



CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

**Half Year Report
31 December 2010**

Chalice Gold Mines Limited

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Chalice Gold Mines Limited

Directors' Report

For the half year ended 31 December 2010

Your directors submit the financial report for Chalice Gold Mines Limited ("Chalice" or "the Group") for the half year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Timothy R B Goyder	Executive Chairman
Douglas A Jones	Managing Director
Michael R Griffiths	Executive Director
Stephen P Quin	Non-executive Director
Anthony W Kiernan	Non-executive Director

REVIEW OF OPERATIONS

1. The Zara Project in Eritrea

1.1 Mine Permitting

Since completing the Koka Gold Deposit (Koka) feasibility study in July 2010, Chalice has been engaged in the permitting process including negotiating the terms of the Mining Agreement and the acquisition of the government's interest in the Zara Project.

1.2 ENAMCO's Acquisition of 30% of the Zara Project

In November 2010, the Eritrean Government advised Chalice of its intention to purchase, at fair value, a 30% paid participating interest in the Zara Project (including the Koka Gold Deposit ("Koka")) through the Eritrean National Mining Corporation (ENAMCO). This statutory right to acquire a further 30% paid participating interest is in addition to ENAMCO's 10% carried interest.

Both Chalice and ENAMCO are hopeful that an agreement on the fair value of the interest can be mutually agreed between the parties. If the parties cannot agree, then an independent valuation will be undertaken.

If, as Chalice currently expects, ENAMCO agrees to pay for their paid participating interest shortly after grant of the Mining Licence, the funding task for Chalice to develop Koka will be substantially reduced. The amount of funding that Chalice may need to source externally will be further reduced by ENAMCO's progressive contribution to development costs (which will be funded 33.33% by ENAMCO and 66.66% by Chalice).

1.3 Exploration Activities

During the half year, Chalice continued to ramp up its near-mine and regional exploration activities at the Zara Project with a focus on identifying new prospects to increase resources in the vicinity of Koka, which hosts an Indicated Mineral Resource of 840,000oz at a grade of 5.3g/t gold.

Near mine exploration activities include the prospective 6km long corridor extending from Koka to the Konate-Fah area some 5km to the south. A major new deep-penetration Induced Polarisation (IP) survey commenced over an area

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of 12km² within this corridor, designed to reveal new targets with the potential to host repeats of the Koka mineralisation. Early results from the survey over the Koka-Konate corridor reveal strong IP resistivity targets below Koka and the Koka East prospect. Strong IP chargeability anomalies have also been identified to the west of Koka. The results of the IP survey have provided exceptional targets for drilling in early 2011.

Follow-up geochemical sampling and geological mapping on the Zara North licence has continued to confirm previously reported gold anomalism. Identifying the source of this anomalism will be a key focus for intensive exploration planned over the coming months.

2. New Exploration Licences in Eritrea

In January 2011, Chalice's 100% owned subsidiary, Keren Mining Pty Ltd signed agreements with the Eritrean Ministry of Energy and Mines for two new Exploration Licences totalling 830 sq km in northern Eritrea. The new licences, Mogoraib North and Hurum, add significantly to the Group's exploration tenure in two highly prospective geological terrains. Intensive exploration programs are planned for the first 12 months of tenure.

3. Corporate

During the period, Chalice completed a one for six entitlements issue by issuing 30,172,169 shares at 42 cents per share and raised 12,672,311 (before issue costs) to fund the ongoing development of the Zara Project. The rights issue was fully underwritten.

On 26 November 2010, Chalice commenced trading on the Toronto Stock Exchange ("TSX") under the symbol "CXN".

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.

The Mineral Resource estimate was prepared by Mr. John Tyrrell who is a Member of the Australasian Institute of Mining and Metallurgy. Mr. Tyrrell is a full time employee of AMC and has sufficient experience in gold resource estimation to act as Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code)' and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. Mr Tyrrell consents to the inclusion of this information in the form and context in which it appears.

Forward Looking Statements

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

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the

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estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, the timing and amount of any payment from ENAMCO in relation to the acquisition of 30% of the Zara Project, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; 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 www.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.

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after balance sheet date.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this directors' report for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306 (3) of the Corporations Act 2001.



