ii) successful exploration at the Company's projects. The entitlement ranges from no bonus, where exploration does not add value through various stages up to 100% for a stretch target where exploration defines potential for an economic stand-alone or satellite development; and
- (iii) meeting of defined personnel objectives. These relate to matters such as safety, the environment, costs, meeting regulatory matters and the like.

During the year, the Remuneration Committee approved a once off discretionary cash bonus amounting to \$427,000 (inclusive of superannuation) to certain directors and executives to recognise the significant efforts in completing the sale of the Zara Project to SFECO and ENAMCO. The quantum and the discretionary nature of the bonuses were considered by the Company's lead independent director, Mr Stephen Quin and determined to be fair and reasonable in all the circumstances. Mr Quin was not a beneficiary of the discretionary cash bonus.

### Variable remuneration – share option plan

Equity grants to executives have previously been delivered in the form of employee share options under the Company's Employee Share Option Plan which was approved by shareholders in 2010. Options are 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 to KMP rather than share options.

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

Under the LTIP, the Board has the discretion to make annual awards of performance rights (which is a right to convert into ordinary Shares after achievement of applicable conditions) 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 by the measurement date, the employee's performance rights lapse with no shares being issued.

At the Company's general meeting held on 5 June 2013 the performance rights issued to Mr Bent and Dr Jones, as directors of the Company, were approved by shareholders with 97% of proxies voting in favour of the issue. Details of performance rights granted to KMP during the year are shown below:

EXECUTIVE	NUMBER OF RIGHTS	MEASUREMENT DATE
W Bent	1,453,444	1 January 2015
D Jones	655,000	1 January 2015
R Hacker	402,139	1 January 2015

## DIRECTORS' REPORT (CONTINUED)

The performance rights as shown above will not vest (and the underlying Shares will not be issued) unless the performance conditions set by the Board for each cycle of the LTIP have been satisfied. It is the intention of the Company to use the "standard" measure of Total Shareholder Return (TSR) as the performance measure for the LTIP, where the Company's TSR will be compared against that of a comparator group of companies over the selected performance period for each cycle of the LTIP. However, given the Company recently sold its primary asset and is in the process of looking for a new asset, a comparator group of companies cannot yet be determined. The Board therefore selected absolute share price as the most appropriate measure for the first tranche of performance rights issued under the LTIP for the period 1 February 2013 until 30 June 2015 (29 months).

The number of performance rights that will vest will be solely dependent on the Company's share price as at the measurement (or test) date of 1 January 2015 as compared to the Share price hurdles outlined in the following table. The Company's share price will be calculated on its 30 day VWAP.

IF THE 30 DAY VWAP AS AT 1 JANUARY 2015 IS	PERCENTAGE OF PERFORMANCE RIGHTS WHICH WILL VEST
Below 25 cents	0%
25 cents	33%
Between 25 cents and 38 cents	Pro rata between 33% and 100%
Above 38 cents	100%

Following the measurement date on 1 January 2015, it is a condition that an additional 6 month service period must be completed by the executives meaning that any vested performance rights which are converted to shares after the measurement date will be subject to a holding lock until 30 June 2015. It is also a condition the executives be an employee of the Company at 30 June 2015.

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: <ul style="list-style-type: none"> <li>• Employment of a minimum period of time;</li> <li>• 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</li> <li>• such other performance objectives as the Board may determine.</li> </ul>
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 dates (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.

## DIRECTORS' REPORT (CONTINUED)

### 6.3.5 Link between performance and executive remuneration

The focus of executive remuneration over the financial year was fixed remuneration and performance rights under the LTIP (i.e. growing the value of the Company as reflected through share price) which 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, adjusted to reflect the capital return of 10 cents per share in 2012, is as follows:

	30 JUNE 2009	30 JUNE 2010	30 JUNE 2011	30 JUNE 2012	30 JUNE 2013
Share price	\$0.15	\$0.29	\$0.23	\$0.10	\$0.16 <sup>(1)</sup>

<sup>(1)</sup> The Company's cash backing at 30 June 2013 is approximately \$0.23 per share.

### 6.4 KEY MANAGEMENT PERSONNEL REMUNERATION (AUDITED)

Key Management Personnel		SHORT-TERM PAYMENTS			POST-EMPLOYMENT PAYMENTS			SHARE-BASED PAYMENTS		Proportion of remuneration performance related
		Salary & fees \$	Cash bonus <sup>(4)</sup> \$	Non-monetary benefits \$	Superannuation benefits \$	Other \$	Termination benefits \$	Long Term Incentives <sup>(5)</sup> \$	Total \$	
<b>Directors</b>										
T R B Goyder	2013	281,422	100,000	2,557	27,578	-	-	-	411,557	24%
	2012	263,761	-	2,445	23,739	-	-	-	289,945	-%
W B Bent <sup>(1)</sup>	2013	149,083	-	1,041	13,417	-	-	2,329	165,870	1%
	2012	-	-	-	-	-	-	-	-	-%
D A Jones	2013	284,404	100,000	2,898	34,596	-	-	1,050	422,948	24%
	2012	284,404	-	6,235	25,596	-	-	-	316,235	-%
A W Kiernan	2013	188,459	100,000	2,557	4,541	-	-	46,866	342,423	43%
	2012	203,196	-	2,445	3,888	-	-	-	209,529	-%
M R Griffiths	2013	-	-	-	-	-	-	-	-	-%
	2012	49,331	-	955	5,701	50,459	-	11,800	118,246	10%
S P Quin	2013	55,000	-	2,557	-	-	-	38,028	95,585	40%
	2012	42,083	-	2,445	-	-	-	56,085	100,613	56%
J Jeffery <sup>(2)</sup>	2013	-	-	-	-	-	-	-	-	-%
	2012	218,056	-	1,490	25,536	-	81,250	-	326,332	-%
<b>Executive</b>										
R K Hacker	2013	241,858	100,000	3,796	30,767	-	-	33,539	409,960	33%
	2012	229,358	-	3,599	20,642	-	-	36,753	290,352	13%
M P Kelly <sup>(3)</sup>	2013	49,336	-	454	-	-	69,573	-	119,363	-%
	2012	341,235	-	-	-	-	-	-	341,235	-%
<b>Total Compensation</b>	2013	<b>1,249,562</b>	<b>400,000</b>	<b>15,860</b>	<b>110,899</b>	<b>-</b>	<b>69,573</b>	<b>121,812</b>	<b>1,967,706</b>	
	2012	<b>1,631,424</b>	<b>-</b>	<b>19,614</b>	<b>105,102</b>	<b>50,459</b>	<b>81,250</b>	<b>104,638</b>	<b>1,992,487</b>	

<sup>(1)</sup> Mr Bent commenced on 1 February 2013. At the Company's General Meeting held on 5 June 2013, shareholder's approved the issue of 1,453,444 performance rights to Mr Bent.

<sup>(2)</sup> Mr Jeffery resigned on 15 February 2012.

<sup>(3)</sup> Following the sale of the Zara Project in September 2013, Mr Kelly was no longer an employee of Chalice Gold Mines Limited.

<sup>(4)</sup> On completion of the sale of the Zara Project, certain Key Management Personnel were granted a discretionary cash completion bonus in recognition of their efforts in completing the sale of the Zara Project to SFECO.

<sup>(5)</sup> The fair value of the options 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. The fair value of the performance rights is calculated at the date of grant using a trinomial model. In valuing the options and performance rights, market based vesting conditions have been taken into account.

6.5 EQUITY INSTRUMENTS (AUDITED)

6.5.1 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 2013	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE \$	EXERCISE PRICE \$	EXPIRY DATE	NUMBER OF OPTIONS VESTED DURING 2013
<b>Directors</b>						
A W Kiernan	750,000	5 June 2013	0.06	0.30	30 June 2016	750,000
S P Quin	300,000	5 June 2013	0.06	0.30	30 June 2016	487,500

During the reporting period, 500,000 fully paid ordinary shares were issued to Mr Kiernan on the exercise of 500,000 options at 25 cents per share.

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

	NUMBER GRANTED/ VESTED	DATE GRANTED	% VESTED IN YEAR	% FORFEITED IN YEAR	DATE ON WHICH GRANT VESTS
<b>Directors</b>					
T R B Goyder <sup>(1)</sup>	2,500,000	22 November 2011	-	100%	-
M Griffiths	375,000	16 November 2009	-	100%	-
S Quin	187,500	25 November 2010	100%	-	30 April 2013
	300,000	5 June 2013	100%	-	5 June 2013
A W Kiernan	750,000	5 June 2013	100%	-	5 June 2013

<sup>(1)</sup>The options granted to Mr Goyder lapsed during the reporting period as the vesting conditions set were no longer able to be achieved due to the sale of the Zara Project in Eritrea.

