

ASX Announcement

December 2011 Quarterly Report

Proposed sale of 60% of Zara Project to China SFECO Group opens up new chapter for Chalice

Highlights:

- Chalice agrees to sell its remaining interest in the Zara Gold Project (Eritrea, East Africa) for up to US\$100M to China SFECO Group.
- Terms of the sale of a 30% interest to ENAMCO have been varied to align completion of the transaction to the SFECO sale transaction.
- Chalice to focus its exploration efforts at the Mogoraib North VMS project, 10km north of the Bisha Mine.
- 5,000m drill program to commence at Mogoraib North shortly to test multiple bedrock conductor targets.
- The Koka Mining Licence was granted.
- Further high-grade results were received from drilling at Koka South.

Overview

The December 2011 Quarter marked a significant turning point for Chalice, with the Company entering into a conditional short form agreement (the "Agreement") to sell its remaining 60 per cent stake in the Zara Project in Eritrea, East Africa to China SFECO Group (SFECO), a subsidiary of Shanghai Construction Group Co. Ltd (www.scg.com.cn).

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

This follows the agreement in July 2011 under which Chalice sold a 30 per cent interest in the Zara Project to the Eritrean National Mining Corporation ("ENAMCO") for US\$32 million plus ~US\$2 million reimbursement of costs (*see ASX announcement 29 July 2011*). This is in addition to the 10% carried interest in the project already held by ENAMCO.

Subsequent to Quarter-end, Chalice agreed, subject to an interim payment of US\$3 million from ENAMCO (since paid), to vary the time for completion to align with the completion of the SFECO sale. The completion of these transactions will 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 ~10km north of TSX-listed Nevsun Resources' world-class Bisha mine.

The completion of the SFECO transaction, combined with proceeds from the sale of the 30 per cent stake to ENAMCO, will leave the Company with a strong cash balance – estimated at around US\$90M to US\$95 million post-tax – and the ability to identify, acquire and develop high quality resource assets.

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1. Sale of the Zara Project

Under the Agreement to sell its remaining 60% interest in the Zara Project, SFECO will pay Chalice US\$80 million in cash for Chalice's share of the mineral resource at the Koka gold deposit. In addition, SFECO will pay Chalice a further sum, not to exceed US\$20 million, for the balance of the area falling within the Zara Project (including Zara North, South and Central).

This figure is to be agreed between the parties and, failing agreement, will be determined by binding independent arbitration to a cap of US\$20 million.

The Agreement with SFECO is subject to SFECO being satisfied with its due diligence, which must be completed by 12 March 2012; however, SFECO has undertaken to expedite this. 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 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.

Chalice has also agreed that it shall not solicit or be involved in discussions or negotiations concerning the sale of its shares in ZMSC until completion of SFECO's due diligence or, until completion if the SFECO confirms it is satisfied with its due diligence, but subject to a carve out allowing the Chalice directors to discharge their fiduciary and statutory duties where there is a superior proposal.

The parties will prepare more formal transaction documents incorporating usual terms and reflecting the current short form agreement.

Assuming completion of the Transaction, Chalice would be liable to pay tax to the Eritrean Government on the SFECO and ENAMCO 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).

2. Revised terms on the sale of the 30 per cent interest in the Zara Project to ENAMCO

Chalice has agreed to vary the time for completion of its agreement with ENAMCO for ENAMCO's acquisition of a 30 per cent interest in the Zara Project.

The variation is in line with the timetable for completing the proposed sale of Chalice's remaining 60 per cent interest in the Zara Project to SFECO.

Under the revised agreement, ENAMCO has made an interim payment of US\$3 million to Chalice with the balance of ~US\$31 million (including reimbursement of certain costs) payable to Chalice on completion of the sale to SFECO or by no later than 30 June 2012.

If the SFECO transaction is terminated pursuant to the conditions of that deal, the balance will also be payable by ENAMCO by 30 June 2012.

Chalice is targeting completion of the SFECO transaction by May/June 2012.

3. Mogoraib North VHMS Project

Work continued on the Mogoraib North licence to refine the bedrock conductor targets identified by the VTEM survey completed during the previous Quarter.

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 Mogoraib North (*Figure 1*).

The geological units hosting these deposits trend north into the Mogoraib North licence, where they are largely covered by a thin veneer of transported surficial deposits. Over 60 conductors have been identified, of which 40 are considered high priority drill targets.

Activities during the Quarter focused on gravity surveys over the conductors to help discriminate between potential dense, metal-rich sulphide deposits and other formational conductors such as carbonaceous shales.

Soil sampling was also undertaken over the high priority targets to determine the geochemical response, particularly in residual elements such as gold, silver and lead. Despite the generally subdued geochemistry due to the masking surficial cover several of the priority anomalies were found to have semi-coincident anomalies in the residual elements.

