

# AFFINITY GOLD CORP.



## *Development & Production Proposal*

### *Project Carabaya*



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## INTRODUCTION

The purpose of this document is to propose the most sensible strategy to create a revenue-producing gold asset under Affinity Gold Corp. (Affinity) with the primary decision factors being time, (geological) data (*project-specific and regional*) and capital.

After careful review of available projects and their respective data, costs to acquire and capital requirements to setup and run production operations, we propose to continue with the development of its 500 hectare project located in Carabaya, Puno, Peru while hedging the associated project-related risk through the acquisition and development of an additional project located in Madre de Dios (MDD) with the same objective of creating a gold-producing asset.

The Carabaya project has had two technical reports completed with the most recent completed in November 2009. This proposal contains assumptions and calculations based off the previous technical reports prepared by Dr. Ing. De la Cruz and Eng. Robert Laakso, as well as personal knowledge of the management and technical teams to be involved.

The conditions and circumstances that currently exist in MDD are such that there is no better department within Peru at this time to quickly establish economically-viable gold production operations at a relatively low cost with the potential for recapture of invested dollars to be accomplished in less than 3 months from the start of production operations.

## CARABAYA PROJECT

### BACKGROUND:

To date, two studies have been conducted on the property both of which have concluded the potential presence of significant quantities of gold, both fine and coarse. The most recent technical report published regarding Affinity's 500 hectare property was in November 2009 by Robert Laakso, Geological Engineer, in which the sampling program and calculations performed by Mr. Laakso and his team produced results which corroborated the previous sampling program of Eng. De la Cruz, which took place in 2007.

The below reserve estimates are from the November 2009 Technical Report:

<u>Category</u>	<u>M3</u>	<u>Tonnes Grade</u>	<u>Oz/T</u>	<u>Ounces Au</u>
Measured Reserves	360,000	720,000	0.0506	36,432
Indicated Resource	3,500,000	7,000,000	0.0337	235,900
Inferred Resource	27,000,000	54,000,000	0.0337	1,819,800

Based on the studies conducted and their respective results, it was concluded, in conjunction with the price of gold in excess of \$1,400 USD per ounce, that the project can be economically viable with the appropriate plant and operational design with a recapture of invested capital within less than 3-6 months from start of production post-EIS approvals.

## **PROJECT CHALLENGES:**

When considering speed to production and capital constraints as the major decision factors, it's necessary to understand the challenges the project faces today. The primary challenges associated with the project are the following: 1) mining regime under which environmental studies and permits are approved and issued, and 2) location.

### ***MINING REGIME - CLASSIFICATION***

In late 2009 when Affinity acquired AMR, the change in AMR's ownership structured unknowingly resulted in a change of AMR's mining classification under Peru's General Mining Laws.

Prior to August 2009, AMR was classified as a "*Pequeño Productor Minero*" (PPM), also referred to as a "Small-scale Mining Producer," under what is referred to as the "Exceptional Regime." Upon closing of the Share Exchange Agreement (SEA), AMR lost its qualifying status of PPM, along with the classification's associated benefits. The classification was lost since qualification mandates that the legal entity holding the concession rights be solely comprised of natural persons (*ownership by another legal entity disqualifies PPM status*). The other primary mandate to meet for PPM qualification is that the legal entity hold less than 2000 hectares of concessions.

The PPM classification was created to assist with economic development at a local and regional level. For example, one of the benefits under the PPM classification is lower annual concession maintenance fees. However, the primary benefits of the PPM classification stipulate that the review and approval processes for the Definitive Impact Assessment (DIA) and the Environment Impact Study (EIS) of the proposed project(s), along with the issuance of mining permits, occur with the Regional (local) Authorities as opposed to the National (Central Government) Authorities in Lima.

Today, AMR is subject to the regulatory rules under the "General Regime." Under the Peruvian General Mining Law, the General Regime serves as a far more stringent, demanding, lengthy and costly set of requirements to meet and process to go through. AMR's new classification under the "General Regime" mandates that the DIA and EIA review and approval processes occurs with the Central Authorities in Lima.

The re-work relating to the EIS that must occur, along with the review and approval process by the Central Authority and issuance of mining permits, is a process likely to require a total of 9-12 months from the time engineering re-work begins and will likely cost an additional \$250,000-\$300,000, if not more. Addressing the issue of mining regime will serve to significantly reduce capital requirements and time to production.

### **Resolution:**

To resolve this issue, we will re-qualify the project for PPM classification by restructuring ownership of the AMR concession rights. Restructuring will entail using an already-identified legal entity which AMR will sell the concessions to for a nominal amount under a financing agreement whereby Affinity will finance new legal entity for the development of the property and establishment of production operations in turn earning majority revenues and possible buyout of project.

## LOCATION

In terms of location, the AMR project contends with two primary factors: 1) being located within a national park's buffer zone, and 2) its proximity to an extremely controversial infrastructure project.

### Bahuaja-Sonene National Park Buffer Zone

Currently, the entire 500 hectare AMR project is located within the Bahuaja-Sonene National Park's Buffer Zone. Being located within a national park's buffer zone mandates the project to receive the approval and authorization from additional stakeholders for the proposed mining project in order for mining permits to be issued. The purpose of the buffer zone is to limit and protect the national park's interior from activities that could threaten the park's biodiversity and indigenous communities.

Fortunately, AMR's mineral concession rights were granted prior to the creation of the buffer zone and have been kept in good standing which has given the project a "grandfathered in" status per se. This has been previously confirmed with our legal firm in Peru, Zuzunaga & Assereto Abogados. Although having the "grandfather" clause status is favorable, the fact doesn't change additional approvals must be obtained by additional stakeholders (*Ministry of Natural Parks & Protected Areas*) in order to have mining permits issued.

### Resolution:

The key to gaining the buy-in from the National Institute of Natural Resources (INRENA), National Service of Protected Natural Areas (SERNANP) and other local stakeholders is through a proper environmental study, open communications and demonstration that our production operations will contribute back to the community over time.

Our contacts at the local, regional and central government levels firmly believe approvals and mining permits can be obtained without much trouble provided process is conducted at the local level in Puno.

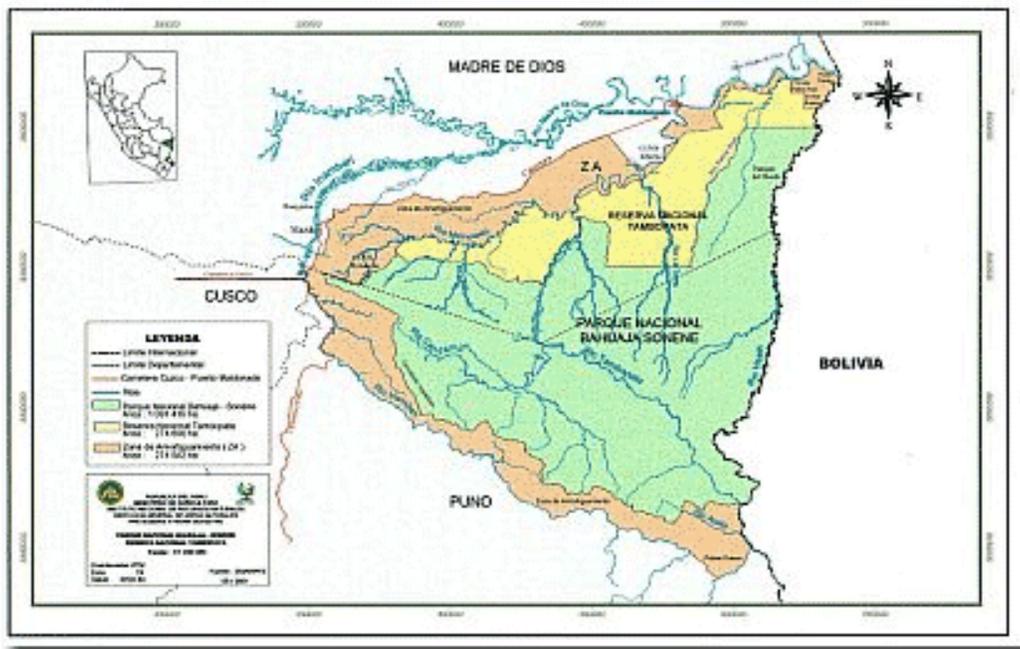


Figure 1 - Map of Bahuaja-Sonene National Park - Buffer Zone in Creme Color

For additional information: [http://www.parkswatch.org/parkprofiles/pdf/tabs\\_eng.pdf](http://www.parkswatch.org/parkprofiles/pdf/tabs_eng.pdf)

## Inambari Hydro Electric Dam

The two issues relating to the Inambari Dam are: 1) flooding of a portion of the AMR project, and 2) accessibility challenges created by flooding of area along the Inter-Oceanic Highway. However, there are some advantages as well.

