

August 2, 2016

Dear Fellow shareholders

After a very difficult 24-month period, we are happy to present you with annual financial statements of Gold Dragon Resources Corporation (“GDR”) for the years ended December 31, 2012, 2013 and 2014 and interim financial statements as at December 31, 2015 as well as a report about the future prospects of our company. We continue to advance our projects in an industry sector that has been experiencing unprecedented levels of hardship and failures at all levels.

In addition, we are asking shareholders to approve share issuances to management of GDR in order to extinguish liabilities accrued over the last several years when GDR was unable to fully satisfy its contractual obligations to management. This compensation proposal will allow GDR to go forward in a much better financial position.

As you know, the exploration and resource development sector has experienced a particularly difficult downturn over an extended period. During the past few years the traditionally vibrant and resilient resource sector of the TSX Venture Exchange has lost ~ 75% of its value and witnessed a decrease in capital raising by a factor of four times. Despite the investor apathy and the negative trends that persist across a broad front of resource commodities, we have been successful in raising new capital to continue to advance our projects in Chile.

Despite these circumstances, we have survived, in part thanks to very significant personal financial risks and sacrifices made by management.

### **ROCK SALT JOINT VENTURE**

An Artist’s view of the Maritime Concession site and planned barge loading conveyor pier at Puerto Patache



In March 2015 GDR entered into a joint venture with a North American salt distributor to develop its Chilean salt properties. GDR’s contribution of its Chilean assets to the joint venture was assigned a value of US\$4.2 million. At present GDR indirectly holds a 58% interest in the Chilean joint venture, which will be diluted down over time as our joint venture partner makes further investments in the project. To

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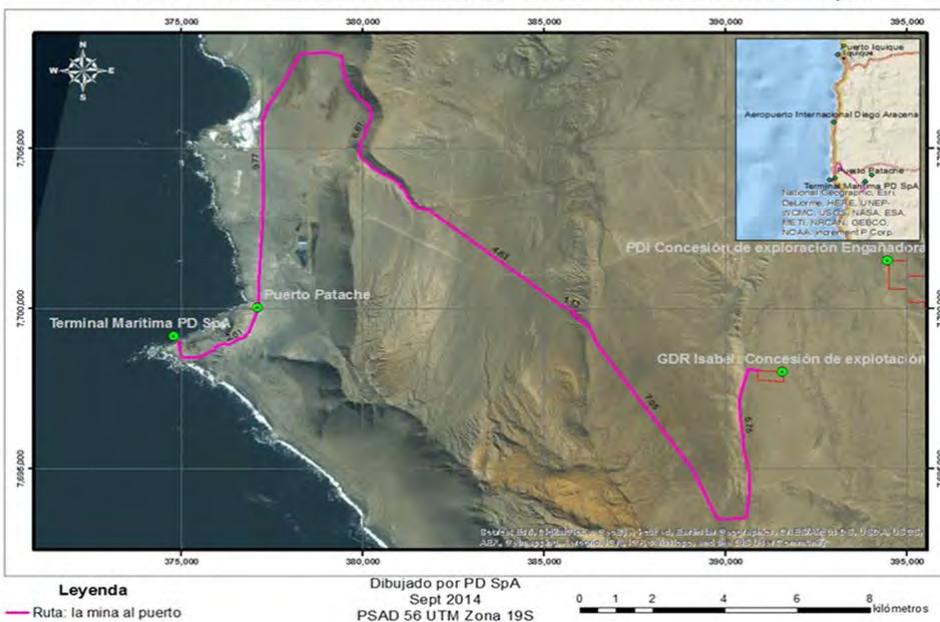
date, our partner has funded the project to a construction go-ahead decision and financing scheduled for late 2016. The total capital required to bring the fully outsourced Isabel salt mine on stream is expected to be US\$10.5 million. A presentation about the salt project and maritime facility can be found on our website at [www.golddragonresources.ca](http://www.golddragonresources.ca)

Central to the development of our salt joint venture is the permitting and construction of a Maritime Terminal. In May 2015 we received a record of decision regarding the positive opinions expressed by the various Maritime Authorities in Chile about our Maritime Terminal Concession Application. At the moment we are managing comments from the various regulatory authorities in Chile regarding these permits and we are expecting to secure the Maritime Terminal Concession operating permits in 2016.

