

17 August 2010

REGISTERED OFFICE

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Dear Sir/Madam

Fully Underwritten Non-Renounceable Rights Issue – Lodgment of Prospectus

The Company advises that the prospectus for the underwritten non-renounceable rights issue (“Rights Issue”) was lodged with the Australian Securities and Investment Commission (“ASIC”) on the 17 August 2010 which follows.

Key information in relation to the Rights issue is set out below:

- The terms of the Rights Issue is on the basis of 1 share for every 6 shares held as at the record date being 26 August 2010
- The Rights Issue is fully underwritten by Southern Cross Equities Limited
- Broker to the Issue is Argonaut Securities Pty Limited
- The maximum number of New Shares before the possible exercise of unlisted options is 30,172,269, and all New Shares will rank equally with existing Shares
- The funds will be used for exploration including drilling, geophysics, regional sampling and advancement of the Koka Gold Deposit in Eritrea and general working capital

Key dates contained in the prospectus are:

Event	Date
Announcement of Issue	9 August 2010
Prospectus lodged with ASIC and ASX	17 August 2010
Notice sent to Shareholders containing information required by Appendix 3B	19 August 2010
"Ex" date	20 August 2010
Record Date to determine Entitlements under the Entitlement Offer	26 August 2010
Opening Date	26 August 2010
Prospectus and Entitlement and Acceptance Form despatched	30 August 2010
Closing date for acceptances under the Entitlement Offer	13 September 2010

Yours faithfully



TIM GOYDER
Executive Chairman

CHALICE GOLD MINES LIMITED

ACN 116 648 956

PROSPECTUS

For a non-renounceable offer of 1 New Share for every 6 Shares held by way of a pro-rata Entitlements Offer at an application price of 42 cents per New Share

UNDERWRITER – SOUTHERN CROSS EQUITIES LIMITED

BROKER TO THE ISSUE – ARGONAUT SECURITIES PTY LIMITED

Investment in the New Shares offered by this Prospectus should be considered speculative.

IMPORTANT NOTICE

1. Prospectus

This Prospectus is dated 17 August 2010. A copy of this Prospectus has been lodged with ASIC on that date. ASIC takes no responsibility for the contents of this Prospectus.

No Shares will be issued or allotted on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Chalice Gold Mines Limited (**Chalice** or the **Company**) will apply to ASX within 7 days of the date of this Prospectus for quotation of the New Shares offered by this Prospectus. ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may quote the New Shares is not to be taken in any way as an indication of the merits of the Company.

In making representations in this Prospectus, regard has been made to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult. Further information is provided in Section 5.9 and 5.10 of this Prospectus.

2. Disclaimer

The information contained in this Prospectus is not investment advice. Before deciding to invest in the Company, you should read and understand the entire Prospectus and, in particular, in considering the Company's prospects, you should consider the risk factors that could affect the Company's performance. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek advice from your professional adviser before deciding to invest. Investing in the Company involves risks. See 'Risk Factors' in Section 4 of this Prospectus for a discussion of certain risk factors that you should consider before deciding to invest in the Company.

Any references to past performance of the Company are no guarantee of future performance.

3. No Representations other than this Prospectus

No person is authorised to give any information or to make any representation in connection with the Entitlement Offer that is not contained in this Prospectus or has not been released to ASX with the authorisation of the Company.

The Entitlement and Acceptance Form accompanying this Prospectus is important. Please refer to the instructions in Section 3 of this Prospectus regarding the acceptance of your Entitlement. Applications can only be submitted on a valid Entitlement and Acceptance Form that is only available with this Prospectus.

4. No cooling off rights apply to this Offer

Cooling off rights do not apply to an investment pursuant to this Offer. This means that, in most circumstances, you cannot withdraw your Entitlement and Acceptance Form once it has been lodged.

5. Offer Restrictions on Distribution

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia or to otherwise permit a public offering of New Shares in any jurisdiction outside Australia. This Prospectus is not to be distributed in, and no offer of New Shares is to be made in, countries other than Australia and New Zealand.

The New Shares have not been or will not be registered under the US Securities Act of 1933 and may only be offered, sold or resold in, or to persons in, the United States in accordance with an available exemption from registration.

It is the responsibility of any Applicant to ensure compliance with any laws of a country relevant to their application. Return of a duly completed Entitlement and Acceptance Form will be taken by the Company as a representation that there has been no breach of such laws, that the Applicant is an Eligible Shareholder and that the Applicant is physically present in Australia or New Zealand. Shareholders outside Australia (**Ineligible Foreign Shareholders**) should refer to Section 1.8 of this Prospectus for details of how their Entitlement will be dealt with.

6. Prospectus availability

ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

This Prospectus is available in electronic form at www.chalicegold.com only for persons within Australia. Persons who access the electronic form of this Prospectus must ensure that they download and read the entire Prospectus. A printed copy of this Prospectus is available free of charge by calling the Company.

7. Definitions and glossary, financial amounts and time

Definitions of certain terms used in this Prospectus are contained in Section 7. Unless otherwise indicated all references to currency are to Australian dollars and all references to time (such as "WST") are to Perth, Western Australian time, unless otherwise indicated.

TABLE OF CONTENTS

IMPORTANT DATES.....	2
LETTER FROM THE CHAIRMAN	...3
1. Prospectus	1
2. Disclaimer	1
3. No Representations other than this Prospectus	1
4. No cooling off rights apply to this Offer	1
5. Offer Restrictions on Distribution	1
6. Prospectus availability	1
7. Definitions and glossary, financial amounts and time	1
1. DETAILS OF THE ENTITLEMENT OFFER	5
2. PURPOSE AND EFFECT OF THE ENTITLEMENT OFFER	9
3. ACTION REQUIRED BY SHAREHOLDERS	13
4. RISKS	16
5. ADDITIONAL INFORMATION	22
6. DIRECTORS' STATEMENT	35
7. DEFINITIONS	36
8. CORPORATE DIRECTORY	38
ENTITLEMENT AND ACCEPTANCE FORM	INSERT

IMPORTANT DATES

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"Ex" date	20 August 2010
Record Date to determine Entitlements under the Entitlement Offer.	26 August 2010
Opening Date	26 August 2010
Prospectus and Entitlement and Acceptance Form despatched.	30 August 2010
Closing date for acceptances under the Entitlement Offer	13 September 2010
New Shares quoted on a deferred settlement basis	14 September 2010
Company notifies ASX of under-subscriptions	15 September 2010
Expected allotment of New Shares	21 September 2010
Dispatch of shareholding statements	21 September 2010
Trading of New Shares expected to commence	22 September 2010

The above dates are indicative only. The Company reserves the right, subject to the Corporations Act, the ASX Listing Rules and the Underwriting Agreement, to close the Offer early, to extend the last date for receipt of Entitlement and Acceptance Forms, or to delay or withdraw the Offer at any time without prior notice, in which case all Application Monies for New Shares which have not been issued will be refunded (without interest) as soon as practicable.

WHAT YOU NEED TO DO TO APPLY FOR NEW SHARES

Read

Read this Prospectus in full paying careful attention to the benefits and risks associated with acceptance of this Offer.

Consider and Consult

After reading the Prospectus, consider whether the investment is suitable for you in light of your particular financial position and investment objectives. If necessary please consult with your financial or investment adviser before making an investment decision.

Complete Entitlement and Acceptance Form

If you have decided to take up your Entitlement in full or in part, complete the Entitlement and Acceptance Form accompanying this Prospectus and lodge the form together with your Application Money by **5pm (WST) 13 September 2010**.

If you have any queries concerning your Entitlement or what to do with this Prospectus, please contact:

Computershare Investor Services Pty Limited by telephone on:

1300 557 010

Or contact your stockbroker or professional adviser.

LETTER FROM THE CHAIRMAN

Dear Shareholder

Chalice Gold Mines Limited (**Chalice** or **Company**) is pleased to offer Shareholders the opportunity to further participate in the development of the Company's gold project in Eritrea, East Africa pursuant to a fully underwritten Entitlement Offer. Details of the Entitlement Offer, the Shareholder's respective Entitlements and the use of funds are set out in this Prospectus.

