CHALICE GOLD MINES LIMITED

ABN 47 116 648 956

Half Year Report
31 December 2011

Your directors submit the financial report for Chalice Gold Mines Limited ("Chalice" or "the Group") for the half year ended 31 December 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

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

Timothy R B Goyder	Executive Chairman
Douglas A Jones	Managing Director
Michael R Griffiths	Executive Director (resigned 21 November 2011)
Juan Jeffery	Executive Director & Chief Operating Officer (appointed 7 July 2011 and resigned 21 November 2011)
Stephen P Quin	Non-executive Director
Anthony W Kiernan	Non-executive Director

REVIEW OF OPERATIONS

1. Sale of a 60 percent interest in Zara Mining Share Company to China SFECO Group

During the December 2011 half year the Company entered into a conditional short form agreement (the "Agreement") to sell its 60 per cent interest in the Zara Project in Eritrea, East Africa to China SFECO Group (SFECO), a subsidiary of Shanghai Construction Group Co. Ltd (the "SFECO Transaction"). The Zara Project comprises the Koka deposit and surrounding areas.

Under the terms of the Agreement, SFECO will pay Chalice US$80 million in cash for Chalice's interest in the Koka deposit plus a further sum of up to US$20 million for the area surrounding the Koka deposit (the latter value to be agreed and determined by binding arbitration) (the "SFECO Transaction").

The SFECO Transaction is subject to SFECO being satisfied with its due diligence which is to be completed by 12 March 2012 with its board having 14 days thereafter to approve the transaction. The agreement is also subject to:

- the approval of Chalice shareholders and SFECO obtaining certain regulatory approvals within China including the National Development and Reform Commission, the Ministry of Commerce, the State Asset Supervision and Administration Commission and the State Administration of Foreign Exchange;
- there being no material adverse change or event of force majeure effecting the Zara Project;
- SFECO procuring a letter indicating suitable financing by completion of due diligence; and
- completion of the sale of the 30 per cent interest by Chalice to the Eritrean National Mining Corporation ("ENAMCO") for US$32 million plus approximately US$2 million for the reimbursement of certain costs. This condition is for the benefit of Chalice which can waive the same.

The SFECO Transaction follows the agreement in June 2011 under which Chalice agreed to sell a 30 per cent interest in the Zara Project to the Eritrean National Mining Corporation ("ENAMCO") for US$32 million plus approximately US$2 million reimbursement of costs (the "ENAMCO Transaction"). This 30 percent was in addition to the 10 percent free carried interest in the Project already held by ENAMCO.

The completion of these transactions would end Chalice's involvement with the Zara Project; however, Chalice will maintain an active presence in Eritrea by undertaking a significant exploration program at its Mogoraib North VMS Project, which lies approximately 10km north of TSX-listed Nevsun Resources' world-class Bisha mine.

Assuming completion of the SFECO Transaction and the ENAMCO Transaction, Chalice will be liable to pay tax to the Eritrean Government on the total proceeds at a rate of 38%. This will be calculated after deducting the Company's share of project-to-date costs of at least US$30 million (subject to audit).

Due to the conditional nature of the agreement with SFECO, the SFECO Transaction has not been recorded or disclosed in the 31 December 2011 financial statements. This treatment is consistent with Australian Accounting Standards.

2. The Zara Project

2.1 Development of the Koka Gold Mine

In November 2011, Zara Mining Share Company ("ZSMC") executed a Mining Agreement with the Government of the State of Eritrea. The Mining Agreement contains the provisions governing the future development and operation of the Koka Gold Mine. Following on from this, two Mining Licences covering the Koka Gold Mine were granted. These two licences, ML's 01/2012 and 02/2012, cover an area of 16.42 square kilometres and are valid for a minimum of 18 years.

Chalice has undertaken a formal Request for Quotation (RFQ) or tender phase for the construction of the Koka Gold Mine and a preferred contractor was selected. Progression to the signing of a construction contract will be dependent upon the outcome of the SFECO Transaction.

2.2 Exploration

During the period, further high-grade gold intercepts were received from diamond drilling at the Koka South and Debre Konate prospects, located immediately south of the Koka Gold Deposit. Both the Koka South and the Debre Konate prospects are included within the Zara Project and therefore form part of Chalice's proposed sale to SFECO discussed above.

