

ASX ANNOUNCEMENT

Koka Deposit Feasibility Study Update

Chalice Gold Mines Limited ABN 47 116 648 956

17 May 2010

Chalice Gold Mines Limited (ASX: CHN) is pleased to provide an update on progress of the Feasibility Study for the high-grade **Koka Gold Deposit**, part of its 80%-owned Zara Gold Project in Eritrea, East Africa.

The Feasibility Study, which is scheduled to be completed by July 2010, follows the Scoping Study completed in October 2009 (*see ASX Release – 30 October 2009*).

The Scoping Study was an interim analysis designed to provide guidance on the financial and technical viability of the Koka Gold Deposit based on the data available at the time (to an accuracy of +/- 35%) and identify the key steps required to progress the development of a profitable mining operation.

As part of the Scoping Study, Terms of Reference for the Social & Environmental Impact Assessment (SEIA) for the Koka Deposit were developed and submitted to the Eritrean Government for feedback as part of an iterative process for completion of both the Feasibility Study and SEIA leading to Mining License and Project Approval.

In recent months work has progressed rapidly on several key components of the Feasibility Study including completion of:

- 5,000 metres (30 holes) of in-fill diamond drilling to confirm the high-grade mineralisation at Koka and provide the basis for a revised resource estimate. Overall, these additional drill holes have increased the level of confidence in the resource and enabled the development of a better understanding of the structural controls on mineralisation;
- Geotechnical drilling and test work which has confirmed that the proposed pit-wall angles can be steepened from those used in the Scoping Study;
- Cost benefit analysis of Contract Mining versus Owner Mining which has demonstrated Owner Mining will significantly reduce the life of mine operating costs. The cost of the mine fleet (estimated at approximately US\$20 million) will be incorporated in the Project Capital Cost;
- Detailed metallurgical test work which indicates that the plant design can be simplified to single-stage crushing followed by a single-stage SAG mill, with recoveries in excess of 95% and very low reagent consumption. In addition, a Counter-current Decantation (CCD) circuit for removal and recovery of cyanide from tailings is proposed in place of cyanide destruction. These changes will result in reductions in operating costs for these components of the Project;



INVESTMENT HIGHLIGHTS

Feasibility study scheduled for completion by July, 2010

Medium term production potential

Large underexplored ground position with potential for discovery of additional resources

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- Identification of underground water supplies by exploratory hydrological drilling in the nearby Zara Valley. The water supplies will be more than adequate for the project development, therefore removing a major risk for the Koka Project; and
- The near-completion of environmental and socio-economic field studies with preparation of reports for incorporation into the SEIA, which is now well advanced.

The Koka Deposit Feasibility Study is on track to be completed in July 2010.



Dr Doug Jones
Managing Director

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.