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.

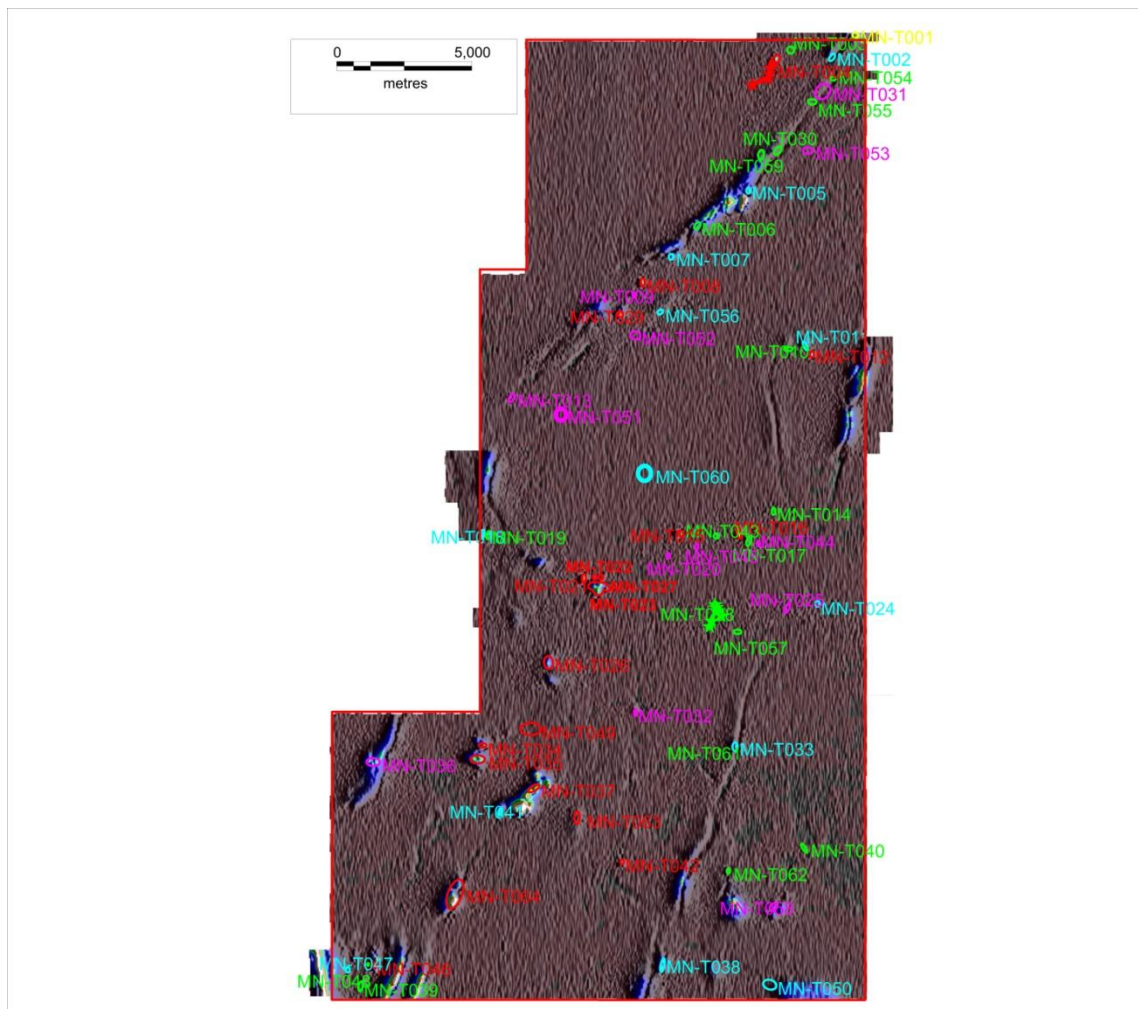


Figure 1: Mogoraib Licence – ranked conductor anomalies on late channel VTEM image: red and blue anomalies represent priority targets for drill testing

4. Koka Mining Licence and Mining Agreement

In November 2011, Chalice's 60%-owned subsidiary, 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.

Subsequent to the end of the period, two Mining Licences covering the Koka Gold Mine at the Zara Project were granted. The 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 (*Figure 2*).

