

QUARTERLY REPORT

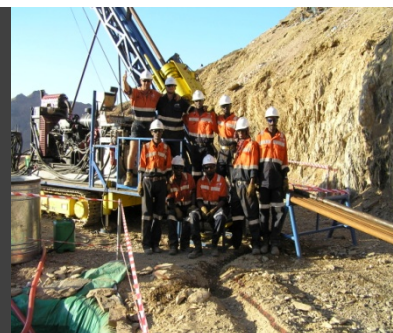
30 June 2010



Chalice Gold Mines Limited ABN 47 116 648 956

Highlights

- **Positive Feasibility Study completed on Koka Gold Deposit, paving the way for development of a significant new African gold operation:**
 - *Forecast cash operating costs of US\$338 per oz*
 - *Production of 104,000ozpa with gold production totalling 731,000oz*
 - *Estimated start-up capital cost of US\$122M*
- **Maiden Ore Reserve of 4.63Mt grading 5.1g/t for 760,000oz contained gold defined at Koka**
- **Near-mine exploration commences with drilling at the Konate Gold Prospect. Regional BLEG sampling completed over 615km²**
- **Chalice moves to 100% ownership of the Zara Project (subject to government interest) after acquiring Dragon Mining's 20% interest**
- **\$9.1M capital raising completed with the support of both international and local institutions**



INVESTMENT HIGHLIGHTS

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

Feasibility Study completed:

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

Drilling at near mine Konate Prospect in progress

Large unexplored ground position in the Arabian Nubian Shield

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Overview

During the Quarter, Chalice Gold Mines Limited (ASX: CHN) achieved a major milestone towards its goal of becoming a significant African gold producer with the completion of a positive Feasibility Study on the **Koka Gold Deposit** ("Koka"), part of its 100%-owned **Zara Project** in Eritrea, East Africa.

The results of the study have confirmed the Koka Deposit as a potentially robust gold project with forecast average annual gold production of 104,000 ounces over an initial mine life of 7 years. The significant exploration potential of Chalice's extensive tenement package surrounding Koka also provides an opportunity to expand the resource base and extend the mine life.

Chalice is currently working on delivering the remaining key recommendations from the Feasibility Study to allow the mine permitting process and negotiation of a mining agreement with the Government of Eritrea to commence.

The Company is optimistic that mine development may get the green light in early 2011, clearing the way for Chalice to join the ranks of international gold producers.

1. Koka Gold Deposit Feasibility Study

The key financial outcomes of the Feasibility Study, which was undertaken by Lycopodium Minerals Limited with inputs from prominent industry consultants AMC Consultants Pty Ltd and Knight Piésold Pty Ltd, are shown below. All figures are in US dollars except where noted.

1.1 Feasibility Study – Key Financial Outcomes

100% Project Financial Outcomes* (Unleveraged)	Gold Price		
	\$900 (base case)	\$1,200	\$1,500
Life-of-mine EBITDA	\$381M	\$589M	\$797M
Average annual EBITDA	\$54M	\$84M	\$114M
NPV _{5%} after-tax cash flows	\$99M	\$196M	\$293M
IRR after-tax	22%	35%	45%
Payback period (years)	2.8	2.1	1.8

* The Eritrean government has a statutory 10% non-contributing interest with their share of pre-production and capital expenditure being repaid from production cash flows

1.2 Feasibility Study Assumptions and Parameters

Base Case Assumptions		
Gold price base case	US\$/oz	900
Foreign exchange rate	AUD/US\$	0.85
Foreign exchange rate	Eritrean Nakfa/US\$	15.00
Fuel price	\$/litre	1.00
Fiscal Parameters		
Corporate tax rate	%	38
Royalty *	%	5.0
Base Case Mine Parameters		
Ore milled (Mt)	Mt	4.6
Waste mined (Mt)	Mt	48.3
Strip ratio	T:t	10.4
Average gold grade	g/t	5.10
Total contained gold	Oz	760,000
Estimated gold recovery	%	96.3
Total recovered gold	Oz	730,780
Life of Mine	Years	7
Average annual gold production	Oz	104,000
Base Case Cost Parameters		
Pre-production capital	\$M	122
Sustaining capital and mine closure	\$M	9
Average total cash costs (\$/oz)	\$/oz	338

Eritrean Government Project Participation Rights

The Government of Eritrea has a 10% non-contributing interest in any mining operation but may acquire, on the basis of an independently determined valuation, an additional 20% contributing interest.

