

CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

**Annual Financial Report
30 June 2014**

Chalice Gold Mines Limited

Corporate Directory

Directors

Timothy (Tim) 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 Stevens

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
Email: 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
Level 40, Central Park
152-158 St Georges Terrace
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

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Chalice Gold Mines Limited

Directors' Report

The Directors present their report together with the financial report of Chalice Gold Mines Limited ('Chalice') and its subsidiaries (together 'the Group') for the financial year ended 30 June 2014 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 are as follows. Directors were in office for the entire period unless otherwise stated.

1. Directors

Timothy (Tim) 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 Chairman of Uranium Equities Limited, and Liontown Resources Limited, both listed on ASX. During the past three years Tim also served as a director of Strike Energy Limited. Tim has been a director since 2005 and was appointed Chairman in 2008.

William B Bent
MBA, AusIMM, IChemE
Managing Director

Bill has over 23 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 and is currently a director of unlisted GeoCrystal Limited. Bill has been the Managing Director since February 2013.

Douglas A Jones
PhD, AusIMM, CPGeo
Executive Director

Doug is a geologist with over 36 years of 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, including 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 was previously a director of Liontown Resources Limited and Serabi Mining Plc. 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, Venturex Resources Limited and is a director of South Boulder Mines Limited, all listed on ASX. Tony was previously a director of ASX listed Uranium Equities Limited and Liontown Resources Limited. 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 35 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 was previously 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 Committee and Remuneration Committee and has been a director since 2010.

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, and is a director of ASX listed Uranium Equities Limited and has been Company Secretary since 2005.

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Leanne Stevens
B.Com, CA, ACIS
Joint Company Secretary

Leanne is a Chartered Accountant who has over 12 years of accounting and governance experience within the mining and energy industries. Leanne is also joint Company Secretary of Liontown Resources Limited. Leanne has been Joint Company Secretary of Chalice 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:	6	2	1	-
Number of meetings attended:				
T R B Goyder	6	-	-	-
W B Bent	6	-	-	-
D A Jones	6	-	-	-
A W Kiernan	6	2	1	-
S P Quin	6	2	1	-

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

Audit	Remuneration	Nomination
A W Kiernan (Chairman)	A W Kiernan (Chairman)	Full Board
S P Quin	S P Quin	

4. Principal activities

The principal activities of the Company during the year were mineral development and exploration and there have been no significant changes in the nature of those activities during the year.

5. 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 2014. 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.

5.1 Business strategy and outlook

Chalice's vision is to grow a multi-asset resources company by acquiring and developing high quality mineral resource assets. To deliver this vision the Company is pursuing the following business strategy:

- **Grow and advance Chalice's Cameron Gold Project in Canada Ontario by adding additional high grade ounces in close proximity to the Cameron deposit whilst concurrently evaluating future development options.**
- **Targeting quality base and precious metal exploration ground, preferably in lower risk mining jurisdictions.**
- **Targeting more advanced mineral resource project opportunities on a deal by deal basis, or where Chalice's strong cash position may provide a funding solution to the development of the asset.**

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Looking forward, Chalice will continue to seek to grow and enhance the value of the Cameron Gold project and in parallel look for opportunities to secure good land positions in highly prospective belts in targeted jurisdictions. Maintaining the Company's strong cash position and pursuing opportunities for one or more advanced stage projects to put alongside the Cameron Project will continue to be a key focus of the Company. Movements in commodity prices, foreign exchange rates and interest rates may adversely impact the achievement of these objectives.

5.2 Cameron Gold Project Canada

Acquisition

In February 2014 Chalice acquired the Cameron Gold Project, the Rainy River Project, the West Cedartree Project and the Ardeen Gold Project in Ontario, Canada by purchasing various subsidiary companies of Coventry Resources Inc.

The consideration for the acquisition was 46 million ordinary Chalice shares which were distributed directly to Coventry shareholders on a pro rata basis. At transaction completion, the Projects were effectively valued (based on the Chalice shares) at \$6.4 million, or \$10 per Measured and Indicated Resource ounce (\$5 per total Resource ounce).

In June 2014, the Company entered into an agreement to acquire the Dubenski gold deposit ("Dubenski") in Ontario, Canada for C\$700,000.

Cameron Gold Project overview

The Cameron Gold Project comprises the Cameron Gold property, the West Cedartree property and the Dubenski property and is located approximately 80 km to the southeast of Kenora in western Ontario, Canada.

The Project has a Measured and Indicated Resource of 675,000 ounces of gold at 2.09 g/t plus an Inferred Resource of 591,000 ounces of gold at 2.61 g/t (including Dogpaw and Dubenski) (Table 1).

Deposit	Description	Cut-off Gold g/t	Class	Tonnes	Gold g/t	Gold Oz	
Cameron	Open Cut	0.5g/t	Measured	2,872,000	2.3	212,400	
			Indicated	5,417,000	1.76	306,600	
			Meas+Indicated	8,289,000	1.95	519,700	
			Inferred	881,000	2.07	58,600	
	Underground	RL<750m	1.75g/t	Measured	157,000	2.77	14,000
				Indicated	559,000	3.23	58,100
				Meas+Indicated	716,000	3.13	72,100
				Inferred	5,709,000	2.78	510,300
Dubenski	Open Cut	1.00g/t	Measured				
			Indicated	806,000	2.28	59,100	
			Meas+Indicated	806,000	2.28	59,100	
			Inferred	392,000	1.44	18,200	
Dogpaw	Open Cut	0.5g/t	Measured				
			Indicated	247,000	3.02	24,000	
			Meas+Indicated	247,000	3.02	24,000	
			Inferred	64,000	2.26	4,700	
Total			Measured	3,029,000	2.33	226,900	
			Indicated	7,029,000	1.98	447,500	
			Meas+Indicated	10,058,000	2.09	675,900	
			Inferred	7,046,000	2.61	591,300	

Table 1- Cameron Gold Project Mineral Resource

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Cameron Gold Project Regional Exploration Potential

The Cameron Gold Project ("Cameron") has excellent exploration potential, straddling several major regional structures, including the Cameron–Pipestone and Monte Christo Shear Zones. Although cumulative drilling on the properties exceeds 120,000 metres, until Chalice acquired the property, less than 5,000 metres of that drilling had been conducted outside of the main deposits.

Geochemical sampling of the glacial tills, a primary exploration tool in this glaciated terrane where outcrop is less than 10% has focused along access roads leaving major prospective structural corridors largely unexplored.

2014 Exploration at Cameron Gold Project

Since acquiring the Project, Chalice has focussed on its exploration potential. In this regard, the following have been completed or is ongoing:

- Approximately 3,000m of diamond drilling was carried out at the Juno, Ajax, Hermione, and Jupiter targets, all within a 5-10 km radius of the Cameron deposit. The drilling intersected structures, with 'Cameron-style' alteration and gold mineralisation that extend outside of the Cameron deposit and, within our defined structural corridors.
- Detailed aeromagnetic and electromagnetic (VTEM) geophysical surveys were completed over the entire project area to define targets for follow up.
- A detailed structural analysis was completed focusing on key structural corridors on the property.
- A Mobile Metal Ion (MMI) geochemical survey was successfully trialled over Cameron which will see MMI being undertaken in prioritised zones along structural corridors with the aim of generating additional drill targets.

5.4 Exploration

5.4.1 Canada

Rainy River Project

The Rainy River Project was acquired as part of the Cameron Project acquisition and consists of a 57 km² land package 65 km to the southwest of Cameron. Chalice's Rainy River is located on the same geological trend and within 10 km of the large scale Rainy River gold-silver deposit recently acquired by New Gold Inc.

During the year the Company carried out a 55-hole till sampling drill program, targeting the Hydra, Conqueror, Leviathan, Naiad, Revenge and Temeraire Prospects. The results of the till sampling are being used in combination with a reinterpretation of the regional geology based on public domain geophysical and geochemical datasets to determine the Company's future strategy in the Rainy River area.

5.4.2 Australia

GeoCrystal Limited – Webb Diamond Project

During the year the Company subscribed for 9,683,333 shares at a cost of \$1,770,000 along with 7,583,333 free attaching options (4,250,000 options have an exercise price of 25 cents and expire on or before 31 March 2016 and 3,333,333 options have an exercise price of 20 cents and expire on or before 30 September 2015) in unlisted company GeoCrystal Limited ("GeoCrystal"). Chalice currently has a 24% interest in GeoCrystal with options and first rights over future funding up to a 51% interest in GeoCrystal.

GeoCrystal is earning into 70 per cent of Meteoric Resources' interest in the 400km² Webb Diamond Project in Western Australia, which has the potential to be a large kimberlite field. To date GeoCrystal has earned a 51% interest and has elected to continue to sole fund exploration on the project under the terms of the relevant joint venture.