The results from Koka South confirm that the mineralisation extends to depth and remains open to the south and at depth. The widths and grades of mineralisation encountered have the potential to provide a significant underground extension to the Koka deposit.

The intersections of significant new gold mineralisation at Debre Konate have opened up a previously unrecognised zone of mineralisation that appears to have potential for larger, bulk-tonnage styles of mineralisation compared with the smaller-tonnage, high-grade style of deposit at Koka.

3. The Mogoraib North Project

Work continued on the Mogoraib North licence to refine the bedrock conductor targets identified by the Airborne Versatile Time-Domain Electromagnetic Survey ("VTEM survey") completed during the period. The conductive bodies potentially represent massive sulphide bodies similar in style to the Bisha and Hambok Volcanic Hosted Massive Sulphide (VHMS) deposits which lie just to the south of the Mogoraib North project.
Modelling of the conductor geometries is well advanced and a 5,000 metre drill program to test the priority targets is planned to commence shortly.

The Mogoraib North Project does not form part of the SFECO and ENAMCO transactions.

EVENTS AFTER BALANCE DATE

In June 2011, Chalice executed a Deed of Acquisition with ENAMCO for the sale to ENAMCO of a 30 percent participating interest in Chalice's Zara Project for US$32 million. This is in addition to a 10% percent free carried interest in the Zara Project held by ENAMCO. In addition, ENAMCO agreed to reimburse Chalice approximately US$2 million in costs ("the ENAMCO Transaction"). The ENAMCO Transaction was due to be settled by 27 January 2011.

In January 2012, Chalice and ENAMCO agreed to vary the payment and completion terms of the ENAMCO Transaction. Under the revised agreement, ENAMCO has made an interim payment of US$3 million on 27 January 2012 to Chalice with the remaining balance of approximately US$31 million payable to Chalice on completion of Chalice's 60 percent interest in the Zara Project to China SFECO Group or by 30 June 2012.

As explained in note 11 to the financial statements, this transaction has not been recorded as a receivable as at 31 December 2011.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 7 and forms part of this directors' report for the half-year ended 31 December 2011.

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

DR DOUGLAS JONES
Managing Director

Dated at Perth this 29th day of February 2012

Competent Persons and Qualified Person Statement

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

Forward Looking Statements

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

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

In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; completion of the sale of the Zara Gold Project to SFECO; the tax payable on any such transaction; completion of the sale of a 30% interest in the Zara Gold Project to the Eritrean National Mining Corporation; the use of any sale proceeds received from the sale of the Zara Gold Project; as well as those factors detailed from time to time in the Company's interim and annual financial statements, all of which are filed and available for review on SEDAR at sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

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

Cautionary Note

For readers to fully understand the technical information in this financial report, they should read the Technical Report for the Koka Gold Deposit dated July 27, 2010 (available at www.chalicegold.com) in its entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this financial report which qualifies the technical information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Technical Report is intended to be read as a whole, and sections should not be read or relied upon out of context. The technical information in the report is subject to the assumptions and qualifications contained in the Technical Report.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Chalice Gold Mines Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Perth, Western Australia
29 February 2012

W M CLARK
Partner, HLB Mann Judd

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Chalice Gold Mines Limited

Condensed Statement of Comprehensive Income

For the half year ended 31 December 2011

	Note	Consolidated 31 December 2011 $	31 December 2010 $
Continuing Operations			
Other income	3a	273,546	338,962
Share of associate's net loss		-	(31,524)
Fair value of options held through profit and loss		-	(2,978)
Impairment of exploration and evaluation assets		(126,431)	-
Corporate and administrative expenses	3b	(1,653,187)	(2,227,534)
Depreciation and amortisation expense		(244,692)	(189,196)
Loss before tax		**(1,750,764)**	**(2,112,270)**
Income tax expense		-	-
Loss for the period		**(1,750,764)**	**(2,112,270)**
Attributable to:			
Owners of the parent		(1,730,967)	(2,112,270)
Non-controlling interests		(19,797)	-
		(1,750,764)	**(2,112,270)**
Other comprehensive income			
Net change in fair value of available for sale investments		(12,000)	60,000
Exchanges differences on translation of foreign operations		2,236,378	(4,415,054)
Total other comprehensive income		**2,224,378**	**4,355,054**
Total comprehensive income/(loss) for the period		**473,614**	**(6,467,324)**
Attributable to:			
Owners of the parent		493,411	(6,467,324)
Non-controlling interests		(19,797)	-
		473,614	**(6,467,324)**
Basic and diluted loss per share		(0.01)	(0.03)