DR DOUG JONES
Managing Director

Dated at Perth this 25th day of February 2011

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Chalice Gold Ltd for the half-year ended 31 December 2010, 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 review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia
25 February 2011

W M CLARK
Partner, HLB Mann Judd

Chalice Gold Mines Limited
Condensed Statement of Comprehensive Income
For the half year ended 31 December 2010

	Note	Consolidated	
		31 December 2010 \$	31 December 2009 \$
Continuing Operations			
Net loss on sale of exploration and evaluation assets	3a	-	(146,677)
Share of associate's net loss		(31,524)	-
Fair value of options held through profit and loss		(2,978)	(5,098)
Other income	3b	338,962	376,025
Exploration costs not capitalised		-	(77,284)
Corporate and administrative expenses	3c	(2,416,730)	(1,667,498)
Merger costs expensed		-	(635,806)
Loss before tax		(2,112,270)	(2,156,338)
Income tax expense		-	-
Loss for the period attributable to owners of the parent		(2,112,270)	(2,156,338)
Other comprehensive income			
Net change in fair value of available for sale investments		60,000	6,000
Exchanges differences on translation of foreign operations		(4,415,054)	(917,118)
Total comprehensive loss after tax attributable to owners of the parent		(6,467,324)	(3,067,456)
Basic and diluted loss per share		(0.03)	(0.03)

Chalice Gold Mines Limited
Condensed Statement of Financial Position
As at 31 December 2010

	Note	Consolidated	
		31 December 2010	30 June 2010
		\$	\$
Current assets			
Cash and cash equivalents		7,362,863	7,688,905
Trade and other receivables		301,275	329,587
Total current assets		7,664,138	8,018,492
Non-current assets			
Financial assets		276,004	214,255
Exploration and evaluation assets	4	32,623,392	27,056,158
Investment in associate		654,918	684,934
Property, plant and equipment		1,579,234	1,257,494
Total non-current assets		35,133,548	29,212,841
Total assets		42,797,686	37,231,333
Current liabilities			
Trade and other payables		1,041,543	2,534,272
Employee benefits		131,974	110,038
Provisions	5	1,079,619	-
Total current liabilities		2,253,136	2,644,310
Non-current Liabilities			
Provisions	5	42,126	39,312
Total non-current liabilities		42,126	39,312
Total liabilities		2,295,262	2,683,622
Net assets		40,502,424	34,547,711
Equity			
Share Capital	6	53,349,165	41,254,947
Accumulated losses		(10,393,040)	(8,280,770)
Reserves		(2,453,701)	1,573,534
Total equity		40,502,424	34,547,711

Chalice Gold Mines Limited
Condensed Statement of Changes in Equity
For the half-year ended 31 December 2010

Consolidated							
	Note	Issued Capital	Accumulated losses	Share based payments reserve	Investment revaluation reserve	Foreign currency translation reserve	Total equity
		\$	\$	\$	\$	\$	\$
Balance at 30 June 2010		41,254,947	(8,280,770)	1,501,450	2,000	70,084	34,547,711
Revaluation of available for sale investments		-	-	-	60,000	-	60,000
Exchanges differences on translation of foreign operations		-	-	-	-	(4,415,054)	(4,415,054)
Loss for the period		-	(2,112,270)	-	-	-	(2,112,270)
Total comprehensive income for the period		-	(2,112,270)	-	60,000	(4,415,054)	(6,467,324)
Rights Issue (net after costs)		12,044,218	-	-	-	-	12,044,218
Options exercised		50,000	-	-	-	-	50,000
Share based payments		-	-	327,819	-	-	327,819
Balance at 31 December 2010	6	53,349,165	(10,393,040)	1,829,269	62,000	(4,344,970)	40,502,424
Balance at 30 June 2009		13,974,454	(2,704,892)	618,018	36,000	-	11,923,580
Revaluation of available for sale investments		-	-	-	6,000	-	6,000
Exchanges differences on translation of foreign operations		-	-	-	-	(917,118)	(917,118)
Loss for the period		-	(2,156,338)	-	-	-	(2,156,338)
Total comprehensive income for the period		-	(2,156,338)	-	6,000	(917,118)	(3,067,456)
Share issue – merger by scheme of arrangement		6,802,388	-	-	-	-	6,802,388
Share placement (net after costs)		4,134,940	-	-	-	-	4,134,940
Share based payments		-	-	283,080	-	-	283,080
Balance at 31 December 2009	6	24,911,782	(4,861,230)	901,098	42,000	(917,118)	20,076,532

Chalice Gold Mines Limited
Condensed Statement of Cash Flows
For the half year ended 31 December 2010