- * The gross royalty is negotiable to a maximum of 5%.

1.3 Operating Cost Estimates

Operating cash costs over the life of the project are projected to average \$338/oz, with the operating cost components summarised below:

	\$/t milled	\$/t mined	\$/recoverable oz
Average mining costs	20.46	1.92	129.80
Processing cost	24.78	2.33	157.20
General and administration	7.36	0.69	46.70
Refining charges	0.63	0.06	4.00
Operating cash costs (LOM)	53.23	5.00	337.70

1.4 Capital Costs Estimates

The Feasibility Study is based on capital pricing as of the second quarter of 2010. The level of accuracy of the capital costs estimates is within $\pm 15\%$.

The pre-production capital costs are estimated at \$122 million, including contingency and escalation, but excluding 2010 sunk costs that will be funded from existing cash resources. Sustaining capital expenditures over the operation's mine life are estimated at \$9 million, including closure costs of \$1.3 million, with the balance to be met by the salvage value of the plant and equipment.

The cost breakdown for pre-production capital expenditures, assuming an owner operator scenario, is shown below:

Estimate $\pm 15\%$	\$M	\$M	\$M	\$M
Description	Cost Estimate	Contingency	Escalation	Total Cost
Mining equipment	18.8	0.9	0.3	20.0
Mine pre-strip	11.3	0.0	0.4	11.7
Process plant	18.3	2.2	1.6	22.1
Reagents and plant services	4.9	0.6	0.4	5.9
Infrastructure	22.9	3.2	2.0	28.1
Construction indirect	10.5	1.4	0.3	12.2
Management costs	7.1	0.7	0.7	8.5
Owners' costs	12.1	0.4	1.0	13.5
Total	105.9	9.4	6.7	122.0

1.5 Koka Gold Deposit – Next Steps

With the completion of the Feasibility Study, the Company will apply to the Eritrean Government for a Mining Lease in respect of the Koka Gold Deposit. In parallel with this application, the Company will assess its various options in relation to financing of the project development.

2. Maiden Ore Reserve at the Koka Gold Deposit

During the Quarter, AMC Consultants Pty Ltd completed Mineral Resource and Ore Reserve estimates for the Koka Gold Deposit as at 1 June 2010, as detailed below:

2.1 Koka Mineral Resource

The Mineral Resource estimate, classified and reported in accordance with the JORC Code is shown in Table 1 below. Mineral Resources are reported inclusive of Ore Reserves:

Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Oz)
Indicated Resource	5.0	5.3	840,000

Table 1: Koka Gold Deposit Mineral Resource Estimate as at 1 June 2010
Reported at 1.2 g/t Au Cut-Off

2.2 Koka Ore Reserve

The Koka Ore Reserve estimate, classified and reported in accordance with the JORC Code, is shown in Table 2 below. This is the first Ore Reserve estimate reported for Koka:

Category	Tonnes (Mt)	Grade (g/t Au)	Contained Gold (Oz)
Probable Reserve	4.6	5.1	760,000

Table 2: Koka Gold Deposit Ore Reserve Estimate as at 1 June 2010

3. Chalice Exercises Option to Acquire Dragon Mining's Interest in Zara Project

During the Quarter, Chalice exercised its option to acquire the shares in Dragon Mining's subsidiary, Dragon Mining (Eritrea) Ltd (now called Chalice Gold Mines (Eritrea) Ltd), taking Chalice's ownership in the Zara Project to 100% (subject to Eritrean Government project participations rights).

The consideration paid by Chalice was \$8 million and the issue to Dragon of 2 million Chalice shares (subject to 12 months escrow). An additional \$4 million is to be paid on the delineation of a 1 million ounce Ore Reserve within the current Zara Project. As part of the transaction, Chalice also forgave a contingent debt of approximately US\$3.4 million which Dragon would have been required to pay upon completion of a Bankable Feasibility Study on the Zara Project.

4. Zara Project Regional Exploration (Chalice 100%)

4.1 Konate Gold Prospect

The Company recognises the potential to further improve the economics of the Koka Project by expanding the near-mine resource base. Accordingly, diamond drilling has commenced at the Konate prospect, located 4.5 km south of Koka, where extensive artisanal workings have been developed on Koka-style quartz stockwork mineralisation over a zone some 600 metres long and up to 30 metres wide.