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Chalice Gold Mines Limited

Condensed Statement of Financial Position

As at 31 December 2011

	Note	Consolidated 31 December 2011 $	30 June 2011 $
Current assets			
Cash and cash equivalents		3,507,787	10,193,836
Trade and other receivables	4	2,886,338	478,080
Total current assets		**6,394,125**	**10,671,916**
Non-current assets			
Financial assets		911,326	919,136
Exploration and evaluation assets	5	14,251,338	36,492,204
Property, plant and equipment	6	32,258,004	1,508,705
Total non-current assets		**47,420,668**	**38,920,045**
Total assets		**53,814,793**	**49,591,961**
Current liabilities			
Trade and other payables		915,605	941,382
Employee benefits		93,380	177,607
Total current liabilities		**1,008,985**	**1,118,989**
Non-current Liabilities			
Loans and borrowings	7	3,760,996	-
Provisions		48,319	45,091
Total non-current liabilities		**3,809,315**	**45,091**
Total liabilities		**4,818,300**	**1,164,080**
Net assets		**48,996,493**	**48,427,881**
Equity			
Share capital	8	64,200,112	64,200,112
Accumulated losses		(13,839,791)	(12,108,824)
Reserves	9	(5,104,349)	(3,663,407)
Total equity attributable to the owners of the parent		**45,255,972**	**48,427,881**
Non-controlling interests	10	3,740,521	**-**
Total equity		**48,996,493**	**48,427,881**

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Chalice Gold Mines Limited

Condensed Statement of Changes in Equity

For the half-year ended 31 December 2011

		Consolidated								
	Note	**Issued capital**	**Accumulated losses**	**Share based payments reserve**	**Investment revaluation reserve**	**Foreign currency translation reserve**	**Non-controlling interest reserve**	**Attributable to owners of the parent**	**Non-controlling interest**	**Total**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 30 June 2011		64,200,112	(12,108,824)	2,029,301	14,000	(5,706,708)	-	48,427,881	-	48,427,881
Revaluation of available for sale investments		-	-	-	(12,000)	-	-	(12,000)	-	(12,000)
Exchanges differences on translation of foreign operations		-	-	-	-	2,236,378	-	2,236,378	-	2,236,378
Loss for the period		-	(1,730,967)	-	-	-	-	(1,730,967)	(19,797)	(1,750,764)
Total comprehensive income for the period		-	(1,730,967)	-	(12,000)	2,236,378	-	493,411	(19,797)	473,614
Share based payments		-	-	94,998	-	-	-	94,998	-	94,998
Recognition of non- controlling interest on incorporation of subsidiary	**9,10**	**-**	**-**	**-**	**-**	-	(3,760,318)	(3,760,318)	3,760,318	-
Balance at 31 December 2011	**8**	**64,200,112**	**(13,839,791)**	**2,124,299**	**2,000**	**(3,470,330)**	**(3,760,318)**	**45,255,972**	**3,740,521**	**48,996,493**
Balance at 30 June 2010		41,254,947	(8,280,770)	1,501,450	2,000	70,084	-	34,547,711	-	34,547,711
Revaluation of available for sale investments		-	-	-	60,000	-	-	60,000	-	60,000
Exchanges differences on translation of foreign operations		-	-	-	-	(4,415,054)	-	(4,415,054)	-	(4,415,054)
Loss for the period		-	(2,112,270)	-	-	-	-	(2,112,270)	-	(2,112,270)
Total comprehensive income for the period		-	(2,112,270)	-	60,000	(4,415,054)	-	(6,467,324)	-	(6,467,324)
Rights Issue (net after costs)		12,044,218	-	-	-	-	-	12,044,218	-	12,044,218
Options exercised		50,000	-	-	-	-	-	50,000	-	50,000
Share based payments		-	-	327,819	-	-	-	327,819	-	327,819
Balance at 31 December 2010	**8**	**53,349,165**	**(10,393,040)**	**1,829,269**	**62,000**	**(4,344,970)**	**-**	**40,502,424**	**-**	**40,502,424**