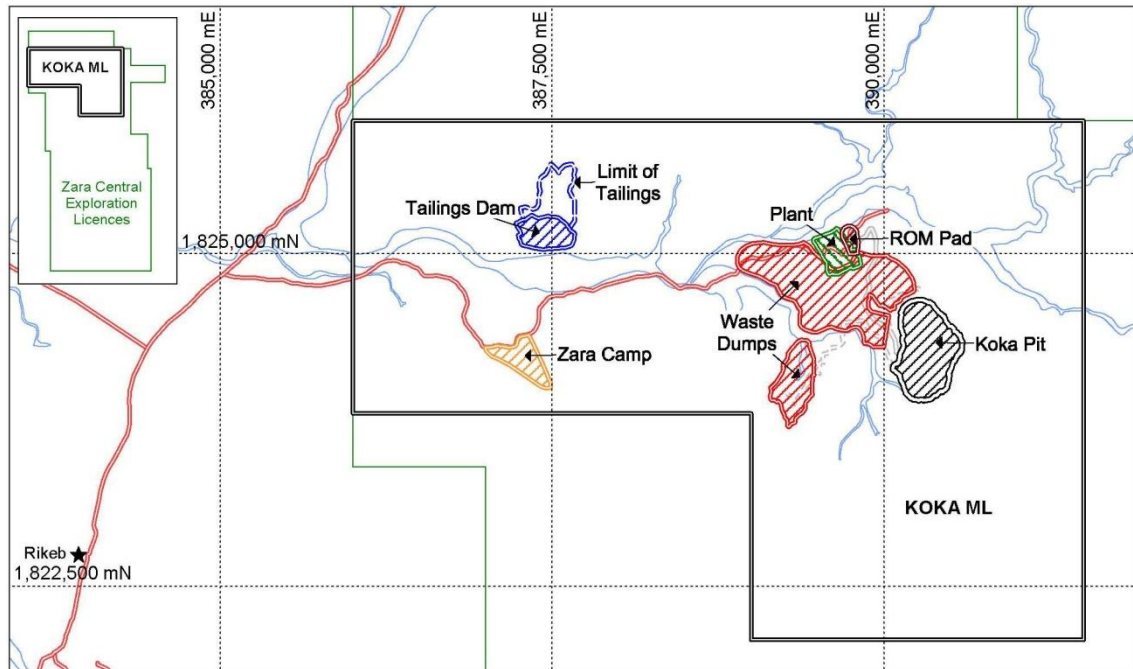


Figure 2: Koka Mining Licence relative to proposed Koka Mine Infrastructure

5. Drilling at the Zara Project

During the Quarter, Chalice advised that further high-grade gold intercepts had been received from diamond drilling at the Koka South and Debre Konate prospects, located immediately south of the Koka Gold Deposit at the Zara Project.

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.

High-grade gold intervals were encountered in most of the holes that intersected the prospective microgranite/porphyry host, including:

- **1m @ 168.8g/t Au** from 144m (ZARD 219)
- **5m @ 86.2g/t Au** from 98m *including 1m @ 401g/t Au* (repeat assay 341g/t) and **1m @ 25.7g/t Au** from 113m (ZARD 221)
- **1m @ 44.4g/t Au** from 145m (ZARD 202)
- **4m @ 29.6g/t Au** from 116m *including 1m @ 101.6g/t Au* (ZARD 215)
- **1m @ 15.9g/t Au** from 164m (ZARD 209)
- **8m @ 7.36g/t Au** from 162m *including 1m @ 20g/t Au* and **2m @ 12.7g/t Au** from 178m (ZARD 223)
- **3m @ 4.5g/t Au** from 134m (ZARD 210)
- **2m @ 13.1g/t Au** from 53m and **1m @ 8.6g/t Au** from 80m (ZARD 222)
- **2m @ 12.8g/t Au** from 103m (ZARD 211)
- **5m @ 5.9g/t Au** from 138m *including 1m @ 15g/t Au* and **1m @ 13.1g/t Au** (ZARD 217)
- **1m @ 11.7g/t Au** from 148m (ZARD 213)
- **1m @ 16.5g/t Au** from 32m and **3m @ 8.7g/t Au** from 48m (ZARD 216)
- **2m @ 7.4g/t Au** from 117m (ZARD 218)
- **1m @ 138.65g/t Au** from 185m (ZARD 237)
- **1m @ 56.38g/t Au** from 195m (ZARD 237)
- **1m @ 36.97g/t Au** from 199m (ZARD 237)
- **1m @ 16.82g/t Au** from 322m (ZARD 236)

Please refer to the full tabulation of all significant assays in Table 1.

The results from Koka South confirm that the mineralisation extends to depth and remains open to the south and at depth (*Figure 3*). Mineralisation is hosted by a mixed microgranite and porphyry intrusive body which shows various degrees of brecciation and quartz stockworking.

The mineralisation is invariably accompanied by accessory amounts of galena and sphalerite (lead and zinc sulphides) which are increasingly recognized as critical pathfinder minerals in the Koka gold camp.

