

# QUARTERLY REPORT

## 30 September 2010



Chalice Gold Mines Limited ABN 47 116 648 956

### Highlights

- Major new state-of-the-art deep penetration 3D IP survey commenced over the ~12km<sup>2</sup> Koka-Konate-Fah corridor, a highly prospective area with potential for repeats of the Koka Deposit
- Social & Environmental Impact Assessment (SEIA) and the Social & Environmental Management Plan (SEMP) for the Koka Gold Project in Eritrea completed and lodged, paving the way for the Company to secure a Mining Licence
- Discussions commenced with the Eritrean Government on the terms of a Mining Agreement covering the Koka Project
- Diamond drilling completed at first near-mine prospect, Konate, returning some encouraging intersections including 7m@22.34 g/t Au, 4m @ 11.65g/t Au and 3m @ 12.79g/t Au
- Imminent co-listing on the Toronto Stock Exchange (TSX)



### Overview

During the Quarter, Chalice Gold Mines Limited (ASX: CHN) continued to make significant progress towards building a substantial East African-focused gold company with key activities including a step up in near mine exploration and completion of the Social and Environmental Impact Assessment for development of its flagship 840,000oz **Koka Gold Project**, part of the broader Zara Project in Eritrea.

The Company has turned its attention to near mine exploration activities within the highly prospective 6km long corridor extending from Koka to the Konate-Fah area some 5km to the south. A major new deep-penetration Induced Polarisation (IP) survey commenced last week over an area of 12km<sup>2</sup> within this corridor, designed to reveal new targets with the potential to host repeats of the Koka mineralisation.

Initial drilling has also returned some encouraging results from the Konate prospect.

The completion and lodgement of social and environmental reports represents a key step towards securing a Mining Licence for the Koka Deposit in 2011.

### INVESTMENT HIGHLIGHTS

High grade Indicated gold Resource (840,000 oz @ 5.3 g/t gold)

#### Feasibility Study completed:

- Low cash costs of \$338/oz
- 7 year mine life at >100,000 oz average production per year

Large unexplored ground position in the Arabian Nubian Shield

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

## 1. Koka-Konate-Fah IP Survey

A state-of-the-art deep-penetration 3D Induced Polarisation survey (“IP survey”) commenced late in the quarter over the ~12 km<sup>2</sup> Koka-Konate-Fah corridor (Figure 1). The IP survey is designed to provide detailed information on the three-dimensional structural architecture of this strongly gold-mineralised trend and the distribution of alteration, particularly silicification which is reflected in strongly resistive zones in the IP data.

Analysis of initial results from the Koka sector of the survey indicate good quality data is being produced and penetration in excess of 500 metres is being achieved. Results from this survey will guide future exploration in this area, particularly for blind deposits that may be reflected at surface with only subtle geochemistry and alteration. Results will be released when received by the Company.