Chalice Gold Mines Limited
Condensed Statement of Cash Flows
For the half year ended 31 December 2011

	Consolidated	
	31 December 2011 $	**31 December 2010 $**
Cash flows from operating activities		
Cash receipts from operations	104,331	117,213
Cash paid to suppliers and employees	(1,456,522)	(1,988,360)
Interest received	200,181	233,037
Net cash used in operating activities	**(1,152,010)**	**(1,638,110)**
Cash flows from investing activities		
Payments for exploration and evaluation assets	(5,529,034)	(7,172,871)
Payments for development assets	(933,321)	-
Acquisition of property, plant and equipment	(246,520)	(545,934)
Repayment of loan by non-controlling interests	1,082,358	-
Tax payment for acquisition of exploration assets	-	(3,048,675)
Net cash used in investing activities	**(5,626,517)**	**(10,767,480)**
Cash flows from financing activities		
Proceeds from issue of shares	-	12,722,353
Payments for share issue costs	-	(628,135)
Other	-	(4,199)
Net cash from financing activities	**-**	**12,090,019**
Net decrease in cash and cash equivalents	(6,778,527)	(315,571)
Cash and cash equivalents at the beginning of the period	10,193,836	7,688,906
Effects of exchange rate fluctuations on cash held	92,478	(10,472)
Cash and cash equivalents at the end of the financial period	**3,507,787**	**7,362,863**

1. Significant accounting policies

(a) Statement of compliance

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

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2011 and any public announcements made by Chalice Gold Mines Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the rules of the Australian Securities Exchange and the Toronto Stock Exchange.

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

(b) Basis of preparation

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

(c) Significant accounting judgments and key estimates

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

Except as described below, in preparing this interim report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2011.

(d) Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to the Group's accounting policies.

2. Segment Reporting

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

The operating segments are identified by management based on the allocation of costs; whether they are corporate related costs, exploration costs or mine development costs. Results of these segments are reported to the Board of Directors on a monthly basis. Exploration and mine development expenditure is reflected as a segment which occurs in one geographical area – Eritrea.

	Exploration and Evaluation		**Mine Development**		**Corporate**		**Total**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Other Income	-	-	-	-	112,347	117,213	112,347	117,213
Corporate and administrative expenses	-	-	-	-	(1,653,187)	(2,227,534)	(1,653,187)	(2,227,534)
Depreciation and amortisation	(197,970)	(129,957)	-	-	(46,722)	(59,239)	(244,692)	(189,196)
Impairment of exploration and evaluation assets	(126,431)	-	-	-	-	-	(126,431)	-
Segment net loss after tax	**(324,401)**	**(129,957)**	**-**	**-**	**(1,587,562)**	**(2,169,560)**	**(1,911,963)**	**(2,299,517)**
Unallocated income/(expenses)								
Net financing income							161,199	221,749
Share of associates net loss							-	(31,524)
Fair value of options							-	(2,978)
Loss before income tax							**(1,750,764)**	**(2,112,270)**

	Exploration and Evaluation		Mine Development		Corporate		Total	
	31 Dec 2011	30 June 2011	31 Dec 2011	30 June 2011	31 Dec 2011	30 June 2011	31 Dec 2011	30 June 2011
	$	$	$	$	$	$	$	$
Segment assets:								
Exploration and evaluation assets	14,251,338	36,492,204	-	-	-	-	14,251,338	36,492,204
Property, plant and equipment	1,266,721	1,124,354	30,691,968	-	299,315	384,351	32,258,004	1,508,705
Other	2,678,637	-	-	-	207,701	478,080	2,886,338	478,080
	18,196,696	**37,616,558**	**30,691,968**	**-**	**507,016**	**862,431**	**49,395,680**	**38,478,989**
Unallocated assets							4,419,113	11,112,972
Total assets							**53,814,793**	**49,591,961**
Segment Liabilities	**(4,125,252)**	**(745,807)**	**(292,252)**	**-**	**(400,796)**	**(418,273)**	**(4,818,300)**	**(1,164,080)**

3. Loss before income tax expense

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

(a) Other Income	2011 $	2010 $
Corporate and administration service fees	112,347	117,213
Net finance income	161,199	221,749
	273,546	**338,962**