The widths and grades of mineralisation encountered have the potential to provide a significant underground extension to the Koka deposit.

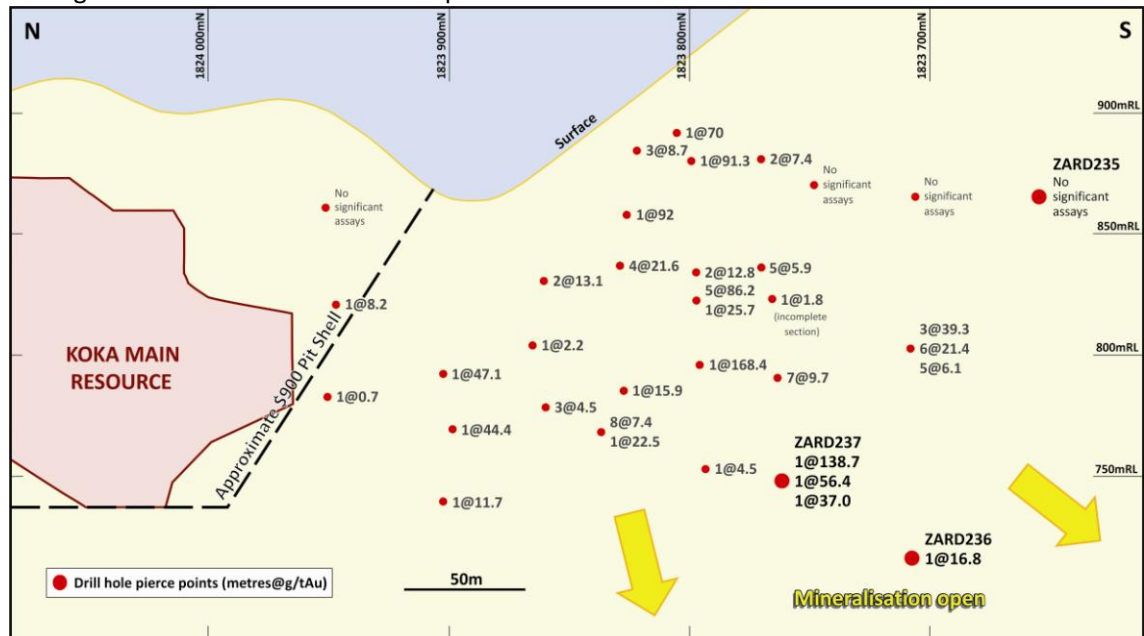


Figure 3: Koka South – schematic long section showing drillhole pierce points and main intercepts (see Table 1 for full listing of intersections and gold grades)

Hole ID	Easting	Northing	Azimuth	Dip	From (m)	To (m)	Length (m)	Au g/t
ZARD202**	390144	1823877	070E	-60	145	146	1	44.35
ZARD209**	380134	1823844	102E	-55	138	139	1	1.24
					164	165	1	15.94
ZARD210** incl incl	390144	1823877	102E	-60	134	137	3	4.54
					134	135	1	7.59
					136	137	1	1.48
ZARD211** incl incl	390188	1823805	102E	-62	89	90	1	3.46
					103	105	2	12.80
					103	104	1	3.45
					104	105	1	22.14
ZARD 212**	390154	1823774	102E	-60	139	140	1	1.80
ZARD 213** incl	390134	1823924	102E	-60	141	149	8	1.94
					148	149		11.70
ZARD 215** incl incl	390170	1823840	102E	-55	80	85	5	1.85
					116	120	4	29.59
					116	117	1	101.61
					119	120	1	19.86
ZARD 216** incl incl	390190	1823826	102E	-45	32	33	1	16.46
					48	51	3	8.73
					48	49	1	11.51
					50	51	1	14.65
ZARD 217** incl incl	390171	1823786	102E	-60	129	130	1	1.01
					138	143	5	5.92
					138	139	1	14.97
					142	143	1	13.09
ZARD 218**	390171	1823786	102E	-45	117	119	2	7.36
ZARD 219**	390162	1823808	102E	-60	144	145	1	168.64
					154	155	1	3.20
ZARD 220**	390162	1823808	102E	-70	103	104	1	4.47
ZARD 221** incl incl	390162	1823808	102E	-55	98	103	5	86.23
					98	99	1	20.73
					100	101	1	401.08
					113	114	1	25.66
ZARD 222** incl incl	390177	1823869	102E	-45	53	59	6	5.08
					53	55	2	13.08
					58	59	1	4.24
					80	81	1	8.15
ZARD 223** incl incl incl	390116	1823853	102E	-60	162	170	8	7.36
					162	164	2	20.01
					165	166	1	7.48
					169	170	1	6.80
					178	180	2	12.69
ZARD 225**	390284	1823940	282E	-45	No mineralization intersected			
ZARD 233** incl	390152	1823713	102E	-75	124	127	3	39.25
					126	127	1	115.33
					132	137	5	21.38
					188	189	1	3.11
					244	249	5	6.06
ZARD 234** incl	390113	1823787	102E	-55	135	138	3	1.26
					141	148	7	9.73
					146	147	1	49.64
ZARD 235	390099	1823678	102E	-60	No mineralization intersected			
ZARD 236 incl incl	389966	1823751	102E	-45	272	273	1	1.13
					317	323	6	3.11
					317	318	1	1.45
					322	323	1	16.82
ZARD 237 incl incl incl	390070	1823774	102E	-55	185	214	29	10.87
					185	186	1	138.65
					195	196	1	56.38
					199	200	1	36.97
					210	213	3	2.09
					226	228	2	1.35