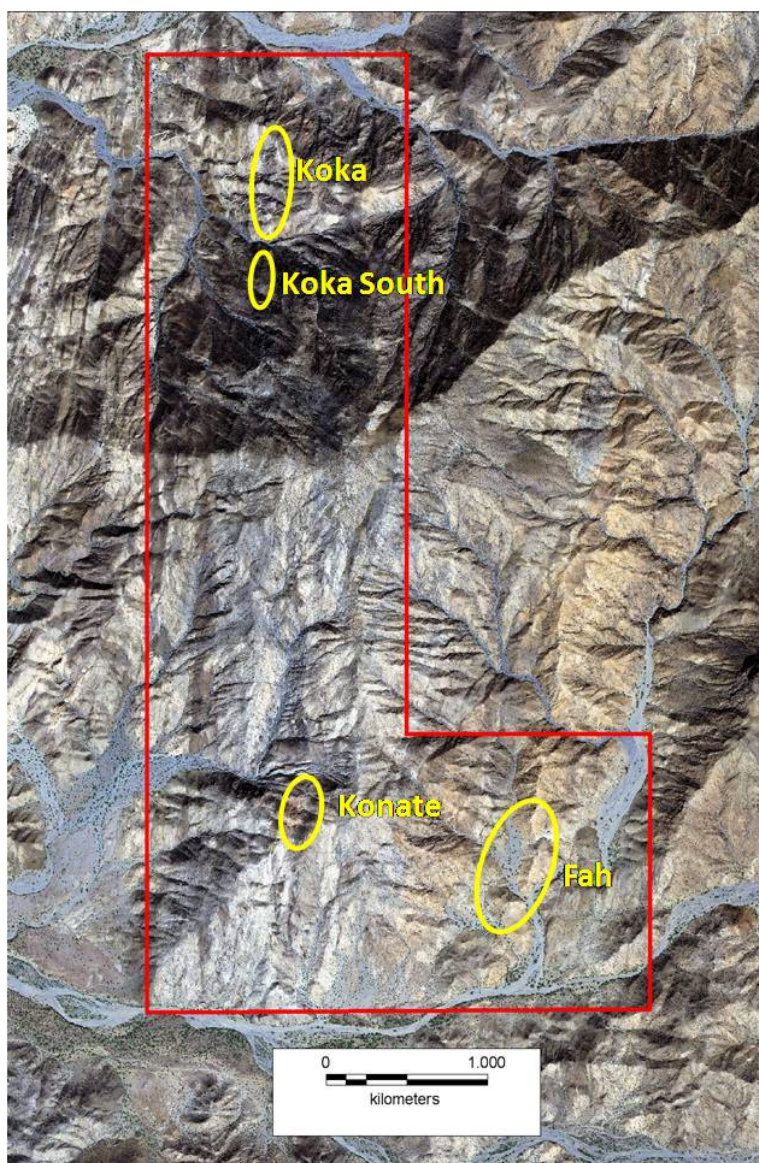


Figure 1: IP survey (red outlines), Koka-Konate-Fah ‘Corridor’

## 2. Aeromagnetic and Radiometric Survey

Planning for an airborne magnetic and radiometric survey covering the Zara North, South and Central properties is well advanced and is expected to commence in November 2010. The 12,750 line km survey will help define the regional geological structure, alteration patterns and granitoid suites/phases that may be associated with gold (and possibly other) mineralisation.

## 3. Stream Sediment Geochemistry

Results were received from a Bulk Leach Extractable Gold (BLEG) drainage sampling programme completed over the Zara North and Zara South Prospecting Licenses. The BLEG results for gold, especially from Zara North were very promising with six samples returning gold values greater than 10 ppb, outlining a large part of the western half of the tenement as anomalous (Figure 2).

A further seven samples gave values of between 5 and 10ppb gold, a level still considered anomalous. The highest value of 362ppb from this program also represents the highest value obtained to date from all of the Zara Project BLEG samples and is an order of magnitude higher than most of those obtained in the lead up to the Koka discovery.

Follow-up infill sampling using conventional stream sediment sampling has been completed with results pending.

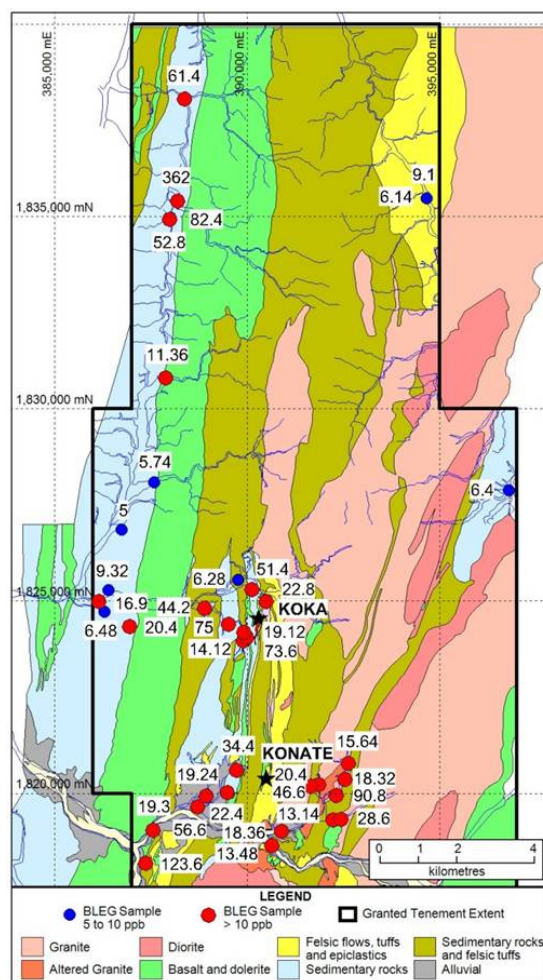


Figure 2: Northern part of Zara Project showing anomalous BLEG drainage results

#### 4. Drilling at Konate Prospect

Diamond drilling at the Konate prospect was completed during the quarter with 20 holes drilled for ~3,600 metres (Figure 3). Drilling covered a strike length of around 600 metres with a focus on the southern 200 metres where intensive artisanal workings were developed historically on a Koka-style quartz stockwork system in microgranite. Although some encouraging intersections were achieved, including 7m @22.34 g/t, 4m @ 11.65g/t and 3m @ 12.79g/t, results overall were variable.