GeoCrystal has completed a detailed, high resolution aeromagnetic survey over the main tenement block covering the Webb kimberlite field and over a tenement covering a separate target to the north east. Interpretation of this detailed dataset shows 280 kimberlite targets in the Webb field. A 6,000m Reverse Circulation drilling program commenced in August 2014, with the objective of obtaining unweathered samples from a spread of target clusters throughout the field

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and from priority targets identified from the aeromagnetic survey and loam sampling. These samples will then be analysed for both micro and macro diamonds with results expected in the first quarter of 2015.

Following the completion of the current exploration program, GeoCrystal expects to have met the requirements to sole fund the first \$2 million of expenditure to earn 70% of Meteoric's interest in the joint venture.

Marla and Oodnadatta

Chalice entered into a joint venture agreement with ASX-listed exploration company Uranium Equities Limited giving Chalice the right to earn up to 70% in both the Oodnadatta and Marla Projects in South Australia, by funding \$5.5 million in exploration expenditure. On 11 June, following a review of exploration results, Chalice withdrew from the joint venture.

5.4.3 Eritrea

Mogoraib North Project

During the year, two drilling programs were completed, with several holes intersecting stringer, semi-massive and massive sulphide confirming the presence of a stacked VMS system consisting of at least four separate 'horizons'. The grades however were considered to be sub-economic, resulting in Chalice withdrawing from the Mogoraib North JV (subject to acceptance of any offer to purchase the Company's interest in the joint venture).

5.5 Corporate

Share buyback

On 3 March 2014, the Company announced an on-market share buy-back of up to 25,073,088 ordinary shares as part of a capital management plan over the next 12 months. To date, a total of 10,036,591 shares have been acquired at an average price of 15.28 cents for a total of \$1,554,356 (including brokerage costs). The total maximum remaining shares that can be acquired under the 10%/12 month rule is 15,036,497.

5.6 Financial performance

The Group reported a net loss after income tax of \$11.6 million for the year (2013: net profit of \$43.7 million) a large part of which is related to the write off of the Mogoraib North Project in Eritrea (\$5.8 million).

The Group recorded \$0.6 million in net foreign exchange losses (2013: net gain of \$4.8 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 2014, the Group had approximately US\$41.5 million cash on hand in US\$ denominated bank accounts (2013: US\$52.2 million).

Corporate administrative expenses decreased to \$1.9 million as compared to \$2.9 million in 2013.

5.7 Statement of cash flows

Cash and cash equivalents at 30 June 2014 was \$44.2 million (30 June 2013: \$56.4 million). The reduction in cash of \$12.2 million included spending of \$1.5 million on an on-market share buyback, \$1.8 million on the acquisition of a 24% interest in GeoCrystal Limited, \$0.9 million on costs associated with the acquisition of the Cameron Project, \$3.5 million on exploration activities at the Cameron Gold Project and Mogoraib North Project in Eritrea and \$2.2 million on people and business development activities related to assessing and reviewing projects for acquisition or investment.

In comparison to the 2013 financial year, net cash flows used in operating activities decreased by 28% from \$2.4 million in 2013 to \$1.7 million.

Net cash flows from investing activities decreased from a net inflow of \$75.7 million in 2013 to a net outflow of \$8.4 million in 2014. This was mainly due to the sale of the Zara Project in Eritrea in 2013, whereby net cash received was approximately \$80.1 million. Payments for mining, exploration and evaluation decreased by 22.2% to \$3.5 million (2013: \$4.5 million) and payments for property, plant and equipment decreased by 83.3% to \$0.1 million (2013: \$0.6 million).

Net cash used in financing activities decreased by \$23.4 million (93.9%) due to the return of capital carried out in the 2013 financial year of \$25 million. Financing cash flows in 2014 includes a share buy-back of \$1.5 million.

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The effect of exchange rates on cash and cash equivalents at 30 June 2014 was a decrease of \$0.6 million (2013: increase of \$4.9 million). The Company held approximately US\$41.5 million in US\$ denominated bank accounts at 30 June 2014 (2013: US\$52.2 million).

5.8 Financial position

At balance date the Group had net assets of \$55,075,020 and an excess of current assets over current liabilities of \$43,090,405.

Current assets decreased by 21.4% to \$44.6 million (2013: \$56.8 million). Cash and cash equivalents decreased by 21.6% to \$44.2 million (2013: \$56.4 million). Refer to the statement of cash flows discussion above for further details regarding the movements in the 2014 cash balance.

Non-current assets increased by 103.3% to \$12 million (2013: \$5.9 million) mainly due to the increase in exploration and evaluation assets from \$5.2 million in 2013 to \$9 million in 2014 and as a result of the acquisition of shares in GeoCrystal Limited. The increase in exploration and evaluation assets of 42.5% was mainly attributable to the acquisition of the Cameron Project in February 2014 which was offset by the impairment of the Mogoraib North Project of \$5.8 million.

Current liabilities increased by 66.6% to \$1.5 million (2013: \$0.9 million) due to the recognition of CAD\$700,000 payable for the acquisition of the Dubenski deposit (at the Cameron Project in Canada).

6. Significant changes in 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.

7. Remuneration report – audited

This report for the year ended 30 June 2014 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

7.1 Message from the Board

The Company's remuneration policy is structured to ensure it is aligned to the business strategy, shareholder interests and to ensure effective executive remuneration and retention. These objectives are designed to be achieved through the Company's short term and long term incentive plans which link the achievement of these objectives to the variable compensation of the Managing Director and staff. Further details are provided in this report.

7.2 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
Douglas Jones	Executive Director
Anthony Kiernan	Non-executive Director
Stephen Quin	Non-executive Director
Richard Hacker	Chief Financial Officer and Joint Company Secretary

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

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7.3 Principles of compensation

7.3.1 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 it requires, on remuneration policies and practices. Remuneration consultants are able to be engaged by, and report directly to, the Committee. In selecting remuneration consultants, the Committee would consider potential conflicts of interest and independence from the Group's key management personnel and other executives. During the financial year, the Remuneration Committee did not seek specific advice and recommendations from external consultants.

Remuneration report approval at 2013 Annual General Meeting

The Remuneration Report for the financial year ended 30 June 2014 received positive shareholder support at the 2013 Annual General Meeting ('AGM') with a vote of 99.4% in favour.

7.3.2 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 high calibre at a cost which is acceptable to shareholders; and
2. Key management personnel interest being 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	x	✓
	Base fee	✓	x
	Committee fees	✓	x
	Superannuation	✓#	✓
	Consultancy fees	✓###	x
	Other benefits	✓	✓
Variable remuneration	Short term incentives (STI)	x	✓
	Share options	✓####	✓
	Performance rights	x	✓

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 subject to shareholder approval where required (refer below for further details).

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7.3.3 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 2014 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 2014 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 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 2014 and 30 June 2013 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.

7.3.4 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 last approved by the Company's shareholders at the 2011 AGM and will be put to shareholders for approval at the Company's upcoming 2014 AGM. The structure of the plan is detailed below.

(a) 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.

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(b) Variable remuneration - STIP

The Board has implemented a formal STIP which includes 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 "Expected" and "Stretch" targets for the year. Achieving the expected target attracts 20% 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 for the 30 June 2014 financial year in relation to STIP targets for KMP was broadly aligned with the following key strategic objectives:

- (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 2014 financial year, no cash bonuses were paid to executives as the Remuneration Committee has deemed that the key strategic objectives of the Company had not been achieved to a sufficient level to trigger a bonus payment.

For the financial year ended 30 June 2015, the Remuneration Committee recommended the Company cease the STIP and move 100% of eligible KMP's incentive entitlements exclusively to the LTIP. The justification for this recommendation being, at this stage of the Company's development, all the key business objectives of KMP have longer dated time frames than the STIP's 12 month time frame.

(c) 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 criteria and targets) 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.

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"> • Employment of a minimum period of time; • achievement of specific objectives by the participant and/or the Company. This may include the achievement of share price targets and other major long term milestone targets; or • such other performance objectives as the Board may determine.

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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 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.

Annual grant of performance rights - 2013/2014

The table below outlines the performance rights that were granted for the 2013/2014 financial year and have not yet vested.

Annual Award	KMP	Number of Rights	Measurement Date
2013/2014	W Bent	1,453,444	1 January 2015
	D Jones	655,000	1 January 2015
	R Hacker	402,139	1 January 2015

The performance rights shown above will not vest (and the underlying shares will not be issued) unless the performance conditions set by the Board have been satisfied. It is the longer term 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 would 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's current strategy and position (i.e. its most significant asset is cash) a comparator group of companies cannot yet be determined. The Board therefore selected absolute share price as the most appropriate measure for the above issued performance rights. The number of performance rights that will vest will be solely dependent on the Company's share price as at the measurement (or test) dates as per above as compared to share price hurdles outlined in the following table. The Company's share price will be calculated on its 30 day VWAP.