** Previously reported

+ Hole abandoned in mineralization

Table 1: Significant intercepts 2011 campaign, including previously released intercepts – Koka South

Debre Konate

The previously undrilled Debre Konate prospect (*Figure 4*), located ~2.5km south of the Koka deposit, was initially targeted as an IP resistivity anomaly supported by minor artisanal workings and a significant gold and lead soil geochemical anomaly. Drill hole ZARD 227 (*Figure 5*), which was the first hole drilled into this prospect, has intersected an extensive low-grade mineralised system grading 0.93g/t Au (uncut) over 199 metres (83m to 282m down-hole).

Drill hole ZARD230 (*Figure 5*) was drilled “up-section” from ZARD227 and has confirmed the previous drill results with numerous zones of narrow, higher grade mineralisation contained within the low-grade envelope. Overall, ZARD230 intersected the same extensive low-grade gold system, returning 111m @ 1.41g/t gold (uncut) from 94m.

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.

A full tabulation of all significant assays is tabled below (Table 2).

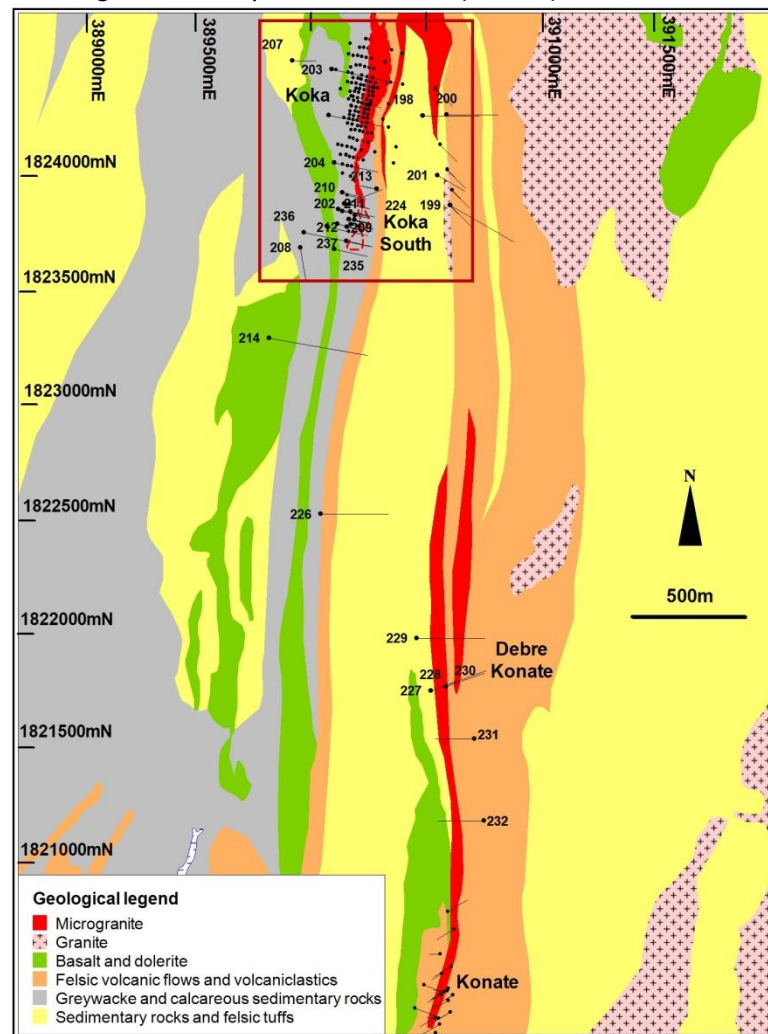


Figure 4: Koka-Konate Corridor showing location of recent drilling

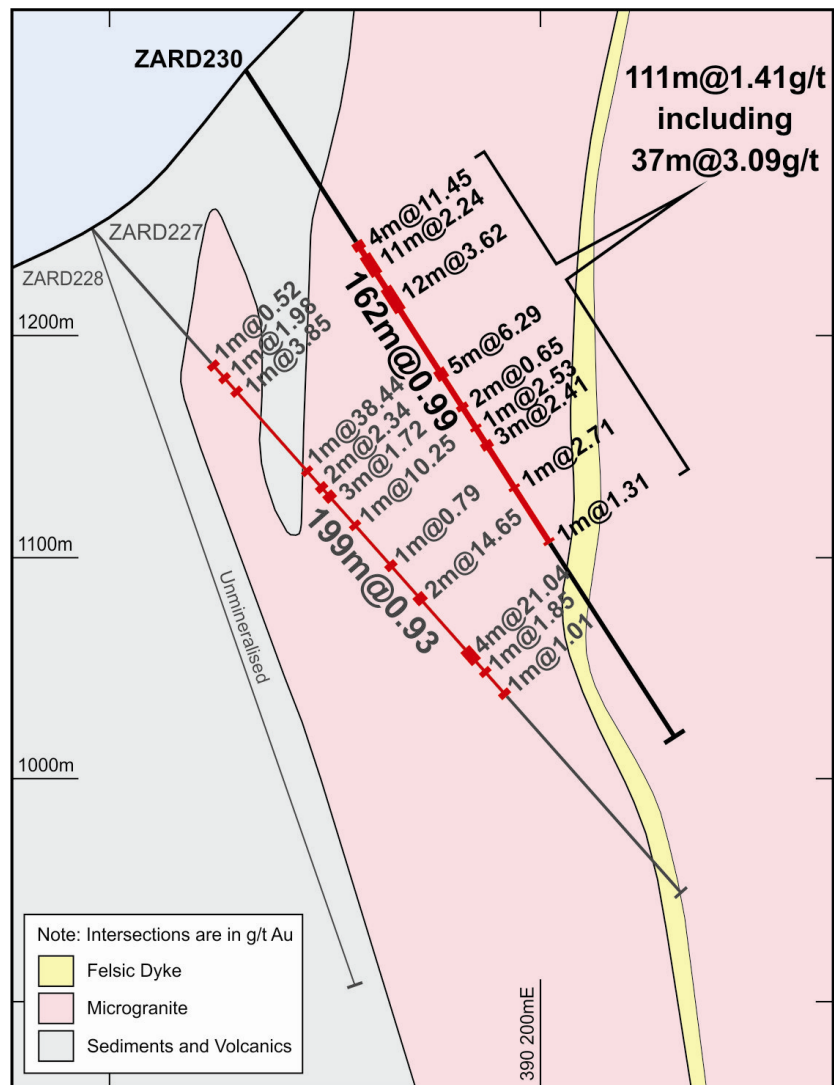


Figure 5: Cross Section – Debre Konate

Hole ID	Easting	Northing	Azimuth	Dip	From (m)	To (m)	Length (m)	Au g/t
ZARD 227	390520	1821750	070E	-50	83	282	199	0.93
incl					90	91	1	1.98
incl					98	99	1	3.85