Konate is located within economic trucking distance of Koka and any additional ore reserves identified here could have an immediate positive impact on the economics of the project. Chalice currently has an initial 10-hole, 2,000 metre diamond program planned with drill holes sited and oriented to provide optimal quartz vein intersections based on a detailed structural analysis of the mineralised system.

In addition to the drilling at Konate, the 6 kilometre long Koka-Konate corridor will be covered by a deep-penetration 3D Induced Polarization (IP) survey during the coming months, which is designed to map the structural and alteration architecture of this highly prospective zone.

4.2 Koka South

A six-hole, 890 metre diamond drilling programme was completed during the Quarter at the Koka South prospect, located immediately along strike to the south of the Koka Deposit.

The drilling, which covered a strike length of 200 metres, was designed to follow up previous intercepts of up to **1 metre grading 92 g/t Au** associated with Koka-style quartz stockwork mineralisation in altered microgranite. Further intercepts of similar style were achieved from the programme with results shown in Table 3 below:

Hole	Depth (m)	East (UTM)	North (UTM)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
ZARD 169	202.3	390204.1	1823777	012	-60	59	62	3	23.72
						Including 1m @ 70.07 g/t			
						89	90	1	1.27
						94	95	1	1.22
						103	105	2	4.86
						115	118	3	8.58
						Including 1m @ 20.47 g/t			
						122	124	2	30.74
						126	127	1	2.86
ZARD 170	133	390160.8	1823754	102	-50	No significant intercepts			
ZARD 171	130.6	390154.4	1823914	102	-50	83	84	1	8.77
						95	97	2	24.04
						Including 1m @ 47.11 g/t			
ZARD 172	98.3	390187.9	1823805	102	-50	56	57	1	2.85
						59	60	1	91.93
ZARD 173	180	390152.6	1823714	102	-50	No significant intercepts			
ZARD 174	155.3	390283.8	1823940	282	-62	120	121	1	8.19

Table 3: Results from drilling at Koka South

Further drilling will be conducted when the planned 3D IP survey covering a total area of ~10km² is completed and a rock-breaker capable of building access tracks arrives on site. The contract for the deep penetration IP survey will be awarded shortly and it is anticipated that this survey, weather permitting, will commence in late September 2010. In particular, access will be developed on the southern end of the zone.

Although drill holes ZARD 170 and ZARD 173 failed to intersect mineralisation, these holes were poorly sited due to access issues and may have passed beneath the high-grade zone intersected in ZARD 172 and the historical hole ZARD 110. **Previous shallow penetration IP indicates a strongly resistive zone developing to the south, which is similar to the response over the main Koka deposit, which zone remains untested.**

The results from this program highlight the potential for additional gold resources in narrow high-grade zones that may be accessible from future underground development off the Koka pit.

4.3 Koka East

Assays received from an 11-hole, 2,125 metre diamond drilling programme completed at the Koka East prospect the previous Quarter returned generally disappointing results despite the intensely quartz veined and altered microgranite intersected in most holes (*see Table 4*). The best intercept from this programme, 1 metre grading 13.67 g/t Au in ZARD 160, was not replicated in an undercutting hole. No further drilling is planned at Koka East.

Hole	Depth (m)	East (UTM)	North (UTM)	Azimuth (°)	Dip (°)	From (m)	To (m)	Interval (m)	Gold (g/t)
ZARD 158	152.2	390540.2	1824378	135	-45	No significant intercepts			
ZARD 159	209	390539.6	1824379	135	-60	13	14	1	1.03
						154	155	1	2.81
ZARD 160	146.6	390561.2	1824135	135	-45	5.1	6.2	1.1	2.81
						28	29	1	13.67

ZARD 161	161.7	390591.2	1824025	135	-45	No significant intercepts			
ZARD 162	201.7	390560.8	1824135	135	-60	44	45	1	0.92
						62	63	1	2.24
ZARD 163	195.6	390590.7	1824025	135	-60	No significant intercepts			
ZARD 164	301.7	390539.6	1824379	135	-80	5	7	2	1.02
ZARD 165	152.3	390612.7	1823935	135	-45	No significant intercepts			
ZARD 166	194.58	390605.9	1823868	135	-45	172	173	1	1.46
ZARD 167	200.3	390612.2	1823936	135	-60	31	32	1	1.24
						148	149	1	3.61
ZARD 168	209	390605.2	1823868	135	-60	No significant intercepts			