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

	VALUE OF OPTIONS GRANTED IN YEAR (A) \$	VALUE OF OPTIONS EXERCISED IN YEAR (B) \$	VALUE OF OPTIONS LAPSED IN YEAR (C) \$
A W Kiernan	46,866	30,000	-
S P Quin	18,746	-	-

- (A) The value of options granted in the year is the fair value of options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (C) The value of options that lapsed during the year represent the benefit foregone and is calculated at the date the option lapsed using the Black Scholes option-pricing model with no adjustments for whether performance criteria have or have not been achieved.

## DIRECTORS' REPORT (CONTINUED)

### 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 2013	GRANT DATE	FAIR VALUE PER RIGHT AT GRANT DATE \$	EXPIRY DATE	NUMBER OF RIGHTS VESTED DURING 2013
<b>Executives</b>					
W B Bent	1,453,444	5 June 2013	0.048	30 June 2016	-
D Jones	655,000	5 June 2013	0.048	30 June 2016	-
R Hacker	402,139	6 June 2013	0.048	30 June 2016	125,000

During the reporting period, 125,000 shares were issued to Mr Hacker on the exercise of performance rights granted as compensation on 16 December 2011. Refer below.

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
<b>Executives</b>					
W B Bent	1,453,444	5 June 2013	-	-	1 January 2015
D Jones	655,000	5 June 2013	-	-	1 January 2015
M Kelly <sup>(2)</sup>	500,000	16 December 2011	-	100%	-
R Hacker	125,000	16 December 2011	100%	-	1 October 2012
	125,000	16 December 2011	-	-	1 October 2013
	402,139	6 June 2013	-	-	1 January 2015

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(A) \$	VALUE OF PERFORMANCE RIGHTS EXERCISED IN YEAR(B) \$	VALUE OF PERFORMANCE RIGHTS LAPSED IN YEAR(C) \$
W B Bent	70,347	-	-
D Jones	31,702	-	-
M Kelly <sup>(2)</sup>	-	-	(125,000)
R Hacker	19,343	27,500	-

<sup>(2)</sup> Mr Kelly's performance rights lapsed on 7 September 2012.

- (A) The value of performance rights granted in the year is the fair value of performance rights calculated at grant date using a trinomial model. The total value of the performance rights granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of performance rights exercised during the year is calculated as the market price of shares of the Company on ASX as at close of trading on the date the performance rights were exercised after deducting the price paid to exercise the performance right.
- (C) The value of performance rights that lapsed during the year represents the benefit foregone and is calculated at the date the performance right lapsed using the Black Scholes option-pricing model with no adjustments for whether performance criteria have or have not been achieved.



## 6.6 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.
William Bent (Managing Director)	Mr Bent's employment agreement may be terminated by the Company or Mr Bent upon giving at least six months' notice or such lesser period as agreed between the parties.	In the event of a material change in Mr Bent's status, remuneration, benefits, title, work location, duties or responsibilities including but not limited to a material change in Mr Bent's direct reporting line or reporting structure, to which Mr Bent has not agreed and as a result of which Mr Bent's employment is terminated or he resigns from his employment with the Company, Mr Bent shall be entitled to a severance payment equal to 12 months' worth of the Annual Salary.	Standard Chalice terms and conditions of employment.
Douglas Jones (Technical Director)	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	Nil

## 7. DIVIDENDS

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

## 8. CAPITAL RETURN AND EQUAL CAPITAL REDUCTION

Following the completion of the sale of the Zara Project in September 2012, shareholder approval was obtained at the Company's 2012 Annual General Meeting for a return of capital and equal capital reduction of 10 cents per share totalling \$25 million.

## 9. LIKELY DEVELOPMENTS

Following the sale of the Company's major asset, the Zara Project, the Company is focused on the evaluation of resource projects for acquisition.

## DIRECTORS' REPORT (CONTINUED)

### 10. EVENTS SUBSEQUENT TO REPORTING DATE

On 24 September 2013, Chalice entered into an agreement with unlisted public company, GeoCrystal Limited ("GeoCrystal") to subscribe for 3,333,333 shares and 3,333,333 free attaching options in GeoCrystal at an issue price of \$0.15 (\$500,000). Following the placement, Chalice owns a 10.1 per cent of the issued and outstanding shares of GeoCrystal. The options are exercisable at \$0.20 each and expire on 30 September 2015. In addition, GeoCrystal granted Chalice an option to acquire a further 2.1 million shares at \$0.20 per share on or before 29 March 2014, which if exercised would increase Chalice's stake to 19.9 per cent on a fully diluted basis. Chalice has been granted a conditional first right of refusal on future financing until its stake has reached 51 per cent of GeoCrystal.

In addition, Chalice has entered into a farm-in joint venture agreement with Uranium Equities Limited over its Oodnadatta and Marla Projects in South Australia (the "O&M Projects"). The farm-in agreement gives Chalice the right to earn up to 70 per cent of both projects by sole funding a total of \$5.5 million in exploration expenditure. Chalice may earn an initial 51 per cent by sole funding \$2.5 million, but there is no minimum spend required before withdrawal.

### 11. 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	PERFORMANCE RIGHTS
T R B Goyder	41,059,389	-	-
W B Bent	646,350	-	1,453,444
D A Jones	296,278	2,500,000	655,000
S P Quin	26,321	1,050,000	-
A W Kiernan	1,662,041	750,000	-

### 12. SHARE OPTIONS AND PERFORMANCE RIGHTS

#### Unissued shares under option

At the date of this report 5,150,000 unissued ordinary shares (5,650,000 at reporting date) of the Company are under option on the following terms and conditions:

EXPIRY DATE	EXERCISE PRICE (\$)	NUMBER OF SHARES
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
30 June 2016	0.30	1,050,000

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 2,954,149 performance rights (2,954,149 at reporting date) have been issued on the following terms and conditions:

EXPIRY DATE	EXERCISE PRICE (\$)	NUMBER OF SHARES
30 June 2015	Nil	200,000
30 June 2016	Nil	2,754,149

## Shares issued on exercise of options or performance rights

1,200,000 shares were issued during or since the end of the year as a result of the exercise of 1,000,000 options and 200,000 performance rights.

## 13. ENVIRONMENTAL LEGISLATION

The Group is subject to environmental legislation and obligations within the jurisdictions in which it operates, which during the period has been primarily in Eritrea.

## 14. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

## 15. 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 \$14,282 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 14.

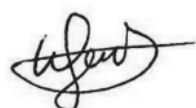
## 16. NON-AUDIT SERVICES

During the year HLB Mann Judd, the Company's auditors, performed taxation advisory services amounting to \$3,500 in addition to their statutory duties.

## 17. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 21 and forms part of the Directors' Report for the year ended 30 June 2013.

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



**William Bent**  
Managing Director

Dated at Perth the 27th day of September 2013

## DIRECTORS' REPORT (CONTINUED)

### 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 may 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, future business development opportunities, 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 may include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements, all of which are filed and available for review on SEDAR at [sedar.com](http://sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

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

# AUDITOR'S INDEPENDENCE DECLARATION



Accountants | Business and Financial Advisers

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Chalice Gold Mines Limited for the year ended 30 June 2013, 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 and the entities it controlled during the year.

A handwritten signature in black ink, appearing to read 'W M Clark'.

Perth, Western Australia  
27 September 2013

W M Clark  
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714  
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.  
Email: [hlb@hlbwa.com.au](mailto:hlb@hlbwa.com.au). Website: <http://www.hlb.com.au>  
Liability limited by a scheme approved under Professional Standards Legislation

