

ASX Announcement

2 November 2011

## Chalice takes key step towards gold production with signing of Eritrean Mining Agreement

Chalice Gold Mines Limited (ASX:CHN)(TSX:CXN) is pleased to announce that its 60 per cent-owned Eritrean joint venture company, Zara Mining Share Company ("ZSMC"), has executed a Mining Agreement with the Government of the State of Eritrea, paving the way for financing and development of the high-grade Koka Gold Mine at the Zara Project.

The Mining Agreement contains the provisions governing the future development and operation of the Zara Project. ZMSC has also applied for a Mining License for a period of 18 years, which the Government has advised will be issued shortly.

Tenders for the construction of the plant and mine are being received and assessed, with final selection of the contractor expected to occur before the end of the year. Subject to financing, granting of all necessary permits and licences and other such matters, this could enable Chalice to begin production at Koka in late 2013.

Koka has a Probable Mineral Reserve of 760,000 ozs at a grade of 5.1 g/t gold and an Indicated Mineral Resource of 840,000 ozs at a grade of 5.3 g/t gold. The project feasibility study is based on annual average production of approximately 104,000 ozs of gold per year at a cash cost of US\$338 per oz of gold.

In June 2011, the Government of Eritrea, through the Eritrean National Mining Corporation ("ENAMCO"), purchased a 30 per cent participating interest in the Zara Project for US\$32 million plus approximately US\$2 million for the reimbursement of costs. The proceeds are due to be paid by ENAMCO prior to January 27, 2012.



### INVESTMENT HIGHLIGHTS

High grade gold open pit

Mine permitting nearing completion

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

Large underexplored ground position in the Arabian Nubian Shield

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ZSMC is 60 per cent-owned by Chalice and 40 per cent by ENAMCO; ENAMCO's stake includes a 10 per cent free-carried interest. Contributions to capital are payable on the basis of each shareholder's paid participating interest, being two-thirds Chalice and one-third ENAMCO.

Chalice Chairman Tim Goyder said the Mining Agreement was another key step towards Chalice becoming a low-cost gold producer.

"We look forward to financing the Koka Gold Mine and starting construction in the first part of next year. Together with our Eritrean partners, ENAMCO, we hope to have a significant positive impact on the Eritrean economy and workforce."

On behalf of the Government of Eritrea, Minister Ahmed Haj Ali stated that "the development of Eritrea's second major mine, following the success story of the Bisha Mine, shows the potential of the emerging resource sector in Eritrea."

TIM GOYDER  
Executive Chairman

### **About Chalice**

Chalice Gold Limited is an exploration and development company which owns a 60% interest in the high grade, open-pittable Koka Gold Deposit and a substantial, largely unexplored, land package in Eritrea. The Koka Gold Deposit consists of an "in-pit" JORC and NI 43-101 compliant Indicated Mineral Resource of 5.0 million tonnes grading 5.3 grams of gold per tonne, containing 840,000 ounces of gold. This Mineral Resource includes a Probable Mineral Reserve of 4.6 million tonnes grading 5.1 grams of gold per tonne, containing 760,000 ounces of gold. The Company is focused on developing the Koka Gold Deposit into a low cost gold mine which is expected to produce 104,000 ounces of gold per year over a 7 year mine life at an average cash cost of US\$338/oz gold (refer to the 43-101 Technical Report on the Koka Gold Deposit, Eritrea dated 27 July 2010). Chalice also holds a substantial strategic ground position of 1,372 km<sup>2</sup> consisting of licences along strike of the Koka Gold Deposit, and proximal to Nevsun's Bisha Mine. These exploration concessions host numerous, high potential, early and advanced stage gold and base metal exploration targets. Chalice is undertaking a systematic exploration effort on these exploration concessions with the aim of discovering significant new deposits.

#### **For further information, please contact:**

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### **Competent Persons and Qualified Person 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 is a Qualified Person under National Instrument 43-101 – ‘Standards of Disclosure for Mineral Projects’. The Qualified Person has verified the data disclosed in this release, including sampling, analytical and test data underlying the information contained in this release. Dr Jones consents to the release of information in the form and context in which it appears here.

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

The statement of Ore Reserves is based on information compiled by Mr David Lee who is a Member of the Australasian Institute of Mining and Metallurgy and a full time employee of AMC. Mr Lee has sufficient relevant experience to be a Competent Person as defined in the JORC Code and was a Qualified Person under National Instrument 43-101 – ‘Standards of Disclosure for Mineral Projects’ at the date the National Instrument 43-101 was filed with the Toronto Stock Exchange. Mr Lee consents to the inclusion of this information in the form and context in which it appears.

### **Forward Looking Statements**

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

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 and gold; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; imposition of trade embargos or sanctions; as well as those factors detailed from time to time in the Company’s interim and annual financial statements and management’s discussion and analysis of those 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.

### **Cautionary Note**

For readers to fully understand the information in this news release, they should read the Technical Report for the Koka Gold Deposit dated July 27, 2010 (available at [www.chalicegold.com](http://www.chalicegold.com)) in its entirety, including all qualifications, assumptions and exclusions that relate to the information set out in this news release which qualifies the Technical Information. Readers are advised that mineral resources that are not mineral reserves do not have demonstrated economic viability. The Technical Report is intended to be read as a whole, and sections should not be read or relied upon out of context. The technical information in the report is subject to the assumptions and qualifications contained in the Technical Report.