

This is a supplementary prospectus intended to be read with the prospectus dated 17 August 2010 relating to a non – renounceable pro-rata offer of Shares in Chalice Gold Mines Limited.

Supplementary Prospectus

Chalice Gold Mines Limited

ACN 116 648 956

1. Important information

This Supplementary Prospectus is dated 25 August 2010 and is supplementary to the prospectus dated 17 August 2010 (**Prospectus**) issued by Chalice Gold Mines Limited ACN 116 648 956 (**Company**) in relation to a non-renounceable pro-rata entitlement offer of Shares in the Company.

This Supplementary Prospectus was lodged with ASIC on 25 August 2010. Neither ASIC nor ASX take any responsibility for the contents of this Supplementary Prospectus.

This Supplementary Prospectus must be read together with the Prospectus. If there is any inconsistency between this Supplementary Prospectus and the Prospectus, this Supplementary Prospectus will prevail. Unless otherwise indicated, terms defined and used in the Prospectus have the same meaning in this Supplementary Prospectus.

This is an important document that should be read in its entirety. If you do not understand it, you should consult your professional advisor.

This Supplementary Prospectus and the Prospectus can be accessed online at www.chalicegold.com.

2. Reason for issuing this Supplementary Prospectus

Section 2.4 of the Prospectus makes reference to a contingent liability, included in the Company's audited financial statements for the year ended 30 June 2010, for a potential tax liability in Eritrea as a result of the Eritrean Government seeking to impose a profits tax on the acquisition by the Company of Dragon Mining (Eritrea) Limited and Dragon Mining Limited's 20% interest in the Zara Gold Project (the **Acquisition**). In section 2.4 of the Prospectus the Company stated that discussions were on going with the Eritrean Government and the timing and conclusion of those discussions were not certain.

On 23 August 2010, in the course of discussions with the Eritrean Government, the Company accepted that a liability for profits tax had arisen in relation to the Acquisition. The Company and the Eritrean Government will commence negotiations in relation to the profits tax liability, with particular reference to the quantum and timing of that liability. The Directors expect that the quantum of the liability will range between nil and \$3.4 million, depending on allowable offsetting expenditure.

Further information in relation to the profits tax liability will be disclosed to ASX as and when it becomes available.

3. Directors' authorisation and responsibility

The Directors of the Company who authorise the issue of this Supplementary Prospectus accept responsibility for the information contained in this Supplementary Prospectus.

This is a supplementary prospectus intended to be read with the prospectus dated 17 August 2010 relating to a non-renounceable pro-rata offer of Shares in Chalice Gold Mines Limited.

This Supplementary Prospectus has been signed by Anthony Kiernan on behalf of the Directors, each of whom has consented to the signature, lodgement and issue of this Supplementary Prospectus and has not withdrawn that consent before lodgement.



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Anthony Kiernan
Director