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



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$	2012 \$
<b>Continuing operations</b>			
Other income	3(a)	374,137	369,678
Foreign exchange gains/(losses)		4,873,790	(18,235)
Impairment of financial assets		(686,442)	-
Loss on sale of exploration and evaluation assets		-	(147,091)
Exploration and evaluation assets written off	10	(595,676)	(96,820)
Impairment of exploration and evaluation assets	10	(375,000)	(126,431)
Corporate administrative expenses	3(b)	(3,632,238)	(3,600,368)
Depreciation and amortisation expense		(83,449)	(99,454)
<b>Loss before tax from continuing operations</b>		<b>(124,878)</b>	<b>(3,718,721)</b>
Income tax expense	6	-	-
<b>Loss for the year from continuing operations</b>		<b>(124,878)</b>	<b>(3,718,721)</b>
<b>Discontinued operations</b>			
Net profit/(loss) from discontinued operations	4	43,783,106	(416,493)
<b>Profit/(loss) for the year from discontinued operations</b>		<b>43,783,106</b>	<b>(416,493)</b>
<b>Total profit/(loss) for the year</b>		<b>43,658,228</b>	<b>(4,135,214)</b>
<b>Total profit/(loss) for the year attributable to:</b>			
Owners of the parent		43,663,861	(4,093,565)
Non-controlling interests		(5,633)	(41,649)
		<b>43,658,228</b>	<b>(4,135,214)</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified to profit or loss</b>			
Net change in fair value of available for sale investments	17(b)	(12,000)	(34,000)
Exchanges differences on translation of foreign operations	17(b)	(455,386)	2,562,582
<b>Other comprehensive income/(loss) for the year</b>		<b>(467,386)</b>	<b>2,528,582</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>43,190,842</b>	<b>(1,606,632)</b>
<b>Total comprehensive income/(loss) for the year attributable to:</b>			
Owners of the parent		43,196,475	(1,564,983)
Non-controlling interests		(5,633)	(41,649)
		<b>43,190,842</b>	<b>(1,606,632)</b>
Basic and diluted loss per share from continuing operations (cents)	7	(0.01)	(1.5)
Basic and diluted loss per share from discontinued operations (cents)	7	17.5	(0.1)
Basic and diluted earnings/(loss) per share from continuing and discontinued operations (cents)	7	17.4	(1.6)

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2013

		2013 \$	2012 \$
<b>Current assets</b>			
Cash and cash equivalents	21	56,443,226	3,074,530
Trade and other receivables	8	375,152	486,635
Assets held for sale – Zara Project	4	-	48,483,409
<b>Total current assets</b>		<b>56,818,378</b>	<b>52,044,574</b>
<b>Non-current assets</b>			
Financial assets	9	185,613	862,640
Exploration and evaluation assets	10	5,202,613	2,482,857
Property, plant and equipment	11	502,270	275,419
<b>Total non-current assets</b>		<b>5,890,496</b>	<b>3,620,916</b>
<b>Total assets</b>		<b>62,708,874</b>	<b>55,665,490</b>
<b>Current liabilities</b>			
Trade and other payables	12	829,890	859,855
Unearned income	13	-	2,979,441
Employee benefits	14	77,651	93,883
Liabilities held for sale – Zara Project	4	-	4,670,319
<b>Total current liabilities</b>		<b>907,541</b>	<b>8,603,498</b>
<b>Non-current liabilities</b>			
Other	15	36,977	25,463
<b>Total non-current liabilities</b>		<b>36,977</b>	<b>25,463</b>
<b>Total liabilities</b>		<b>944,518</b>	<b>8,628,961</b>
<b>Net assets</b>		<b>61,764,356</b>	<b>47,036,529</b>
<b>Equity</b>			
Issued capital	16	39,239,790	64,200,112
Retained earnings/(accumulated losses)	17(a)	24,632,124	(16,202,389)
Reserves	17(b)	(2,107,558)	(4,636,037)
<b>Total equity attributable to the owners of the parent</b>		<b>61,764,356</b>	<b>43,361,686</b>
Non-controlling interests		-	3,674,843
<b>Total equity</b>		<b>61,764,356</b>	<b>47,036,529</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	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
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 30 June 2012</b>	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
Net change in fair value of available for sale investments	-	-	-	(12,000)	-	-	(12,000)	-	(12,000)
Exchange differences on translation of foreign operations	-	-	-	-	(455,386)	-	(455,386)	-	(455,386)
Profit for the year	-	43,663,861	-	-	-	-	43,663,861	(5,633)	43,658,228
<b>Total comprehensive income for the year</b>	-	43,663,861	-	(12,000)	(455,386)	-	43,196,475	(5,633)	43,190,842
Capital return	(25,073,089)	-	-	-	-	-	(25,073,089)	-	(25,073,089)
Share issue and capital return costs	(12,233)	-	-	-	-	-	(12,233)	-	(12,233)
Exercise of share options	125,000	-	-	-	-	-	125,000	-	125,000
Share based payments	-	-	166,517	-	-	-	166,517	-	166,517
Transfers between equity items	-	(2,829,348)	(887,144)	-	-	3,716,492	-	-	-
Derecognition of non-controlling interest on disposal of subsidiary	-	-	-	-	-	-	-	(3,669,210)	(3,669,210)
<b>Balance at 30 June 2013</b>	39,239,790	24,632,124	1,523,954	(32,000)	(3,599,512)	-	61,764,356	-	61,764,356
<b>Balance at 30 June 2011</b>	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)
<b>Total comprehensive loss for the year</b>	-	(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	-
<b>Balance at 30 June 2012</b>	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

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$	2012 \$
<b>Cash flows from operating activities</b>			
Cash receipts from operations		148,276	155,134
Cash paid to suppliers and employees		(3,438,468)	(3,171,481)
Interest received		177,091	265,079
<b>Net cash used in operating activities</b>	21	<b>(3,113,101)</b>	<b>(2,751,268)</b>
<b>Cash flows from investing activities</b>			
Payments for mining exploration and evaluation		(4,473,836)	(8,590,119)
Share of joint venture cash calls		1,320,961	-
Acquisition of property, plant and equipment		(594,156)	(2,457,989)
Repayment of loan by non-controlling interests		-	3,126,262
Interim payment received	13	-	2,979,441
Proceeds from sale of exploration and evaluation assets		53,434	695,203
Net proceeds from disposal of subsidiary	4(c)(iii)	80,148,232	-
<b>Net cash from/(used in) investing activities</b>		<b>76,454,635</b>	<b>(4,247,202)</b>
<b>Cash flows from financing activities</b>			
Payment of capital return		(25,073,087)	-
Payments for capital return costs		(9,127)	-
Options exercised		125,000	-
Share issue costs		(3,106)	-
<b>Net cash used in financing activities</b>		<b>(24,960,320)</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		48,381,214	(6,998,470)
Cash and cash equivalents at the beginning of the year		3,177,131	10,193,836
Effect of exchange rate fluctuations on cash held		4,884,881	(18,235)
<b>Cash and cash equivalents at 30 June</b>	21	<b>56,443,226</b>	<b>3,177,131</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 2013.

### (a) Basis of preparation and statement of compliance

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated.

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 27 September 2013.

### (b) Adoption of new and revised standards

#### (i) Standards and Interpretations application to 30 June 2013

In the year ended 30 June 2013, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period.

As a result of the review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and, therefore, no material change is necessary to the Group accounting policies.

#### (ii) Accounting Standards and Interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting periods. The consolidated entity has not elected to early adopt any pronouncements before their operative date in the current reporting period ended 30 June 2013. The consolidated entity's assessment of the impact of these new standards and interpretations are set out below.

TITLE OF STANDARD AND APPLICATION DATE	NATURE AND AMENDMENT AND IMPACT ON CHALICE GOLD MINES LIMITED
<b>AASB 10 Consolidated Financial Statements</b> This standard has an effective application date of 1 July 2013.	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.  The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.  Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.  The Group does not expect the new standard to have a significant impact on its composition.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2013

TITLE OF STANDARD AND APPLICATION DATE	NATURE AND AMENDMENT AND IMPACT ON CHALICE GOLD MINES LIMITED
<p><b>AASB 11</b> <b>Joint Arrangements</b></p> <p>This standard has an effective application date of 1 July 2013.</p>	<p>AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-1 13 Jointly-controlled Entities – Non-monetary Contributions by Ventures.</p> <p>AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7, AASB 2010-10 and amendments to AASB 128.</p> <p>The above standard may impact on the disclosures and presentation of the financial report but won't have a material impact on the entity's financial position.</p>
<p><b>AASB 12</b> <b>Disclosure of interest in other entities</b></p> <p>This standard has an effective application date of 1 July 2013.</p>	<p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.</p> <p>Where appropriate, additional disclosures will be provided in 2014 annual financial report about judgements made in relation to the determination of control.</p> <p>The Group does not expect the new standard to have a significant impact on its composition.</p>
<p><b>AASB 13</b> <b>Fair Value Measurement</b></p> <p>This standard has an effective application date of 1 July 2013.</p>	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in difference fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p> <p>This revised standard is not expected to have a significant impact on fair value assumptions and calculations for the consolidated entity.</p>
<p><b>AASB 127</b> <b>Separate Financial Statements</b></p> <p>This standard has an effective application date of 1 July 2013.</p>	<p>Amended version AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in AASB 10 Consolidated Financial Statements.</p> <p>The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost, or in accordance with AASB 9 Financial Instruments.</p> <p>The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.</p> <p>The Group does not expect the new standard to have a significant impact on its composition.</p>
<p><b>AASB 128</b> <b>Investments in Associates and Joint Ventures.</b></p> <p>This standard has an effective application date of 1 July 2013.</p>	<p>This Standard supersedes AASB 128 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.</p> <p>The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.</p> <p>The Group does not expect the new standard to have a significant impact on its composition.</p>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