incl					146	147	1	38.44
incl					156	158	2	2.34
incl					159	160	1	2.06
incl					161	162	1	2.80
incl					180	181	1	10.25
incl					223	225	2	14.65
incl					256	260	4	21.04
incl					267	268	1	1.85
incl					281	282	1	1.01
ZARD 230	390586	1821766	070E	-60	94	205	111	1.41
incl					94	98	4	11.45
incl					101	112	11	2.24
incl					119	120	1	12.55
incl					124	125	1	3.34
incl					127	131	4	6.72
incl					129	130	1	22.42
incl					163	164	1	30.55
incl					194	195	1	2.53
incl					202	205	3	1.61
incl					226	227	1	2.71
incl					255	256	1	1.31

Table 1: Significant Intercepts – Zara Gold Project - Debre Konate (both holes previously reported)

6. Financial Position

As at 31 December 2011, the Company had cash on hand of approximately \$3.5 million. Please refer to the attached Appendix 5B for further details.

On 27 January 2012, Chalice received US\$3 million from ENAMCO as an interim payment for the sale of the 30% interest in the Zara Project.

In addition, under the terms of the Shareholders Agreement, from 1 January 2012, ENAMCO have been and will continue to sole fund ~US\$4M of exploration and pre-development expenditures at the Zara Project. Subsequent to period end, ENAMCO has contributed ~US\$2.2 million.

7. Board of Directors

During the Quarter, Mike Griffiths and Juan Jeffery resigned as directors of the Company. This followed a review of the composition of the Board and the need for an appropriate balance between independent and non-independent directors.