Annual Award	If the 30 Day VWAP as at measurement date is:	Percentage of performance rights that will vest	Additional conditions
2013/2014	Below 25 cents	0%	<ul style="list-style-type: none"> Following the measurement date, any vested performance rights which are converted to shares will be subject to a holding lock until 30 June 2015. KMP must also be an employee of the Company at 30 June 2015.
	25 cents	33%	
	Between 25 cents and 38 cents	Pro rata between 33% and 100%	
	Above 38 cents	100%	

Chalice Gold Mines Limited

Directors' Report

Annual grant of performance rights - 2014/2015

Subsequent to reporting date it is proposed that the following performance rights for 2014/2015 be granted to KMP (*subject to shareholder approval at the Company's 2014 AGM for directors) as follows:

Annual Award	KMP	Number of Rights	Measurement Date	Vesting Date
2014/2015	W Bent*	2,611,927	30 June 2016	30 June 2017
	D Jones*	1,349,495	30 June 2016	30 June 2017
	R Hacker	1,326,693	30 June 2016	30 June 2017

The performance rights shown above will not vest (and the underlying shares will not be issued) unless the performance conditions set by the Board have been satisfied. For the proposed 2014/2015 annual grant of performance rights, the Remuneration Committee recommended to the Board that 100% of KMPs incentive entitlements are offered via the LTIP and that 50% of the LTIP is to be based on share price and remaining 50% to be based on achieving key business objectives. The following table outlines key business objectives and the weightings of the performance condition:

Overall Performance Condition	Specific Performance Conditions	Percentage of granted performance rights that will vest if performance conditions are met
Strategic objectives	<p>Undertake a significant acquisition: acquire one or more assets in addition to the Cameron Gold Project with potential to generate returns above the Company's internal hurdle rates based on consensus commodity prices and cost assumptions.</p> <p>AND/OR</p> <p>Make a significant new discovery: at the Cameron Gold Project or any other Projects/Joint Venture acquired by the Company which shows potential to be economic based on consensus commodity prices and cost assumptions.</p>	50%
Share price objectives	Below 23 cents	0%
If the 60 Day VWAP as at the measurement date is:	23 cents	16.5%
	Between 23 cents and 38 cents	Pro rata between 16.5% and 50%
	Above 38 cents	50%

In addition to the measurement period of 1 July 2014 to 30 June 2016, a 12 month service period must also be completed by each KMP, meaning that performance rights will not vest or convert into shares until 30 June 2017 at the earliest.

(d) 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 2013. 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 considered 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.

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Directors' Report

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 currently the Board's preference to issue performance rights under the LTIP to KMP rather than share options.

7.3.5 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 2010	30 June 2011	30 June 2012	30 June 2013	30 June 2014
Share price	\$0.29	\$0.23	\$0.10	\$0.16	\$0.15

Chalice Gold Mines Limited
Directors' Report

7.4 Key management personnel remuneration (audited)

Key Management Personnel		Short-term payments			Post-employment payments			Long-term benefits	Share-based payments	Total	Proportion of remuneration performance related
		Salary & fees	Cash bonus	Non-monetary benefits	Superannuation benefits	Other	Termination benefits	Long service leave	Long Term Incentives ⁽³⁾		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
Directors											
T R B Goyder	2014	275,229	-	8,074	25,459	-	-	-	-	308,762	-%
	2013	281,422	100,000	2,557	27,578	-	-	-	-	411,557	24%
W B Bent	2014	357,798	-	3,659	33,096	-	-	-	34,008	428,561	8%
	2013	149,083	-	1,041	13,417	-	-	-	2,329	165,870	1%
D A Jones	2014	284,404	-	6,034	26,307	-	-	-	15,326	332,071	5%
	2013	284,404	100,000	2,898	34,596	-	-	-	1,050	422,948	24%
A W Kiernan ⁽¹⁾	2014	132,959	-	1,684	4,667	-	-	-	-	139,310	-%
	2013	188,459	100,000	2,557	4,541	-	-	-	46,866	342,423	43%
S P Quin	2014	55,000	-	2,689	-	-	-	-	-	57,689	-%
	2013	55,000	-	2,557	-	-	-	-	38,028	95,585	40%
Executive											
R K Hacker	2014	290,102	-	2,729	26,834	-	-	44,456	14,688	378,809	4%
	2013	241,858	100,000	3,796	30,767	-	-	-	33,539	409,960	33%
M P Kelly ⁽²⁾	2014	-	-	-	-	-	-	-	-	-	-%
	2013	49,336	-	454	-	-	69,573	-	-	119,363	-%
Total Compensation	2014	1,395,492	-	24,869	116,363	-	-	44,456	64,022	1,645,202	
	2013	1,249,562	400,000	15,860	110,899	-	69,573	-	121,812	1,967,706	

⁽¹⁾Includes the consulting and legal services of Mr Kiernan (\$82,500) 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.

⁽²⁾Following the sale of the Zara Project in September 2013, Mr Kelly was no longer an employee of Chalice Gold Mines Limited.

⁽³⁾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.

Chalice Gold Mines Limited

Directors' Report

7.5 Equity instruments (audited)

7.5.1 Employee share options

During the reporting period no options over ordinary shares in the Group were granted or vested as compensation to key management personnel.

Details of options granted as remuneration to each KMP of the Group that lapsed during the reporting period are as follows:

	Number of options lapsed	Date granted	% Forfeited in year
Director			
S Quin	750,000	25 November 2010	100%
D Jones	2,500,000	16 November 2009	100%

The movement during the reporting period, by value of options over ordinary shares in the Group held by each KMP is detailed below. During the financial year 500,000 fully paid ordinary shares were issued to Mr Hacker on the exercise of 500,000 options at 10 cents per share.

	Value of options granted in year (A)	Value of options exercised in year (B)	Value of options lapsed in year (C)
	\$	\$	\$
R Hacker	-	31,250	-

- (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.

7.5.2 Employee long term incentive plan - performance rights

During the reporting period no performance rights were granted as compensation to KMP and details of performance rights that vested during the reporting period are as follows:

	Number of rights granted during 2014	Grant date	Fair value per right at grant date	Expiry date	Number of rights vested during 2014
			\$		
Executives					
R Hacker	-	-	-	-	125,000

During the reporting period, 185,890 shares were issued to Mr Hacker on the exercise of performance rights granted as compensation on 16 December 2011. Refer below.

Chalice Gold Mines Limited

Directors' Report

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

	Number granted	Date granted	% vested in year	% forfeited in year	Date on which grant vests
Executive					
W B Bent	1,453,444	5 June 2013	-	-	1 January 2015
D Jones	655,000	5 June 2013	-	-	1 January 2015
R Hacker	125,000	16 December 2011	100%	-	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) \$
R Hacker	-	32,937	-

(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.

7.5.3 Equity holdings of key management personnel

Option holdings and performance rights of key management personnel

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 2013	Granted as compensation	Exercised/ Forfeited	Held at 30 June 2014	Vested during the year	Vested and exercisable at 30 June 2014
Director						
T R B Goyder	-	-	-	-	-	-
W B Bent	1,453,444	-	-	1,453,444	-	-
A W Kiernan	750,000	-	-	750,000	-	750,000
D A Jones	3,155,000	-	(2,500,000)	655,000	-	-
S P Quin	1,050,000	-	(750,000)	300,000	-	300,000
Executive						
R K Hacker	1,027,139	-	(625,000)	402,139	125,000	-

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Directors' Report

Shareholdings of key management personnel

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 2013	Additions	Received on exercise of Options/ Performance rights	Held at 30 June 2014	Sales	Held at 30 June 2014
Director						
T R B Goyder	34,224,342	7,509,191	-	41,733,533	-	41,733,533
A W Kiernan	1,662,041	-	-	1,662,041	-	1,662,041
W B Bent	496,350	379,864	-	876,214	-	876,214
D A Jones	296,278	82,859	-	379,137	-	379,137
S P Quin	26,321	-	-	26,321	-	26,321
Executive						
R K Hacker	-	130,000	685,890	815,890	(480,000)	335,890

7.5.4 Other transactions with key management personnel and their related parties

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	2014 \$	2013 \$
A W Kiernan	Legal and consulting services	(i)	82,500	238,000
Other related parties				
Liontown Resources Limited	Corporate services	(ii)	(108,000)	(144,000)

(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.