TITLE OF STANDARD AND APPLICATION DATE	NATURE AND AMENDMENT AND IMPACT ON CHALICE GOLD MINES LIMITED
<p><b>AASB 119</b> <b>Employee Benefits</b> This standard has an effective application date of 1 July 2013.</p>	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.</p> <p>The amendments related to defined benefit plans are not relevant to the Company since it does not have such plans in place.</p> <p>The amendments related to the definition of short term employee benefits are not expected to have a significant impact on the consolidated entity as short term employee benefits are generally settled within 12 months after reporting dates.</p>
<p><b>AASB 2012- 2</b> <b>Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities</b> This standard is applicable from 1 July 2013.</p>	<p>AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.</p> <p>The revised standard is not expected to have a significant impact since the consolidated entity has not set off financial assets and liabilities.</p>
<p><b>AASB 2012-5</b> <b>Amendments to accounting standards arising from Annual Improvements 2009-2011 Cycle</b> This standard is applicable from 1 July 2013.</p>	<p>AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following:</p> <ul style="list-style-type: none"> <li>- Repeat application of AASB 1 is permitted (AASB 1)</li> <li>- Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of financial statements).</li> </ul> <p>The Group does not expect the new standard to have a significant impact on its composition.</p>
<p><b>AASB 1053</b> <b>Application of Tiers of Australian Accounting Standards</b> This standard is applicable from 1 July 2013.</p>	<p>This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:</p> <ul style="list-style-type: none"> <li>(a) Tier 1: Australian Accounting Standards</li> <li>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements</li> </ul> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.</p> <p>As a public company, Chalice Gold Mines Limited is required to apply Tier 1 requirements in preparing general purpose financial statements. Therefore, the Company does not expect that new standard to have a significant impact on the preparation of its financial report.</p>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

TITLE OF STANDARD AND APPLICATION DATE	NATURE AND AMENDMENT AND IMPACT ON CHALICE GOLD MINES LIMITED
<p><b>AASB 9</b> <b>Financial Instruments</b></p> <p>This standard is applicable from 1 January 2015.</p>	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below:</p> <ul style="list-style-type: none"> <li>(a) Financial assets that are debt instruments will be classified based on:               <ul style="list-style-type: none"> <li>a. The objective of the entity's business model for managing financial assets;</li> <li>b. The characteristics of the contractual cash flows.</li> </ul> </li> <li>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</li> <li>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</li> <li>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:               <ul style="list-style-type: none"> <li>a. The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>b. The remaining change is presented in profit or loss</li> </ul> </li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p> <p>The revised standard is not expected to have a significant impact on the classification and measurement of financial assets or financial liabilities.</p>

### (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.

Special purpose entities are those entities over which the Group has no ownership interest but in effect the substance of the relationship is such that the Group controls the entity so as to obtain the majority of benefits from its operation.

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 and special purpose entities 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit disposal of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Non-controlling interest are allocated their share of net result after tax in the statement of comprehensive income and are presented in equity in the consolidated statement of financial position, separately from the equity of the owners of the Parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

### (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 amounts 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 14.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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 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) Segment reporting

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.

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (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)).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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 involvement 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.

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.

### (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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (v) 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 14.

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.

### (w) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (x) 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 postacquisition 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.

### (y) 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 joint 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 interest 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 is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2013**

## 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	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Other Income	-	-	175,276	171,911	175,276	171,911
Loss on sale of exploration and evaluation assets	-	(147,091)	-	-	-	(147,091)
Exploration costs not capitalised	(595,676)	(96,820)	-	-	(595,676)	(96,820)
Impairment of exploration and evaluation assets	(375,000)	(126,431)	-	-	(375,000)	(126,431)
Depreciation	-	-	(83,449)	(99,454)	(83,449)	(99,454)
Corporate administrative expenses	-	-	(3,632,238)	(3,600,368)	(3,632,238)	(3,600,368)
<b>Segment loss before tax</b>	<b>(970,676)</b>	<b>(370,342)</b>	<b>(3,540,411)</b>	<b>(3,428,457)</b>	<b>(4,511,087)</b>	<b>(3,898,253)</b>
<b>Unallocated income/(expenses)</b>						
Net financing income					198,861	197,767
Foreign exchange gains/(losses)					4,873,790	(18,235)
Impairment of financial assets					(686,442)	-
Gain/(loss) from discontinued operations					43,783,106	(416,493)
<b>Loss before income tax</b>					<b>43,658,228</b>	<b>(4,135,214)</b>

	EXPLORATION AND EVALUATION		CORPORATE		TOTAL	
	30 JUNE 2013	30 JUNE 2012	30 JUNE 2013	30 JUNE 2012	30 JUNE 2013	30 JUNE 2012
	\$	\$	\$	\$	\$	\$
<b>Segment assets:</b>						
Exploration and evaluation assets	5,202,612	2,482,857	-	-	5,202,612	2,482,857
Other	657,619	371,349	560,537	390,705	1,218,156	762,054
	<b>5,860,231</b>	<b>2,854,206</b>	<b>560,537</b>	<b>390,705</b>	<b>6,420,768</b>	<b>3,244,911</b>
Unallocated assets					56,288,106	3,937,170
Assets held for sale					-	48,483,409
<b>Total assets</b>					<b>62,708,874</b>	<b>55,665,490</b>
<b>Segment liabilities</b>	<b>(309,369)</b>	<b>(3,544,485)</b>	<b>(635,149)</b>	<b>(414,157)</b>	<b>(944,518)</b>	<b>(3,958,642)</b>
Liabilities held for sale					-	(4,670,319)
<b>Total liabilities</b>					<b>(944,518)</b>	<b>(8,628,961)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2013

3. REVENUE AND EXPENSES

	2013 \$	2012 \$
<b>(a) Other income</b>		
Corporate and administration service fees	175,276	171,911
Net finance income	198,861	197,767
	<u>374,137</u>	<u>369,678</u>
<b>(b) Corporate administrative expenses</b>		
Consultants	7,788	105,752
Business development costs	719,946	-
Costs associated with assets held for sale	-	539,691
Insurance	84,466	100,227
Legal fees	107,392	111,940
Travel	145,240	388,253
Head office costs	465,327	199,127
Regulatory and compliance	317,190	434,455
Personnel expenses (note 3(c))	1,596,263	1,525,680
Other	188,626	195,243
	<u>3,632,238</u>	<u>3,600,368</u>
<b>(c) Personnel expenses</b>		
Wages and salaries	966,292	1,018,393
Directors' fees	110,000	107,796
Other associated personnel expenses	213,382	81,721
Superannuation contributions	156,304	135,755
(Decrease)/increase in liability for annual leave	(17,294)	(39,272)
(Decrease)/increase in liability for long service leave	1,062	6,007
Equity-settled share-based payment transactions	<u>166,517</u>	<u>215,280</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2013**

#### 4. SALE OF THE ZARA PROJECT IN ERITREA

On 4 September 2012, Chalice completed the sale of the Zara Project in Eritrea to China SFECO Group and the Eritrean National Mining Corporation ("ENAMCO"). The Company sold its 60 per cent interest in the Zara Project to China SFECO Group for US\$78 million (\$76.9 million) plus a deferred consideration of US\$2 million which is payable upon commencement of first commercial production at the Koka Gold Mine. In addition, the sale of Chalice's 30 per cent interest (plus a 10 per cent free carried interest) to ENAMCO for US\$34 million (\$33.1 million) was settled. All associated profit taxes in Eritrea on both the China SFECO Group transaction and the ENAMCO transaction were paid during the year ended 30 June 2013.

At 30 June 2012, the Zara Project was classified as a discontinued operation and an asset held for sale.