Table 4: Results from drilling at Koka East

4.4 Stream Sediment Sampling and Regional Airborne Geophysical Programs

Initial stream sediment sampling has now been completed over the entire 615 km² Zara project area. Samples are being assayed for gold using the Bulk Leach Extractable Gold (BLEG) technique and a multi-element suite. An orientation survey, conducted around the Koka and Konate prospects, has confirmed that this methodology works well in the Zara area and both prospects were clearly identified by high tenor anomalies (>40ppb Au versus background typically <5ppb Au). Typically, a 5ppb anomaly is considered to be anomalous in this terrain and worthy of further follow up.

The orientation survey also identified high tenor anomalies (up to 90 ppb Au) in drainages not currently known to contain artisanal workings and these provide immediate targets for detailed follow-up. Results from the complete survey are expected shortly.

The Company has also executed a contract with geophysical contractors NGR Exploration to conduct an airborne geophysical survey over the Zara property package. The survey will involve ~12,700 line kilometres of heli-borne magnetics and radiometrics and will be flown as soon as possible after the current wet season.

4.5 Jani VHMS Prospect

An Audio Magneto Telluric (AMT) survey was completed over the Jani VHMS (Volcanic-hosted Massive Sulphide) prospect, located approximately 30 kilometres south of Koka. No conductors were identified by the survey and no further work is planned at this prospect.

4.6 Tenement Applications

The Company has applied for a further four licence areas in northern and eastern Eritrea.

5. Australian Projects

Chalice has been advised by its Joint Venture partner at the Company's Gnaweeda Gold Project, Teck Resources, of the results from an eight hole, 1,576 metre diamond drill programme completed by Kent Exploration Inc. (TSX-V: KEX) at the Turnberry and Bunarra zones.

At Bunarra, drilling intersected mineralisation to depths of over 200 metres, with the most significant intersections coming from drill hole BN003, with an **18m intersection grading 11.09 g/t Au**, including **4m @ 37.76 g/t Au** (inclusive of a **1m intersection @ 99.1 g/t Au**), **1m @ 24.2 g/t Au** and **3m @ 7.09 g/t Au**.

Significant gold intersections from three wide-spaced drill holes at the Turnberry prospect included drill hole TB003 with **16m @ 2.46 g/t Au**, including **3m @ 6.40 g/t Au**, **3m @ 4.8 g/t Au** and **1m @ 7.16 g/t Au**.

Kent has an option agreement to earn 100% of Teck's 70% interest in the project. Chalice has a 30% interest and is not contributing to the current program and therefore its interest in being diluted to approximately 20%.

6. Corporate

6.1 Investment in London Africa

During the Quarter, Chalice increased its interest in the unlisted United Kingdom-based company London Africa Limited ("London Africa") from 11.8% to 20% after subscribing for 1.4 million shares at 12.5p per share for £175,000.

The funds will be applied to an ongoing work program being undertaken by London Africa over its prospecting licences, which cover an area of 1,562 square kilometres in the prospective Akordat-Orata region of Eritrea. The London Africa licenses are contiguous to Chalice's Zara Project.

Chalice's Executive Chairman Tim Goyder has joined the Board of London Africa.

6.2 Share Placement

In May 2010, Chalice placed 21,613,080 shares at \$0.42 per share to raise approximately \$9.1 million before issue costs.

6.3 TSX Listing Update

Following completion of the Feasibility Study, preparation of the documents required to apply for listing on the main board of the TSX has continued. It is expected that an application to list on TSX will be made in August 2010. Haywood Securities of Canada is the Company's sponsoring broker for the proposed listing.

6.4 Director Appointment

In May 2010, experienced mining executive and mining geologist, Mr Stephen Quin, was appointed to the Board as a non-executive Director. Based in Vancouver, Canada, Mr Quin will provide his extensive experience in the Canadian markets and resources sector to assist the Company as it seeks to list on the TSX and advance the Koka Deposit through to production.

6.5 Cash at bank

At 30 June 2010, the Company had cash on hand of approximately \$7.7 million. Please refer to the attached Appendix 5B for further details.



Doug Jones
Managing Director

20 July 2010

Eritrean Government Participation Rights

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

Competent Persons Statement

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

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

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