Preliminary agreements have been negotiated and signed between Brazil and Peru for the construction of six hydroelectric power plants in the Peruvian Amazon. The power plants would supply a total 6,000 Mw, 80% of which would go to Brazil. The first selected project is located on the Inambari River - at the confluence of three Peruvian regions - Madre de Dios, Cuzco and Puno.

### **Regional Flooding:** Partial Loss of AMR Property

The Inambari Hydro Dam is estimated to supply 2,000 MWs of electricity and be the largest in Peru and the fifth largest in Latin America in terms of energy generation. However, estimates to date indicate the project would cause the flooding of an area approximately 46,000 hectares currently inhabited by an estimated 10,000 people. As of October 2010, it was still unclear how the social and environmental impacts will be dealt with.

The AMR project is located in an area of Puno that will be impacted according to information made public so far. Based on this information, it is estimated that 20% - 25% of the AMR project will be flooded by the reservoir created by the dam.

### **Resolution:**

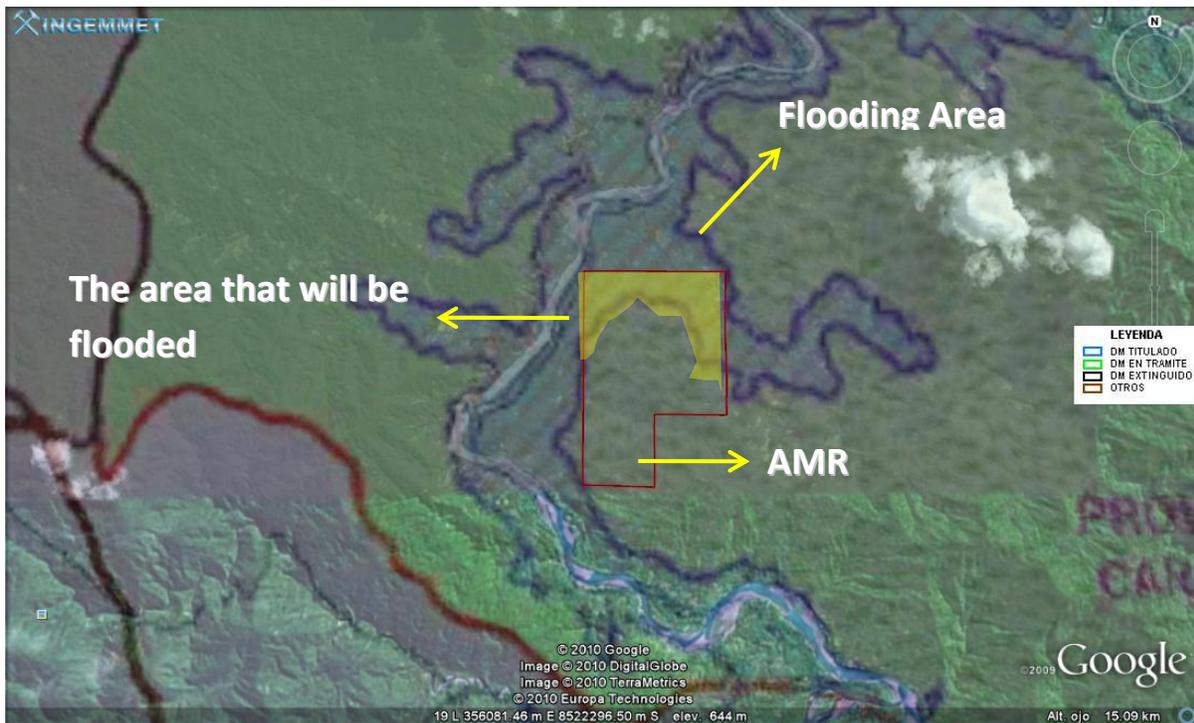
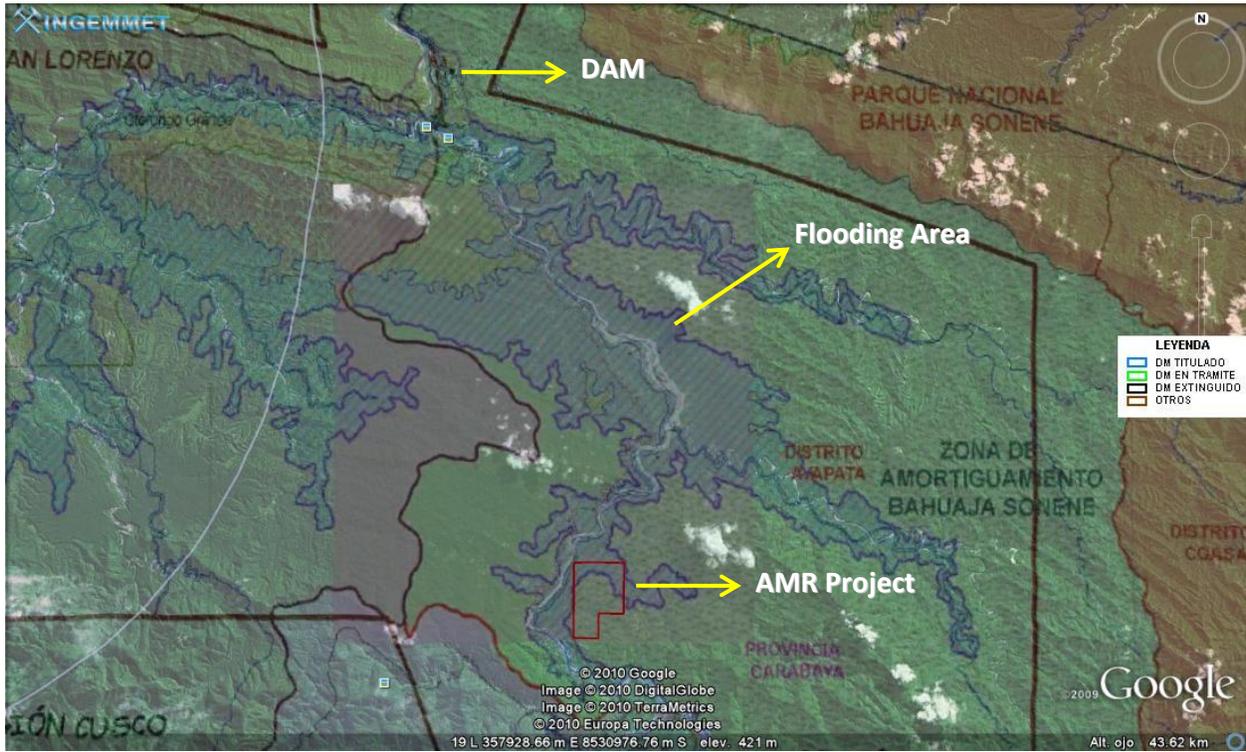
There is no resolution that will prevent the flooding of the AMR property from occurring. However, the key is to secure the AMR project as a member of the group that will be entitled to compensatory damages due to being dislocated and forced to move elsewhere. To secure this position, we must obtain our environmental approvals and mining permits. This is best done at the local level by re-qualifying for PPM status.