	2013 \$	2012 \$
<b>(a) Assets classified as held for sale</b>		
Cash at bank	-	102,601
Trade and other receivables	-	783,963
Property, plant and equipment	-	33,582,082
Exploration and evaluation expenditure	-	14,014,763
	-	48,483,409
<b>(b) Liabilities classified as held for sale</b>		
Trade and other payables	-	707,271
Loans and borrowings	-	3,963,048
	-	4,670,319
<b>(c) Financial performance and cash flow information</b>		
Net gain on disposal	43,839,433	-
Expenses – depreciation	(56,327)	(416,493)
Gain/(loss) for the year from discontinued operation	43,783,106	(416,493)
<b>Net cash flows from (used in) discontinued operations</b>		
Net cash used in operating activities	-	-
Net cash from/(used in) investing activities	80,148,232	(5,175,709)
Net cash from/(used in) financing activities	-	-
<b>Net cash flows for the year</b>	80,148,232	(5,175,709)
<b>(d) Details of the sale</b>		
<b>(i) Consideration received</b>		
Proceeds from sale – China SFECO group	76,929,574	-
Proceeds from sale – Eritrean National Mining Corporation	30,090,898	-
Interim payment received – Eritrean National Mining Corporation <sup>(1)</sup>	2,924,780	-
Funds outstanding – Eritrean National Mining Corporation	115,689	-
Interest on sale – Eritrean National Mining Corporation	873,882	-
<b>Total disposal consideration</b>	110,934,823	-
<b>Less:</b>		
Net assets disposed of – Zara Project (refer 4(d)(ii))	(39,404,476)	-
Transaction costs	(697,112)	-
Contract termination payment – Dragon Mining Limited	(1,500,000)	-
<b>Gain on disposal before income tax</b>	69,333,235	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$	2012 \$
Income tax expense <sup>(2)</sup>	(25,493,802)	-
<b>Gain on disposal after tax</b>	<b>43,839,433</b>	<b>-</b>
Share of net loss on subsidiary up to date of disposal (depreciation)	(56,327)	(416,493)
<b>Net profit/(loss) from discontinued operation</b>	<b>43,783,106</b>	<b>(416,493)</b>

<sup>(1)</sup>On 27 January 2012, Chalice received US\$3 million from ENAMCO as an interim payment for ENAMCO's acquisition of a 30 per cent interest in the Zara Project.

<sup>(2)</sup>Income tax expense represents the profits taxes settled with the Eritrean Government as a result of the sale of the Company's interest in the Zara Project.

### (ii) Net assets at date of sale

The carrying amount of assets and liabilities as at date of sale at 4 September 2012 were:

Cash at bank	55,208
Trade and other receivables	145,998
Property, plant and equipment	33,232,839
Exploration and evaluation expenditure	13,727,618
<b>Total assets</b>	<b>47,161,663</b>
Trade and other payables	57,058
Loans and borrowings	4,030,919
<b>Total liabilities</b>	<b>4,087,977</b>
<b>Net assets</b>	<b>43,073,686</b>
Less minority interest	(3,669,210)
<b>Total net assets of subsidiary</b>	<b>39,404,476</b>

### (iii) Net cash inflow on disposal

The cash inflow on disposal is as follows:

Total consideration on disposal	110,934,823
<b>Less:</b>	
Interim funds received	(2,924,780)
Funds outstanding	(115,689)
Net cash outflows	(27,690,914)
Net cash disposed of	(55,208)
<b>Net cash inflow on disposal (refer statement of cash flows)</b>	<b>80,148,232</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2013

## 5. AUDITORS' REMUNERATION

	2013 \$	2012 \$
<b>Audit services</b>		
HLB Mann Judd:		
Audit and review of financial reports	65,300	51,500
Other services	3,500	-
	68,800	51,500

## 6. 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:

Accounting loss from continuing operations	(124,878)	(3,718,721)
Accounting loss before income tax	(124,878)	(3,718,721)
Income tax calculated at the Australian corporate rate of 30%	(37,463)	(1,115,616)
Non-deductible expenses	440,057	181,489
Deferred tax assets and liabilities not recognised	(402,594)	934,127
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:

#### *Deferred tax assets comprise:*

Revenue losses available for offset against future taxable income	4,335,314	4,157,557
Share issue expenses	274,892	457,721
Accrued expenses and liabilities	67,419	73,115
	4,677,625	4,688,393

#### *Deferred tax liabilities comprise:*

Exploration costs capitalised	-	(112,500)
Unrealised FX gain	(1,416,616)	-
Accrued income	(665)	(559)
Net deferred tax assets recognised	(1,417,281)	(113,059)

### Income tax benefit not recognised directly in equity during the year:

Share issue costs	5,663	47,218
-------------------	-------	--------

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### 7. EARNINGS PER SHARE

#### Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 30 June 2013 was based on the profit attributable to ordinary equity holders of the parent of \$43,663,861 [2012: loss of \$4,093,565] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2013 of 250,435,544 [2012: 250,030,886].

	2013 \$	2012 \$
<b>Profit/(loss) attributable to ordinary shareholders</b>		
Profit/(loss) attributable to ordinary equity holders of the parent from continuing operations	(124,878)	(3,718,721)
Profit/(loss) attributable to ordinary equity holders of the parent from a discontinued operation	43,788,739	(374,844)
<b>Net profit/(loss) attributable to ordinary equity holders of the parent for basic earnings</b>	<b>43,663,861</b>	<b>(4,093,565)</b>
<b>Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution</b>	<b>43,663,861</b>	<b>(4,093,565)</b>

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

### 8. TRADE AND OTHER RECEIVABLES

Other trade receivables	284,428	357,417
Asset sale proceeds receivable	-	54,523
Prepayments	90,724	74,695
	<b>375,152</b>	<b>486,635</b>

### 9. FINANCIAL ASSETS

#### Non-current

Available for sale investments	12,000	710,442
Bond in relation to office premises	63,114	60,063
Bank guarantee and security deposits	110,499	92,135
	<b>185,613</b>	<b>862,640</b>

### 10. EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of:

Exploration and evaluation phase – at cost		
Balance at beginning of year	2,482,857	36,492,204
Transferred to property, plant and equipment (note 11)	-	(27,412,053)
Expenditure incurred	3,294,935	7,970,928
Impairment of exploration and evaluation assets	(375,000)	(126,431)
Exploration and evaluation assets written off	(595,676)	(96,820)
Sale of exploration and evaluation assets	-	(900,172)
Effects of movements in exchange rate	395,497	569,964
Transferred to assets held for sale – Zara Project (note 4)	-	(14,014,763)
<b>Total exploration expenditure</b>	<b>5,202,613</b>	<b>2,482,857</b>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2013

## 11. PROPERTY, PLANT AND EQUIPMENT

	PLANT AND EQUIPMENT	OFFICE FURNITURE AND EQUIPMENT	COMPUTER EQUIPMENT AND SOFTWARE	MOTOR VEHICLES	DEVELOPMENT ASSETS	TOTAL
	\$	\$	\$	\$	\$	\$
<b>Year ended 30 June 2013</b>						
At 1 July 2012 net of accumulated depreciation and impairment	52,643	114,273	108,503	-	-	275,419
Additions	74,950	9,390	87,746	145,428	-	317,514
Exchange differences	(446)	-	-	14,140	-	13,694
Depreciation charge for the year	(19,818)	(17,705)	(58,032)	(8,802)	-	(104,357)
At 30 June 2013 net of accumulated depreciation and impairment	107,329	105,958	138,217	150,766	-	502,270
<b>At 30 June 2013</b>						
Cost	181,929	396,198	524,948	160,481	-	1,263,556
Accumulated depreciation and impairment	(74,600)	(290,240)	(386,731)	(9,715)	-	(761,286)
Net carrying amount	107,329	105,958	138,217	150,766	-	502,270
<b>Year ended 30 June 2012</b>						
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 10)	-	-	-	-	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 4)	(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
<b>At 30 June 2012</b>						
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### 12. TRADE AND OTHER PAYABLES

	2013	2012
	\$	\$
Trade payables	309,408	237,353
Services and withholding tax payable	322,379	234,183
Accrued expenses	198,103	388,319
	<u>829,890</u>	<u>859,855</u>

### 13. UNEARNED INCOME

Asset sale interim payment	-	2,979,441
	<u>-</u>	<u>2,979,441</u>

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. On 4 September 2012, the sale to ENAMCO was completed with the balance of US\$31 million being received (refer to note 4).

### 14. EMPLOYEE BENEFITS

Annual leave accrued	38,734	56,028
Provision for long service leave	38,917	37,855
	<u>77,651</u>	<u>93,883</u>

#### 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 \$	NUMBER OF OPTIONS
	2013	2013
Outstanding at the beginning of the year	0.45	8,350,000
Forfeited during the year	0.50	(3,250,000)
Exercised during the year	0.25	(500,000)
Granted during the year	0.30	1,050,000
Exercisable at the end of the year	0.33	5,650,000
Outstanding at the end of the year	0.33	5,650,000

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2013**

	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER OF OPTIONS
	2012	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

The options outstanding at 30 June 2013 have a weighted average exercise price of \$0.33 [2012: \$0.45] and a weighted average contractual life of 4 years [2012: 4 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.