Mr Jeffery has remained as the Chief Operating Officer and Mr Griffiths will consult to the Company from time to time in relation to its Eritrean Projects.

Mr. Griffiths was previously the Managing Director of Sub Sahara Resources, which merged with Chalice in 2008, and has been instrumental in the development of the Eritrean Project.

His contribution to the Company and the Project has been considerable and Chalice recognises and thanks him for this.

A handwritten signature in blue ink, appearing to read 'Douglas Jones', with a stylized, cursive script.

DR DOUGLAS JONES
Managing Director

31 January 2012

About Chalice

Chalice Gold Mines Limited is an exploration and development company which owns a 60% beneficial interest in the high grade, open-pittable Koka Gold Deposit and a substantial, largely unexplored, land package in Eritrea. The Koka Gold Deposit consists of an “in-pit” JORC and NI 43-101 compliant Indicated Mineral Resource of 5.0 million tonnes grading 5.3 grams of gold per tonne, containing 840,000 ounces of gold. This Mineral Resource includes a Probable Mineral Reserve of 4.6 million tonnes grading 5.1 grams of gold per tonne, containing 760,000 ounces of gold. The Company is focused on developing the Koka Gold Deposit into a low cost gold mine, which is expected to produce 104,000 ounces of gold per year over a 7 year mine life at an average cash cost of US\$338/oz gold (refer to the 43-101 Technical Report on the Koka Gold Deposit, Eritrea dated 27 July 2010). As announced on 28 December 2011, Chalice has entered into a conditional shortform agreement with a third party in respect of the Zara Gold Project, including the Koka Gold Deposit and Koka South which could result in a third party acquiring Chalice’s interest in these assets. Chalice also holds a substantial strategic ground position of 1,372 km² consisting of licenses along strike of the Koka Gold Deposit, and proximal to Nevsun’s Bisha Mine. These exploration concessions host numerous, high potential, early and advanced stage gold and base metal exploration targets. Chalice is undertaking a systematic exploration effort on these exploration concessions with the aim of discovering significant new deposits.

For further information, please contact:

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Dr Doug Jones, Managing Director

Chalice Gold Mines Limited
Telephone +61 9322 3960

For media inquiries, please contact:

Nicholas Read

Read Corporate
Telephone: +618 9388 1474

Competent Persons and Qualified Person Statement

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

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

Forward Looking Statements

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

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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 future implications of exploration results reported herein including whether the Koka South mineralization becomes a mineral resource and/or reserve and is economically extractable by underground methods or otherwise, 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, as well as the possibility that a sale of the Zara Gold Project may be consummated.

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 information in this news release, 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 news release 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.

Sampling Procedures and Quality Assurance

Diamond drill core is logged and photographed prior to splitting with a core saw. One half of the core is retained on site whilst the other half is bagged and dispatched to the Africa Horn Preparation facility (a division of NATA-accredited Intertek-Genalysis Laboratories) in Asmara for crushing to -2mm and splitting. Certified reference materials (CRMs) are submitted with all sample batches at the rate of 1 per 20-25 routine samples. The CRM's inserted have values ranging from very low to high grade. The coarse reject is stored and the split sub-sample is pulverized to a nominal 95% passing -75 micron using an LM2 pulverizer.

The pulverized pulp is further split into two 100g to 150g sub-samples; a primary pulp sample is sent for analysis and a duplicate pulp sample is kept as a reference and the remaining fine (-75 micron) reject is stored. A quartz wash is pulverized between samples and is stored for random testing of preparation contamination.

The sample pulps are transported by air to NATA-accredited Intertek-Genalysis Laboratories in Perth Western Australia for assay. For drill core and RC samples used for resource analysis the majority of gold assaying is completed using a lead collection of 50g fire assay method with an atomic absorption spectroscopy (AAS) finish. Additional specified multi-element assays are carried out by ICP-OES on 25g sub-sample prepared using aqua regia digest. Bulk density determinations using water immersion method are carried out on every metre of core within expected mineralisation and every 10m within waste zones. QA/QC monitoring is applied to all drill core assays as per the protocols described above.

