

ASX Announcement

## September 2012 Quarterly Report

### Highlights:

- Chalice completes the sale of the Zara Gold Project in Eritrea to China SFECO Group and ENAMCO for combined proceeds of US\$114M.
- Chalice has a net cash of \$80 million after tax following completion of the Zara transaction, with a focus on acquiring new projects.
- A capital reduction and return of 10 cents per share is proposed, subject to shareholder approval.
- Drilling of VTEM targets has recommenced at the Mogoraib North Project in Eritrea, located immediately north of the world-class Bisha Mine.
- A new gold target has been defined at the Area C Prospect, Mogoraib North.

### 1. Sale of the Zara Project to China SFECO Group

During the Quarter, Chalice Gold Mines Limited (“Chalice”) completed the sale of the Zara Gold Project in Eritrea to China SFECO Group for US\$78 million plus a deferred payment of US\$2 million upon commencement of commercial production at the Koka Gold Mine.

In addition, the Eritrean National Mining Corporation (“ENAMCO”) settled the remaining balance of US\$29 million for its acquisition of a 30 per cent interest in the Zara Project (in addition to its 10 per cent free carried interest).

Together with the interim payments received from ENAMCO of US\$3 million in January 2012 and US\$2 million in July 2012, this amounts to total sale proceeds of US\$114 million.

Chalice has paid all applicable taxes due in Eritrea for both the SFECO transaction and the ENAMCO transaction. Chalice’s net cash balance at the end of September was \$80 million, which equates to approximately 32 cents per share, putting the Company in an exceptionally strong position to embark on its next chapter of growth.

Chalice has retained suitable independent expertise to assist its experienced management and Board of Directors in the assessment and identification of potential opportunities.

### 2. Capital Management

Following completion of the sale of the Company’s interest in the Zara Project, Chalice has approximately \$80 million cash on hand. The Board has undertaken a review of its capital management options and determined that these funds exceed its current capital requirements, providing justification to return some of this capital to shareholders.

Chalice has announced that its Board will seek shareholder approval under section 256B and 256C of the *Corporations Act (2001)* for an equal capital reduction and return of \$25 million (**10 cents cash per share**) to those persons or entities that are shareholders at the appropriate record date.

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## **2. Capital Management (continued)**

Chalice has received a draft Class Ruling from the Australian Taxation Office ('ATO') indicating that the proposed distribution will not be taxed as a dividend. The draft Class Ruling may not be relied on by Chalice shareholders until it is issued in final form by the ATO. The final version of the Class Ruling will be published and notice will be included in The Gazette. Chalice will also display the final version on the Class Ruling on its website as soon as it becomes available.

Full details of the proposed capital return are set out in the 2012 AGM Notice of Meeting and Explanatory Statement. The AGM will be held on 30 November 2012 and it is expected that the Record Date for the capital return will be on or around 10 December 2012.

## **3. Mogoraib North Exploration**

Diamond drilling of VTEM conductor targets at Mogoraib North was suspended in late June due to the onset of the Eritrean wet season. Drilling up to that point comprised 11 holes for 2,358 metres and tested 10 VTEM targets (see Figure 2). Most of the conductors were confirmed to be carbonaceous shales containing variable amounts of sulphides (primarily pyrite and pyrrhotite).

Although no significant base metal sulphides were encountered, assaying of pyrite-rich sections in one hole, MOGD-007, returned highly anomalous levels of silver and barium. The 17m section below 183 metres in hole MOGD-007 (see Figure 3) averaged 2.21g/t silver and just under 1,000ppm barium. These levels of silver and barium are regarded as potentially indicative of distal portions of a volcanic-hosted massive sulphide (VHMS) system.

Based on the results of the drilling to date, geophysical consultants Southern Geoscience Consultants (SGC) have reviewed the VTEM targets and re-ranked the priority of targets for testing. Field checking of these targets is in progress together with further soil sampling where practicable.