	2013	2012
Weighted average share price at grant date	\$0.16	\$0.29
Weighted exercise price	\$0.30	\$0.48
Expected volatility (expressed as weighted average volatility)	81%	62%
Option life (expressed as weighted average life)	3 years	3 years
Expected dividends	-	-
Risk-free interest rate	2.57%	3.02%

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**

The Company has in place an Employee Long Term Incentive Plan ('LTIP') which was approved by shareholders at the 2011 Annual General Meeting. 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 weighted average fair value of the performance rights outstanding at 30 June 2013 was 6.5 cents per performance right (2012: 30 cents).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

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

### 30 June 2013:

GRANT DATE	OPENING BALANCE	GRANTED	VESTED	LAPSED	CLOSING BALANCE	SHARE PRICE AT DATE OF ISSUE
5 June 2013	-	2,108,444	-	-	2,108,444	\$0.16
6 June 2013	-	645,705	-	-	645,705	\$0.17
16 December 2011	500,000	-	-	(500,000)	-	\$0.30
16 December 2011	250,000	-	(125,000)	-	125,000	\$0.30
16 December 2011	150,000	-	(75,000)	-	75,000	\$0.30
	<b>900,000</b>	<b>2,754,149</b>	<b>(200,000)</b>	<b>(500,000)</b>	<b>2,954,149</b>	

### 30 June 2012:

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
	-	<b>1,650,000</b>	-	<b>(750,000)</b>	<b>900,000</b>	

The fair value of performance rights granted during 2013 were determined using a trinomial model which takes into account the impact of vesting conditions and the fact that the Rights may never vest. The following table gives the assumptions made in determining the fair value of the performance rights granted during the year.

	2013
Weighted average share price at grant date	\$0.16
Weighted exercise price	nil
Expected volatility (expressed as weighted average volatility)	60%
Performance period (years)	1.58
Vesting period (years)	2.08
Expected dividends	-
Risk-free interest rate	2.59%

The fair value of performance rights granted in 2012 were 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 during the year is shown in the following table:

	2013 \$	2012 \$
Share options granted in 2012 – equity settled	43,860	156,376
Share options granted in 2013 – equity settled	65,613	-
Performance rights granted in 2012	52,676	58,904
Performance rights granted in 2013	4,368	-
<b>Total expenses recognised as personnel expenses</b>	<b>166,517</b>	<b>215,280</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2013

## 15. OTHER LIABILITIES

	2013 \$	2012 \$
<b>Non-current</b>		
Lease make good provision	36,977	25,463
	36,977	25,463

## 16. ISSUED CAPITAL

There were 250,730,886 shares on issue at 30 June 2013 (2012: 250,030,886).

### (a) Movements in ordinary shares on issue

	2013		2012	
	NO.	\$	NO.	\$
Balance at beginning of financial year	250,030,886	64,200,112	250,030,886	64,200,112
Capital return <sup>(1)</sup>	-	(25,073,089)	-	-
Shares issued on exercise of unlisted options	500,000	125,000	-	-
Shares issued on vesting of performance rights	200,000	-	-	-
Share issue and capital return costs	-	(12,233)	-	-
Balance at end of financial year	250,730,886	39,239,790	250,030,886	64,200,112

<sup>(1)</sup>Following shareholder approval at the Company's 2012 Annual General Meeting, the Company completed a capital return to Shareholders amounting to 10 cents per share.

### 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

	2013 NO.	2012 NO.
On issue at 1 July	8,350,000	7,000,000
Options forfeited or cancelled	(3,250,000)	(2,500,000)
Options exercised during the year	(500,000)	-
Options issued during the year	1,050,000	3,850,000
On issue at 30 June	5,650,000	8,350,000



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

At 30 June 2013 the Company had 5,650,000 unlisted options on issue under the following terms and conditions:

NUMBER	EXPIRY DATE	EXERCISE PRICE \$
500,000	31 July 2013	0.10
1,250,000	31 March 2014	0.25
1,250,000	31 March 2014	0.35
187,500	30 April 2014	0.45
187,500	30 April 2014	0.55
375,000	30 April 2014	0.65
750,000	14 September 2014	0.35
100,000	30 November 2014	0.35
1,050,000	30 June 2016	0.30

### (c) Performance rights

	2013 NO.	2012 NO.
On issue at 1 July	900,000	-
Issue of performance rights under the Employee Long Term Incentive Plan	2,754,149	1,650,000
Performance rights vested	(200,000)	-
Performance rights lapsed	(500,000)	(750,000)
On issue at 30 June	2,954,149	900,000

At 30 June 2013 the Company had 2,954,149 performance rights options on issue under the following terms and conditions:

NUMBER	TERMS	EXPIRY DATE	EXERCISE PRICE \$
125,000	Retention – Service period only	1 October 2014	-
75,000	Retention – Service period only	1 October 2014	-
2,754,149	The number of performance rights that will vest will be solely dependent on the Company's share price as at the measurement date of 1 January 2015 as compared to the Share price hurdles outlined on page 13 of the Remuneration Report.	30 June 2016	-

## 17. ACCUMULATED LOSSES AND RESERVES

	2013 \$	2012 \$
<b>(a) Movements in accumulated losses attributable to owners of the parent:</b>		
Balance at beginning of financial year	(16,202,389)	(12,108,824)
Profit/(loss) for the year attributable to owners of the parent	43,663,861	(4,093,565)
Transfers between equity items	(2,829,348)	-
Balance at end of financial year	24,632,124	(16,202,389)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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 14 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.

##### (iv) Non-controlling interest reserve

The non-controlling interest reserve records differences between the carrying value of non-controlling interests and the consideration paid/received where there has been a transaction involving non-controlling interests that do not result in a loss of control. The reserve is attributable to the equity of the parent.

## 18. 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 notes 16 and 17.

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 cash at bank held by the Company currently comprises predominately US dollar funds. 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 likely future commitments in each currency.

At 30 June 2013, Chalice had the following exposures to USD foreign currency:

	2013 \$	2012 \$
<b>Financial Assets</b>		
Cash and cash equivalents	56,093,028	1,914,895
Trade and other receivables	77,490	-
<b>Financial Liabilities</b>		
Trade and other payables	309,369	566,436

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

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.

		2013 \$	2012 \$
Impact on gain/(loss)	AUD/USD +10%	(5,081,556)	174,081
	AUD/USD -10%	5,589,712	(191,490)
Impact on equity	AUD/USD +10%	(5,081,556)	174,081
	AUD/USD -10%	5,589,712	(191,490)

### (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:

	2013 \$	2012 \$
Cash and cash equivalents	56,443,226	3,074,530

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 2013, 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:

		IMPACT ON PROFIT	
		2013 \$	2012 \$
Impact on gain/(loss)	100 bp increase	588,356	11,515
	100 bp decrease	(533,503)	(11,515)
Impact on equity	100 bp increase	588,356	11,515
	100 bp decrease	(533,503)	(11,515)

### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### (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 \$829,890 (2012: \$859,855) 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.

## 19. PARENT ENTITY

	2013 \$	2012 \$
<b>Financial position</b>		
<b>Assets</b>		
Current assets	55,800,895	43,612,739
Non-current assets	17,831,968	9,119,742
<b>Total assets</b>	<b>73,632,863</b>	<b>52,732,481</b>
<b>Liabilities</b>		
Current liabilities	334,435	388,388
Non-current liabilities	47,625,349	25,462
<b>Total liabilities</b>	<b>47,959,784</b>	<b>413,850</b>
<b>Net assets</b>	<b>25,673,079</b>	<b>52,318,631</b>
<b>Equity</b>		
Issued capital	39,239,790	64,200,112
Accumulated losses	(15,058,665)	(14,106,062)
Reserves	1,491,954	2,224,581
<b>Total equity</b>	<b>26,673,079</b>	<b>52,318,631</b>
<b>Financial performance</b>		
Loss for the year	(1,839,746)	(3,553,803)
Total comprehensive income	(1,839,746)	(3,553,803)

### Commitments and contingencies

#### (i) Contingencies

Other than as disclosed in note 20, the parent entity has no contingent assets or liabilities.

#### (ii) Operating lease commitments

Within 1 year	344,106	300,761
Within 2-5 years	999,401	1,555,573
Later than 5 years	-	-
	<b>1,343,507</b>	<b>1,856,334</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### 20. 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:

	2013 \$	2012 \$
Within 1 year	-	562,642
Within 2-5 years	-	382,631
Later than 5 years	-	-
	-	945,273

#### Office lease commitments

Within 1 year	344,106	300,761
Within 2-5 years	999,401	1,555,573
Later than 5 years	-	-
	1,343,507	1,856,334

#### Contingent asset

On 27 April 2012, Chalice agreed to sell a 60 per cent interest in the Zara Project to China SFECO Group for US\$78 million plus a deferred consideration of US\$2 million contingent upon the achievement of first gold pour at the Koka Gold Mine in Eritrea. The deferred payment has not been recorded as income in the financial statements as it is contingent upon the outcome of a possible future event.