(b) Corporate and administrative expenses	2011 $	2010 $
Insurance	52,508	36,085
Travel Costs	128,342	190,417
Legal fees	110,777	96,486
Head office costs	118,563	89,711
Personnel expenses	770,835	990,443
Regulatory and compliance	180,542	127,304
Consultants	83,462	283,739
TSX listing costs	-	229,331
Other	208,158	184,018
	1,653,187	**2,227,534**

4. Trade and other receivables

Trade and other receivables include a loan receivable from non-controlling interests of $2,678,637. This represents contributions to Zara Mining Share Company ("ZMSC") (which forms part of the Chalice Group) outstanding from the Eritrean National Mining Corporation ("ENAMCO") as at 31 December 2011. Chalice and ENAMCO agreed that Chalice would provide the funds to ZMSC for the Zara Project from 1 April 2011 to 31 December 2011. From 1 January 2012, ENAMCO will sole contribute until such time as they have met their share of pro-rata costs as required under the Shareholders Agreement between Chalice and ENAMCO.

5. Exploration and evaluation expenditure

	2011 $	2010 $
Carrying amount at 1 July	36,492,204	27,056,158
Transferred to property, plant and equipment	(27,409,945)	-
Expenditure incurred during the period:		
- Drilling costs	1,815,554	1,010,926
- Geophysical costs	180,405	604,496
- Sampling costs	314,478	131,569
- Consultants	135,157	406,320
- Project expenses	2,302,315	3,172,694
Impairment of exploration assets	(126,431)	-
Eritrean profits tax on acquisition of exploration assets	-	3,048,675
Eritrean stamp duty provided for on the acquisition of exploration assets	-	1,079,619
Effect of movements in exchange rates	547,601	(3,887,065)
Carrying amount at 31 December	**14,251,338**	**32,623,392**

The expenditure above relates principally to the exploration and evaluation activities. The ultimate recoupment of this expenditure is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

6. Property, plant and equipment

	31 December 2011 $	31 December 2010 $
Plant and equipment		
Plant and equipment - at cost	3,200,818	2,683,873
Accumulated depreciation	(1,634,782)	(1,104,639)
	1,566,036	**1,579,234**
Development assets (Zara Gold Project) – at cost		
Exploration and evaluation	28,347,574	-
Permitting and pre-development	2,344,394	-
	30,691,968	**-**
Total property, plant and equipment net book value	**32,258,004**	**1,579,234**
Reconciliation of plant and equipment		
Balance at 1 July	1,508,705	1,257,494
Additions	246,520	642,039
Depreciation	(244,692)	(189,196)
Translation difference movement	55,503	(131,103)
Carrying amount at 31 December	**1,566,036**	**1,579,234**
Reconciliation of development assets (Zara Gold Project)		
Balance at 1 July	-	-
Reclassification from exploration and evaluation	27,409,945	-
Additions	1,643,111	-
Translation difference movement	1,638,912	-
Carrying amount at 31 December	**30,691,968**	**-**

7. Loans and borrowings

As at 31 December 2011, loans and borrowings represent funds owed to ENAMCO pursuant to the Zara Mining Share Company ("ZMSC") Shareholders Agreement. Under the Shareholders' Agreement, contributions by the shareholders of ZMSC are treated as shareholder loans and are to be repaid from future profits of ZMSC derived from the Zara Project in Eritrea. The shareholder loan from ENAMCO consists of both cash contributed and funds due and receivable (see note 4).

These shareholder loans bear no interest and have no set date of repayment. Loans under the Shareholder Agreement are given priority for repayment ahead of distribution of dividends to the shareholders of ZMSC.

8. Issued capital

	31 December 2011 $	30 June 2011 $
(a) Issued and fully paid ordinary shares	64,200,112	64,200,112

	No.	$
Movements in ordinary shares on issue:		
At 1 July 2011	250,030,886	64,200,112
Movements during the period	-	-
At 31 December 2011	**250,030,886**	**64,200,112**

(b) Share options

	No.
Movements in options over ordinary shares on issue:	
At 1 July 2011	7,000,000
Options cancelled or forfeited	(1,000,000)
Issue of options under the Employee and Consultant Option Plan	3,850,000
At 31 December 2011	**9,850,000**

During the six months ended 31 December 2011, 2,500,000 unlisted options were granted to the Executive Chairman, Mr Tim Goyder as approved at the Company's annual general meeting in November 2011. The value of the options as at grant date was $162,500.