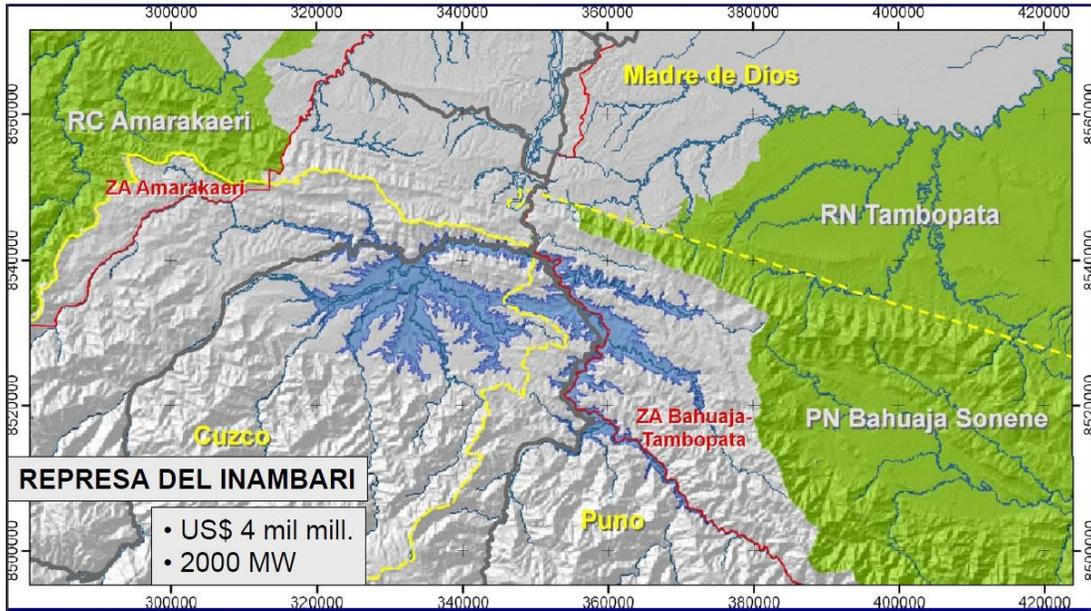
Also note, there are advantages to this in terms of logistical management once the reservoir is created in that the project will be able to establish loading docks to make transport of fuel, food, water and other supplies more manageable.



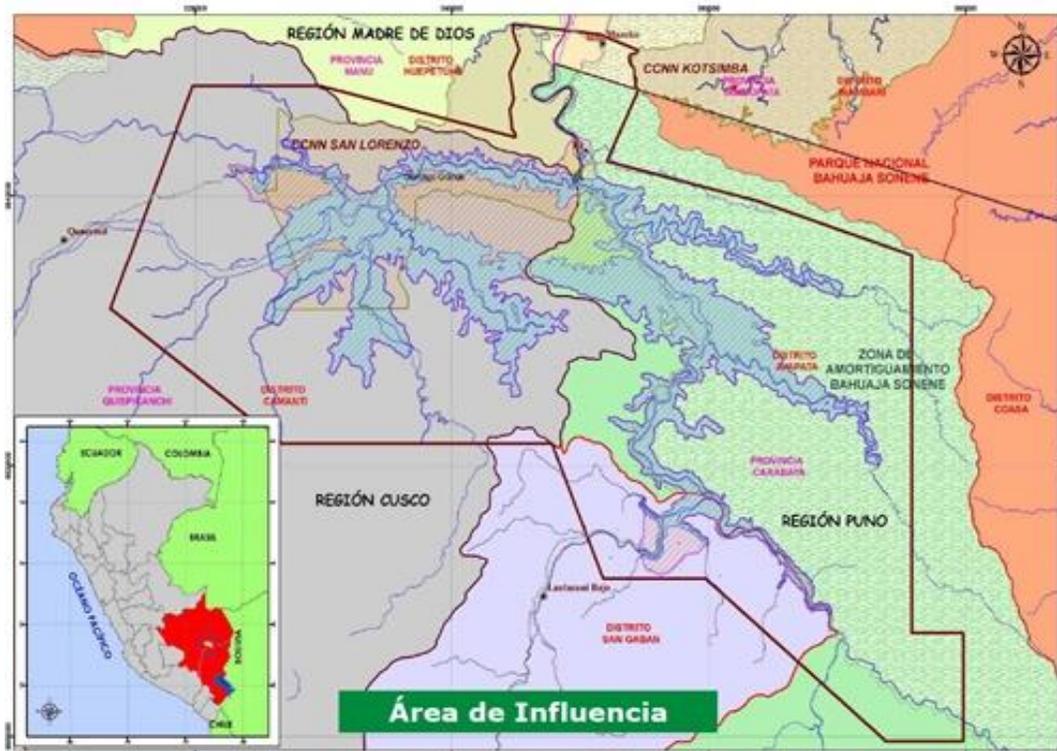
Lastly, there is also the idea which deserves looking into around dredging permits prior to the creation of the reservoir. It is widely known in the area that the river bottom contains significant quantities of gold which cannot be dredge since it is not allowed at this time. However, we have bounced this idea off of those whom we value their opinion and we're led to believe there may be an opportunity.

Photo to Left: *Myself on the AMR property this last summer with the Inambari River behind me. Where I'm standing will be flooded with the creation of the reservoir. Note – the trek on foot is a killer!*

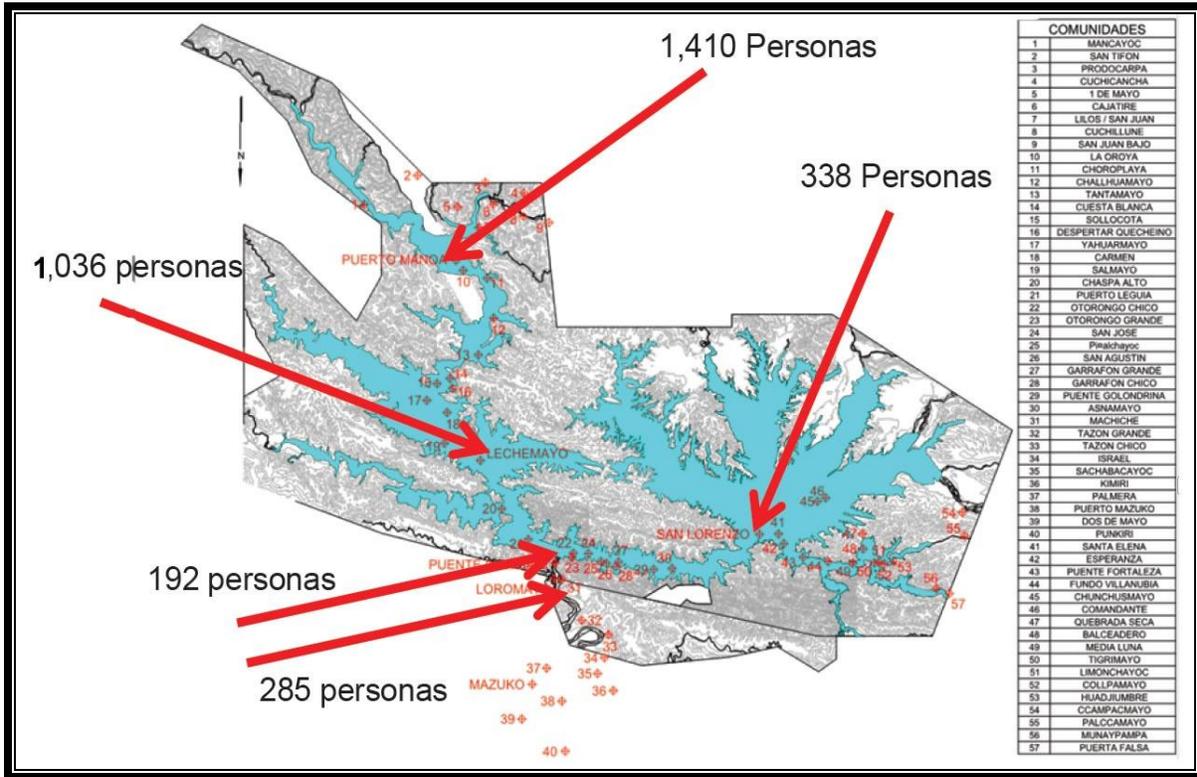




Fuente: Centro de Datos para la Conservación. CDC-UNALM (2009)



Fuente: Empresa de Generación Eléctrica Amazonas Sur S.A.C



Town of Puerto Manoa is closest to AMR Project

It's important to note that the town of Puerto Manoa will be critical to gaining approvals on the social level since that is the town nearest to the AMR project. Fortunately, we already have a fairly solid relationship with the townspeople of Puerto Manoa through Robert's past experience in the area and our previous visits. *Photos below were taken during our visit to Puerto Manoa near the AMR project site, this last summer.*

**Top Right:** Children of Puerto Manoa playing



**Bottom Right:** At the town school. Teacher's living quarters are the sheds in green.

**Bottom Left:** School classroom – 1 of 12



**Accessibility:** Flooding of Inter-Oceanic Hwy. (Due to Inambari Hydro Electric Dam)

With the construction of the dam and creation of the reservoir, there are areas along with Inter-Oceanic Highway that will experience permanent flooding for which the government will address through additional infrastructure improvement projects. The impact is that accessibility to the project site from Puerto Maldonado via the Inter-Oceanic Highway may very well be impaired and create additional costs to transport fuel, food, supplies, labor, etc. if measures are not taken ahead of time to address these issues.