Note	Consolidated	
	31 December 2010 \$	31 December 2009 \$
Cash flows from operating activities		
Cash receipts from operations	117,213	90,491
Cash paid to suppliers and employees	(1,988,360)	(1,628,091)
Interest received	233,037	121,210
Net cash used in operating activities	(1,638,110)	(1,416,390)
Cash flows from investing activities		
Payments for mining exploration and evaluation	(7,172,871)	(3,321,867)
Proceeds from disposal of available for sale financial assets	-	132,540
Proceeds from the sale of exploration assets	-	250,000
Payments for merger and restructuring costs	-	(635,806)
Cash acquired on completion of merger	-	252,054
Acquisition of subsidiary	-	(1,210,000)
Acquisition of equity investments	-	(372,766)
Acquisition of property, plant and equipment	(545,934)	(291,447)
Option fees received	-	164,509
Tax payment for acquisition of exploration assets	(3,048,675)	-
Net cash used in investing activities	(10,767,480)	(5,032,783)
Cash flows from financing activities		
Proceeds from issue of shares	12,722,353	4,401,000
Payments for share issue costs	(628,135)	(266,060)
Other	(4,199)	(30,962)
Net cash used in financing activities	12,090,019	4,103,978
Net decrease in cash and cash equivalents	(315,571)	(2,345,195)
Cash and cash equivalents at the beginning of the period	7,688,906	9,623,637
Effects of exchange rate fluctuations on cash held	(10,472)	(8,556)
Cash and cash equivalents at 31 December 2010	7,362,863	7,269,886

Chalice Gold Mines Limited

Notes the Financial Statements

For the half year ended 31 December 2010

1. Significant accounting policies

(a) Statement of compliance

These interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Chalice Gold Mines Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the rules of the Australian Securities Exchange and the Toronto Stock Exchange.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

(b) Basis of preparation

The interim report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

(c) Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

(d) Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Group's accounting policies.

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Notes the Financial Statements
For the half year ended 31 December 2010

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 costs. Results of both segments are reported to the Board of Directors on at least a monthly basis. Exploration expenditure is reflected as a segment as exploration expenditure occurs in one geographical area – Eritrea.

	Exploration and Evaluation		Corporate		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Net loss on sale of exploration assets	-	(146,677)	-	-	-	(146,677)
Exploration costs not capitalised	-	(77,284)	-	-	-	(77,284)
Other Income	-	-	117,213	223,031	117,213	223,031
Corporate and administrative expenses	-	-	(2,416,730)	(1,667,498)	(2,416,730)	(1,667,498)
Merger costs expensed	-	-	-	(635,806)	-	(635,806)
Segment net loss after tax		(223,961)	(2,299,517)	(2,080,273)	(2,299,517)	(2,304,234)
Unallocated income/(expenses)						
Net financing income					221,749	152,994
Share of associates net loss					(31,524)	-
Fair value of options					(2,978)	(5,098)
Loss before income tax					(2,112,270)	(2,156,338)

Chalice Gold Mines Limited
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For the half year ended 31 December 2010

	Exploration and Evaluation		Corporate		Total	
	31 Dec 2010	30 June 2010	31 Dec 2010	30 June 2010	31 Dec 2010	30 June 2010
	\$	\$	\$	\$	\$	\$
Segment assets:						
Exploration and evaluation assets	32,623,392	27,056,158	-	-	32,623,392	27,056,158
Other	1,210,602	857,204	669,907	729,877	1,880,509	1,587,081
	33,833,994	27,913,362	669,907	729,877	34,503,901	28,643,239
Unallocated assets					8,293,785	8,588,094
Total assets					42,797,686	37,231,333
Segment Liabilities	(1,875,426)	(2,169,248)	(419,836)	(514,374)	(2,295,262)	(2,683,622)

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Notes the Financial Statements
For the half year ended 31 December 2010

3. Loss before income tax expense

The following income and expense items are relevant in explaining the financial performance for the half-year:

(a) Net loss on sale of exploration and evaluation assets	2010	2009
	\$	\$
Consideration	-	20,000
Cost of tenements sold	-	(166,677)
Net loss on sale of exploration and evaluation assets	-	(146,677)
(b) Other Income	2010	2009
	\$	\$
Corporate and administration service fees	117,213	89,691
Net finance income	221,749	152,994
Profit on sale of shares	-	7,540
Other income	-	125,800
	338,962	376,025
(c) Corporate and administrative expenses	2010	2009
	\$	\$
Depreciation and amortisation	189,196	94,276
Insurance	36,085	9,486
Travel Costs	190,417	120,573
Legal fees	96,486	70,844
Head office costs	89,711	180,936
Personnel expenses	990,443	871,988
Regulatory and compliance	127,304	146,482
Consultants	283,739	-
TSX listing costs	229,331	-
Other	184,018	172,913
	2,416,730	1,667,498