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

	2014 \$	2013 \$
Assets and liabilities arising from the above transactions		
Current payables	-	(6,000)
Trade debtors	66,296	24,000
	<u>66,296</u>	<u>18,000</u>

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Directors' Report

7.6 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.
Richard Hacker	Mr Hacker's employment agreement may be terminated by the Company or the employee upon giving three months' notice.	If Mr Hacker'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 6 months' salary.	Standard Chalice terms and conditions of employment.
Non-Executive Directors	Nil	Nil	

8. Dividends

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

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Directors' Report

9. Likely developments

There are no likely developments that will impact on the Company other than as disclosed elsewhere in this report.

10. Significant events after balance date

At 30 June 2014, the Company had approximately US\$41.5 million in US\$ denominated cash bank accounts and during the first quarter of the 2015 financial year, the Board approved the conversion of US\$25,000,000 into Australian Dollars. The converted funds have been deposited into term deposits earning an average interest rate of 3.43%.

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	41,733,533	-	-
W B Bent	876,214	-	1,453,444
D A Jones	379,137	-	655,000
S P Quin	26,321	300,000	-
A W Kiernan	1,662,041	750,000	-

12. Share options and performance rights

Unissued shares under option

At the date of this report 1,050,000 unissued ordinary shares (1,900,000 at reporting date) of the Company are under option on the following terms and conditions:

Expiry date	Exercise price (\$)	Number of shares
30 June 2016	0.30	1,050,000

Unless exercised, 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 5,976,674 performance rights (2,754,149 at reporting date) have been issued on the following terms and conditions:

Exercise price (\$)	Number of rights	Expiry date
Nil	2,588,317	30 June 2016
Nil	3,388,357	30 June 2018

Shares issued on exercise of options or performance rights

797,424 shares were issued during or since the end of the year as a result of the exercise of 500,000 options and 297,424 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 and Canada.

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.

Chalice Gold Mines Limited

Directors' Report

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 \$10,106 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 15.

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 23 and forms part of the Directors' Report for the year ended 30 June 2014.

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



William Bent
Managing Director

Dated at Perth the 30th day of September 2014

Qualifying and Competent Person Statements

The information relating to the Cameron Gold Project is extracted from the ASX announcement entitled "Chalice Files Updated 43-101 Technical Report" released on 29 July 2014 and is available to view on www.chalicegold.com. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not materially modified from the original market announcement.

The information relating to the Mineral Resource estimates reported herein for the Cameron Gold Project is derived from the sections of the Technical Report dated 28 July 2014 prepared for Chalice Gold Mines Limited by Mr. Peter Ball of Datageo Geological Consultants who is a Chartered Professional and Member of the Australasian Institute of Mining and

Chalice Gold Mines Limited

Directors' Report

Metallurgy. Mr Peter Ball is a consultant to the Company and is an independent Qualified Person as that term is defined in National Instrument 43-101. Mr. Ball has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 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. Mr. Ball consents to the inclusion in the announcement of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results in relation to the Cameron Gold Project (within the Technical Report dated 28 July 2014) 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 2012 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and is a Qualified Person under National Instrument 43-101 – 'Standards of Disclosure for Mineral Projects'. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

Forward Looking Statements

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

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements regarding the quantum and price of shares to be acquired under a share buyback, the estimation of mineral reserve and mineral resources, the realisation of mineral reserve estimates, the likelihood of exploration success, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, , environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage.

In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, will, may would, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors 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. 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

As lead auditor for the audit of the consolidated financial report of Chalice Gold Mines Limited for the year ended 30 June 2014, 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.



**Perth, Western Australia
30 September 2014**

**L Di Giallonardo
Partner**

Chalice Gold Mines Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Continuing operations			
Other income	3(a)	212,204	374,137
Foreign exchange gains/(losses)		(631,276)	4,873,790
Impairment of financial assets		-	(686,442)
Net loss on sale of investments		(40,088)	-
Share of associate's loss	8	(15,105)	-
Exploration and evaluation assets written off	11	(6,758,654)	(595,676)
Impairment of exploration and evaluation assets	11	-	(375,000)
Corporate administrative expenses	3(b)	(1,889,160)	(2,912,292)
Business development and project acquisition costs	3(d)	(2,275,236)	(719,946)
Depreciation and amortisation expense		(93,456)	(83,449)
Loss before tax from continuing operations		(11,490,771)	(124,878)
Income tax benefit	6	259,529	-
Loss for the year from continuing operations		(11,231,242)	(124,878)
Discontinued operations			
Net profit/(loss) after tax for the year from discontinued operations	4(a)	(328,422)	43,783,106
Profit/(loss) for the year from discontinued operations		(328,422)	43,783,106
Total profit/(loss) for the year		(11,559,664)	43,658,228
Total profit/(loss) for the year attributable to:			
Owners of the parent		(11,559,664)	43,663,861
Non-controlling interests		-	(5,633)
		(11,559,664)	43,658,228
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Net change in fair value of available for sale investments	17(b)	245,756	(12,000)
Exchanges differences on translation of foreign operations	17(b)	(348,833)	(455,386)
Other comprehensive income/(loss) for the year		(103,077)	(467,386)
Total comprehensive income/(loss) for the year		(11,662,741)	43,190,842
Total comprehensive income/(loss) for the year attributable to:			
Owners of the parent		(11,662,741)	43,196,475
Non-controlling interests		-	(5,633)
		(11,662,741)	43,190,842
Basic and diluted loss per share from continuing operations (cents)	7	(4.3)	(0.01)
Basic and diluted loss per share from discontinued operations	7	(0.1)	17.5
Basic and diluted earnings/(loss) per share from continuing and discontinued operations (cents)	7	(4.3)	17.4

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

Chalice Gold Mines Limited
Consolidated statement of financial position
For the year ended 30 June 2014

		2014	2013
		\$	\$
Current assets			
Cash and cash equivalents	21	44,204,036	56,443,226
Trade and other receivables	9	416,205	375,152
Total current assets		44,620,241	56,818,378
Non-current assets			
Financial assets	10	229,671	185,613
Investment in associate	8	1,968,651	-
Exploration and evaluation assets	11	9,056,705	5,202,613
Property, plant and equipment	12	771,588	502,270
Total non-current assets		12,026,615	5,890,496
Total assets		56,646,856	62,708,874
Current liabilities			
Trade and other payables	13	1,312,052	829,890
Income tax payable	6	130,471	-
Employee benefits	14	87,313	77,651
Total current liabilities		1,529,836	907,541
Non-current liabilities			
Other	15	42,000	36,977
Total non-current liabilities		42,000	36,977
Total liabilities		1,571,836	944,518
Net assets		55,075,020	61,764,356
Equity			
Issued capital	16	44,140,306	39,239,790
Retained earnings	17(a)	14,421,779	24,632,124
Reserves	17(b)	(3,487,065)	(2,107,558)
Total equity		55,075,020	61,764,356

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

Chalice Gold Mines Limited
Consolidated statement of changes in equity

For the year ended 30 June 2014

	Issued capital	Retained earnings	Share based payments reserve	Investment revaluation reserve	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 30 June 2013	39,239,790	24,632,124	1,523,954	(32,000)	(3,599,512)	61,764,356
Net change in fair value of available for sale investments	-	-	-	245,756	-	245,756
Exchange differences on translation of foreign operations	-	-	-	-	(348,833)	(348,833)
Loss for the year	-	(11,559,664)	-	-	-	(11,559,664)
Total comprehensive loss for the year	-	(11,559,664)	-	245,756	(348,833)	(11,662,741)
Acquisition of the Cameron Gold Project	6,440,000	-	-	-	-	6,440,000
Share buy-back	(1,549,244)	-	-	-	-	(1,549,244)
Exercise of share options	50,000	-	-	-	-	50,000
Share transaction costs	(40,240)	-	-	-	-	(40,240)
Share based payments	-	-	72,889	-	-	72,889
Transfers between equity items	-	1,349,319	(1,349,319)	-	-	-
Balance at 30 June 2014	44,140,306	14,421,779	247,524	213,756	(3,948,345)	55,075,020

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

Chalice Gold Mines Limited
Consolidated statement of Changes in Equity

For the year ended 30 June 2014

	Issued capital	Retained earnings/ (accumulated losses)	Share based payments reserve	Investment revaluation reserve	Foreign currency translation reserve	Non-controlling interest reserve	Total Attributable to owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2012	64,200,112	(16,202,389)	2,244,581	(20,000)	(3,144,126)	(3,716,492)	43,361,686	3,674,843	47,036,529
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
Total comprehensive income for the year	-	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)
Balance at 30 June 2013	39,239,790	24,632,124	1,523,954	(32,000)	(3,599,512)	-	61,764,356	-	61,764,356