**Resolution:**

The only resolution here is a proper plan to deal with the logistical challenges to be created in the future of which some are simply unknown at this time. Through proper planning and working with the local governments we'll be able to devise a transportation & logistics strategy and plan to support our production operations while new infrastructure is being built.



**ADDITIONAL EXTERNAL CONSIDERATIONS:**

1. New Regulatory Changes and/or Decrees
  - a. Changes that would be most likely will be tied to efforts to fight against illegal / informal mining operations, especially in MDD.
2. Upcoming Presidential Elections (Toledo favored as frontrunner)
  - a. We have a personal relationship with Mr. Toledo's brother, Pedro, and have access to Alejandro Toledo, especially prior to elections in April.
3. Social Conflicts (with mining front and centre)
  - a. If we utilize the "eco-mining" business model we will win favor on both social and political fronts.
  - b. In Puerto Manoa especially, the town most critical to gaining approvals from for the AMR project, we have an excellent relationship with.

**PROJECT OBJECTIVES:**

- *Establish production as quickly as possible to extract as much gold as possible beginning in the areas most likely to be flooded by the reservoir created from the Inambari Dam.*
- *Position the project to demonstrate compensatory damages from the building of the Inambari Hydro Electric Dam*
- *Expand concessions by leveraging the AMR property as the base for further acquisitions, exploration and production operations in the local vicinity of Carabaya and region of Puno, Madre de Dios and Cusco (targets identified).*

**STRATEGY:**

With our ultimate goal of establishing a gold-producing asset, our strategy is to leverage the work previously done on the 500 hectare AMR project and hedge ourselves against the challenges associated with the AMR project by establishing another, albeit smaller, gold-producing project (100-200 hectares) located within Madre de Dios where we know we can secure concessions and get into production quickly.

The primary objective is to commence production operations within 9 months of funding. To accomplish this we will employ a strategy to leverage the work previously accomplished on the 500 hectare AMR project while simultaneously hedging ourselves against the challenges associated with the AMR project by establishing another, albeit smaller, gold-producing asset (100-200 hectares) located within Madre de Dios where we know we can secure concessions and get into production quickly.

**APPROACH:** *Begin with Restructuring of Concession Ownership*

It is proposed we restructure the ownership of concessions currently held by Affinity Gold's subsidiary AMR Project Peru, SAC (AMR). Restructuring the ownership will result in Affinity (and/or AMR) having a contractual financing agreement in place with an existing PPM-classified Peruvian legal entity in good standing and will enable the project to go through the approval and permitting process at the local and regional levels avoiding the additional time delays and cost previously mentioned.

**Additional Justification for Re-Classification:**

1. With the AMR project being impacted by the construction of the Inambari Hydro Electric Dam, there's concern over whether a pre-emptive attempt to block the granting of the EIS and mining permits at the Central Authority level as a means for controlling compensatory costs associated with dislocating those people and/or compensating companies affected by the dam. Without the EIS approved and mining permits issued, the argument can be made there's little to no damage done since AMR was never granted the permission to establish mining operations.
2. Reclassification to PPM allows us to get the EIS approvals and mining permits issued at the local and regional level where our sphere of influence is stronger and there's more political incentive to support us than not. Furthermore, it is less likely we will call attention to ourselves when going through the process in this manner.

### **Puno mining authorities oppose hydroelectric Inambari**

*"We, as authorities in the region, we performed a technical analysis of this problem in the area and we will not accept, because this project is most favorable to Brazil."*

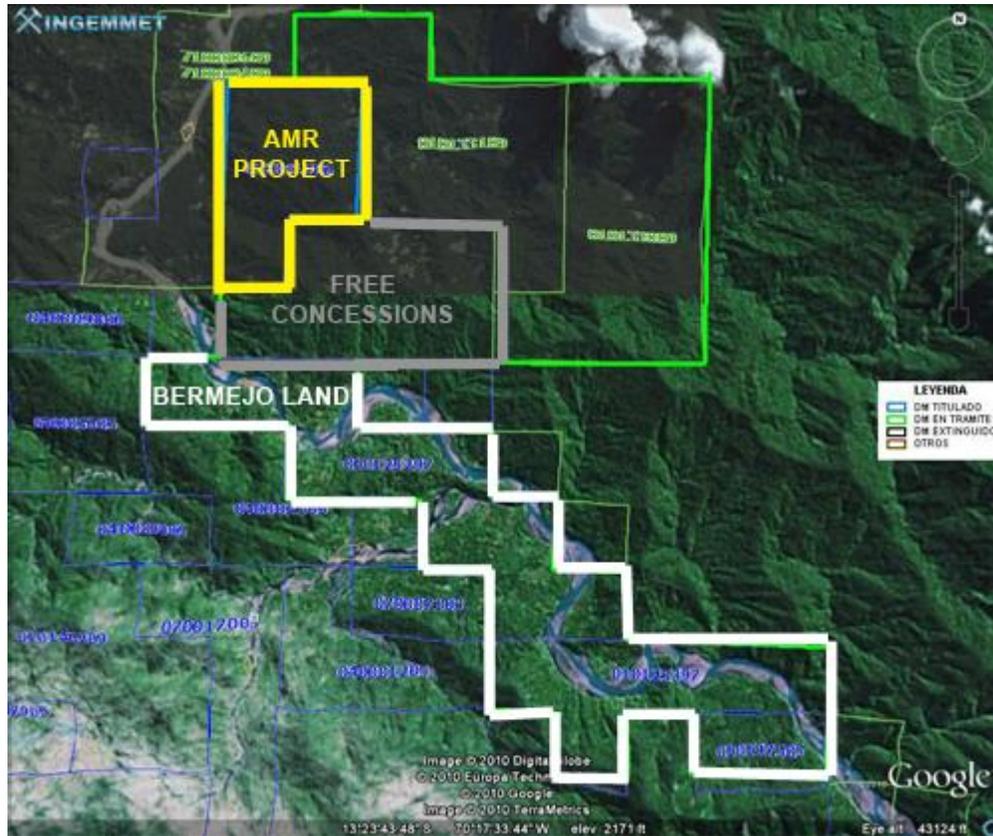
*Victor Paredes Argandaña,  
Regional Director of Energy & Mines of Puno.*

<http://www.bicusa.org/es/Article.11786.aspx>

3. With reclassification, approval of EIS and issuance of mining permits completed, the project, and therefore its primary benefactors, will have secured its position to be included among those to incur compensatory damages due to the Inambari Hydro Electric Dam. It is estimated between \$400M - \$600M USD of the project cost will be allocated towards compensatory damages. As a side note, we have already secured commitment from a well-known high-profile law firm in Lima willing to take this case on for us and if need be assist in the process of getting our EIS and mining permits issued at the local level.



**AMR CONCESSION ACQUISITIONS:**



1. YELLOW Concession: *AMR Project*
2. GREEN Concession: *To become available for claim application*
3. GREY Concession: *Available for immediate claim application*
4. WHITE Concession: *Claimed but have relationship w/ owner and willing to deal*

The proposed approach for expanding our concessions nearby once we've obtained the EIS study and mining permits is to immediately apply for claims in GREY and negotiate deal with Mr. Bremejo for claims in WHITE. Picture to below right is from visit to Bremejo's property this last summer.