The fully underwritten Entitlement Offer, which is on a 1:6 basis at 42 cents per New Share, will raise approximately \$12.6 million (before Offer costs). Proceeds raised from the Offer will be used for the continued advancement of the Koka Gold Deposit and for drilling at the Konate and regional prospects along with further target generation particularly in the Koka-Konate corridor.

Shareholders will be aware that on 13 July 2010 Chalice reported to the Australian Securities Exchange positive results from the independent Feasibility Study for the proposed open pit mine at its Koka Gold Deposit which forms part of the Zara Gold Project. This Feasibility Study was well received by the Eritrean Government when it was presented recently and the Company will now pursue the granting of a mining licence for the development of the Koka Deposit.

The completion of the Koka Feasibility Study was a major accomplishment for the Company and the positive results confirm the Koka Deposit as a potentially robust gold producer with an average annual gold production of 104,000 ounces over a mine life of 7 years and life of mine cash operating costs of US\$338 per ounce. As Chalice advised in the ASX release on 13 July 2010, the significant exploration potential of the Company's extensive tenement package surrounding Koka also provides an opportunity to expand the resource base and extend the current mine life.

The current focus of Chalice is to negotiate with the Eritrean Government for the grant of a mining licence for the Koka Deposit and step-up exploration and target generation within Chalice's extensive landholdings in Eritrea.

In addition to its own tenement holdings in Eritrea, Chalice has a 20% interest in London Africa Limited which holds two exploration licences in Eritrea which are currently being explored pursuant to work programs agreed with the Eritrean Government,

On behalf of the Board, I commend the Prospectus to you. Before making your decision to invest, I ask you to carefully read the Prospectus and seek professional advice if required. As Shareholders will note in the Prospectus, four of the Company's directors are sub-underwriters to the Issue in varying degrees.

Chalice is at an exciting stage in the development of its gold project in Eritrea and the Company has particular pleasure in offering its Shareholders the opportunity to participate in its further development.

Kind regards



TIM GOYDER
Executive Chairman

1. DETAILS OF THE ENTITLEMENT OFFER

1.1 The Entitlement Offer

The Company is making a non-renounceable pro-rata offer of New Shares to Eligible Shareholders of approximately 30,172,269 New Shares on the basis of 1 New Share for every 6 Shares held at the Record Date at an issue price of 42 cents to raise approximately \$12,672,353 before Offer costs.

Fractional Entitlements will be rounded up to the nearest whole number of New Shares. For this purpose, holdings in the same name are aggregated for calculation of Entitlements. No brokerage or stamp duty is payable by Eligible Shareholders on the issue of New Shares under this Prospectus.

1.2 Underwriting

The Entitlement Offer is underwritten by Southern Cross Equities Limited. A summary of the Underwriting Agreement (including the circumstances in which it may be terminated) is set out in Section 5.6.

The Underwriter has entered into sub-underwriting agreements with Tim Goyder, Anthony Kiernan, Doug Jones and Stephen Quin, each of whom are Directors of Chalice. A summary of the sub-underwriting agreement and the Directors' respective sub-underwriting obligations are set out in Sections 5.7 and 5.11.

1.3 Opening and Closing Date

The Entitlement Offer will open for receipt of acceptances on 26 August 2010. The Closing Date for acceptance of your Entitlement is 5.00 pm WST on 13 September 2010.

The Company reserves the right, subject to the Corporations Act, the ASX Listing Rules and the Underwriting Agreement, to close the Offer early, to extend the last date for receipt of Entitlement and Acceptance Forms, or to delay or withdraw the Offer at any time without prior notice, in which case all Application Monies for New Shares which have not been issued will be refunded (without interest) as soon as practicable.

1.4 Purpose of the Offer

The Company expects to receive approximately \$12,042,731 under the Entitlement Offer (after Offer costs) and will use the proceeds as set out in Section 2.

1.5 Entitlement

Eligible Shareholders who are on the Company's Share Register at the close of business on the Record Date, being 26 August 2010, will receive rights to acquire 1 New Share for every 6 Shares held, at the Offer Price of 42 cents per New Share.

An Entitlement and Acceptance Form setting out your Entitlement to New Shares accompanies this Prospectus.

The Entitlement Offer is non-renounceable, and therefore the Entitlements are not transferable and cannot be traded on the ASX.

Entitlements not accepted by the Closing Date will revert to the Underwriter under the Underwriting Agreement.

1.6 Actions Required by Eligible Shareholders

A detailed explanation of the actions required by Eligible Shareholders is set out in Section 3.

If you wish to accept the Offer, your acceptance must be made on the Entitlement and Acceptance Form accompanying this Prospectus. Your acceptance must not exceed your Entitlement as shown on that form, and may be for the full amount or part amount of the Offer.

You may participate in the Offer as follows:

- **If you wish to take up your Entitlement in full:**

Complete the accompanying Entitlement and Acceptance Form by writing, where indicated, the number of New Shares you are entitled to, and the dollar amount as shown on the form, and attach your cheque or bank draft for that amount.

- **If you wish to take up part of your Entitlement:**

Follow the instructions on the accompanying Entitlement and Acceptance Form by writing where indicated the number of New Shares you wish to take up and the corresponding dollar amount (being the number of New Shares multiplied by the Offer Price of 42 cents) and attach your cheque or bank draft for that amount.

- **If you do not wish to take up any or all of your Entitlement you are not obliged to do anything.**

Eligible Shareholders are not entitled to apply for more than their Entitlement as shown on their personalised Entitlement and Acceptance Form.

1.7 Allotment and Application Money

Applications for New Shares must be made on the Entitlement and Acceptance Form. Please ensure the completed Entitlement and Acceptance Form together with your cheque, drawn on an Australian bank or bank draft made payable in Australian currency to "**Chalice Gold Mines Limited – Share Issue Account**" and crossed "Not Negotiable" in the enclosed envelope are forwarded to Computershare Investor Services Pty Limited (the Company's Share Registry) **no later than 5.00pm WST on 13 September 2010.**

Cash will not be accepted. Receipts for payments will not be issued. Applicants should ensure that sufficient funds are held in the relevant account(s) to cover the cheque(s).

Please note that payment via BPAY® must be made by **no later than 4.00pm WST on 13 September 2010.** Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment and it is the responsibility of the Applicant to ensure that funds are submitted through BPAY by the date and time mentioned above. If you elect to pay via BPAY, you must follow the instructions for BPAY set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

All Acceptance Monies are payable in full on return of the Entitlement and Acceptance Form enclosed with this Prospectus.

New Shares will be issued only after all Application Money has been received and ASX has granted permission for the New Shares to be quoted. It is expected that New Shares will be allotted and shareholder statements despatched on or about 21 September 2010 and normal trading of the New Shares on ASX is expected to commence on or about 22 September 2010.

All Application Money received before New Shares are allotted will be held in a special purpose account. After any Application Money is refunded (if required) and New Shares are allotted to Applicants, the balance of funds in the account plus any accrued interest will be received by the Company.

If the New Shares are not quoted by ASX within three months after the date of this Prospectus, the Company will refund all Application Money in full (without interest).

1.8 Treatment of Overseas Shareholders

The Company is of the view that it is unreasonable to make the Entitlement Offer to Shareholders whose registered address as at the Record Date is outside of Australia or New Zealand having regard to:

- (a) the number of Shareholders outside these jurisdictions;
- (b) the number and value of the New Shares that could be offered outside these jurisdictions; and
- (c) the cost of complying with applicable regulations in jurisdictions outside these jurisdictions.

This Prospectus has not been and will not be registered under the securities laws of jurisdictions outside these jurisdictions. Accordingly, no Entitlement and Acceptance Forms will be sent, and no offer will be made, to Ineligible Foreign Shareholders. This Prospectus will be sent to them for information purposes only.

Non-Australian Eligible Shareholders should note that the Offer is being conducted in accordance with the laws in force in Australia and the ASX Listing Rules.

The Offer contained in this Prospectus to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand). Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for any New Shares.