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

Chalice Gold Mines Limited
Consolidated statement of cash flows
For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Cash receipts from operations		129,000	148,276
Cash paid to suppliers and employees		(1,941,576)	(2,718,522)
Interest received		94,601	177,091
Net cash used in operating activities	21	(1,717,975)	(2,393,155)
Cash flows from investing activities			
Payments for mining exploration and evaluation		(3,512,947)	(4,473,836)
Payments for business development activities		(2,244,030)	(719,946)
Costs associated with the acquisition of Cameron Gold Project		(929,947)	-
Share of joint venture cash calls		203,203	1,320,961
Acquisition of property, plant and equipment		(117,378)	(594,156)
Acquisition of associate		(1,770,000)	-
Proceeds from sale of exploration and evaluation assets		-	53,434
Proceeds from sale of shares		3,912	-
Net proceeds from disposal of subsidiary	4(c)	-	80,148,232
Net cash from/(used in) investing activities		(8,367,187)	75,734,689
Cash flows from financing activities			
Share buy-back costs		(1,549,244)	-
Payment of capital return		-	(25,073,087)
Payments for capital return costs		-	(9,127)
Options exercised		50,000	125,000
Share issue costs		(23,508)	(3,106)
Net cash used in financing activities		(1,522,752)	(24,960,320)
Net increase/(decrease) in cash and cash equivalents		(11,607,914)	48,381,214
Cash and cash equivalents at the beginning of the year		56,443,226	3,177,131
Effect of exchange rate fluctuations on cash held		(631,276)	4,884,881
Cash and cash equivalents at 30 June	21	44,204,036	56,443,226

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

Chalice Gold Mines Limited

Notes to the consolidated financial statements

For the year ended 30 June 2014

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 2014.

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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 consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The financial report was authorised for issue by the directors on 30 September 2014.

(b) Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Adoption of new and revised standards

(i) Standards and Interpretations application to 30 June 2014

For the year ended 30 June 2014, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and that are effective for annual reporting periods beginning on or after 1 July 2013. It has been determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group. The Group has adopted the following new and amended Standards and AASB Interpretations as of 1 July 2013:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement Standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement Standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement Standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement Standards'
- AASB 128 'Investments in Associates and Joint Ventures'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
- AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements.'
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'
- AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition disclosures'.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

- AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'.

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

The following new accounting standards and interpretations which are not yet effective and have not been applied by the Company, have been assessed to have no material impact on the Company:

- AASB 2012–3 Amendments to Australian Accounting standards – Offsetting Financial Assets and Financial Liabilities
- Interpretation 21 Levies
- AASB 9 Financial Instruments
- AASB 2013-3 Amendments to AASB136 – Recoverable Amount disclosures for Non-Financial Assets
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (AAS139)
- AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities Annual Improvements
- 2011-2013 Cycle Annual Improvements to IFRSs 2011-2013 Cycle
- AASB1031 Materiality
- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

(d) 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.

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 acquire are assigned to those units.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

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 consolidated 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.

(e) 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 circumstance-s, 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 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.

(f) Foreign currency translation

The functional currency of the Company is Australian dollars, the functional currency of subsidiaries based in Eritrea is United States dollars (US\$) and the functional currency of subsidiaries based in Canada is Canadian Dollars (CAN\$). 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

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

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.

(g) 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 of directors.

(h) 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.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

(i) 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.

(j) 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

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

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.

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.

(k) 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.

(l) 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.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

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.

(m) 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.

(n) Trade and other receivables

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

(o) 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.

(p) 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.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

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)).

(q) 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.

Chalice Gold Mines Limited
Notes to the consolidated financial statements
For the year ended 30 June 2014

(r) 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.

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(s) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale investments

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

(t) 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

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- (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 tested for impairment, reclassified to development costs and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

(u) 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.

(v) 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.

(w) 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 transactions

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 an appropriate valuation model and further details are provided at note 14. The cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has

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expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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.

(x) 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.

(y) Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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

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

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

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(z) Interest in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- (i) its assets, including its share of any assets held jointly;
- (ii) its liabilities, including its share of any liabilities incurred jointly;
- (iii) its revenue from the sale of its share of the output arising from the joint operation;
- (iv) its share of the revenue from the sale of the output by the joint operation; and
- (v) its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

(aa) Parent entity financial information

The financial information for the parent entity, Chalice Gold Mines Limited, disclosed in note 19 has been prepared on the same basis as the consolidated financial statements.

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Notes to the consolidated financial statements

For the year ended 30 June 2014

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 exploration and evaluation costs, business development costs or corporate related costs. Results of those segments are reported to the Board of Directors at each Board meeting. The exploration and evaluation segment includes all of the Company's exploration projects grouped into one combined segment.

	Exploration and Evaluation		Business development		Corporate		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Other income	-	-	-	-	108,000	175,276	108,000	175,276
Exploration costs not capitalised	(6,758,654)	(595,676)	-	-	-	-	(6,758,654)	(595,676)
Impairment of exploration and evaluation assets	-	(375,000)	-	-	-	-	(5,786,625)	(375,000)
Depreciation	-	-	-	-	(93,456)	(83,449)	(93,456)	(83,449)
Business development costs	-	-	(2,275,236)	(719,946)	-	-	(2,275,236)	(719,946)
Corporate administrative expenses	-	-	-	-	(1,889,160)	(2,912,292)	(1,889,160)	(2,912,292)
Segment loss before tax	(6,758,654)	(970,676)	(2,275,236)	(719,946)	(1,874,616)	(2,820,465)	(10,908,506)	(4,511,087)
Unallocated income/(expenses)								
Net financing income							104,204	198,861
Foreign exchange gains/(losses)							(631,276)	4,873,790
Net loss on sale of investments							(40,088)	-
Share of associate's net loss							(15,105)	-
Impairment of financial assets							-	(686,442)
Gain/(loss) from discontinued operations							(328,422)	43,783,106
Loss before income tax							(11,559,664)	43,658,228

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	Exploration and Evaluation		Business development		Corporate		Total	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	\$	\$	\$	\$	\$	\$	\$	\$
Segment assets:								
Exploration and evaluation assets	9,056,705	5,202,612	-	-	-	-	9,056,705	5,202,612
Investment in associate	1,968,651	-	-	-	-	-	1,968,651	-
Other	675,033	657,619	-	-	606,531	560,537	1,281,564	1,218,156
	11,700,389	5,860,231	-	-	606,531	560,537	12,306,920	6,420,768
Unallocated assets							44,339,936	56,288,106
Total assets							56,646,856	62,708,874
Segment liabilities	(1,230,949)	(309,369)	(34,494)	-	(306,393)	(635,149)	(1,571,836)	(944,518)
Total Liabilities							(1,571,836)	(944,518)
Geographical information								
<i>Revenues from external customers</i>		30 June 2014		30 June 2013				
		\$		\$				
Australia		108,000		175,275				
Total		108,000		175,275				
Non-current assets		30 June 2014		30 June 2013				
		\$		\$				
Australia		2,254,992		262,874				
Canada		9,424,010		-				
Eritrea		117,941		5,442,009				
Total		11,796,943		5,704,883				

Non-current assets for this purpose consist of property, plant and equipment, exploration and evaluation assets, and investment in associates.

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3.	Revenue and expenses	2014 \$	2013 \$
	(a) Other income		
	Corporate and administration service fees	108,000	175,276
	Net finance income	104,204	198,861
		212,204	374,137
	(b) Corporate administrative expenses		
	Consultants	1,125	7,788
	Insurance	79,170	84,466
	Legal fees	93,225	107,392
	Travel	819	145,240
	Head office costs	192,613	465,327
	Regulatory and compliance	264,211	317,190
	Personnel expenses (note 3(c))	1,168,318	1,596,263
	Other	89,679	188,626
		1,889,160	2,912,292
	(c) Personnel expenses		
	Wages and salaries	657,716	966,292
	Directors' fees	110,474	110,000
	Other associated personnel expenses	123,669	213,382
	Superannuation contributions	175,369	156,304
	(Decrease)/increase in liability for annual leave	25,507	(17,294)
	(Decrease)/increase in liability for long service leave	2,694	1,062
	Equity-settled share- based payment transactions	72,889	166,517
		1,168,318	1,596,263
	(d) Business development costs		
	Personnel expenses	1,132,109	481,642
	Head office costs	329,299	-
	Consultants	320,198	224,491
	Travel and conferences	439,638	-
	Other	53,992	13,813
		2,275,236	719,946

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. Following completion of the sale, the profit on disposal was realised as presented below:

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For the year ended 30 June 2014