Initial conclusions are that the Konate system warrants further drilling; however, this work will await the completion of the 3D deep-penetration IP survey currently underway in the Koka-Konate-Fah corridor.

Better intersections are tabled in Table 1 below:

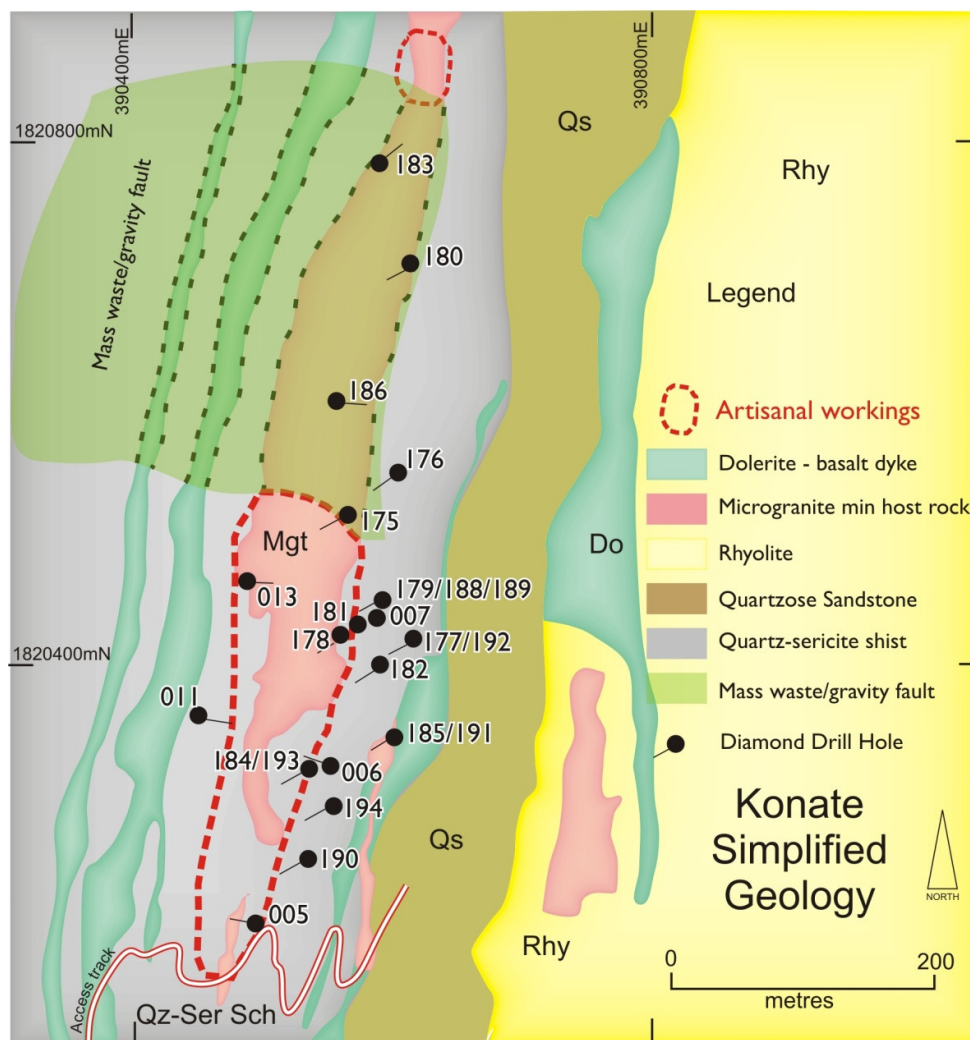
Drillhole ID	From	To	Width	Au_ppm
ZARD175	13	14	1	1.10
ZARD176	No significant intersections			
ZARD177	120	123	3	12.79
incl	121	122	1	34.05
ZARD177	133	139	6	1.61
ZARD177	141	142	1	2.25
ZARD178	22	23	1	2.91
ZARD178	37	38	1	1.70
ZARD178	44	50	6	2.24
ZARD179	62	64	2	1.22
ZARD179	94	95	1	2.69
ZARD179	101	104	3	3.60
ZARD179	111	112	1	11.38
ZARD180	No significant intersections			
ZARD181	86	89	3	1.16
Incl	86	87	1	1.57
Incl	88	89	1	1.44
ZARD181	98	99	1	2.83
ZARD182	71	72	1	6.87
ZARD182	85	86	1	1.73
ZARD182	89	90	1	5.43
ZARD183	No significant intersections			
ZARD184	52	59	7	22.34
ZARD185	109	113	4	11.65
ZARD185	119	139	20	1.39
Incl	119	122	3	3.28
Incl	124	125	1	1.24
Incl	127	128	1	2.31
Incl	130	131	1	1.12
Incl	133	134	1	1.51
Incl	135	136	1	4.65
Incl	138	139	1	6.25
ZARD185	152	153	1	1.66
ZARD186	No significant intersections			
ZARD187	119	120	1	1.44
ZARD187	160	161	1	1.39
ZARD187	174	175	1	3.81