Recipients of this Prospectus may not send or otherwise distribute this Prospectus or the Entitlement and Acceptance Form to any person outside Australia (other than to Eligible Shareholders).

1.9 Quotation and Issue of New Shares

No New Shares will be issued pursuant to this Prospectus until permission is granted by the ASX for quotation of the New Shares during the relevant time periods set out in the Corporations Act. The Company will apply to the ASX within seven days after the date of this Prospectus for the New Shares to be granted quotation.

The fact that the ASX may grant official quotation of the New Shares is not to be taken in any way as an indication of the merits of the Company or the New Shares now offered for subscription.

1.10 Rights attaching to New Shares

The New Shares issued under this Prospectus will rank equally in all respects with existing Shares. A summary of the important rights attaching to the New Shares is contained in Section 5.3 of this Prospectus.

1.11 Risk Factors

Applicants should appreciate that there are risks associated with any stock market investment, including an investment in the Company. There are general and specific risks which relate directly to the Company's business and are largely beyond the control of the Company and its Directors because of the nature of the business of the Company. These risks may affect the future operating and financial performance of the Company and the value of an investment in the Company. These risk factors are discussed in more detail in Section 4 of this Prospectus.

2. PURPOSE AND EFFECT OF THE ENTITLEMENT OFFER

2.1 Purpose of the Entitlement Offer

The funds raised from the Entitlement Offer will be applied towards the following:

- (a) the continued advancement of Chalice's gold project in Eritrea including but not limited to:
- continuation of development of the Koka deposit and of diamond drilling at the Konate prospect and other areas within Chalice's tenements;
 - advancement of the Konate prospect;
 - target generation in the Koka-Konate corridor;
 - integration of data over the Zara tenement package to define further exploration targets;
 - infill bulk leach extractable gold ("BLEG") regional sampling program;
 - airborne magnetic and radiometric survey over the Zara tenement package; and
 - further exploration on regional tenements;
- (b) general working capital; and
- (c) meeting Offer costs.

The application of the \$12,672,353 raised under the Entitlement Offer is summarised as follows:

Use of Funds	Amount \$
Advancement of the Zara Gold Project	10,000,000
Working capital	2,042,731
Offer Costs	629,622
TOTAL	\$12,672,353

2.2 Effect of the Offer

The principal effects of the Entitlement Offer will be to:

- (a) increase the Company's cash reserves by approximately \$12,042,731, (after taking into account the Offer costs);

- (b) provide the Company with additional capital for the purposes referred to in Section 2.1; and
- (c) increase the total number of issued Shares (refer to Section 2.3).

Pro forma financial information summarising the effects of the Offer is provided in Section 2.4.

2.3 Effect of the Offer on Capital Structure

The ultimate effect of the Offer on the Company's capital structure is dependent on whether Optionholders elect to exercise their Options prior to the Record Date.

Set out below, for illustrative purposes only, is the existing capital structure (as at the date of this Prospectus) together with the impact of the issue of New Shares under the Offer.

Ordinary Shares	Number
Number of Shares on issue at the date of this Prospectus	181,033,617
New Shares offered pursuant to the Entitlement Offer	30,172,269
Total issued Shares post completion of the Entitlement Offer	211,205,886

In addition, the Company has on issue the following unlisted Options as at the date of this Prospectus:

Expiry Date	Exercise Price	Number
21 March 2011	25 cents	5,575,000
1 December 2012	25 cents	500,000
11 December 2012	20 cents	250,000
31 July 2013	20 cents	500,000
31 March 2014	35 cents	1,250,000
31 March 2014	45 cents	1,250,000
1 September 2012	50 cents	750,000
16 November 2011	35 cents	2,000,000
31 March 2012	36 cents	1,000,000
TOTAL		13,075,000

If any of the Options are exercised prior to the Record Date the Shares issued on such exercise will be eligible to participate in the Entitlement Offer. Accordingly, the total issued capital of the Company following the Entitlement Offer may be more than the number shown above but will be no more than 224,280,887 Shares.

2.4 Effect of the Offer on the Company's Financial Position

Set out below for illustrative purposes is the audited consolidated statement of financial position as at 30 June 2010 and a pro forma consolidated statement of financial position as at 30 June 2010 including the effect of the Offer assuming that:

- (a) the issue of 30,172,269 New Shares offered pursuant to the Entitlement Offer at 42 cents to raise \$12,672,353 has been completed; and
- (b) the costs of the Entitlement Offer are approximately \$629,622 which are netted off cash received and issued capital.

	30 June 2010 (Audited)	Pro-forma Transactions	30 June 2011
	A\$'000		A\$'000
CURRENT ASSETS			
Cash and cash equivalents	7,688,905	12,042,731	19,731,636
Trade and other receivables	329,587		329,587
TOTAL CURRENT ASSETS	8,018,492	12,042,731	20,061,223
NON-CURRENT ASSETS			
Financial assets	214,255	-	214,255
Property, plant and equipment	1,257,494	-	1,257,494
Exploration and evaluation assets	27,056,158	-	27,056,158
Investments in associates	684,934		684,934
TOTAL NON-CURRENT ASSETS	29,212,841	-	29,212,841
TOTAL ASSETS	37,231,333	12,042,731	49,274,064
CURRENT LIABILITIES			
Trade and other payables	2,534,272	-	2,534,272
Employee benefits	110,038	-	110,038
TOTAL CURRENT LIABILITIES	2,644,310	-	2,644,310
NON-CURRENT LIABILITIES			
Other	39,312	-	39,312
TOTAL NON-CURRENT LIABILITIES	39,312	-	39,312
TOTAL LIABILITIES	2,683,622	-	2,683,622
NET ASSETS	34,547,711	12,042,731	46,590,442
EQUITY			
Issued capital	41,254,947	12,042,731	53,297,678
Accumulated losses	(8,280,770)	-	(8,280,770)
Reserves	1,573,534	-	1,573,534
TOTAL EQUITY	34,547,711	12,042,731	46,590,442

The Directors are not aware of any material item, transaction or event outside of the ordinary business of the Company that would require comment on, or adjustment to the audited financial statements for the year ended 30 June 2010 lodged with ASX on 16 August 2010, or that would cause the information in these financial statement to be misleading or deceptive other than in relation to a contingent liability for a potential tax liability in Eritrea as set out in Note 21 to the said financial statements. As the relevant Note states, in late July 2010 it became apparent from discussions with the Eritrean Government that the Government may seek to impose a profits tax liability on the acquisition by Chalice of Dragon Mining (Eritrea) Limited and Dragon Mining Limited's 20% interest in the Zara Gold Project.

Discussions are on going with the Eritrean Government and as noted in the said financial statement, as at the date of this Prospectus the timing and conclusion of those discussions are not certain.

Shareholders are referred to Note 21 in the said financial statement.

2.5 Market Price of Shares

The highest and lowest closing market prices of the Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales, are:

Highest: \$0.51 on 2 June 2010

Lowest: \$0.39 on 2 July 2010

The volume weighted average sale price on ASX of the Shares during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC is \$0.46.

The latest available market sale price of the Shares on ASX prior to the day of lodgement of this Prospectus with ASIC was \$0.44 on 16 August 2010.

3. ACTION REQUIRED BY SHAREHOLDERS

3.1 What Eligible Shareholders may do

The number of New Shares to which Eligible Shareholders are entitled (**your Entitlement**) is shown on the accompanying Entitlement and Acceptance Form.

If you do not take up your Entitlement, then your percentage holding in the Company will be diluted.

As an Eligible Shareholder you may:

- take up all of your Entitlement (refer to Section 3.2 below);
- take up part of your Entitlement and allow the balance to lapse (refer to Section 3.3 below); or
- allow all or part of your Entitlement to lapse (refer to Section 3.4 below).

Ineligible Foreign Shareholders may not take any of the steps set out in Sections 3.2 to 3.4.

3.2 Taking up all of your Entitlement

If you wish to take up all of your Entitlement, you must complete the accompanying Entitlement and Acceptance Form for New Shares in accordance with the instructions set out in that form.

You must then forward your completed Entitlement and Acceptance Form together with your Application Money to reach the Company's Share Registry by **no later than 5.00 pm WST on 13 September 2010**.