	2014	2013
	\$	\$
(a) Consideration received		
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 ⁽¹⁾	-	2,924,780
Funds outstanding – Eritrean National Mining Corporation	61,578	115,689
Interest on sale – Eritrean National Mining Corporation	-	873,882
Total disposal consideration	61,578	110,934,823
Less:		
Net assets disposed of – Zara Project (refer 4(b))	-	(39,404,476)
Transaction costs	-	(697,112)
Contract termination payment – Dragon Mining Limited	-	(1,500,000)
Gain on disposal before income tax	61,578	69,333,235
Income tax expense	(10,958)	(25,493,802)
Under provision for income tax	(379,042)	-
Gain on disposal after tax	(328,422)	43,839,433
Share of net loss on subsidiary up to date of disposal (depreciation)	-	(56,327)
Net profit/(loss) from discontinued operation	(328,422)	43,783,106
(b) Net assets at date of sale		
The carrying amount of assets and liabilities as at date of sale 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
Total assets	-	47,161,663
Trade and other payables	-	57,058
Loans and borrowings	-	4,030,919
Total liabilities	-	4,087,977
Net assets	-	43,073,686
Less minority interest	-	(3,669,210)
Total net assets of subsidiary	-	39,404,476
(c) Net cash inflow on disposal		
The cash inflow on disposal is as follows:		
Total consideration on disposal	-	110,934,823
Less:		
Interim funds received	-	(2,924,780)
Funds held in escrow and outstanding	-	(115,689)
Net cash outflows	-	(27,690,914)
Net cash disposed of	-	(55,208)
Net cash inflow on disposal (refer statement of cash flows)	-	80,148,232

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	2014	2013
	\$	\$
5. Auditors' remuneration		
Audit services		
HLB Mann Judd:		
Audit and review of financial reports	50,500	65,300
Other services	-	3,500
	<u>50,500</u>	<u>68,800</u>

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	(11,490,771)	(124,878)
Accounting loss before income tax	<u>(11,490,771)</u>	<u>(124,878)</u>
Income tax calculated at the Australian corporate rate of 30%	(3,447,231)	(37,463)
Non-deductible expenses	2,047,201	440,057
Deferred tax assets and liabilities not recognised	1,400,030	(402,594)
Research and development tax claim	(259,529)	-
Income tax benefit reported in the statement of comprehensive income	<u>(259,529)</u>	<u>-</u>

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	4,504,645	4,335,314
Other deferred tax assets	737,934	342,311
	<u>5,242,579</u>	<u>4,677,625</u>

Deferred tax liabilities comprise:

Unrealised foreign exchange gains	(1,323,720)	(1,461,616)
Other deferred tax liabilities	(1,729)	(665)
Net deferred tax assets recognised	<u>(1,325,449)</u>	<u>(1,462,281)</u>

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

Share issue costs	(11,179)	5,663
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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.

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Notes to the consolidated financial statements
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7. Earnings per share
Basic and diluted earnings per share

The calculation of basic earnings per share for the year ended 30 June 2014 was based on the loss attributable to ordinary equity holders of the parent of \$11,559,664 [2013: gain of \$43,663,861] and a weighted average number of ordinary shares outstanding during the year ended 30 June 2014 of 268,147,888 [2013: 250,435,544].

	2014	2013
	\$	\$
Profit/(loss) attributable to ordinary shareholders		
Loss attributable to ordinary equity holders of the parent from continuing operations	(11,231,242)	(124,878)
Profit/(loss) attributable to ordinary equity holders of the parent from a discontinued operation	(328,422)	43,788,739
Net profit/(loss) attributable to ordinary equity holders of the parent for basic earnings	<u>(11,559,664)</u>	<u>43,663,861</u>
Net profit/(loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	<u>(11,559,664)</u>	<u>43,663,861</u>

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

8. Investment in associates

During the year the Company acquired a 24% interest in unlisted Australian based GeoCrystal Limited ("GeoCrystal"). The principal activity of the company is exploring and development of diamonds in Australia. The initial interest acquired by the Group was 10% which was increased to a 24% interest on 14 April 2014.

Reconciliation of movements in investments in associates

Balance at 1 July	-	-
Payments made to acquire interest	1,770,000	-
Unlisted options ¹	213,756	-
Share of loss of associate	(15,105)	-
Balance at 30 June	<u>1,968,651</u>	<u>-</u>

Summary of financial information of associate:

Financial Position

Total assets	8,253,967	-
Total liabilities	(51,255)	-
Net assets	<u>8,202,712</u>	<u>-</u>
Share of associate's net assets	<u>1,968,651</u>	<u>-</u>

Financial Performance

Total revenue	13,281	-
Total loss for the year	(62,938)	-
Share of associate's loss	<u>(15,105)</u>	<u>-</u>

¹Chalice acquired 7,583,333 free attaching options through a subscription of 9,683,333 shares in GeoCrystal. 4,250,000 options have an exercise price of 25 cents and expire on or before 31 March 2016 and 3,333,333 options have an exercise price of 20 cents and expire on or before 30 September 2015

The associate had no contingent liabilities or assets at 30 June 2014 and exploration commitments payable within 1 year of \$363,000.

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	2014	2013
	\$	\$
9. Trade and other receivables		
Other trade receivables	258,686	284,428
Prepayments	157,519	90,724
	<u>416,205</u>	<u>375,152</u>
10. Financial assets		
Non-current		
Available for sale investments	-	12,000
Bond in relation to office premises	65,456	63,114
Bank guarantee and security deposits	164,215	110,499
	<u>229,671</u>	<u>185,613</u>
11. Exploration and evaluation expenditure		
Costs carried forward in respect of:		
Exploration and evaluation phase – at cost		
Balance at beginning of year	5,202,613	2,482,857
Expenditure incurred	3,226,797	3,294,935
Acquisition of the Cameron Project	6,149,471	-
Cost associated with the acquisition of the Cameron Project	877,170	-
Acquisition of the Dubenski Property	694,960	-
Impairment of exploration and evaluation assets	-	(375,000)
Exploration and evaluation assets written off ⁽¹⁾	(6,758,654)	(595,676)
Effects of movements in exchange rate	(335,652)	395,497
Total exploration expenditure	<u>9,056,705</u>	<u>5,202,613</u>

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.

⁽¹⁾Includes the write down of the carrying value of the Mogoraib North project and the Marla and Oodnadatta projects.

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12. Property, plant and equipment

	Plant and Equipment \$	Office Furniture and Equipment \$	Computer Equipment and Software \$	Motor Vehicles \$	Total \$
Year ended 30 June 2014					
At 1 July 2013 net of accumulated depreciation and impairment	107,329	105,958	138,217	150,766	502,270
Additions	45,701	-	71,677	-	117,378
Assets acquired from acquisition of the Cameron Project	279,339	19,503	-	36,013	334,855
Exchange differences	(6,886)	(658)	-	(2,483)	(10,027)
Depreciation charge for the year	(65,284)	(17,995)	(60,568)	(29,041)	(172,888)
At 30 June 2014 net of accumulated depreciation and impairment	360,199	106,808	149,326	155,255	771,588
At 30 June 2014					
Cost	499,375	415,749	596,625	193,195	1,704,944
Accumulated depreciation and impairment	(139,176)	(308,941)	(447,299)	(37,940)	(933,356)
Net carrying amount	360,199	106,808	149,326	155,255	771,588
Year ended 30 June 2013					
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
At 30 June 2013					
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

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	2014 \$	2013 \$
13. Trade and other payables		
Trade payables	14,072	153,540
Other payables	77,933	155,868
Services and withholding tax payable	-	322,379
Amount due under contract ⁽¹⁾	694,960	-
Accrued expenses	525,087	198,103
	1,312,052	829,890

⁽¹⁾Represents amounts owing for the acquisition of the Dubenski property (C\$700,000)

14. Employee benefits		
Annual leave accrued	86,927	38,734
Provision for long service leave	386	38,917
	87,313	77,651

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 \$ 2014	Number of options 2014
Outstanding at the beginning of the year	0.33	5,650,000
Forfeited during the year	0.36	(3,250,000)
Exercised during the year	0.10	(500,000)
Granted during the year	-	-
Exercisable at the end of the year	0.32	1,900,000
Outstanding at the end of the year	0.32	1,900,000

	Weighted average exercise price \$ 2013	Number of options 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

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The options outstanding at 30 June 2014 have a weighted average exercise price of \$0.32 [2013: \$0.33] and a weighted average contractual life of 3 years [2013: 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.

	2014	2013
Weighted average share price at grant date	-	\$0.16
Weighted exercise price	-	\$0.30
Expected volatility (expressed as weighted average volatility)	-	81%
Option life (expressed as weighted average life)	-	3 years
Expected dividends	-	-
Risk-free interest rate	-	2.57%

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.

No options were granted as compensation during the 2014 financial year.

(b) Employee long term incentive plan

The Company has in place an Employee Long Term Incentive Plan ('LTIP') and 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 2014 was 4.8 cents per performance right (2013: 6.5 cents).