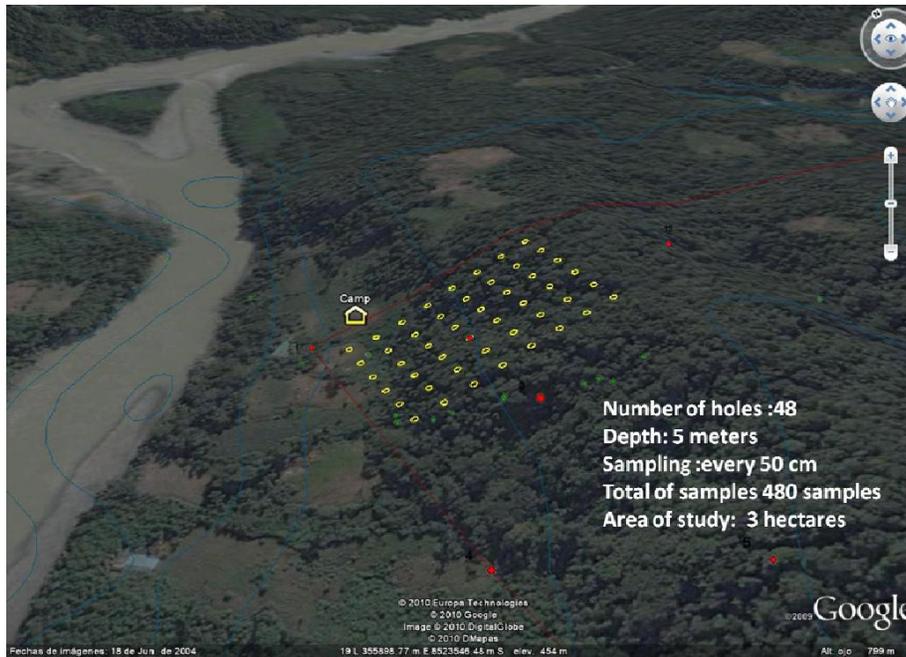
The additional concessions will create a much larger and contiguous claim that will provide greater production potential, increase our stake as a member of the local community and further strengthen our argument for future compensatory damages. The concessions in WHITE hug the Inambari River, are easier to work from a logistics perspective in terms of easier access and flatter terrain along with river. The concessions in WHITE are not within the Buahaja-Sonene National Park's Buffer Zone.



**SAMPLING PROGRAM: AMR 500 Hectare Property**

Once we've obtained our EIS approvals for the AMR project we propose to conduct an exploration program in an effort to further prove our resource reserve amounts found in the November 2009 Technical Report. This exploration program is to serve the purpose through the redesign of mesh sampling wells on the interception of equidistant lines every 25 meters. The first stage would cover an area of 3 hectares. The area of interest covers an area of 150m x 200m section, which will run on exploratory wells sampled. (see Pic. No 4)

The development of drilling will take two (2) months. Report writing and samples analysis will take one (1) month more of work. The wells will be executed through the use of a drilling rig (Churn Drill) of 6 inches diameter, brand BUCYRUS Nro.22 W.



Details:

Detail	Higher Terraced Area
Equidistant Spacing	25 m
No. of Holes	48
Depth	5 m
Vertical Sample Spacing	50 cm
No. of Samples Per Hole	10
Total Drilling (Meters)	240
Rate of Work Progression	1m/hr.
Total Work Hours	240 hrs.
Total Samples to Analyze	480

## DEVELOPMENT & PRODUCTION PLAN

Our plan is to take a phased approach to the development of the property and expansion of concessions in the region. The specific phases are laid out below per 3-month phase:

AMR DEVELOPMENT & <u>PRODUCTION PLAN</u>	2011			
	Q1	Q2	Q3	Q4
PHASE I: <i>Administrative, Restructuring &amp; Environmental</i>	X			
PHASE II: <i>Plan DIA Production, EIS Approval Process &amp; Concession Acquisition</i>		X		
PHASE III: <i>DIA-Level Production, AMR Sampling Program &amp; EIS Approvals</i>			STRT	
PHASE IV: <i>Production Expansion, Concession Acquisition &amp; Legal Case</i>				EXPD

### Phase I: **Administrative, Restructuring & Environmental**

- Milestones:*
1. Restructure AMR concession ownership to re-qualify project for PPM classification
  2. Apply for & Obtain AMR Definitive Impact Assessment (DIA) Approval
  3. Initiate Process for AMR Environmental Impact Study (EIS) Approvals

### Phase II: **Plan for DIA-Level Production, EIS Approval Process & Concession Acquisition**

- Milestones:*
1. Continue AMR EIS Process
  2. Plan and coordinate sampling program to expand and build upon technical report
  2. Plan & coordinate implementation for AMR DIA-level production after rainy season
  4. Apply for adjacent 700 hectare claim to south of project

### Phase III: **DIA-Level Production, AMR Sampling Program & EIS Approvals**

- Milestones:*
1. Establish AMR DIA-level minimum production with phased ramp-up planned
  2. Implement 48-hole sampling program in conjunction with NI 43-101 expansion
  3. Obtain AMR Environmental Impact Study (EIS) Approval
  4. Plan & coordinate implementation for production expansion

### Phase IV: **Production Expansion, Concession Acquisition & Legal Case w/ Communities**

- Milestones:*
1. Expand & accelerate production operations
  2. Begin negotiating with Mr. Bremejo for additional concessions to the south
  3. Begin building case with impacted communities for compensatory damages
  4. **Mine, mine, mine...!!!**

## MADRE DE DIOS PROJECT

Madre de Dios formed principally by alluvial plains of three and up to four levels of terraces. The lowest are submitted to annual floods and are generally swampy. The southern part of Madre de Dios is dominated by the buttresses of Carabaya's Mountain chain. In the western part, in the zone where there is the east of the Rio Manu, there exist hills of few elevation, between which there is located Fitzcarrald's Isthmus, which they form the waterdivide between the rivers Madre de Dios and Urubamba.

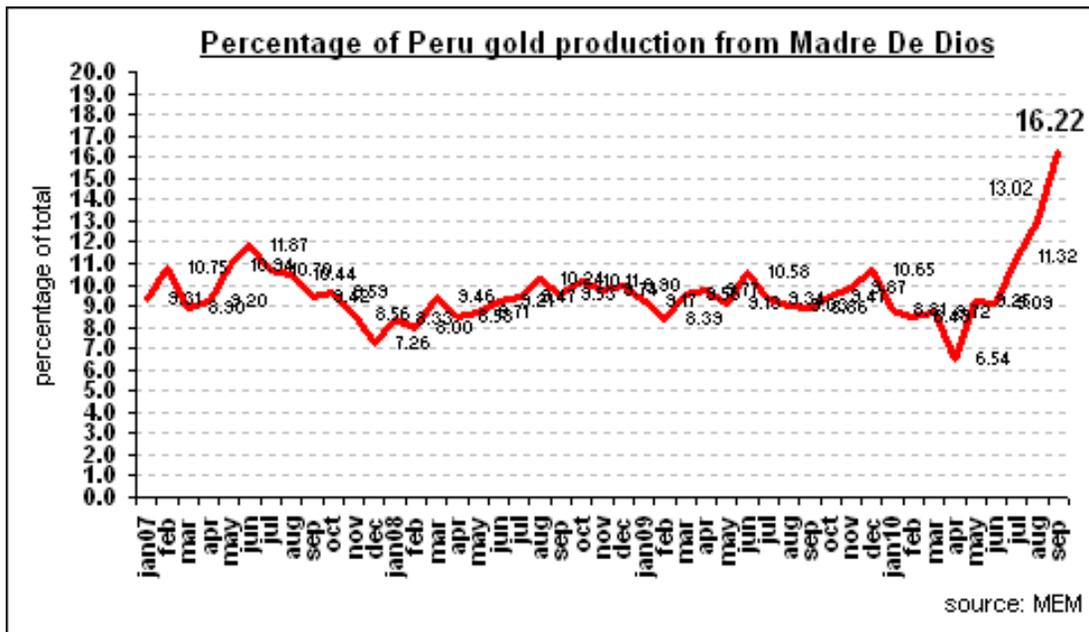
Over millions of years the rivers have carried gold into the Amazon Basin in Madre de Dios. The alluvial plains in Madre de Dios correspond to deposits from the rivers Madre de Dios, Malinowski and the lower part of Tambopata.