3.3 Taking up part of your Entitlement and allowing the balance to lapse

If you wish to take up only part of your Entitlement and allow the balance to lapse, you must complete the accompanying Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the steps required in accordance with Section 3.2.

The balance of your Entitlement will lapse if you take no further action.

3.4 Allow all or part of your Entitlement to lapse

If you wish to allow all or part of your Entitlement to lapse, you are not obliged to do anything in relation to that part of your Entitlement.

Entitlements of Eligible Shareholders are non-renounceable, which prevents Eligible Shareholders who do not wish to accept some or all of their Entitlement from transferring, selling or trading their rights on ASX.

3.5 Payment

The Offer Price for New Shares is payable in full on application by a payment of 42 cents per New Share. The accompanying Entitlement and Acceptance Form must be accompanied by a cheque or bank draft for the Application Monies. Cheques or bank drafts must be drawn in Australian currency on an Australian bank and made payable to

"Chalice Gold Mines Limited – Share Issue Account" and crossed "Not Negotiable". Applicants must not forward cash. Receipts for payment will not be issued.

You should ensure that sufficient funds are held in the relevant account(s) to cover the cheque(s). If the amount of your cheque(s) for Application Money is not sufficient to pay for the number of New Shares you have applied for, you may be taken to have applied for such lower number of New Shares as your cleared Application Money will pay for or your application may be rejected.

Payments may also be paid via BPAY. If you elect to pay via BPAY, you must follow the instructions for BPAY set out in the Entitlement and Acceptance Form and you will not need to return the Entitlement and Acceptance Form. If you wish to pay the Application Money via BPAY, payment must be made by **no later than 4.00pm WST on 13 September 2010**.

It is recommended that if you intend paying by BPAY you should first check with your own financial institution as it may implement earlier cut-off times. It is the responsibility of the Applicant to ensure that funds submitted through BPAY are received by no later than 4.00pm WST on 13 September 2010.

3.6 Enquiries

If you have any questions about your Entitlement please contact the Company's Share Registry, Computershare Investor Services Pty Limited, the address and contact details for which are given in the Corporate Directory section located at the end of this Prospectus. Alternatively, contact your stockbroker or other professional adviser.

3.7 Brokerage

No brokerage or stamp duty is payable by Shareholders who accept their Entitlement to New Shares.

3.8 Privacy

Applicants will provide personal information to the Company and the Share Registry. Company laws and tax laws require some of the information to be collected and kept. The Company will collect, hold and use the information provided by Applicants to process applications and to administer investments in the Company.

If the information requested in the Entitlement and Acceptance Form is not provided, the Company and the Share Registry may not be able to process the relevant application.

The Company may disclose personal information for purposes related to shareholders' investments to the Company's agents and service providers. The types of agents and service providers that may be provided with personal information and the circumstances in which personal information may be shared are:

- (a) the Share Registry for ongoing administration of the shareholder register,
- (b) printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- (c) the Underwriter to confirm applications; and
- (d) legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising, on the Shares, Options and for associated actions.

The Company complies with its legal obligations under the *Privacy Act 1988* (Cth).

Shareholders may request access to their personal information held by (or on behalf of) the Company, and may be required to pay a reasonable charge to the Share Registry in order to access this personal information. Request for access to personal information should be made by writing to or telephoning the Share Registry, the address and contact details for which are given in the Corporate Directory section located at the end of this Prospectus.

4. RISKS

4.1 Overview

The New Shares offered under this Prospectus should be regarded as speculative due to the inherent risks associated with the Company's activities. Neither the Company nor the Directors warrant the future performance of the Company or any investment made pursuant to this Prospectus. The exploration and development of resource projects is a speculative activity that involves a degree of risk. No assurance can be given that future exploration will be successful. The Directors recommend that Shareholders and potential investors examine the contents of this Prospectus together with previous ASX disclosures and public documents of the Company, including its most recent audited financial statements, and rely on advice of their professional advisers before deciding whether or not to apply for New Shares pursuant to this Prospectus.

The following summary, which is not intended to be an exhaustive list, represents some of the major risk factors which potential investors need to be aware of prior to investing with the Company.

4.2 General Economic Risks and Business Climate

Share market conditions in Australia and throughout the world may affect the listed securities regardless of operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) movements in or outlook on interest rates and inflation rates;
- (c) currency fluctuations;
- (d) commodity prices;
- (e) changes in investor sentiment towards particular market sectors; and
- (f) the demand and supply for capital.

Commodity prices are influenced by physical and investment demand for those commodities. Fluctuations in commodity prices may influence individual projects in which the Company has an interest.

4.3 Market Conditions

The market price of securities can be expected to rise and fall and may be subject to varied and unpredictable influences on the market for equities and in particular, resources stocks. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company. The Shares under this Prospectus carry no guarantee of the price at which they may trade on the ASX.

4.4 Joint Venture Parties, Agents and Contractors

The Directors are unable to predict the risk of financial failure or default by a participant in any joint venture to which the Company is or may become a party or the insolvency or managerial failure by any of the contractors used by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers used by the Company for any activity.

4.5 Future Capital Requirements

The estimated capital expenditure requirement for the Zara Gold Project is approximately US\$122M. The exact capital expenditure will not be known until further studies have been undertaken.

The Company's continued access to capital, through project financing or through credit facilities or other arrangements with acceptable terms is necessary for the success of its growth strategy. The Company's attempts to secure the necessary capital may not be successful on favourable terms, or at all. Market conditions and other factors may not permit future project and acquisition financings on terms favourable to the Company. The Company's ability to arrange financing on favourable terms, and the costs of such financing, are dependent on numerous factors, including general economic and capital market conditions, investor confidence, the continued success of current projects, the credit quality of the projects being financed, the political situation in the state in which the project is located and the continued existence of tax laws which are conducive to raising capital. If the Company is unable to secure capital through credit facilities or other arrangements, the Company may have to finance its projects using equity financing which will have a dilutive effect on existing Shareholders' Shares. Any of these alternatives could have a material adverse effect on the Company's growth prospects and financial condition.

4.6 Potential Acquisitions

As part of its business strategy, the Company may make acquisitions of or significant investments in companies, products, technologies or resource projects. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products, technologies or resource projects.

4.7 Reliance on Key Personnel

The Company's success depends largely on the core competencies of its Directors and management, and their familiarisation with, and ability to operate in, the metals and mining industry and the Company's ability to retain its key executives. There is a risk of some detrimental impact on the Company if key personnel leave the Company and people with comparable attributes are not available to replace them.

4.8 Exploration, Development, Mining and Processing Risks

The business of mineral exploration, project development and mining by its nature contains elements of significant risk. Ultimate and continuous success of these activities is dependent on many factors such as:

- (a) the discovery and/or acquisition of economically recoverable ore reserves;
- (b) successful conclusions to bankable feasibility studies;
- (c) access to adequate capital for project development;
- (d) design and construction of efficient mining and processing facilities within capital expenditure budgets;
- (e) securing and maintaining title to tenements and compliance with the terms of those tenements;
- (f) obtaining consents and approvals necessary for the conduct of exploration and mining; and

- (g) access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

Whether or not income will result from projects undergoing exploration and development programs depends on the successful establishment of mining operations. Factors including costs, actual mineralisation, consistency and reliability of ore grades and commodity prices affect successful project development and mining operations.

Mining is an industry which has become subject to increasing legislative regulation including but not limited to environmental responsibility and liability. The potential for liability is an ever present risk. The use and disposal of chemicals in the mining industry is under constant legislative scrutiny and regulation. The introduction of new laws and regulations or changes to underlying policy may adversely impact on the operations of the Company.

4.9 Mineral Resources is based on estimates and is subject to uncertainty.

The calculations of amounts of mineralized material are estimates only. Actual recoveries of gold from mineralized material may be lower than those indicated by test work. Any material change in the quantity of mineralization, grade or stripping ratio, or the gold price may affect the economic viability of a mineral property. In addition, there can be no assurance that gold recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production. Notwithstanding pilot plant tests for metallurgy and other factors there remains the possibility that the ore may not react in commercial production in the same manner as it did in testing. Mining and metallurgy are an inexact science and accordingly there always remains an element of risk that a mine may not prove to be commercially viable.