(c) Performance rights

	No.
Movements in performance rights:	
At 1 July 2011	-
Issue of performance rights under the Employee Long Term Incentive Plan	1,650,000
At 31 December 2011	**1,650,000**

At the Company's 2011 Annual General Meeting and since the preparation of the 2011 Annual Report, an Employee Long Term Incentive Plan ("the Plan") was approved by shareholders. Under the Plan, 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.

During the six months ended 31 December 2011, 1,650,000 performance rights were granted to employees of the Group. The value of the performance rights at grant date was $495,000.

9. Reserves

As at 31 December 2011, the Group has recorded a debit to a non-controlling interest reserve of $3,760,318 following the incorporation of Zara Mining Share Company ("ZMSC") and recognition of the Eritrean National Mining Corporation's ("ENAMCO") 10 per cent free carried interest in ZMSC. This reserve records differences between the carrying value of non-controlling interests and the consideration paid/received where there has been a transaction involving non-controlling interests that do not result in a loss of control. The reserve is attributable to the equity of the parent.

10. Non-controlling interests

The Group has recorded a non-controlling interest of $3,740,521. This balance represents ENAMCO's 10 per cent free carried interest in the net assets of ZMSC.

11. Contingent assets

In the 30 June 2011 Annual Report (note 20) a contingent asset was disclosed in relation to the agreement for the sale of a 30% participating interest in Chalice's Zara Project to the ENAMCO for US$32 million. In addition, ENAMCO agreed to pay Chalice approximately US$2 million (subject to audit), which represents a reimbursement to Chalice of ENAMCO's pro-rata share of exploration costs expended up to and included 31 March 2011 on the Zara Project that fall outside the Koka Mining Licence. ("the ENAMCO Transaction")

The ENAMCO Transaction was not recorded as a receivable in the 30 June 2011 annual report, as should ENAMCO default, the only remedy was the forfeiture of its 30 per cent participating interest. Completion of the ENAMCO Transaction, at 30 June 2011 was considered to be probable, however was contingent upon Chalice receiving funds from ENAMCO. This uncertainty resulted in an asset not being recorded in the financial statements in compliance with Australian Accounting Standards.

At 31 December 2011, the uncertainty of receiving the funds from ENAMCO was still in existence and therefore, no asset has been recorded in the financial statements. As a result of not recording the ENAMCO Transaction, for accounting purposes, the financial statements reflect Chalice having a 90 per cent interest in ZMSC as compared to its 60 per cent voting interest.

Please refer to note 13 regarding changes to the payment and completion terms of the ENAMCO Transaction made subsequent to the reporting period.

12. Related parties

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and share-based payment awards. Key management personnel received total compensation of $945,482 for the six months ended 31 December 2011 (six months ended 31 December 2010: $933,237).

Other related parties transactions

The Group used the consulting services of Mr Anthony Kiernan during the six months ended 31 December 2011. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms. The total amount paid during the period was $62,000 (six months ended 31 December 2010:$71,000). No amounts were outstanding or payable at the end of the period.

13. Events subsequent to reporting date

In January 2012, Chalice and ENAMCO agreed to vary the payment and completion terms of the ENAMCO Transaction (refer to note 11). Under the revised agreement, ENAMCO has made an interim payment of US$3 million on 27 January 2012 to Chalice with the remaining balance of approximately US$31 million payable to Chalice on completion of the Chalice's 60 percent interest in the Zara Project to China SFECO Group ("SFECO") (the "SFECO Transaction") or by no later than 30 June 2012.

Refer to the Directors Report on page 3 for further details of the SFECO Transaction.

Chalice Gold Mines Limited
Directors' Declaration
For the half year ended 31 December 2011

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

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
   a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year then ended.
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Dated this 29th day of February 2012

DR DOUGLAS JONES
Managing Director

HLB Mann Judd

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Chalice Gold Mines Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Chalice Gold Mines Limited ("the company"), which comprises the condensed statement of financial position as at 31 December 2011, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the consolidated entity for the half-year ended 31 December 2011 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd.

HLB MANN JUDD
Chartered Accountants

WMClark

Perth, Western Australia
29 February 2012

W M CLARK
Partner