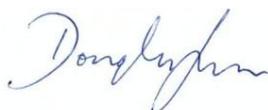
Drilling of the highest priority targets recommenced on the 12<sup>th</sup> October. The current campaign will see an initial 15 diamond drill holes completed for 2,650m, with additional drilling contingent on the results of ongoing soil sampling and mapping programs.

Soil sampling conducted over the Area C gold anomaly, located in the north-central part of the tenement, returned encouraging results, revealing coincident gold, bismuth, tellurium and molybdenum anomalism centred on a quartz vein system being exploited by artisanal miners (see Figure 4). This suite of anomalous elements is also associated with the Koka gold deposit and is characteristic of Intrusive-Related Gold Systems (IRGS). The soil sampling grid is currently being extended to determine the limits of anomalism and define targets for drilling.

## **4. Gnaweeda Project**

In early June, Chalice agreed to sell its remaining 13.5% interest in the Gnaweeda Gold Project in Western Australia to Archean Star Resources Inc. (Archean). Archean is listed on the TSX Venture Exchange (TSX-V). The consideration for the sale was 5 million common shares in Archean. Chalice has subsequently advised that it has terminated the agreement because of non-performance by Archean.

Chalice has now reverted to its 13.5% interest in the Project with all commensurate rights.



DR DOUGLAS JONES  
Managing Director

24 October 2012

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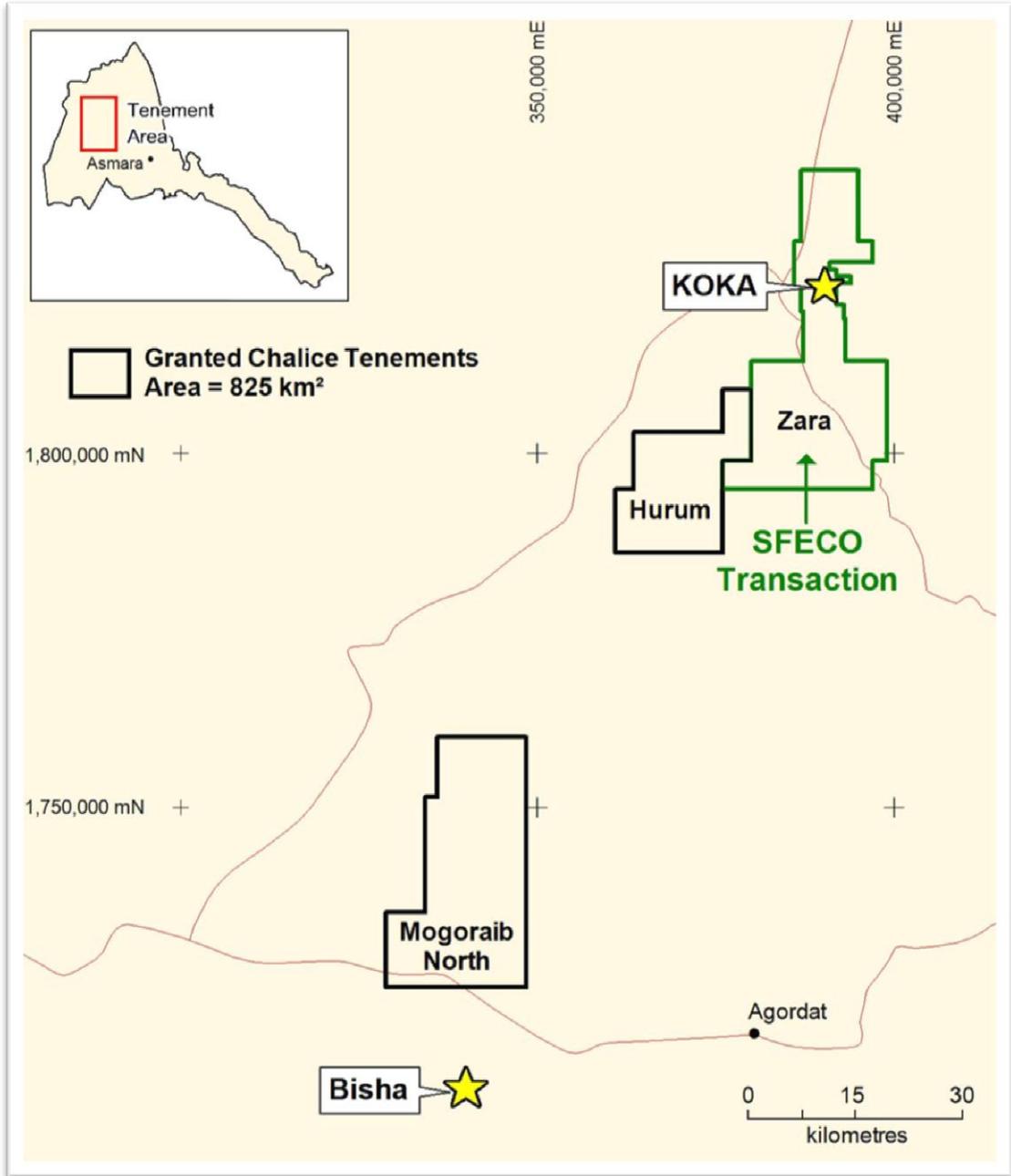