Until an un-mined deposit is actually mined and processed, the quantity of mineral reserves, mineral resources and grades must be considered as estimates only. In addition, the quantity of mineral reserves and mineral resources may vary depending on, among other things, metal prices. Any material change in quantity of mineral reserves, mineral resources, grade, percent extraction of those mineral reserves recoverable by underground mining techniques or stripping ratio for those mineral reserves recoverable by open pit mining techniques may affect the economic viability of a mining project.

4.10 Risks to Tenements

The tenements or licences in which the Company has or may earn an interest in may be subject to applications for renewal or grant (as the case may be). The renewal or grant of the term of each tenement or licence is usually at the discretion of the relevant government authority and dependent on the tenement conditions being met. Certain of the licences are subject to renewal on an ongoing basis, and there is no assurance such renewals will be granted.

If a tenement or licence is not renewed or granted, the Company may suffer significant damage through loss of the opportunity to develop and discover any mineral resources on that tenement or licence.

4.11 Risks Specific to the Zara Gold Project

The Zara Gold Project represents the main business activity and focus of the Company and will continue to do so for the foreseeable future.

Risks specific to the Zara Gold Project include the following:

(a) Resource Estimate

Resource estimates are based on knowledge, judgment, experience and industry practice. Estimates, which were valid when made, may change significantly when new information becomes available. In addition, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralisation or formations different from those predicted by past sampling and drilling, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could have either a positive or negative effect on the Company's operations.

(b) Operating Risks

The current and future operations of the Company, including exploration, appraisal and possible production activities may be affected by a range of factors, including:

- (i) geological conditions;
- (ii) limitations on activities due to seasonal weather patterns;
- (iii) alterations to joint venture programs and budgets;
- (iv) mechanical failure of operating plant and equipment;
- (v) adverse weather conditions, industrial and environmental accidents, acts of terrorism or political or civil unrest and other force majeure events;
- (vi) industrial action, disputation or disruptions;
- (vii) unavailability of aircraft or drilling equipment to undertake airborne electromagnetic and other geological and geophysical investigations;
- (viii) shortages or unavailability of manpower or appropriately skilled manpower;
- (ix) unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment; and
- (x) prevention or restriction of access by reason of political unrest, outbreak of hostilities, and inability to obtain consents or approvals.

(c) Commodity Prices

The Company expects to derive its revenue from the sale of commodities. Consequently, the Company's expected earnings will be closely related to the price of these commodities. Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include worldwide and regional supply and demand for the specific commodity, commodity trading on the futures markets, general world economic conditions and the outlook for interest rates, inflation and other economic factors on both a regional and global basis. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(d) Currency

The Company's expected revenue and costs will be in USD while its cash is predominantly in AUD, consequently the USD/AUD exchange rate will have an impact on the Company's expected earnings and expenses in AUD.

The USD/AUD exchange rate is affected by numerous factors beyond the control of the Company.

These factors include Australia's and the US's economic conditions and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(e) Environment

The Company's projects are subject to laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mining projects, these projects would be expected to have a variety of environmental impacts should development proceed.

The Company intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws and industry standards. Areas disturbed by the Company's activities will be rehabilitated as required by applicable laws and regulations.

(f) Title

The acquisition and retention of title to tenements in Eritrea is governed by Eritrean legislation. Each tenement is granted for a specific term and carries with it minimum annual expenditure commitments, as well as other conditions requiring compliance in order to retain title to a tenement. Consequently, if tenement conditions were not met or if insufficient funds were available to meet expenditure commitments, the Company could lose title to, or its interest in the tenements.

All of the tenements which the Company has an interest in are subject to applications for renewal or grant at the expiry of the granted term. The renewal or grant of the tenements is dependent on the tenement conditions being met.

(g) Eritrean Government Interest

Pursuant to Eritrean legislation, the Eritrean Government may acquire, without cost to it, a participation interest of up to ten percent of any mining investment upon grant of the relevant mining licence.

The Eritrean Government can also acquire an additional equity participation interest not exceeding a total of 30%, including the initial 10% acquired, by agreement which shall specify the percentage, timing, financing, resulting rights and obligations and other details of such participation. In a previous case the Eritrean Government paid market value consideration for the acquisition of the further participation interest and acquired a total 40% interest (consisting of the initial 10% cost free participation interest plus the additional 30% interest).

The arrangements between the Company and the Eritrean Government will be made by mutual agreement and there can be no guarantee as to the total interest the Eritrean Government will obtain, the consideration paid for its additional equity

participation interest nor the general terms of the Eritrean Government's participation.

5. ADDITIONAL INFORMATION

5.1 Nature of the Prospectus

This Prospectus is a transaction specific prospectus issued under section 713 of the Corporations Act which allows the issue of a transaction specific prospectus in relation to offers of securities where those securities are of a class which have been quoted for 12 months before the date of that prospectus.

5.2 ASX quotation

Application will be made within 7 days of the date of issue of this Prospectus for the New Shares to be granted official quotation by ASX.

If such an application is not made within these 7 days, or official quotation of the securities is not granted by ASX within 3 months of the date of issue of this Prospectus, then all Application Monies received pursuant to this Prospectus will be repaid as soon as practicable, without interest.

The Company participates in CHESS and will despatch holding statements in lieu of share and option certificates that set out the number of New Shares issued to each successful Applicant under this Prospectus.

It is the responsibility of Applicants to determine their allocation before trading in the New Shares. Applicants who sell New Shares before they receive their statement do so at their own risk.

5.3 Rights attaching to New Shares

The Company is incorporated in Australia and is subject to the Australian Corporations Act. As a company listed on ASX, the Company is also regulated by ASX Listing Rules.

The rights attaching to ownership of Shares (including New Shares) are:

- (a) described in the Constitution; and
- (b) regulated by the Corporations Act (the **applicable law**), ASX Listing Rules and the general law.

The New Shares to be issued pursuant to this Prospectus will rank *pari passu* with all other Shares presently on issue. The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights attaching to all shares:

(a) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares in accordance with the Constitution:

- (i) each Shareholder entitled to vote may vote in person or by proxy or by representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy or representative of a Shareholder has one vote; and
- (iii) on a poll, every person who is a Shareholder or a proxy or representative of a Shareholder present has one vote for each Share held.

(b) Dividend Rights

The Company in general meeting may from time to time determine to distribute the profits of the Company by way of dividend but no amount shall be declared in excess of the amount recommended by the Board.

Subject to the rights of holders of Shares issued with any special or preferential rights (at present there are none), the dividend will be declared and paid to Shareholders so entitled to those dividends in proportion to the Shares held by them respectively, according to the amount paid up, or credited as paid up, on the Shares.

(c) Rights on Winding Up

Subject to the rights of holders of Shares with special rights (at present there are none), if the Company is wound up, the liquidator may, at its discretion and with the authority of a special resolution and any other sanction required by the applicable law, divide among the Shareholders in specie or in kind, the whole or any part of the assets of the Company that may be legally distributed among the Shareholders.

(d) Transfer of Shares

Subject to the Constitution, the applicable law and ASX Listing Rules, Shares in the Company are freely transferable.

(e) Future Issues

Subject to the Constitution, the applicable law and ASX Listing Rules, the Directors may allot, issue or grant Options over, or otherwise deal with the unissued Shares in the Company at the times and on the terms and conditions that the Directors think proper and a Share may be issued with preferential, deferred, qualified or special rights, privileges or conditions or restrictions including, but not limited to, restrictions in regard to dividends, voting or return of capital as the Directors from time to time determine.

(f) Variation of Rights

Subject to the Constitution and the applicable law, unless otherwise provided by the terms of issue of Shares of a certain class (at present there are no such Shares), the rights attached to Shares of that class may, whether or not the Company is being wound up, from time to time be varied, modified or abrogated either with the consent in writing of the holders of three quarters of the issued Shares of the relevant class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class.