Drillhole ID	From	To	Width	Au_ppm
ZARD188	88	89	1	1.60
ZARD188	97	98	1	4.53
ZARD189	115	116	1	1.06
ZARD189	120	121	1	9.81
ZARD190 - 194	Results Pending			

*Note: The metres quoted are down hole metres and gold grades are uncut with up to 2 metres of internal dilution (<0.25g/t gold). All samples were saw split and shipped as half core direct to Genalysis Laboratories in Perth, Western Australia for assay.*

**Table 1: Significant Konate Prospect Diamond Drill Assay Intercepts**



**Figure 3: Konate Prospect – Geology and Drillhole Locations**

## 5. Fah Prospect

Work completed at the Fah prospect, approximately 1 kilometre east of Konate, included geological mapping, structural mapping and soil sampling. The Fah prospect consists of two microgranite bodies extending over a strike length of ~4 kilometres that host extensive carbonate-sericite alteration and quartz stockworking. Artisanal workings are developed in several areas where larger quartz veins are present and all of the gullies draining the zone contain anomalous levels of gold.

Drilling of two reconnaissance diamond drill holes for ~500 metres commenced late in the quarter targeting two of the main artisanal workings. Channel sampling over the latter has returned up to 70 g/t over a metre.

Further drilling may be conducted after analysis of the soil geochemistry (assays pending) and completion of the IP survey.

#### **6. Koka Gold Deposit Mine Permitting Process**

During the Quarter, Chalice completed the Social & Environmental Impact Assessment (SEIA) and Social & Environmental Management Plan (SEMP) for the Koka Deposit. The SEIA and SEMP have been lodged with the Eritrean Ministry of Energy & Mines. These reports form a key component of the documentation required to secure a mining licence for the Koka Deposit. They represent the culmination of two and half years of environmental, socio-economic and community studies.

The studies were conducted by independent consultants Knight Piésold and Global Resources Development and Management Consultants (GREDMCO) in line with internationally accepted standards.

Chalice has also recently commenced discussions with the Eritrean Government on the terms of a Mining Agreement and the participation of the Eritrean National Mining Company (ENAMCO) in the granted Mining License.

#### **7. Entitlements Issue**

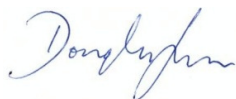
In September 2010, Chalice completed a one for six entitlements issue by issuing 30,172,169 shares at \$0.42 per share to raise approximately \$12.6 million before issue costs.

#### **8. TSX Listing Update**

Application has been made to list on the Toronto Stock Exchange and the Company expects to receive a conditional listing shortly. Haywood Securities of Canada is the Company's sponsoring broker for the proposed listing.

#### **9. Cash at bank**

At 30 September 2010, the Company had cash on hand of approximately \$14.4 million. Please refer to the attached Appendix 5B for further details.



Doug Jones  
Managing Director

29 October 2010

### **Eritrean Government Participation Rights**

Upon grant of a Mining Lease, the Eritrean Government is entitled to a 10 per cent free carried interest. In addition, the Government has the right (but not the obligation) to purchase a further interest of up to 20% by agreement.

### **Competent Persons Statement**

The information in this report that relates to Exploration Results is based on information compiled by Dr Doug Jones, a full-time employee and Director of Chalice Gold Mines Limited, who is a Member of the Australasian Institute of Mining and Metallurgy and is a Chartered Professional Geologist. Dr Jones has sufficient experience in the field of activity being reported to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves, and consents to the release of information in the form and context in which it appears here.