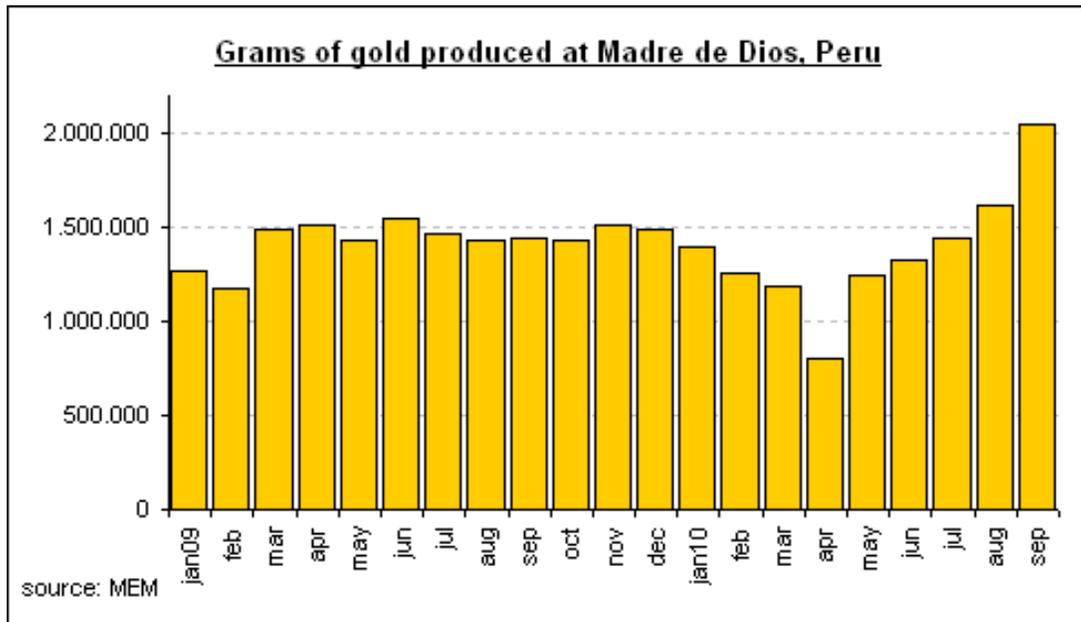


## GOLD PRODUCTION

It's estimated the current annual gold production in Madre de Dios is approximately 880,000 ounces which equals roughly \$1.1 billion in sales. Historical average gold grades in the Madre de Dios region have been reported to Range from 0.5 g Au/m<sup>3</sup> to 4.0 g Au/m<sup>3</sup>.

Most recently, the spike in gold prices has caused the department of Madre de Dios to experience significant increases in mining activity over the last six months by more legalized mining companies as can be seen by the two charts below sourced from Peru's Ministry of Energy & Mines (MEM).





According to a Miguel Santillana, a senior researcher at the Instituto del Peru, there was approximately \$6.5Bln USD made through illegal mining in 2009 – more than five times the amount generated by legal mining, estimated at \$1.05Bln USD.

Mr. Santillana went on to state that sixteen tons of gold are extracted from Madre de Dios annually, making the illegal mining occurring there the largest producer of gold nationally, after the legal mining operations of Yanachocha in the department of Cajamarca and Barrick in the department of Ancash.

Over the last 60 years Peru has witnessed an onslaught of illegal mining that has stripped lush jungles of both natural resources and critical habitats in the pursuit of this easily accessible alluvial and placer gold deposits. The bulk of these operations are concentrated in southeastern Peru in the Madre de Dios region.

Despite attempts to curb these devastating and illegal activities, the Peruvian government remains overwhelmed and unable to come up with a proper solution. It is estimated that nearly 16,000 workers are currently operating 2,000 plus illegal mines in this region alone. These illegal mining operations are having detrimental effects on the environment.

- Of the two thousand plus illegal sites in Madre de Dios, only 19 have filed for the proper permits.
- Close to 20,000 hectares of jungle have been lost due to illegal mining in the Madre de Dios region alone.
- On average 32,000 tons of mercury are dumped into the soil and water each year, as stated by Peru's Minister of Environment Antonio Brack Egg.

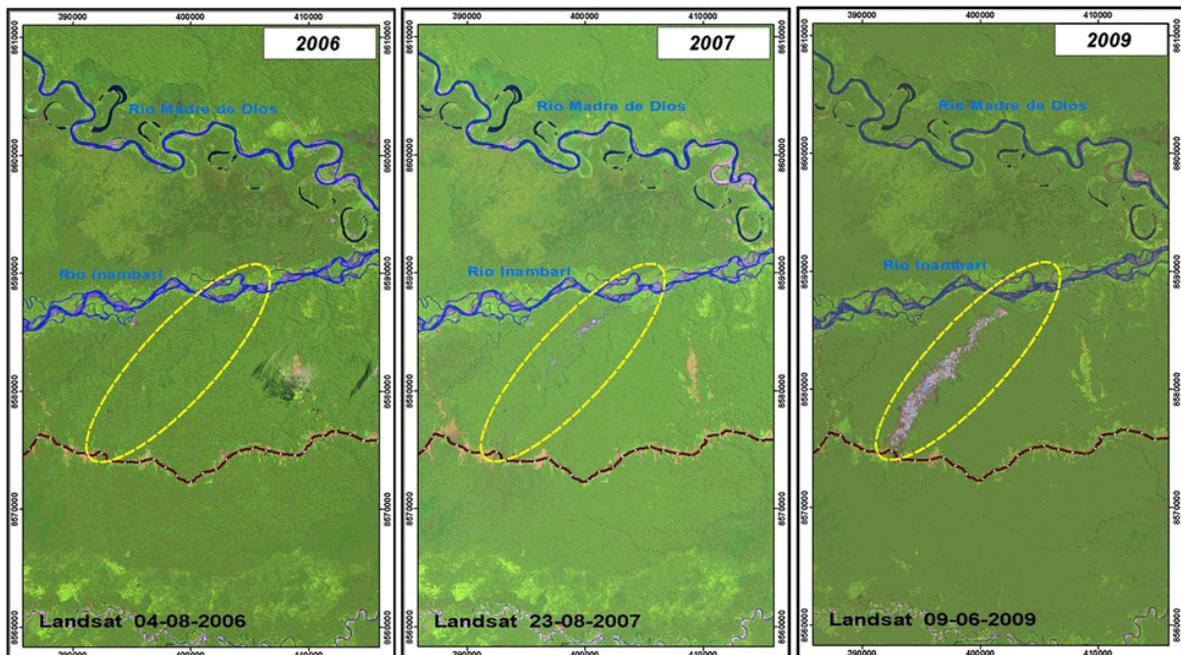
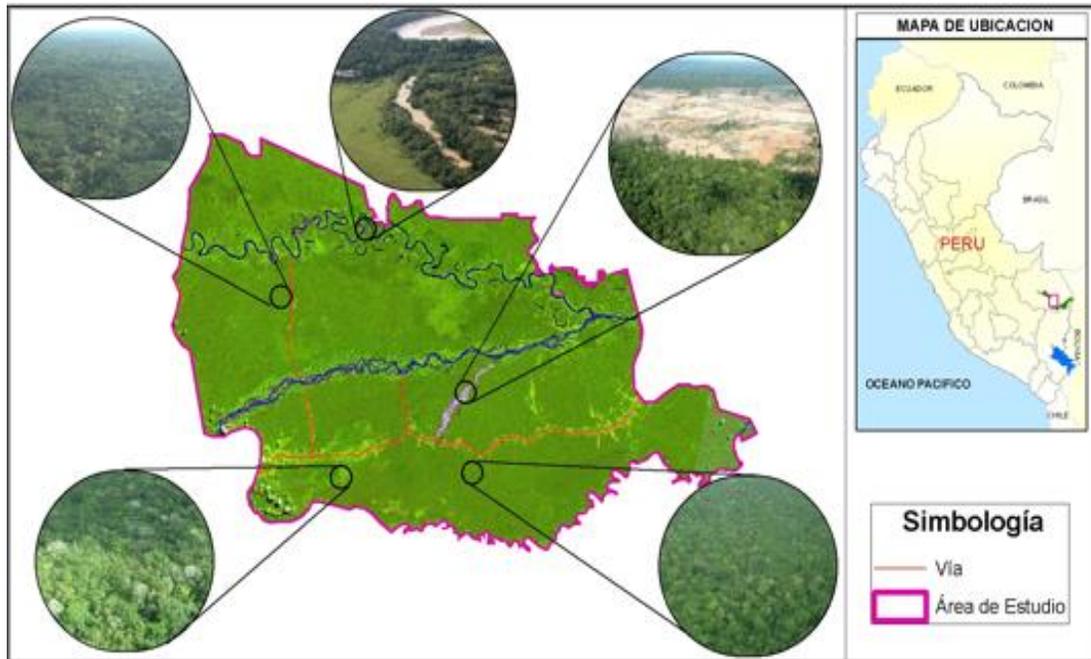