### 21. CASH AND CASH EQUIVALENTS

Bank balances	56,427,612	2,208,187
Term deposits	-	858,451
Petty cash	15,614	7,892
	56,443,226	3,074,530

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

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

	2013 \$	2012 \$
Bank balances	56,427,612	2,208,187
Term deposits	-	858,451
Petty cash	15,614	7,892
Cash at banks and short term deposits attributable to a discontinued operation (note 4(a))	-	102,601
Cash and cash equivalents in the statement of cash flows	<u>56,443,226</u>	<u>3,177,131</u>

### Reconciliation of cash flows from operating activities

Loss before tax from continuing operations	(124,878)	(3,718,721)
Profit/(loss) before tax from discontinuing operations	43,783,106	(416,493)
Profit/(loss) before tax	<u>43,658,228</u>	<u>(4,135,214)</u>
<b>Adjustments for:</b>		
Depreciation and amortisation	83,449	99,454
Profit/(loss) from discontinued operations	(43,783,106)	416,493
Foreign exchange (gains)/losses	(4,873,790)	18,235
Exploration assets written off	595,676	96,820
Loss on sale of exploration and evaluation assets	-	147,091
Impairment of exploration and evaluation assets	375,000	126,431
Impairment of financial assets	686,442	-
Equity-settled share-based payment expenses	166,517	215,280
<b>Operating loss before changes in working capital and provisions</b>	<u>(3,091,584)</u>	<u>(3,015,410)</u>
(Increase) in trade and other receivables	(25,884)	240,540
(Increase)/decrease in financial assets	(21,415)	22,497
Increase in trade creditors and other liabilities	30,500	104,458
(decrease)/increase in provisions	(4,718)	(83,724)
(decrease)/increase in non-current financial assets	-	(19,629)
<b>Net cash used in operating activities</b>	<u>(3,113,101)</u>	<u>(2,751,268)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

## 22. 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)

W B Bent (Managing Director, appointed 1 February 2013)

D A Jones (Executive Director)

#### Non-executive Directors

A W Kiernan

S P Quin

#### Executives

R K Hacker (Chief Financial Officer)

M Kelly (General Manager – Zara Mining Share Company)(ceased employment 4 September 2012)

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

	2013 \$	2012 \$
Short-term employee benefits	1,665,422	1,651,038
Post-employment benefits	110,899	105,102
Termination benefits	69,573	81,250
Share-based payment	121,812	104,638
Other	-	50,459
	<u>1,967,706</u>	<u>1,992,487</u>

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### 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 was as follows:

KEY MANAGEMENT PERSONNEL	TRANSACTION	NOTE	2013 \$	2012 \$
A W Kiernan	Legal and consulting services	(i)	238,000	160,000
<b>Other related parties</b>				
Liontown Resources Limited	Corporate services	(ii)	(144,000)	(132,000)
Uranium Equities Limited	Corporate services	(iii)	(84)	(2,628)

- (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 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 outstanding (to)/from the above related parties at reporting date arising from these transactions were as follows:

	2013 \$	2012 \$
<b>Assets and liabilities arising from the above transactions</b>		
Current payables	(6,000)	(9,000)
Trade debtors	24,000	12,000
	<b>18,000</b>	<b>3,000</b>

### 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 2012	GRANTED AS COMPENSATION	EXERCISED/ FORFEITED	HELD AT 30 JUNE 2013	VESTED DURING THE YEAR	VESTED AND EXERCISABLE AT 30 JUNE 2013
<b>Director</b>						
T R B Goyder	2,500,000	-	(2,500,000)	-	-	-
W B Bent	-	1,453,444	-	1,453,444	-	-
A W Kiernan	500,000	750,000	(500,000)	750,000	750,000	750,000
D A Jones	2,500,000	655,000	-	3,155,000	-	2,500,000
S P Quin	750,000	300,000	-	1,050,000	487,500	1,050,000
<b>Executive</b>						
R K Hacker	750,000	402,139	(125,000)	1,027,139	125,000	625,000
M P Kelly	500,000	-	(500,000)	-	-	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

	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
<b>Director</b>						
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)	-	-	-
<b>Executive</b>						
R K Hacker	500,000	250,000	-	750,000	-	500,000
M P Kelly	-	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 2012	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2013	SALES	HELD AT 30 JUNE 2013
<b>Director</b>						
T R B Goyder	33,724,342	500,000	-	34,224,342	-	34,224,342
A W Kiernan	1,162,041	-	500,000	1,662,041	-	1,662,041
W B Bent	-	496,350	-	496,350	-	496,350
D A Jones	296,278	-	-	296,278	-	296,278
S P Quin	26,321	-	-	26,321	-	26,321
<b>Executive</b>						
R K Hacker	231,334	-	125,000	356,334	(356,334)	-
M P Kelly	-	-	-	-	-	-

	HELD AT 1 JULY 2011	ADDITIONS	RECEIVED ON EXERCISE OF OPTIONS	HELD AT 30 JUNE 2011	SALES	HELD AT 30 JUNE 2012
<b>Director</b>						
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	600,960	-	-	600,960	-	600,960
S P Quin	26,321	-	-	26,321	-	26,321
J Jeffery	-	47,000	-	47,000	-	47,000
<b>Executive</b>						
R K Hacker	98,334	133,000	-	231,334	-	231,334
M P Kelly	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2013

## 23. RELATED PARTY DISCLOSURE

### (a) Significant investments in subsidiaries

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 \$	
		2013	2012	2013	2012
<b>Parent entity</b>					
Chalice Gold Mines Limited	Australia				
<b>Subsidiaries</b>					
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	-	-
<b>(i) Subsidiaries of Chalice Operations Pty Ltd</b>					
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	-	-
<b>(ii) Subsidiaries of Chalice Gold Mines (Eritrea) Pty Ltd</b>					
Zara Mining Share Company	Eritrea	0%	90%	-	37,772,732

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 30 JUNE 2013

### 24. JOINT VENTURE INTERESTS

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

	COUNTRY	2013 %	2012 %
Mogoraib North Exploration Licence	Eritrea	60	60

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

	2013 \$	2012 \$
<b>Current assets</b>		
Cash at bank	340,733	-
Trade and other receivables	77,490	201,479
	418,223	201,479
<b>Non-current assets</b>		
Exploration and evaluation assets	5,187,183	2,106,444
Property, plant and equipment	239,396	21,779
	5,426,579	2,128,223
<b>Total assets</b>	5,844,802	2,329,702
<b>Current liabilities</b>		
Trade and other payables	309,369	332,818
	309,369	332,818
<b>Total liabilities</b>	309,369	332,818

Refer to note 20 for details of commitments of the joint venture. The joint venture has no contingent liabilities as at 30 June 2013 (30 June 2012: nil).

### 25. SUBSEQUENT EVENTS

On 24 September 2013, Chalice entered into an agreement with unlisted public company, GeoCrystal Limited ("GeoCrystal") to subscribe for 3,333,333 shares and 3,333,333 free attaching options in GeoCrystal at an issue price of \$0.15 (\$500,000). Following the placement, Chalice owns a 10.1 per cent of the issued and outstanding shares of GeoCrystal. The options are exercisable at \$0.20 each and expire on 30 September 2015. In addition, GeoCrystal granted Chalice an option to acquire a further 2.1 million shares at \$0.20 per share on or before 29 March 2014, which if exercised would increase Chalice's stake to 19.9 per cent on a fully diluted basis. Chalice has been granted a conditional first right of refusal on future financing until its stake has reached 51 per cent of GeoCrystal.

In addition, Chalice has entered into a farm-in joint venture agreement with Uranium Equities Limited over its Oodnadatta and Marla Projects in South Australia (the "O&M Projects"). The farm-in agreement gives Chalice the right to earn up to 70 per cent of both projects by sole funding a total of \$5.5 million in exploration expenditure. Chalice may earn an initial 51 per cent by sole funding \$2.5 million, but there is no minimum spend required before withdrawal.

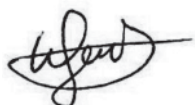
# DIRECTORS' DECLARATION

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 2013 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 2013.

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

Dated at Perth the 27th day of September 2013

Signed in accordance with a resolution of the Directors:



**William Bent**  
Managing Director

# INDEPENDENT AUDITOR'S REPORT



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 2013, 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 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 company'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 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  
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.  
Email: [hlb@hlbwa.com.au](mailto:hlb@hlbwa.com.au). Website: <http://www.hlb.com.au>  
Liability limited by a scheme approved under Professional Standards Legislation

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

# INDEPENDENT AUDITOR'S REPORT



Accountants | Business and Financial Advisers

## ***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 2013 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 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'HLB Mann Judd'.

**HLB Mann Judd**  
Chartered Accountants

A handwritten signature in black ink that reads 'W M Clark'.