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

The information in this statement of Ore Reserves is based on information compiled by Mr David Lee who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of AMC. Mr Lee has sufficient relevant experience to be a Competent Person as defined in the JORC Code. Mr Lee consents to the inclusion of this information in the form and context in which it appears.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CHALICE GOLD MINES LIMITED

ABN

47 116 648 956

Quarter ended ("current quarter")

30 September 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A (000's)	Year to date (3 months) \$A (000's)
1.1 Receipts from product sales and related debtors	41	41
1.2 Payments for (a) exploration and evaluation	(4,238)	(4,238)
(b) development	-	-
(c) production	-	-
(d) administration	(922)	(922)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	108	108
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - GST	(25)	(25)
<b>Net Operating Cash Flows</b>	<b>(5,036)</b>	<b>(5,036)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	( 293)	( 293)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other –cash acquired on completion of merger	-	-
<b>Net investing cash flows</b>	<b>(293)</b>	<b>(293)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(5,329)</b>	<b>(5,329)</b>

+ See chapter 19 for defined terms.



<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc. (net)	12,095	12,095
1.15	Proceeds from sale of shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	(4)	(4)
<b>Net financing cash flows</b>		<b>12,091</b>	<b>12,091</b>
<b>Net increase (decrease) in cash held</b>		<b>6,762</b>	<b>6,762</b>
1.20	Cash at beginning of quarter/year to date	<b>7,689</b>	<b>7,689</b>
1.21	Exchange rate adjustments to item 1.20	(8)	(8)
1.22	<b>Cash at end of quarter</b>	<b>14,443</b>	<b>14,443</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A
1.23	Aggregate amount of payments to the parties included in item 1.2	165,800
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.14 – includes proceeds (net of share issue costs) from fully underwritten non-renounceable rights issue for 1 for every 6 share held at 42 cents.

Item 1.23 – Amounts paid to related parties include remuneration, directors' fees, consulting fees and reimbursements of expenses to directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest.

Nil

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A	Amount used \$A
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

### Estimated cash outflows for next quarter

	\$A (000's)
4.1 Exploration and evaluation	3,100
4.2 Development	-
4.3 Production	-
4.4 Administration	1,290
4.5 Other	4,500
<b>Total</b>	<b>8,890</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A (000's)	Previous quarter \$A (000's)
5.1 Cash on hand and at bank	8,529	2,629
5.2 Deposits at call	5,914	5,060
5.3 Bank overdraft	-	-
5.4 Other (Bank Guarantee)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>14,443</b>	<b>7,689</b>

### Changes in interests in mining tenements

6.1 Interests in mining tenements relinquished, reduced or lapsed	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
	Nil			
6.2 Interests in mining tenements acquired or increased	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
	Nil			

### Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	Nil	Nil	Nil	Nil
7.2 Changes during quarter	N/A	N/A	N/A	N/A
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs.				
7.3 <b>+Ordinary securities</b>	211,205,887	211,205,887	N/A	N/A
7.4 Changes during quarter				
(a) Increases through issues	30,172,269	30,172,269	\$0.42	\$0.42
(b) Decreases through returns of capital.	Nil	Nil	N/A	N/A
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	Nil	Nil	N/A	N/A
7.6 Changes during quarter	Nil	Nil	N/A	N/A
(a) Increases through issues				
(b) Decreases through securities matured.				

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7	<b>Options</b> <i>(description and conversion factor)</i>			Exercise price	Expiry date
		5,575,000	Nil	\$0.25	21 March 2011
		500,000	Nil	\$0.25	1 December 2012
		250,000	Nil	\$0.20	11 December 2012
		500,000	Nil	\$0.20	31 July 2013
		750,000	Nil	\$0.50	1 September 2012
		1,250,000	Nil	\$0.35	31 March 2014
		1,250,000	Nil	\$0.45	31 March 2014
		2,000,000	Nil	\$0.35	16 November 2013
		1,000,000	Nil	\$0.36	31 March 2012
7.8	Issued during quarter	Nil	Nil	N/A	N/A
7.9	Exercised during quarter	Nil	Nil	N/A	N/A
7.10	Expired/Forfeited during quarter	Nil	Nil	N/A	N/A
7.11	<b>Debentures</b> <i>(totals only)</i>	Nil	Nil		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	Nil	Nil		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 29 October 2010

Company Secretary

Print name: Richard Hacker

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.