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

30 June 2014:

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	125,000	-	(125,000)	-	-	0.30
16 December 2011	75,000	-	(75,000)	-	-	0.30
	2,954,149	-	(200,000)	-	2,745,149	

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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
	900,000	2,754,149	(200,000)	(500,000)	2,954,149	

No performance rights were granted during 2014.

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%

Share based payment transactions

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

	2014	2013
	\$	\$
Share options granted in 2013 – equity settled	-	109,473
Share options granted in 2014 – equity settled	-	-
Performance rights granted in 2013	72,889	57,044
Performance rights granted in 2014	-	-
Total expenses recognised as personnel expenses	72,889	166,517

15. Other Liabilities

Non-current

Lease make good provision	42,000	36,977
	42,000	36,977

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16. Issued Capital

There were 287,491,719 shares on issue at 30 June 2014 (2013: 250,730,886).

(a) Movements in ordinary shares on issue	2014		2013	
	No.	\$	No.	\$
Balance at beginning of financial year	250,730,886	39,239,790	250,030,886	64,200,112
Shares issued on exercise of unlisted options	500,000	50,000	500,000	125,000
Capital return	-	-	-	(25,073,089)
Shares issued on vesting of performance rights	297,424	-	200,000	-
Shares issued on acquisition of the Cameron Gold Project ¹	46,000,000	6,440,000	-	-
Share buyback ²	(10,036,591)	(1,549,244)	-	-
Share issue costs	-	(40,240)	-	(12,233)
Balance at end of financial year	287,491,719	44,140,306	250,730,886	39,239,790

¹On 1 November 2013, Chalice agreed to acquire a 100% interest in Coventry Resources Inc.'s ("Coventry") Cameron Gold Project for a consideration of 46 million shares in Chalice. On 4 February 2014, all conditions to complete the transaction were satisfied and 46 million shares were issued and distributed to Coventry shareholders on 7 February 2014.

²On 3 March 2014, the Company announced an on-market share buy-back of up to 25,073,088 ordinary shares as part of a capital management plan over 12 months. 10,036,591 shares have been acquired to 30 June 2014 for a total of \$1,554,356 (including brokerage costs).

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

	2014	2013
	No.	No.
On issue at 1 July	5,650,000	8,350,000
Options forfeited or cancelled	(3,250,000)	(3,250,000)
Options exercised during the year	(500,000)	(500,000)
Options issued during the year	-	1,050,000
On issue at 30 June	1,900,000	5,650,000

At 30 June 2014 the Company had 1,900,000 unlisted options on issue under the following terms and conditions:

Number	Expiry Date	Exercise Price \$
750,000	14 September 2014	0.35
100,000	30 November 2014	0.35
1,050,000	30 June 2016	0.30

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(c) Performance rights	2014	2013
	No.	No.
On issue at 1 July	2,954,149	900,000
Issue of performance rights under the Employee Long Term Incentive Plan	-	2,754,149
Performance rights vested	(200,000)	(200,000)
Performance rights lapsed	-	(500,000)
On issue at 30 June	2,754,149	2,954,149

At 30 June 2014 the Company had 2,754,149 performance rights options on issue under the following terms and conditions:

Number	Terms	Expiry Date	Exercise Price \$
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 12 of the Remuneration Report.	30 June 2016	-

17. Retained earnings/(accumulated losses) and reserves	2014	2013
(a) Movements in retained earnings/(accumulated losses) attributable to owners of the parent:	\$	\$
Balance at beginning of financial year	24,632,124	(16,202,389)
Profit/(loss) for the year attributable to owners of the parent	(11,559,664)	43,663,861
Transfers between equity items	1,349,319	(2,829,348)
Balance at end of financial year	14,421,779	24,632,124

(b) Nature and purpose of reserves
Other capital reserves

(i) Share-based payments reserve

The share-based payments 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.

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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 2014, Chalice had the following exposures to USD foreign currency:

	2014	2013
	\$	\$
Financial Assets		
Cash and cash equivalents	43,973,035	56,093,028
Trade and other receivables	50,350	77,490
Financial Liabilities		
Trade and other payables	4,229	309,369

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.

		2014	2013
		\$	\$
Impact on gain/(loss)	AUD/USD +10%	(4,001,741)	(5,081,556)
	AUD/USD -10%	4,401,916	5,589,712
Impact on equity	AUD/USD +10%	(4,001,741)	(5,081,556)
	AUD/USD -10%	4,401,916	5,589,712

(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.

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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:

	2014	2013
	\$	\$
Cash and cash equivalents	44,204,036	56,443,226

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	
		2014	2013
		\$	\$
Impact on gain/(loss)	100 bp increase	441,060	588,356
	100 bp decrease	(441,060)	(533,503)
Impact on equity	100 bp increase	441,060	588,356
	100 bp decrease	(441,060)	(533,503)

(c) Credit risk exposure

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

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

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

(d) Liquidity risk exposure

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

The Group has non-derivative financial liabilities which include trade and other payables of \$1,312,052 (2013: \$829,890) 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 their net fair values.

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19. Parent Entity

	2014	2013
	\$	\$
Financial position		
Assets		
Current assets	44,384,819	55,800,895
Non-current assets	10,513,974	17,831,968
Total assets	<u>54,898,793</u>	<u>73,632,863</u>
Liabilities		
Current liabilities	611,671	334,435
Non-current liabilities	28,989,452	47,625,349
Total liabilities	<u>29,601,123</u>	<u>47,959,784</u>
Net assets	<u>25,297,670</u>	<u>25,673,079</u>
Equity		
Issued capital	44,140,306	39,239,790
Accumulated losses	(19,303,915)	(15,058,665)
Reserves	461,279	1,491,954
Total equity	<u>25,297,670</u>	<u>26,673,079</u>
Financial performance		
Loss for the year	(5,594,570)	(1,839,746)
Total comprehensive loss	<u>(5,594,570)</u>	<u>(1,839,746)</u>
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	334,525	344,106
Within 2-5 years	605,741	999,401
Later than 5 years	-	-
	<u>940,266</u>	<u>1,343,507</u>

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:

	2014	2013
	\$	\$
Within 1 year	161,718	-
Within 2-5 years	1,979,248	-
Later than 5 years	1,020,340	-
	<u>3,161,306</u>	<u>-</u>

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Office lease commitments	2014	2013
	\$	\$
Within 1 year	334,525	344,106
Within 2-5 years	605,741	999,401
Later than 5 years	-	-
	<u>940,266</u>	<u>1,343,507</u>

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, however it is considered probable that the consideration will be paid.

21. Cash and cash equivalents	2014	2013
	\$	\$
Bank balances	22,969,504	56,427,612
Term deposits	21,229,796	-
Petty cash	4,736	15,614
	<u>44,204,036</u>	<u>56,443,226</u>

Reconciliation of cash flows from operating activities

	2014	2013
	\$	\$
Loss after tax from continuing operations	(11,231,242)	(124,878)
Profit/(loss) from discontinuing operations	(328,422)	43,783,106
Profit/(loss) before tax	<u>(11,559,664)</u>	<u>43,658,228</u>
Adjustments for:		
Depreciation and amortisation	93,456	83,449
Net loss on sale of securities	40,088	-
Business development costs	2,275,236	719,946
Income tax benefit	(259,529)	-
Profit/(loss) from discontinued operations	328,422	(43,783,106)
Foreign exchange (gains)/losses	631,276	(4,873,790)
Exploration assets written off	6,758,654	595,676
Share of associate's net loss	15,105	-
Impairment of exploration and evaluation assets	-	375,000
Impairment of financial assets	-	686,442
Equity-settled share-based payment expenses	72,889	166,517
Operating loss before changes in working capital and provisions	<u>(1,604,067)</u>	<u>(2,371,638)</u>
(Increase) in trade and other receivables	(84,540)	(25,884)
(Increase)/decrease in financial assets	(56,058)	(21,415)
Increase in trade creditors and other liabilities	39,578	30,500
(decrease)/increase in provisions	(12,888)	(4,718)
Net cash used in operating activities	<u>(1,717,975)</u>	<u>(2,393,155)</u>

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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)

D A Jones (Executive Director)

Non-executive Directors

A W Kiernan

S P Quin

Executives

R K Hacker (Chief Financial Officer)

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

	2014	2013
	\$	\$
Short-term employee benefits	1,420,361	1,665,422
Post-employment benefits	116,363	110,899
Termination benefits	-	69,573
Long term benefits	44,456	-
Share-based payment	64,022	121,812
Other	-	-
	<u>1,645,202</u>	<u>1,967,706</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.

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:

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Key management personnel	Transaction	Note	2014 \$	2013 \$
A W Kiernan	Legal and consulting services	(i)	82,500	238,000
Other related parties				
Liontown Resources Limited	Corporate services	(ii)	(108,000)	(144,000)

(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.