Figure 1: Chalice Gold Mines and SFECO Transaction Tenements

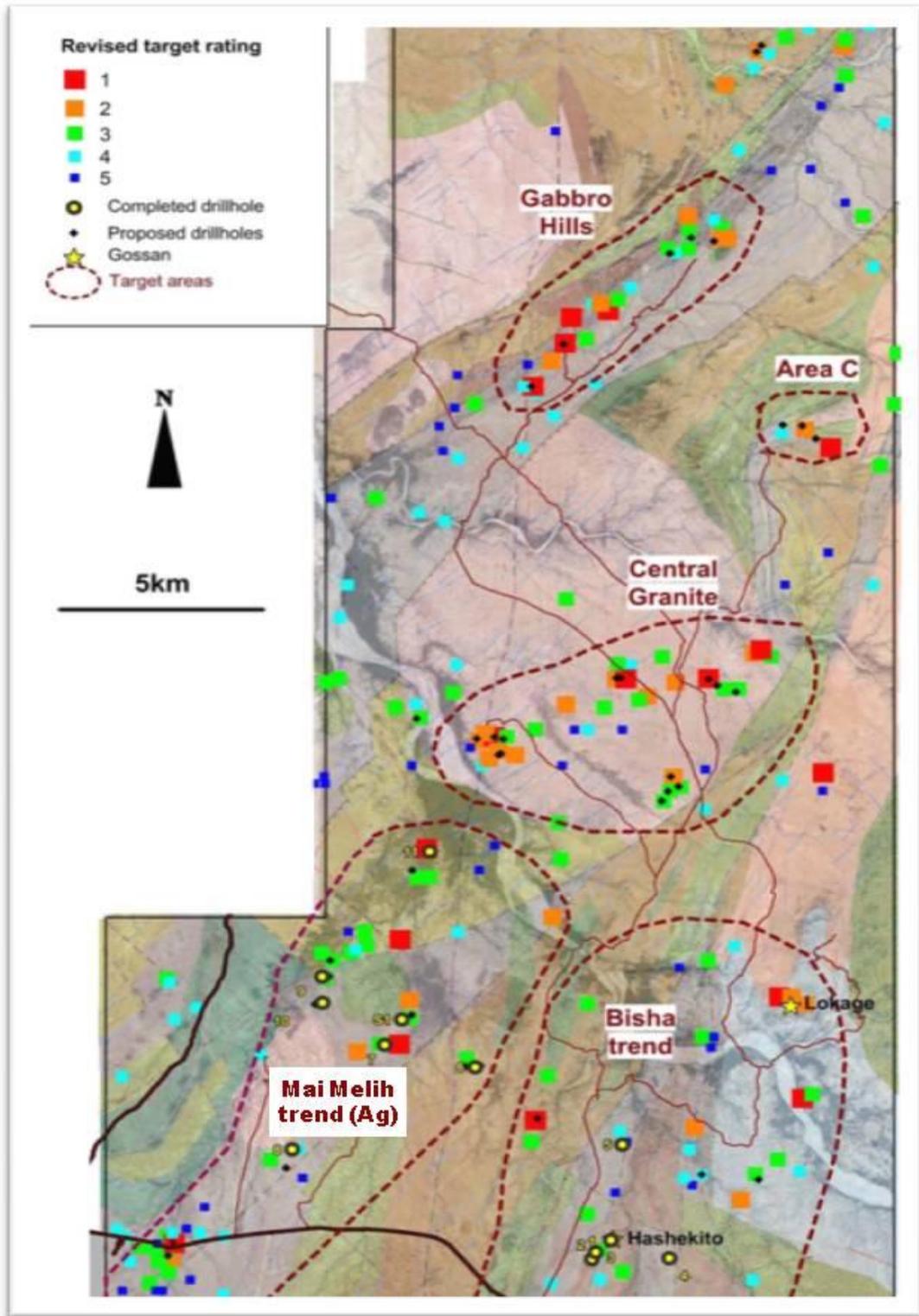


Figure 2: Mogoraib North ranked VTEM anomalies and drilling