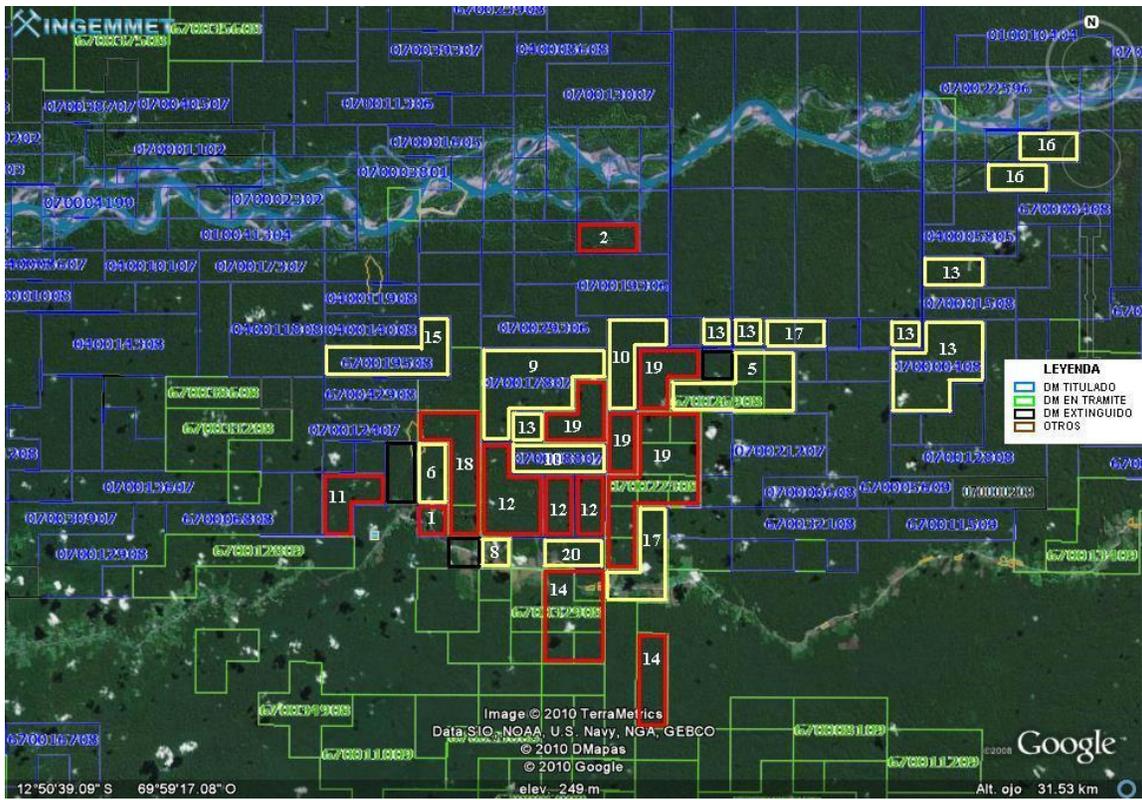
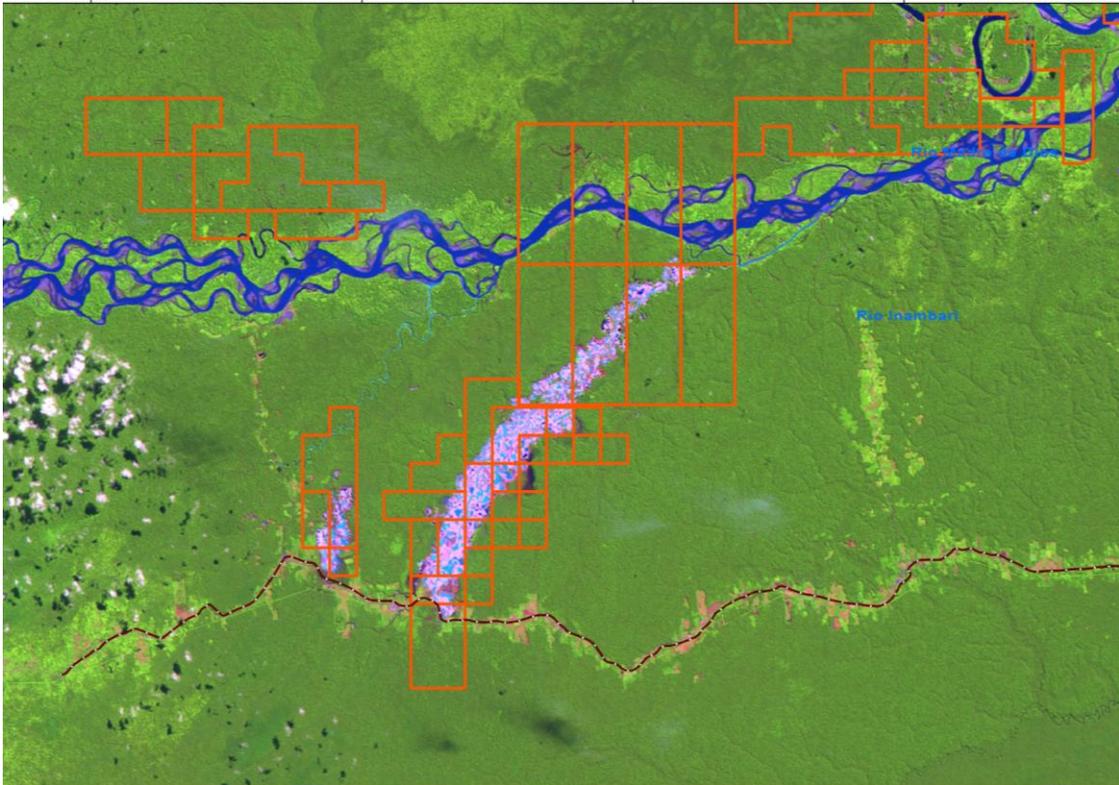
## TARGETED AREA: GUACAMAYO - LABERINTO

Our focus in Madre de Dios is on the alluvial plains in and around Laberinto and Guacamayo. Informal mining is prevalent in these and other areas of MDD confirming the continued presence gold.

Based on research data obtained from the Ministry of Energy & Mines (MEM), it's estimated the average gold grade in these areas ranges from 0.25 to 0.5 grams per cubic meter. From talking with locals in Guacamayo specifically, we most often hear the average is 0.3 grams per cubic meter.

The map below shows of an area near Guacamayo where informal alluvial mining operations have desimated a strip of the jungle from the Rio Inambari to the Inter-Oceanic Highway. The subsequent map depicts the same area with concessions which could be considered for acquisition and production.





## PROPERTIES

Through various work previously done with Affinity Gold and other private efforts we have made contact with over twenty different individuals owning concessions in and around Guacamayo. Of the twenty, we've identified seven (7) who hold proper title status and are willing and ready to negotiate. Of those seven, we've worked with four specifically to build relationships with and who will work with us to purchase part or all of their concessions, or structure a JV / partnership with.

The concessions controlled by the four individuals we have built relationships with are outlined in red on the INGEMMET concession map on previous page.

We have field reconnaissance reports written in narrative form which we can share. These reports were written by one of our field members as we sent him and another out into the area to gather intelligence under the guise of an equipment sales representative believe it or not.

## ACCESSIBILITY & INFRASTRUCTURE

The major development has been the completion of the Inter-Oceanic Highway, which travels directly through Madre de Dios making the region much more accessible than in years past. All considered properties will be located along and nearby the highway for more efficient logistical management and project visibility.