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

CHALICE GOLD MINES LIMITED

ABN

47 116 648 956

Quarter ended ("current quarter")

31 DECEMBER 2011

Consolidated statement of cash flows

Cash flows related to operating activities

- 1.1 Receipts from product sales and related debtors
- 1.2 Payments for
 - (a) exploration & evaluation
 - (b) development
 - (c) production
 - (d) administration
- 1.3 Dividends received
- 1.4 Interest and other items of a similar nature received
- 1.5 Interest and other costs of finance paid
- 1.6 Income taxes paid
- 1.7 Other - GST

Net Operating Cash Flows

Cash flows related to investing activities

- 1.8 Payment for purchases of:
 - (a) prospects
 - (b) equity investments
 - (c) other fixed assets
- 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 (provide details if material)

Net investing cash flows

- 1.13 Total operating and investing cash flows (carried forward)

Current quarter	Year to date (6 months)
\$A'000	\$A'000
25	104
(2,869)	(5,595)
(867)	(867)
-	-
(642)	(1,519)
-	-
137	200
-	-
-	-
4	62
(4,212)	(7,615)
-	-
-	-
(73)	(246)
-	-
-	-
-	-
1,082	1,082
-	-
1,009	836
(3,203)	(6,779)

Appendix 5B

Mining exploration entity quarterly report

	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(3,203)	(6,779)
1.20	Cash at beginning of quarter/year to date	6,738	10,194
1.21	Exchange rate adjustments to item 1.20	(27)	93
1.22	Cash at end of quarter	3,508	3,508

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'000
1.2 Aggregate amount of payments to the parties included in item 1.2	218
1.2 Aggregate amount of loans to the parties included in item 1.10	-

1.2 Explanation necessary for an understanding of the transactions

Item 1.2 – Amounts paid to related parties include remuneration, directors' fees, consulting fees and reimbursements of out of pocket expenses to directors.

Item 1.11 – Relates to the contribution received from the Eritrean National Mining Corporation ("ENAMCO") for funds owed to Zara Mining Share Company for exploration and development of the Zara Project in Eritrea (see 2.1 below).

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

Under the terms of the Shareholders Agreement between Chalice and ENAMCO, as at 31 December 2011, ENAMCO are required to contribute ~US\$4.1 million towards exploration and development costs at the Zara Project to bring them in line with their contribution obligations given that Chalice has been funding the project since 1 April 2011. After period end and until the date of this report, ENAMCO have contributed ~US\$2.2 million and will continue to be the sole contributor until such time as they have met their share of pro-rata costs since 1 April 2011. After ENAMCO have contributed ~US\$4.1 million, both Chalice and ENAMCO will revert to funding the Zara Project on a two-thirds/one-third basis.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

- 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'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,281
4.2 Development	592
4.3 Production	-
4.4 Administration	1,046
Total	3,919

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	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,975	689
5.2 Deposits at call	1,533	6,049
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,508	6,738

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Changes in interests in mining tenements

		Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	The Zara Project in Eritrea	During the quarter, Chalice entered into a binding conditional contract to sell Chalice's remaining 60% interest in the Zara Project including the Zara North, South and Central licences.	60%	60%
6.2	Interests in mining tenements acquired or increased	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	Preference securities (description)	Nil	Nil	Nil
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	N/A	N/A	N/A
7.3	+Ordinary securities	250,030,886	250,030,886	N/A
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	Nil	Nil	N/A
7.5	+Convertible debt securities (description)	Nil	Nil	N/A
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	Nil	Nil	N/A

+ See chapter 19 for defined terms.

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Mining exploration entity quarterly report

7.7	Options (<i>description and conversion factor</i>)	500,000	Nil	Exercise price \$0.25	Expiry date 1 December 2012
		500,000	Nil	\$0.25	31 July 2013
		1,250,000	Nil	\$0.35	31 March 2014
		1,250,000	Nil	\$0.45	31 March 2014
		750,000	Nil	\$0.50	1 September 2012
		1,000,000	Nil	\$0.36	31 March 2012
		187,500	Nil	\$0.55	30 April 2014
		187,500	Nil	\$0.65	30 April 2014
		375,000	Nil	\$0.75	30 April 2014
		500,000	Nil	\$0.40	31 March 2014
		750,000	Nil	\$0.45	14 September 2014
		2,500,000	Nil	\$0.50	30 November 2014
		100,000	Nil	\$0.45	30 November 2014
	Performance Rights	750,000	Nil	Nil	30 June 2015
		500,000	Nil	Nil	30 June 2015
		400,000	Nil	Nil	1 October 2014
7.8	Issued during quarter: Options	2,500,000	Nil	\$0.50	30 November 2014
		100,000	Nil	\$0.45	30 November 2014
	Performance Rights	750,000	Nil	Nil	30 June 2015
		500,000	Nil	Nil	30 June 2015
		400,000	Nil	Nil	1 October 2014
7.9	Exercised during quarter	Nil	Nil	N/A	N/A
7.10	Expired during quarter	1,000,000	Nil	\$0.35	16 November 2011
7.11	Debentures (<i>totals only</i>)	Nil	Nil		
7.12	Unsecured notes (<i>totals only</i>)	Nil	Nil		

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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: 
Company Secretary

Date: 31 January 2012

Print name: Richard Hacker

+ See chapter 19 for defined terms.

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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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