**W M Clark**  
Partner

**Perth, Western Australia**  
**27 September 2013**

# CORPORATE GOVERNANCE REPORT

## Approach to Corporate Governance

Chalice Gold Mines Limited (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to ASX Corporate Governance Council 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 do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

The following governance-related documents can be found on the Company's website at:

<http://chalicegold.com/corporate>, 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 Evaluations  
Policy on Assessing the Independence of Directors  
Policy for Trading in Company Securities  
Diversity Policy  
Code of Conduct  
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)  
Whistleblower Policy

The Company reports below on whether it has followed each of the recommendations during the 2012/2013 financial year (Reporting Period). The information in this statement is current at 27 September 2013.

## 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, which is disclosed on the Company's website.

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.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### 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 on page 7.

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; and business development experience. As the Company's has sold its major asset, the Zara Gold Project, the Board's composition will be assessed as part of the future direction of the Company, once an appropriate opportunity is identified.

### 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 its current composition 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 activities 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 the Statement of Financial Position or Statement of Comprehensive Income 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 judgement.

The non-independent directors of the Company are Tim Goyder, Doug Jones, Bill Bent and Anthony Kiernan. Messrs Goyder, Jones and Bent are executive directors. Mr Kiernan is a non-executive director.

The non-independent Chair of the Board is Tim Goyder. Tim Goyder is an executive director and therefore does not satisfy paragraph 2 of 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 Bill Bent 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.



# CORPORATE GOVERNANCE REPORT (CONTINUED)

## Selection and (Re) Appointment of Directors

(Recommendation: 2.6)

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed process whereby it evaluates the mix of skills, experience and expertise of the existing Board. In particular, the Nomination Committee (or equivalent) is to identify the particular skills that will best increase the Board's effectiveness. Consideration is also given to the balance of independent directors. Potential candidates are identified and, if relevant, the Nomination Committee (or equivalent) recommends 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.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. An election of directors is held each year. 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 are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination Committee it carries out those functions which are delegated to it in the Company's Nomination Committee Charter. The Board deals 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.

As noted above, the full Board carries out the role of the Nomination Committee. The full Board did not officially convene in its capacity 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 full Board in its capacity as 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 only 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 three meetings during the Reporting Period. Details of director attendance at Audit Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 8.

Details of each of the director's qualifications are set out in the Directors' Report on page 7. Neither member of the Audit Committee has formal accounting nor 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.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company has established a Procedure 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 two non-executive directors, only one of whom is independent. Accordingly, the Board has established a Remuneration Committee comprising its two non-executive directors; Anthony Kiernan (Chair) and Stephen Quin.

The Remuneration Committee held two meetings during the Reporting Period. Details of director attendance at Remuneration Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 8.

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 part of the Directors' Report and commences on page 9. The Company's policy on remuneration clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. 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.

# CORPORATE GOVERNANCE REPORT (CONTINUED)

## 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.

The Company also adopted a Fraud Reporting and Investigation Policy (Whistleblower Policy) on 16 May 2013. The policy is designed to set forth the requirements for reporting and investigating fraudulent activity or related misconduct within the Company and its operating companies involving fraud, or violations of laws, policies, procedures and rules that involve the financial results and reporting by the operating companies.

The Company's Code of Conduct and Whistleblower Policy are disclosed on the Company's website.

## Diversity

(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy. However, the Diversity Policy provides that the Board may establish measurable objectives for achieving gender diversity that are appropriate for the Company. If established, the Board will assess annually both the objectives and progress towards achieving them. The Company's Diversity Policy is disclosed on the Company's website.

The Board has not set measurable objectives for achieving gender diversity. The Board revisited the establishment of measurable objectives for achieving gender diversity during the Reporting Period. The Board does not consider that it is in a position to set out meaningful objectives for achieving gender diversity until the future direction of the Company is determined. The Board will revisit the establishment of measurable objectives when the future direction of the Company is known.

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 39 (33.3%)
Senior Executive positions	1 out of 3 (33.3%)
Board	0 out of 5 (0%)

## 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 Board has established a separate Audit Committee 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 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 formalised and documented system for 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 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.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### ASX Corporate Governance Council recommendations checklist

The following table sets out the Company's position with regard to adoption of the Principles & Recommendations as at the date of this statement:

	RECOMMENDATION	COMPLY
<b>Principle 1: Lay solid foundations for management and oversight</b>		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓
1.2	Companies should disclose the process for evaluating the performance of senior executives.	✓
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	✓
<b>Principle 2: Structure the board to add value</b>		
2.1	A majority of the board should be independent directors.	×
2.2	The chair should be an independent director.	×
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	✓
2.4	The board should establish a nomination committee.	×
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	✓
<b>Principle 3: Promote ethical and responsible decision-making</b>		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity;</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	✓
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	×
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✓
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	✓
<b>Principle 4: Safeguard integrity in financial reporting</b>		
4.1	The board should establish an audit committee.	✓
4.2	The audit committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the board; and has at least three members.	×
4.3	The audit committee should have a formal charter.	✓
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	✓
<b>Principle 5: Make timely and balanced disclosure</b>		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	✓
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	✓

## CORPORATE GOVERNANCE REPORT (CONTINUED)

RECOMMENDATION		COMPLY
<b>Principle 6: Respect the rights of shareholders</b>		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of the policy.	✓
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	✓
<b>Principle 7: Recognise and manage risk</b>		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act 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..	✓
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓
<b>Principle 8: Remunerate fairly and responsibly</b>		
8.1	The board should establish a remuneration committee.	✓
8.2	The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; and has at least three members.	×
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓

# 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 25 September 2013 were:

SHAREHOLDER	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD %
Timothy Rupert Barr Goyder	41,059,389	16.34
Franklin Resources Inc	31,107,008	12.38
Lujeta Pty Ltd <The Margaret Account>	20,182,750	8.03
Paradice Investment Management Pty Ltd	13,784,174	5.51

### Class of shares and voting rights

At 25 September 2013 there were 2,530 holders of the ordinary shares of the Company, 6 holders of unlisted share options and 5 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 -

- at meetings of members or classes of members each member entitled to vote in person or by proxy or attorney; and
- 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 25 September 2013:

CATEGORY	NUMBER OF EQUITY SECURITY HOLDERS		
	ORDINARY SHARES	UNLISTED SHARE OPTIONS	PERFORMANCE RIGHTS
1 – 1,000	417	-	-
1,001 – 5,000	762	-	-
5,001 – 10,000	422	-	-
10,000 – 100,000	760	1	-
100,001 and over	169	5	5
<b>Total</b>	<b>2,530</b>	<b>6</b>	<b>5</b>

The number of shareholders holding less than a marketable parcel at 25 September 2013 was 808.

## ASX ADDITIONAL INFORMATION (CONTINUED)

### Twenty largest Ordinary Fully Paid Shareholders as at 25 September 2013

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF CAPITAL HELD %
National Nominees Limited	45,583,409	18.14
Timothy R B Goyder	41,059,389	16.34
Lujeta Pty Ltd <The Margaret Account>	20,182,750	8.03
HSBC Custody Nominees (Australia) Limited	14,428,248	5.74
JP Morgan Nominees Australia Limited <Cash Income A/C>	13,062,995	5.20
Merrill Lynch (Australia) Nominees Pty Limited	5,120,288	2.04
Claw Pty Ltd	4,000,000	1.59
Calm Holdings Pty Ltd <Clifton Super Fund A/C>	3,850,000	1.53
UBS Nominees Pty Ltd	3,477,362	1.38
Sundowner International Limited	3,244,782	1.29
Nefco Nominees	3,100,000	1.23
Citicorp Nominees Pty Ltd	3,090,140	1.23
CDS & CO	2,158,402	0.86
Clement Pty Ltd <D&M Goyder Family S/Fund A/C>	1,810,681	0.72
Piat Corp Pty Ltd	1,782,266	0.71
Greenslade Holdings Pty Ltd	1,516,667	0.60
Jetosea Pty Ltd	1,500,000	0.60
Super Seed Pty Ltd <The Seed Family A/C>	1,500,000	0.60
Teragoal Pty Ltd <Gray Family A/C>	1,400,000	0.56
Mr Philip Scott Button + Ms Philippa Ann Nicol <Christopher Jordan A/C>	1,348,261	0.54
<b>Total</b>	<b>173,215,640</b>	<b>68.33</b>



---

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY



## CHALICE GOLD MINES LIMITED

Level 2, 1292 Hay Street  
WEST PERTH, WESTERN AUSTRALIA 6005

**Tel:** (+61) (8) 9322 3960

**Fax:** (+61) (8) 9322 5800

**Web:** [www.chalicegold.com](http://www.chalicegold.com)

**Email:** [info@chalicegold.com](mailto:info@chalicegold.com)