It is important to note that the recent, and on-going, major infrastructure improvements being made in the region continues to fuel the increased rate of exploration in these new areas as these areas are becoming more accessibility. This has been a primary driver of mining concession values beginning to see double-digit annual price appreciation in SE Peru.



## OPERATIONS

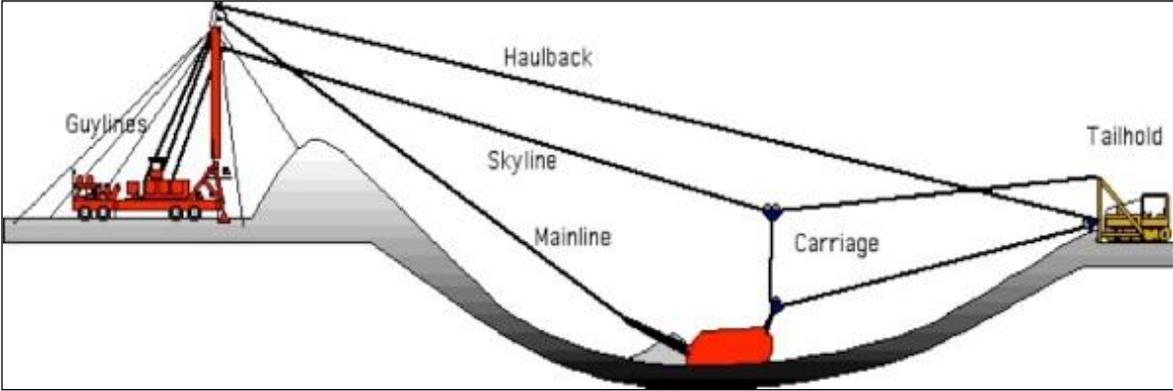
In Guacamayo specifically, our team on the ground has conducted field reconnaissance to identify project sites that have demonstrated the presence of gold through previous (illegal) production operations which we could acquire and initiate production under the PPM regime as a legal operator.

In spite of these sites having been previously worked, they still represent significant potential for gold reserves due to extreme inefficiencies of the informal mining operations having worked there. The failure to extract a majority of the minerals that are present is a typical occurrence at former alluvial mining sites throughout Made de Dios.



The planned Company site will establish large-scale tower excavators, which will enable excavation to depths of sixty (60) meters. The hypothesis is that the gold concentration will increase at lower depths.

We will use modern-day wash plant equipment to process the alluvial soils to extract the course gold. This process produces tailings, better known as black sands, containing fine gold which requires the use of special equipment to further separate and recover.



## DEVELOPMENT & PRODUCTION PLAN

Our plan is to take a phased approach to the development of the property and expansion of concessions in the region. The specific phases are laid out below per 3-month phase:

### Phase I: MDD Concession Acquisition

- Milestones:*
1. Acquire 100-300 hectare project in Madre de Dios (MDD) for near-term production
  2. Apply for Definitive Impact Assessment (DIA) Approval

### Phase II: Sampling Program , DIA-Level Production & Initiate EIS Approval Process

- Milestones:*
1. Plan & coordinate DIA-level production
  2. Obtain DIA Approval
  3. Conduct small sampling program similar to AMR plan
  4. Initiate Process for Environmental Impact Study (EIS) Approvals (4-6 months)
  5. Implement establishment of DIA-level production in Madre de Dios

### Phase III: EIS Approvals and Initiate Production Expansion

- Milestones:*
1. DIA-level production operations
  2. Obtain MDD Environmental Impact Study (EIS) Approval
  3. Begin implementing expansion of production operations

### Phase IV: Aggressive Production Expansion & Sampling Program

- Milestones:*
1. Aggressive expansion of production operations w/ minimum goal of 1,000 oz. Au/mo.
  2. **Mine, Mine, Mine..!!!**

	2011			
AMR DEVELOPMENT & <u>PRODUCTION PLAN</u>	Q1	Q2	Q3	Q4
PHASE I: MDD Concession Acquisition	X			
PHASE II: Sampling Program , DIA Production & Initiate EIS Approval Process		STRT		
PHASE III: EIS Approvals, Aggressive Production Expansion Planning			EXPD1	
PHASE IV: Aggressive Production Expansion & Sampling Program				EXPD2

## **KEY POINTS:**

1. Restructuring of concession ownership viewed as critical to avoid time delays, costly re-work and possible pre-emptive move by the congress to mitigate additional compensatory expenses associated with the construction of the Inambari Dam
2. Goal is to obtain the necessary approvals and initiate production to extract as much gold as possible in the areas most likely to be flooded by the reservoir created by the Inambari Dam.
3. Compensatory damages to be paid are estimated in the millions by our contacts in Peru able and willing to represent our collective interests.
4. Production operations can commence in Madre de Dios based on a proven model

## **COMPANY OUTLOOK**

After financing committed and work begins, Affinity will possess the following:

### **After 3 Months:**

- Restructured concession ownership
- Project approval process for 500 hectare AMR project taking place locally where political and social forces are more heavily in our favor
- MDD concession negotiated and acquired
- Affinity no longer has a operations entity to audit for SEC requirements
- Shareholder's start taking notice

### **After 6 Months:**

- DIA Approvals obtained for BOTH MDD & AMR projects
- DIA-level production established for MDD project
- EIS Approval Process in motion for BOTH MDD & AMR projects
- Production expansion being coordinated for MDD project
- Current business operations with promotable projects
- Shareholder optimism and confidence being rebuilt

### **After 9 Months:**

- EIS Approvals Obtained for AMR project
- Implementing expansion of MDD operations
- Producing Gold in MDD
- Shareholders excited about new direction of company and confident in management team

### **After 12 Months:**

- Both projects producing gold
- Shareholder confidence reaching new highs
- Company ready for listing on BOLSA Exchange

## USE OF PROCEEDS & SCHEDULE

Below, the Company has outlined how the equity investment will be allocated towards putting one project into project, continuing with exploration efforts and environmental approvals and securing additional concessions in Puno, Madre de Dios and Cusco, Peru.

USE OF PROCEEDS SCHEDULE	Amount	%
<b>CARABAYA PROJECT</b>	<b>\$650,000</b>	
PHASE I: <i>Administrative, Restructuring &amp; Environmental</i>	50,000	
PHASE II: <i>Plan DIA Production, EIS Approval Process &amp; Concession Acq.</i>	50,000	
PHASE III: <i>DIA-Level Production, AMR Sampling Program &amp; EIS Approvals</i>	150,000	
PHASE IV: <i>Production Expansion, Concession Acquisition &amp; Legal Case</i>	400,000	
<b>GUACAMAYO PROJECT</b>	<b>\$500,000</b>	
PHASE I: <i>MDD Concession Acquisition</i>	50,000	
PHASE II: <i>Sampling Program, DIA Production &amp; EIS Approval Process</i>	250,000	
PHASE III: <i>EIS Approvals, Production Expansion Planning</i>	25,000	
PHASE IV: <i>Aggressive Production Expansion &amp; Sampling Program</i>	175,000	
<b>CORPORATE</b>	<b>\$350,000</b>	
Pub Co. Administration & Support ( <i>bring current and maintain</i> )	100,000	
SG&A Expenses	150,000	
BOLSA, AMEX and/or TSX Listing ( <i>targeting BOLSA listing</i> )	75,000	
Government & Political Relations, Business Development	25,000	
<b>TOTAL CAPITAL REQUIREMENTS:</b>	<b>\$ 1,500,000</b>	

### GENERAL TERMS – Additional Info.:

1. \$1,500,000 Financing
  - a. Investor → Affinity Gold      *Structure TBD*
  - b. Affinity Gold → Peru Entity      *Bridge Loan Financing*
  
2. Terms between Affinity and Peru entity include but not limited to:
  - a. Affinity to earn majority of income from operations
  - b. Affinity to have rights to majority of compensatory damages won
  - c. Affinity to have rights to possible future buyout of project(s)
  - d. Affinity to stipulate operational and reporting metrics to be complied with
  - e. Affinity to have rights to participate in oversight of operations, management, etc.

Please note, Affinity will not have an option to (re)purchase concessions as part of the negotiated terms to the financing as that will disqualify the Peru entity from its PPM classification.



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**PHOTOS:** First 4: *Taken from Bremejo Property; Second 3: AMR Property*