(g) Alteration of Constitution

The Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least three-quarters of the votes cast by Shareholders entitled to vote on the resolution). While the Company is listed, at least 28 days written notice of the special resolution must be given.

Full details of the rights attaching to Shares are set out in the Constitution, a copy of which can be inspected, free of charge, at the registered office of the Company, at Level 2, 1292 Hay Street, West Perth, Western Australia during normal business hours.

5.4 Indemnification of Directors

To the extent permitted by law, the Company indemnifies every person who is or has been an officer of the Company against reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by the person as an officer of the Company.

5.5 Taxation

The Directors consider that it is not appropriate to give advice regarding the taxation consequences associated with the acquisition, or the subsequent disposal of any Shares subscribed for under this Prospectus.

The Directors recommend that all Eligible Shareholders consult their own professional tax advisers.

5.6 Material contracts

Underwriting Agreement

Pursuant to an Underwriting Agreement dated 17 August 2010 between the Underwriter and the Company, the Underwriter has agreed to underwrite all of the Entitlement Offer pursuant to this Prospectus.

Pursuant to the Underwriting Agreement, the Company will pay the Underwriter:

- (a) a management fee equal to 1% of the total funds raised pursuant to the Entitlement Offer; and
- (b) an underwriting commission equal to:
 - (i) 5% of the funds to be raised by the Entitlement Offer less any funds raised pursuant to the Directors' Take Up and Directors' Sub-Underwriting Commitments ; and
 - (ii) 2.5% of the funds the subject of the Directors' Sub-Underwriting Commitments.

In addition, the Company must pay, indemnify and keep indemnified the Underwriter and any related party for:

- (a) all costs reasonably and properly incurred by the Underwriter in connection with the Entitlement Offer, including legal expenses, marketing and promotional materials and expenditure, and travel and accommodation costs; and
- (b) all losses, expenses, damages and costs arising out of a breach of warranty, a claim in relation to the Offer, the Prospectus and any associated documents to the Offer.

The Company has given warranties and covenants to the Underwriter which are usual in an agreement of this nature.

The Underwriting Agreement provides that the Underwriter may, by giving written notice to the Company at any time prior to the issue of the New Shares, terminate its underwriting liability under the Underwriting Agreement (**Termination Event**) if:

- (a) **(ASX Indices fall)** the All Ordinaries Index is, for three consecutive Business Days, at a level which is 90% or less than the level at the close of trading on the date of the Underwriting Agreement;
- (b) **(Key commodity price fall)** the Spot Gold Price falls below US\$1,000 per ounce at any time before the Shortfall Application Date;
- (c) **(Change in law)** any of the following occurs which does or is likely to prohibit, restrict or regulate the Entitlement Offer or materially reduces the level or likely level of Valid Applications:
 - (i) the introduction of legislation into the parliament of the Commonwealth of Australia or of any State or Territory of Australia;
 - (ii) the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory; or
 - (iii) the adoption by ASIC or its delegates or the Reserve Bank of Australia of any regulations or policy;
- (d) **(Breach of significant contracts)** a significant or material contract to which the Company is a party is, without the prior consent of the Underwriter:
 - (i) breached by the Company or a Related Body Corporate;
 - (ii) terminated (whether by breach or otherwise);
 - (iii) altered or amended in any way; or
 - (iv) found to be void or voidable;
- (e) **(Listing):**
 - (i) ASX makes any official statement to any person, or indicates to the Company or the Underwriter that approval by ASX to the quotation of the New Shares will not be given; or
 - (ii) approval by ASX to the quotation of the New Shares has not been given before the Closing Date;
- (f) **(Default)** the Company is in default of any of the terms and conditions of the Underwriting Agreement or breaches any warranty or covenant given or made by it under the Underwriting Agreement and that default or breach is either incapable of remedy or is not remedied within 5 Business Days after it occurs;
- (g) **(Failure to comply)** the Company or any Related Body Corporate fails to comply with any of the following:
 - (i) its constitution;
 - (ii) a statute;
 - (iii) any policy or guideline of ASIC or any other requirement, order or request made by or on behalf of ASIC or any governmental agency; or
 - (iv) any agreement entered into by it or by which it is bound;

- (h) (**Capital structure**) the Company or a Related Body Corporate alters its capital structure without the prior consent of the Underwriter;
- (i) (**Constitution altered**) the Constitution, or any other constituent document of the Company or a Related Body Corporate, is amended without the prior consent of the Underwriter;
- (j) (**Financial assistance**) the Company or a Related Body Corporate seeks the approval of Shareholders under section 260B of the Corporations Act without the prior consent of the Underwriter;
- (k) (**Business**) The Company or a Related Body Corporate:
 - (i) disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property; or
 - (ii) ceases or threatens to cease to carry on business,
 in either case without the prior consent of the Underwriter;
- (l) (**Hostilities**) there is an outbreak of hostilities (whether or not war has been declared) not presently existing, or a major escalation in existing hostilities occurs, involving any one or more of the following:
 - (i) Australia;
 - (ii) the United Kingdom;
 - (iii) the United States of America;
 - (iv) the People's Republic of China;
 - (v) any of the republics formerly comprising the Union of Soviet Socialist Republics;
 - (vi) Japan;
 - (vii) Israel;
 - (viii) Indonesia; or
 - (ix) any member country of the Organisation of Petroleum Exporting Countries;
- (m) (**Financial position**) a materially adverse change, or development involving a prospective materially adverse change, occurs in the financial or trading position of the Company or a Related Body Corporate.
- (n) (**Prospectus**) without limiting any other Termination Event:
 - (i) there is a material omission from the Prospectus
 - (ii) the Prospectus contains a misleading or deceptive statement;
 - (iii) a statement in the Prospectus becomes misleading or deceptive;
 - (iv) a forecast in the Prospectus becomes incapable of being met or unlikely to be met in the projected time;

- (v) the Prospectus does not comply with sections 711 or 713 of the Corporations Act; or
 - (vi) a matter referred to in section 719 of the Corporations Act occurs in respect of the Prospectus;
- (o) **(Corporations Act)** without limiting any other Termination Event:
- (i) ASIC applies for an order under section 1324B of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn before the Closing Date;
 - (ii) a person gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
 - (iii) ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or makes an interim order under section 739(3) of the Corporations Act; or
 - (iv) any person (other than the Underwriter) who consented to being named in the Prospectus withdraws that consent;
- (p) **(Supplementary prospectus)** the Underwriter reasonably forms the view that a supplementary or a replacement prospectus must be lodged with ASIC under section 719 of the Corporations Act and the Company does not lodge a supplementary or a replacement prospectus in the form, with the content and within the time reasonably required by the Underwriter;
- (q) **(Indictable offence)** a director of the Company or a Related Body Corporate is charged with an indictable offence relating to a financial or corporate matter;
- (r) **(Insolvency event)** an insolvency event occurs with respect to the Company or a Related Body Corporate;
- (s) **(Charge)** the Company or a Related Body Corporate charges, or agrees to charge, the whole or a substantial part of its business or property; or
- (t) **(Listing Rules)** the Company commits a material breach of the ASX Listing Rules.

Capitalised terms used in the above extract from the Underwriting Agreement have the meanings given to them in the Underwriting Agreement.

Sub-underwriting Agreements

The Underwriter entered into sub-underwriting agreements with each of Tim Goyder, Douglas Jones, Anthony Kiernan and Stephen Quin (**Sub-underwriting Directors**) on 17 August 2010. The sub-underwriting obligation of each Sub-underwriting Director is set out in Section 5.11.

The Underwriter will pay each Sub-underwriting Director a fee of 2.5% of the Offer Price multiplied by the number of sub-underwritten Shares. The maximum fee each Sub-underwriting Director will receive is set out in section 5.11.

The Sub-underwriting Directors have no right to terminate the sub-underwriting agreements. The sub-underwriting agreements will terminate if the Offer does not proceed or the Underwriting Agreement is terminated.

5.7 Consents and Interests of Parties

Each of the parties referred to in this section does not make, or purport to make, any statement in this Prospectus other than as specified in this section and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the reference to its name or a statement included in this Prospectus with the consent of that party as specified in this section.