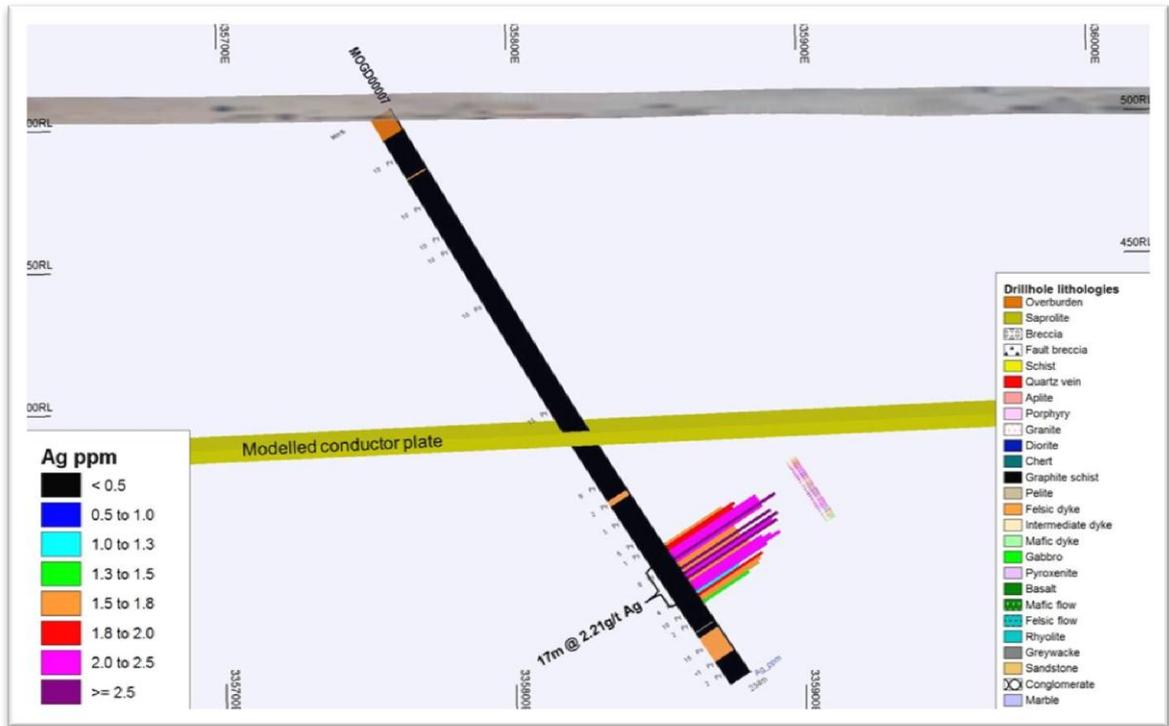


Figure 3: Cross-section MOGD-007 showing silver anomalous interval in carbonaceous shales