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

	2014 \$	2013 \$
Assets and liabilities arising from the above transactions		
Current payables	-	(6,000)
Trade debtors	66,296	24,000
	<u>66,296</u>	<u>18,000</u>

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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 \$	
		2014	2013	2014	2013
Parent entity					
Chalice Gold Mines Limited	Australia				
Subsidiaries					
Chalice Operations Pty Ltd (i)	Australia	100	100	6,802,388	6,802,388
Yolanda International Limited	British Virgin Islands	-	100	-	1,210,000
Chalice Gold Mines (Eritrea) Pty Ltd	Australia	100	100	-	-
Western Rift Pty Ltd (ii)	Australia	100	-	20,000	-
(i) Subsidiaries of Chalice Operations Pty Ltd					
Western Rift Pty Ltd	Australia	-	100	-	-
Keren Mining Pty Ltd	Australia	100	100	-	-
Universal Gold Pty Ltd	Australia	100	100	1,358,223	1,358,223
Sub-Sahara Resources (Eritrea) Pty Ltd	Australia	100	100	-	-
(ii) Subsidiaries of Western Rift Pty Ltd					
2234511 Ontario Inc.(iii)	Canada	100%	-	-	-
Coventry Rainy Inc.	Canada	100%	-	1,402,414	-
Coventry Ontario Inc.	Canada	100%	-	415,313	-
(iii) Subsidiaries of 2234511 Ontario INC.					
Cameron Gold Operations Ltd	Canada	100%	-	5,551,687	-

24. Interest in joint operation

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

	Country	2014 %	2013 %
Mogoraib North Exploration Licence	Eritrea	60	60

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- (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 operation:

	2014	2013
	\$	\$
Current assets		
Cash at bank	14,152	340,733
Trade and other receivables	50,350	77,490
	<hr/> 64,502	<hr/> 418,223
Non-current assets		
Exploration and evaluation assets	-	5,187,183
Property, plant and equipment	194,135	239,396
	<hr/> 194,135	<hr/> 5,426,579
Total assets	<hr/> 258,637	<hr/> 5,844,802
Current liabilities		
Trade and other payables	4,229	309,369
	<hr/> 4,229	<hr/> 309,369
Total liabilities	<hr/> 4,229	<hr/> 309,369

The joint operation has no contingent liabilities, assets or exploration commitments as at 30 June 2014 (30 June 2014: nil). At 30 June 2014, exploration and evaluation expenditure in relation to the Mogoraib North Project was written down to a nil value.

25. **Subsequent events**
At 30 June 2014, the Company had approximately US\$41.5 million in US\$ denominated cash bank accounts and during the first quarter of the 2015 financial year, the Board approved the conversion of US\$25,000,000 into Australian Dollars. The converted funds have been deposited into term deposits earning an average interest rate of 3.43%.

Chalice Gold Mines Limited

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 2014 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 2014.

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

Dated at Perth the 30th day of September 2014

Signed in accordance with a resolution of the Directors:



William Bent
Managing Director

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 2014, 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(b), 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*.

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 2014 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(b).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.



HLB Mann Judd
Chartered Accountants



L Di Giallonardo
Partner

Perth, Western Australia
30 September 2014

Chalice Gold Mines Limited

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 2013/2014 financial year (**Reporting Period**). The information in this statement is current at 30 September 2014.

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,

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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.

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 section 1 of the Directors' Report.

The Board considers that its current composition is appropriate for the Company's current size and operations, and the following mix of skills and expertise which the directors possess is relevant to the Company's business: public company management experience; resource industry experience; geological qualifications; and legal qualifications; and business development experience. The Board's composition will be assessed as part of the future direction of the Company as it continues to progress its business development strategy, targeting advanced exploration or development stage acquisition opportunities.

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

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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.

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.

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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 two 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 within section 3.

Details of each of the director's qualifications are set out in section 1 to the Directors' Report. 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.

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

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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 one meetings during the Reporting Period. Details of director attendance at Remuneration Committee meetings during the Reporting Period are set out in a table in section 3 of the Directors' Report.

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

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report and commences on page 8. 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.

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Performance evaluation

Senior executives

(Recommendations: 1.2, 1.3)

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

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

Board, its committees and individual directors

(Recommendations: 2.5, 2.6)

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

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

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

Ethical and responsible decision making

Code of Conduct

(Recommendations: 3.1, 3.5)

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

The Company also adopted a Fraud Reporting and Investigation Policy (**Whistleblower Policy**). 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.

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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 as at 30 June 2014 are set out in the following table:

	Proportion of women
Whole organisation	6 out of 23 (26%)
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.

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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, updated and reported to the Board quarterly.

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.

Chalice Gold Mines Limited

Corporate Governance Report

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
Principle 1: Lay solid foundations for management and oversight		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	<input checked="" type="checkbox"/>
1.2	Companies should disclose the process for evaluating the performance of senior executives.	<input checked="" type="checkbox"/>
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	<input checked="" type="checkbox"/>
Principle 2: Structure the board to add value		
2.1	A majority of the board should be independent directors.	<input checked="" type="checkbox"/>
2.2	The chair should be an independent director.	<input checked="" type="checkbox"/>
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	<input checked="" type="checkbox"/>
2.4	The board should establish a nomination committee.	<input checked="" type="checkbox"/>
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	<input checked="" type="checkbox"/>
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	<input checked="" type="checkbox"/>
Principle 3: Promote ethical and responsible decision-making		
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"> the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	<input checked="" type="checkbox"/>

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Principle 4: Safeguard integrity in financial reporting		
4.1	The board should establish an audit committee.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
4.3	The audit committee should have a formal charter.	<input checked="" type="checkbox"/>
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	<input checked="" type="checkbox"/>
Principle 5: Make timely and balanced disclosure		
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.	<input checked="" type="checkbox"/>
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	<input checked="" type="checkbox"/>
Principle 6: Respect the rights of shareholders		
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.	<input checked="" type="checkbox"/>
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	<input checked="" type="checkbox"/>
Principle 7: Recognise and manage risk		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
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..	<input checked="" type="checkbox"/>
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	<input checked="" type="checkbox"/>
Principle 8: Remunerate fairly and responsibly		
8.1	The board should establish a remuneration committee.	<input checked="" type="checkbox"/>
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.	<input checked="" type="checkbox"/>
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	<input checked="" type="checkbox"/>
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	<input checked="" type="checkbox"/>

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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 29 September 2014 were:

Shareholder	Number of ordinary shares held	Percentage of capital held %
Timothy Rupert Barr Goyder	41,733,533	14.52
Franklin Resources Inc	31,107,008	10.82
Lujeta Pty Ltd <The Margaret Account>	20,182,750	7.02

Class of shares and voting rights

At 29 September 2014 there were 3,875 holders of the ordinary shares of the Company, 2 holders of unlisted share options and 4 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 29 September 2014:

Category	Number of equity security holders		
	Ordinary Shares	Unlisted Share Options	Performance Rights
1 – 1,000	1,281	-	-
1,001 – 5,000	921	-	-
5,001 – 10,000	522	-	-
10,000 – 100,000	949	-	1
100,001 and over	202	2	3
Total	3,875	2	4

The number of shareholders holding less than a marketable parcel at 29 September 2014 was 2,055.

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ASX Additional Information

**Twenty largest Ordinary Fully Paid Shareholders
as at 29 September 2014**

Name	Number of ordinary shares held	Percentage of capital held %
Timothy R B Goyder	41,733,533	14.52
National Nominees Limited	40,939,278	14.24
Lujeta Pty Ltd <The Margaret Account>	20,182,750	7.02
HSBC Custody Nominees (Australia) Limited	15,834,880	5.51
Citicorp Nominees Pty Limited	13,210,892	4.60
J P Morgan Nominees Australia Limited	13,196,078	4.59
CDS & Co	10,548,361	3.67
Nefco Nominees	6,791,327	2.36
Calm Holdings Pty Ltd <Clifton Super Fund A/C>	4,000,000	1.39
Claw Pty Ltd	4,000,000	1.39
Jetosea Pty Ltd	3,865,000	1.34
Macquarie Bank Limited <Metals & Energy Cap Div A/C>	3,202,039	1.11
UBS Nominees Pty Ltd	3,031,295	1.05
Piat Corp Pty Ltd	3,000,000	1.04
Goldfire Enterprises Pty Ltd	2,231,935	0.78
Sundowner International Limited	1,949,115	0.68
Greenslade Holding Pty Ltd	1,816,667	0.63
Clement Pty Ltd <D&M Goyder Family S/Fund A/C>	1,810,681	0.63
Super Seed Pty Ltd <The Seed Family A/C>	1,500,000	0.52
Teragoal Pty Ltd <Gray Family A/C>	1,400,000	0.49
Total	194,243,831	67.57