Southern Cross Equities Limited has given, and not before the date of this Prospectus (including any electronic version) withdrawn its consent to being named in this Prospectus in the form and context in which their name has been included. Southern Cross Equities Limited makes no express or implied representation or warranty in relation to the Company, this Prospectus or the Offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Southern Cross Equities Limited. To the maximum extent permitted by law, Southern Cross Equities Limited expressly disclaims and takes no responsibility for any material in, or omission from, this Prospectus other than the reference to its name.

Computershare Investor Services Pty Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named as the Company's Share Registry in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for any part of, this Prospectus.

Middletons has given and not before the date of this Prospectus withdrawn its consent to being named in this Prospectus in the form and context in which their name has been included. Middletons has not caused the issue of or in any way authorised this Prospectus and takes no responsibility for the issue of this Prospectus.

HLB Mann Judd has given and not before the date of this Prospectus withdrawn its consent to being named in this Prospectus in the form and context in which their name has been included. HLB Mann Judd has not caused the issue of or in any way authorised this Prospectus and takes no responsibility for the issue of this Prospectus. In addition, HLB Mann Judd has consented to the inclusion of the Company's audited consolidated statement of financial position as at 30 June 2010 and to references to the Company's audited financial statements for the year ended 30 June 2010 in the form and context in which it appears in this Prospectus.

Argonaut Securities Pty Limited has given, and not before the date of this Prospectus withdrawn, its consent to be named in this Prospectus as Broker to the Issue in the form and context in which it is named.

Southern Cross Equities Limited has agreed to act as Underwriter to the Entitlement Offer and will receive fees as described in Section 5.6. Southern Cross Equities Limited has been paid approximately \$546,035 (excluding GST) in other fees for services to the Company in the previous 2 years.

Middletons are entitled to be paid approximately \$20,000 (excluding GST) for advice and assistance in relation to the due diligence and other services related to the Prospectus. Middletons has been paid approximately \$268,413.05 (excluding GST) in other fees for services to the Company in the previous 2 years.

Argonaut Securities Pty Limited is entitled to be paid a fee of \$25,000 for acting as Broker to the Issue. Argonaut Securities Pty Limited has been paid approximately \$8,000 (excluding GST) in other fees for services to the Company in the previous 2 years.

No expert, nor any firm in which such expert is partner, has or had in the past two years any interest in the promotion or formation of the Company nor have any amounts been paid or agreed to be paid (whether in cash, shares or otherwise) to an expert or to a firm in which an expert is a partner for services rendered by the expert in connection with the promotion of the Company other than set out below.

5.8 Directors' authorisation

Each Director of the Company has given, and has not withdrawn, his consent to the lodgement of this Prospectus with ASIC.

5.9 Continuous Disclosure and Documents Available for Inspection

The Prospectus is issued pursuant to section 713 of the Corporations Act.

Section 713 of the Corporations Act enables companies to issue transaction specific prospectuses where those companies are and have been for a period of 12 months disclosing entities.

The Company is a "disclosing entity" for the purposes of section 713 of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to ASX any information of which it is, or becomes, aware concerning the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company will provide a copy of each of the following documents, free of charge, to any person who asks for it prior to the Closing Date:

- (a) the Annual Report, being the annual financial report most recently lodged with ASIC by the Company; and
- (b) any continuous disclosure notices given by the Company after the lodgement of the Annual Report referred to in paragraph (a) above and before the lodgement of this Prospectus with ASIC.

Such notices are listed below under the heading "Stock Exchange Releases" in Section 5.10.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an office of ASIC.

5.10 Stock Exchange Releases

ASX releases of the Company since the Annual Report are listed below:

Date Lodged	Announcement
01/10/2009	Zara Project Scoping Study Update
01/10/2009	DRA: Update on the Koka Gold Project
05/10/2009	Trading Halt
07/10/2009	Zara Gold Project
09/10/2009	Notice of Annual General Meeting/Proxy Form

13/10/2009	Change of Director's Interest Notice
19/10/2009	Chalice Upgrades regional potential at Zara Project, Eritrea
20/10/2009	Upgrade of Regional Potential at Zara Project, Eritrea
21/10/2009	Late Notice Pursuant to Section 708A of the Corporations Act
27/10/2009	Quarterly Activities Report and Cashflow Report
28/10/2009	Cleansing Statement
30/10/2009	Koka to be a highly profitable gold mine – Scoping Study
02/11/2009	DRA: Zara Joint Venture Scoping Study Findings
05/11/2009	Boardroom Radio Interview – Executive Chairman Tim Goyder
16/11/2009	AGM Chairman's Address
16/11/2009	AGM Presentation
16/11/2009	AGM Disclosure of Proxy Votes
17/11/2009	Appendix 3B
17/11/2009	Change of Director's Interest Notice
17/11/2009	Change of Director's Interest Notice
25/11/2009	2009 NewGen Gold Conference Presentation
22/12/2009	First Assays from Koka Drilling, Eritrea
22/12/2009	DRA: First Assays from Koka Drilling, Eritrea
29/12/2009	Investment in London Africa Limited
29/12/2009	Sale of Wilga Gold Project
19/01/2010	Further Results from Koka Drilling
19/01/2010	DRA: Further results from Koka Gold Deposit, Eritrea
29/01/2010	Quarterly Activities Report and Quarterly Cashflow Report
11/02/2010	Nyanzaga Project – Entitlement to Payment upon Mining
22/02/2010	DRA: Substantial Drilling Results from the Zara JV
22/02/2010	Substantial drilling results at Koka Gold Deposit
23/02/2010	Corp Presentation – Cornerstone of an African Gold Business
01/03/2010	Trading Halt
03/03/2010	Option to Acquire Dragon Mining's Stake in Zara Project
03/03/2010	CHN: Zara Gold Project option to purchase
11/03/2010	Half Year Accounts
12/03/2010	Becoming a substantial holder
15/03/2010	Trading Halt
15/03/2010	Private Share Placement
16/03/2010	Increased Private Share Placement

19/03/2010	Appendix 3B
31/03/2010	Koka resource upgrade imminent after more high grade results
31/03/2010	DRA: Koka resource upgrade imminent after more high grade results
31/03/2010	Appendix 3B
31/03/2010	Completion of Private Share Placement and Section 708A Notice
08/04/2010	Becoming a substantial holder
08/04/2010	Toronto Stock Exchange Listing
13/04/2010	Notice of General Meeting/Proxy Form
21/04/2010	Change in substantial holding
21/04/2010	Change of Director's Interest Notice
22/04/2010	Quarterly Activities Report and Quarterly Cashflow Report
23/04/2010	Corporate Presentation- Posed for Production in East Africa
03/05/2010	Non-executive Director Appointment
03/05/2010	Initial Director's Interest Notice
17/05/2010	Koka Gold Deposit Feasibility Study Update
19/05/2010	General Meeting – Disclosure of Proxy Votes
20/05/2010	Trading Halt
21/05/2010	Increased Investment in London Africa
24/05/2010	Private Share Placement to Raise \$9.1million
28/05/2010	Gnaweeda Gold Project Drilling Results
31/05/2010	Change in substantial holding
31/05/2010	Competent Person Statement
31/05/2010	708A Notice Cleansing Statement
04/06/2010	DRA: Maiden Ore Reserve for Zara Gold Project
04/06/2010	Maiden 760,000oz Ore Reserve for Zara Gold Project
04/06/2010	Maiden 760,000 Ore Reserve for Zara Project – correction
08/06/2010	Change of Director's Interest Notice
22/06/2010	Option to acquire Dragon's interest in Zara exercised
22/06/2010	Appendix 3B
23/06/2010	Section 708A Notice
13/07/2010	Koka Gold Deposit Feasibility Study Results
14/07/2010	Boardroom Radio Audio Broadcast – Tim Goyder
21/07/2010	Quarterly Activities Report and Quarterly Cashflow Report
22/07/2010	Chalice confirms high gold prospectivity over 10km
23/07/2010	Eritrea Regional Joint Venture with Newmont

27/07/2010	Corporate Presentation July 2010
27/07/2010	Change in substantial holding
09/08/2010	Chalice Announces \$12.6M Underwritten Rights Issue
13/08/2010	Koka Gold Deposit – Feasibility Study Summary Report
16/08/2010	Full Year Statutory Accounts

5.11 Interests of Directors and sub-underwriting obligations

Other than as set out below or elsewhere in this Prospectus, no Director has or had within 2 years before the lodgement of this Prospectus with ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) any property acquired or proposed to be acquired by the Company in connection with its promotion or formation or in connection with the offer of New Shares; or
- (c) the offer of New Shares, other than as ordinary Shareholders,

and no amounts or benefits have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director;

- (d) to induce him or her to become, or to qualify him as a Director; or
- (e) for services rendered by him or her in connection with the promotion or formation of the Company or the offer of New Shares.