4. Exploration and evaluation expenditure

	2010	2009
	\$	\$
Carrying amount at beginning of the interim period	27,056,158	1,950,775
Expenditure incurred during the period:		
- Drilling costs	1,010,926	694,948
- Geophysical costs	604,496	73,823
- Sampling costs	131,569	27,887
- Consultants	406,320	1,093,362
- Project expenses	3,172,694	1,388,187
Acquisitions through business combinations	-	7,790,909
Reimbursements of exploration costs on merger	-	455,304
Exploration costs not capitalised	-	(77,284)
Disposal of interests in tenements	-	(166,021)
Refund of tenement rental costs	-	(286,651)
Eritrean profits tax on acquisition of exploration assets (refer note 8)	3,048,675	-
Eritrean stamp duty provided for on the acquisition of exploration assets (refer note 5)	1,079,619	-
Effect of movements in exchange rates	(3,887,065)	(877,727)
	32,623,392	12,067,512

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Notes the Financial Statements
For the half year ended 31 December 2010

5. Provisions

	31 December 2010 \$	30 June 2010 \$
Current		
Provision for Eritrean stamp duty*	1,079,619	-
	1,079,619	-
Non- Current		
Make good provision	42,146	39,312
	42,146	39,312

*Following discussions with the Eritrean government in October 2010, it is probable that Chalice will be subject to stamp duty on the acquisition of Dragon Mining's interest in the Zara Project which included the transfer of the Zara exploration licences via the acquisition of all the shares in Dragon Mining's wholly owned subsidiary Dragon Mining (Eritrea) Ltd (now named Chalice Gold Mines (Eritrea) Pty Ltd). Whilst the stamp duty liability has not been assessed by the Eritrean government a provision has been recorded based on the Company's best estimate at the time of this report.

6. Issued capital

	31 December 2010 \$	30 June 2010 \$
Issued and fully paid ordinary shares	53,349,165	41,254,947
	No.	\$
Movements in ordinary shares on issue		
At 1 July 2010	181,033,617	41,254,947
Shares issued under non-renounceable rights issue	30,172,269	12,044,218
Share placement (net proceeds after costs)	250,000	50,000
At 31 December 2010	211,455,886	53,349,165

7. Share Options

	No.
Movements in options over ordinary shares on issue:	
At 1 July 2010	13,075,000
Options exercised during the period	(250,000)
Issue of options under the Employee and Consultant Option Plan	750,000
At 31 December 2010	13,575,000

At the Group's annual general meeting held in November 2010, shareholders approved the issue of options to Mr Stephen Quin. 750,000 options were issued expiring on the 30 April 2014 as follows:

Tranche 1: 187,500 options with an exercise price of A\$0.55 vesting on issue;
Tranche 2: 187,500 options with an exercise price of A\$0.65, vesting on 30 April 2011
Tranche 3: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2012; and
Tranche 4: 187,500 options with an exercise price of A\$0.75, vesting on 30 April 2013.

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8. Contingent Liabilities

In the 30 June 2010 annual report a contingent liability was reported in regards to a potential tax liability arising from the acquisition by the Group of Dragon Mining Limited's 20% interest in the Zara Gold Project. The tax liability was recognised initially as a contingent liability as the assessable amount was not known.

In October 2010, the Eritrean government imposed a profits tax liability of A\$3,048,675 on the acquisition of Dragon Mining's interest. As part of the agreement to acquire Dragon Mining's interest, Chalice provided an indemnity to the Dragon Mining group against any taxes that may arise as a result of the transaction. The profits tax was paid in December 2010 and has been recorded as part of the cost of acquiring the 20% interest in the Zara Project.

There have been no further changes to the reported contingent liabilities in the 30 June 2010 annual report.

9. Related parties

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payment awards. Key management personnel received total compensation of \$933,237 for the six months ended 31 December 2010 (six months ended 31 December 2009: \$623,566).

Other related parties transactions

The Group used the consulting and legal services of Mr Anthony Kiernan during the six months ended 31 December 2010. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. Total amount paid during the period was \$71,000 (six months ended 31 December 2009:\$36,000). No amounts were outstanding or payable at the end of the period.

Chalice Gold Mines Limited
Directors' Declaration
For the half year ended 31 December 2010

In the opinion of the directors of Chalice Gold Mines Limited ('the company'):

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year then ended.
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Dated this 25th day of February 2011



DR DOUG JONES
Managing Director

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Chalice Gold Mines Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Chalice Gold Mines Limited ("the Company") which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Chalice Gold Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Chalice Gold Mines Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB MANN JUDD
Chartered Accountants



W M CLARK
Partner

Perth, Western Australia
25 February 2011