

Chalice agrees to sell remaining 60% of Zara Gold Project

Transaction will deliver to Chalice a significant cash balance to pursue growth opportunities in Eritrea and elsewhere

Chalice Gold Mines Limited (**ASX:CHN**)(**TSX:CXN**) announces that it has entered into a conditional shortform agreement (the "Agreement") to sell its remaining 60 per cent stake in the Zara Project in Eritrea to China SFECO Group (SFECO), a subsidiary of Shanghai Construction Group Co. Ltd (www.scg.com.cn)(the "Transaction"). This follows the agreement in July 2011 pursuant to which Chalice agreed to sell a 30% interest in the Zara Project to the Eritrean National Mining Corporation ("ENAMCO") (see ASX announcement 29 July 2011), which is in addition to the 10% carried interest in the project already held by ENAMCO.

Under the Agreement, SFECO will pay Chalice US\$80 million in cash for Chalice's share of the mineral resource at the Koka gold deposit. In addition, SFECO will pay Chalice a further sum, not to exceed US\$20 million for the balance of the area falling within the Zara Project (including Zara North, South and Central). This figure is to be agreed between the parties and, failing agreement, will be determined by binding independent arbitration to a cap of US\$20 million.

The Agreement with SFECO is subject to SFECO being satisfied with its due diligence which must be completed by 12 March 2012; however, SFECO has undertaken to expedite this. The Agreement is also subject to:

- the approval of Chalice shareholders and SFECO obtaining certain regulatory approvals within China including the National Development and Reform Commission, the Ministry of Commerce, the State Asset Supervision and Administration Commission and the State Administration of Foreign Exchange;
- there being no material adverse change or event of force majeure effecting the Zara Project;
- SFECO procuring a letter indicating suitable financing by completion of due diligence; and
- completion of the sale of the 30 per cent interest by Chalice to ENAMCO for US\$32 million plus approximately US\$2 million for the reimbursement of certain costs. This condition is for the benefit of Chalice which can waive the same.

Chalice has also agreed that it shall not solicit or be involved in discussions or negotiations concerning the sale of its shares in ZMSC until completion of SFECO's due diligence or, until completion if the SFECO confirms it is satisfied with its due diligence, but subject to a carve out allowing the Chalice directors to discharge their fiduciary and statutory duties where there is a superior proposal.

The parties will prepare more formal transaction documents incorporating usual terms and reflecting the current short form agreement.

Assuming completion of the Transaction, Chalice would be liable to pay tax to the Eritrean Government on the SFECO and ENAMCO proceeds at a rate of 38%. This will be calculated after deducting the Company's share of project-to-date costs of at least ~US\$30 million (subject to audit).

The Transaction would end Chalice's involvement with the Zara Project; however, Chalice will maintain an active presence in Eritrea by undertaking a significant exploration program at its Mogoraib North Project, which lies about 100km south of the Zara Project and immediately north of TSX listed Nevsun Resources' Bisha mine.

A recent VTEM, magnetic and radiometric survey completed over Mogoraib North identified a series of conductive bodies with the potential to host mineralisation similar in style to the world-class Bisha polymetallic VHMS mine. An initial 5,000 metre drilling program is expected to commence in the first quarter of 2012.

Completion of the sale to SFECO, along with the proceeds from the sale of the stake to ENAMCO, will leave Chalice with a significant cash balance. Subject to the satisfaction of the conditions precedent and required approvals, Chalice anticipates settlement in the second quarter of calendar 2012.

Chalice Chairman Tim Goyder said successful completion of the Zara Project sale would put the Company in an attractive position with a substantial cash balance, enabling it to pursue other opportunities in Eritrea and around the world.

"On completion of the sales of its interests in the Zara Project, Chalice would be ideally placed to identify, acquire and develop resource projects which could offer investors substantial leveraged growth prospects," Mr Goyder said. "This is an extremely strong position that would enable the Company to take full advantage of growth opportunities."



TIM GOYDER
Executive Chairman

About Chalice

Chalice Gold Mines Limited is an exploration and development company which owns a 60% beneficial 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). As announced today, Chalice has entered into a conditional shortform agreement with a third party in respect of the Zara Gold Project, including the Koka Gold Deposit and Koka South which could result in a third party acquiring Chalice’s interest in these assets. Chalice also holds a substantial strategic ground position of 1,372 km² consisting of licenses 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 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.

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 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 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 except as required by law or regulation.

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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 future implications of exploration results reported herein including whether the Koka South mineralization becomes a mineral resource and/or reserve and is economically extractable by underground methods or otherwise, 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, as well as the possibility that a sale of the Zara Gold Project may be consummated.

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; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; completion of the sale of the Zara Gold Project to SFEKO; the tax payable on any such transaction; completion of the sale of a 30% interest in the Zara Gold Project to the Eritrean National Mining Corporation; the use of any sale proceeds received from the sale of the Zara Gold Project; 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. 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) 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.