The Directors or their nominees have each agreed to sub-underwrite part of the Offer. Their sub-underwriting commitments are on the same terms as sub-underwriting commitments from other parties, and are unconditional and irrevocable.

If there are any Shortfall Shares the Underwriter will determine the obligations of each of the sub-underwriters in accordance with the sub-underwriting agreements. The percentage of Shortfall Shares sub-underwritten by each Director is described in the table below.

The directors' and their nominees' current shareholdings and interests in Shares and Options and their sub-underwriting obligations are as follows:

	Tim Goyder	Douglas Jones	Michael Griffiths	Anthony Kiernan	Stephen Quin
Current Number of Shares	19,951,206	235,000	600,960	820,074	-
Current percentage holding	11.02%	0.13%	0.33%	0.45%	-
Current number of Options	2,000,000	2,500,000	750,000	500,000	750,000 ³
Entitlement to Shares under the Offer ¹	3,325,201	39,167	100,160	136,679	-
Maximum number of Shares under the Sub-underwriting commitment	8,333,333	100,000	-	476,190	119,048
Maximum number of Shares following the Offer ²	31,609,740	374,166	701,120	1,432,943	119,048
Maximum percentage of Shares following the Offer ²	14.97%	0.177%	0.332%	0.678%	0.056%
Maximum sub-underwriting fee payable	\$87,500	\$1,050	-	\$5,000	\$1,250

1. Assuming Directors do not exercise their Options.
2. Assuming no Shareholders other than Directors and their nominees take up their Entitlements under the Offer.
3. Mr Quin's options are subject to shareholder approval, which will be sought at Chalice's forthcoming annual general meeting.

At the time of lodging this Prospectus the Directors and their nominees have indicated that they will take up their full Entitlement under the Offer.

The remuneration paid (including non-cash share based payments) to Directors or their nominees during the past two financial years preceding the lodgement of this Prospectus with ASIC is set out below:

Director	2010 Salary and fees \$	2010 Share Based Payments \$	2009 Salary and fees \$	2009 Share Based Payments \$
Tim Goyder	153,062	-	85,136	-
Douglas Jones	190,562	741,002	-	-
Michael Griffiths	252,584	138,127	-	-
Anthony Kiernan	120,062	-	38,137	-
Stephen Quin	6,320	-	-	-

Details of the remuneration paid to Directors or their nominees in the year ended 30 June 2009 are set out in the relevant section of the Annual Report. The Company will provide a copy of this document free of charge to any person on request before the Closing Date.

The Directors are entitled to reasonable travelling, hotel and other expenses incurred by them respectively on or about their performance of their duties as Directors. Subject to the Corporations Act and ASX Listing Rules, if a Director is called upon to perform extra duties or make special exertions on behalf of the Company, the Directors may remunerate that Director which may be in addition to or in substitution for their usual Director's fee.

5.12 Estimated Offer Costs

The expenses of the Entitlement Offer (exclusive of GST) are estimated to be approximately \$629,622 made up as follows:

Expenses	\$
Underwriter's fees and costs	540,168.34
Legal	20,000
Other professional fees	25,000
Printing, postage, share registry	23,100
ASX listing fees	19,286
ASIC lodgement fees	2,068
Total estimated Issue Costs	629,622

6. DIRECTORS' STATEMENT

This Prospectus is issued by Chalice Gold Mines Limited. Its issue was authorised by a resolution of Directors and is signed by Tim Goyder on behalf of all Directors.



TIMOTHY RUPERT BARR GOYDER

17 August 2010

7. DEFINITIONS

In this Prospectus the following terms and abbreviations have the following meanings, unless otherwise stated or unless the context otherwise requires:

\$ or AUD Australian dollar.

Annual Report the 2009 Annual Report of the Company as lodged with ASIC and ASX.

Applicant A person who submits an Entitlement and Acceptance Form.

Application Money Money payable by Applicants in respect of their applications for New Shares under the Entitlement Offer.

ASIC Australian Securities and Investments Commission.

ASX ASX Limited (ACN 008 624 691).

ASX Listing Rules The official listing rules of the ASX.

Board The Directors of the Company from time to time.

Business Day Has the meaning ascribed to it in the ASX Listing Rules.

Constitution The Constitution of the Company.

CHESS Clearing House Electronic Subregister System.

Closing Date 13 September 2010 (subject to the right of the Directors to extend this date without notice).

Company or Chalice Chalice Gold Mines Limited (ACN 116 648 956).

Corporations Act *Corporations Act 2001* (Cth).

Directors The directors of the Company in office at the date of this Prospectus.

Eligible Shareholder A Shareholder of the Company, as at the Record Date who is not an Ineligible Foreign Shareholder.

Entitlement An Eligible Shareholder's entitlement to participate in the Entitlement Offer as it appears on the Entitlement and Acceptance Form.

Entitlement Offer or **Offer** The offer to Shareholders at the Record Date of 1 New Share for every 6 Shares held at an issue price of 42 cents per New Share.

Entitlement and Acceptance Form The Entitlement and Acceptance Form accompanying this Prospectus that sets out the Entitlements of Shareholders to subscribe for New Shares pursuant to the Entitlement Offer.

Ineligible Foreign Shareholder A Shareholder, at the Record Date whose registered address is not situated in Australia or New Zealand.

New Shares Shares to be issued under the Entitlement Offer.

Offer Price 42 cents per New Share.

Option An option to subscribe for a Share and **Optionholder** has a corresponding meaning.

Prospectus This Prospectus.

Record Date 26 August 2010.

Share Registry Computershare Investors Services Pty Limited.

Share A fully paid ordinary share in the capital of the Company and **Shareholder** has a corresponding meaning.

Shortfall Shares New Shares for which applications have not been received from Eligible Shareholders before the Closing Date.

Underwriter Southern Cross Equities Limited ACN 071 935 441.

Underwriting Agreement An agreement dated 17 August 2010 between the Company and the Underwriter.

USD United States dollar.

Zara Gold Project The gold project known as the 'Zara Gold Project' located in Eritrea currently being developed by Chalice and includes any variation or expansion of that project.

References in this Prospectus to Sections are to sections of this Prospectus.

8. CORPORATE DIRECTORY

DIRECTORS

Tim Goyder (*Executive Chairman*)
Douglas Jones (*Managing Director*)
Michael Griffiths (*Executive Director*)
Anthony Kiernan (*Non Executive Director*)
Stephen Quin (*Non Executive Director*)

COMPANY SECRETARY

Richard Hacker

REGISTERED OFFICE

Level 2
1292 Hay Street
West Perth, Western Australia 6005

Tel: (+61 8) 9322 3960

Fax: (+61 8) 9322 5800

WEBSITE

www.chalicegold.com

UNDERWRITER

Southern Cross Equities Limited
Level 2, Aurora Place
88 Phillips Street
Sydney, New South Wales 2000

Tel: (+61 2) 9321 0880

BROKER

Argonaut Securities Pty Limited
Level 30
Allendale Square
77 St Georges Terrace
Perth, Western Australia 6000

Tel: (+61 8) 9224 6888

SOLICITORS TO THE COMPANY

Middletons
Level 2, 6 Kings Park Road
West Perth, Western Australia 6005

AUDITORS

HLB Mann Judd
Level 4
130 Stirling Street
Perth, Western Australia 6000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth, Western Australia 6000

Tel: 1300 557 010