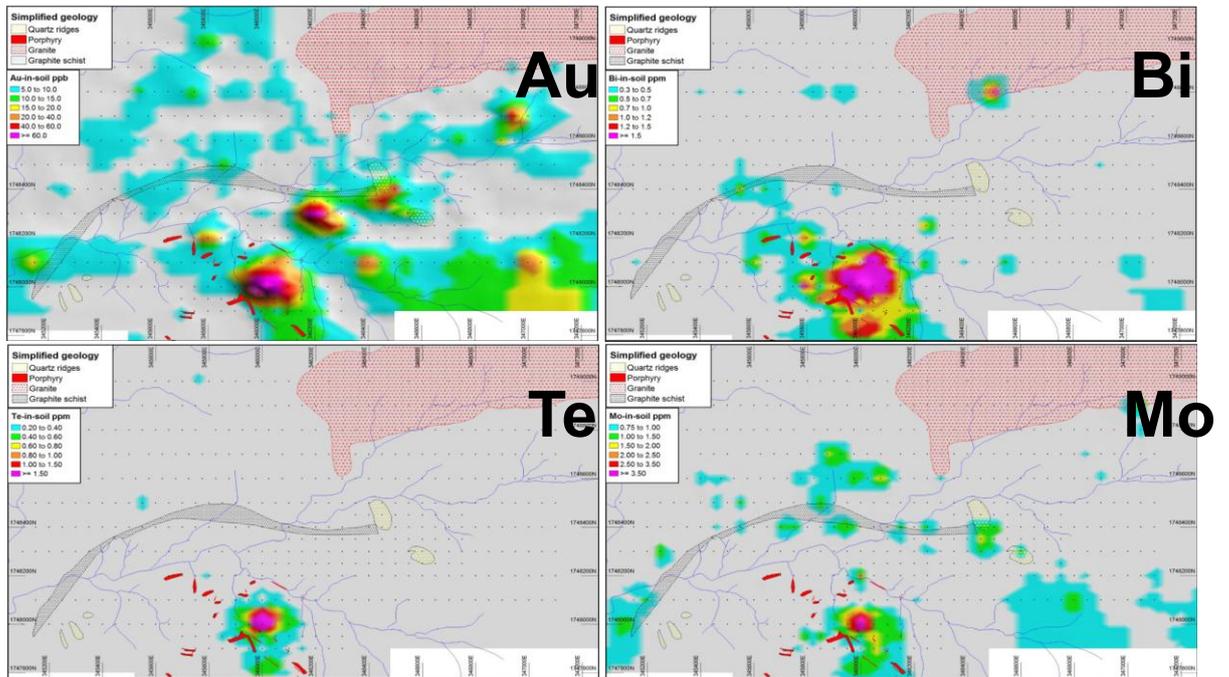


Figure 4: Geochemical anomalism associated with artisanal workings at Area C gold prospect

## **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.

## **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.

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

In certain cases, forward-looking statements can be identified by the use of words such as plans, expects or does not expect, is expected, budget, scheduled, estimates, forecasts, intends, anticipates or does not anticipate, or believes, or variations of such words and phrases or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; the ultimate outcome for shareholders of any Class Ruling received from the Australian Tax Office (“ATO”) in relation to any proposed capital return, whether shareholders would vote in favour of such a return of capital if put before them at a meeting of the shareholders, 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](http://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.

## **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.