The estimated lead time to have the rock salt mine and export facility operational is approximately six months from receipt by MMC SpA JV of the full amount of funding required to implement the capital program.

Approximately 100,000 tonnes per month of deicing salt is planned to be transported over a distance of approximately 40 km from the mine in 28 tonne road trucks to MMC SpA's Marine Terminal at the port of Patache as shown in the Figure below. The trucks will tip onto a RazerTail® truck off-loader which will feed an inclined gantry conveyor belt to load a 10,000 tonne dwt deck storage barge. The barge will be positioned below the conveyor belt discharge chute using a tug boat and will be maneuvered with the help of the tug and four mooring buoys. When the barge is fully loaded it will be moved by the tug boat and self-anchored in the protected area of the Patache bay area while the second barge is being filled. On a periodic basis a geared dry bulk ship will moor alongside the two filled deck storage barges and self-load the salt for onto the awaiting ship. This design results in the infrastructure requirements being significantly smaller than conventional bulk ship loading terminals and eliminates the need for double handling from large salt stockpiles near the terminal; thereby significantly reducing the environmental impact on the land and ocean floor environment.

Plano de ubicación foto satelital: Terminal Marítima PD SpA



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## **POTASH DRAGON INC.: POTASH AND PROCESS WATER UTILITY PROJECT**

Hilaricos No. 2 well; artesian aquifer flow and pressure tests in progress March 2016



The key to unlocking the value of Potash Dragon Inc.'s (PDI) heap leach fertilizer projects remains the supply of low cost process water. Water for heap leaching purposes is the primary production constraint that all operators experience in this vast area where all known aquifers are currently being exploited to their maximum authorized capacity. As regards the potash properties, no additional technical work has been done on them while the water permit applications were being advanced. The Exploration Concession portfolio has been rationalized to reduce holding costs and to retain only the concessions that are host to mineral resources.

In addition to the salt joint venture, we have been working for 18 months to secure exploration permits for PDI pertaining to what we believe may be a new aquifer in the Chilean Salar. We have recently been granted an Exclusive Prospecting Concession by the Director General de Aguas MOP, Antofagasta (DGA) to explore for (and to exploit) any new groundwater discoveries in an area covering 67,000 hectares in Northern Chile.

We have completed the first phase of geophysics which included 36 km of detailed TEM and AMT geophysics. The results have expanded the estimated footprint of the untapped artesian aquifer within PDI's exclusive exploration concession. Geophysics interpretations have defined a 200-300 meter thick ubiquitous layer of electrically conductive siltstones and clays, that act as an aquiclude. Prior assumptions that the aquiclude abuted with the impermeable basement have been confirmed by the continuity between geophysics and drill holes. Based on the geophysics results and borehole porosity estimates, the reservoir volume is estimated to contain 282 km<sup>3</sup> of exploitable water with a useful life

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of 358 years at 1000 L/s, or over 100 years at 3000 L/s. The potential recharge from the pre-cordillera has been estimated at 960 L/s. These results indicate a potentially a very significant water discovery.

The regions of Tarapacá and Antofagasta, situated in the Atacama Desert of Northern Chile, are amongst the most arid places on earth. These regions host many of world's largest copper mines and many exotic evaporite mineral mines. The supply of mineral process water, which is sourced from very well-defined aquifers and surface water sources, has become severely constrained over time causing most of these mines to become output restricted. Expansion plans and new mineral development projects are being advanced by sourcing sea water, either in fully saline form or as desalinated water, as mine process water. These water supply projects are significantly capital and energy intensive given the distances and elevation gains to be overcome to pump the water to mines sites located at altitudes between 1000 m and 3500 m above sea level located in the hills of the Andean mountain range.

A large proportion of current mine process water is sourced from well-regulated subterranean sources where water rights trade freely in an open market system. New water sources defined during mine exploration, most of which are unfit for human consumption given the geohydrology of the region, may be permitted if the new aquifer is proven to be a sustainable source for mineral exploitation. Mineral processors attribute significant value to these usually brackish water rights due to the incremental benefit of maximising output from high margin mineral assets. By example BHP's Escondida mine commenced construction of a desalination plant near Antofagasta in 2013 to supply their JV project at a capital cost of over one million US Dollars per liter per second of water, exclusive of the energy cost required to pump that water 150 km inland to an elevation of 3,000 meters above sea level.

There are a number of new and very large sea water pumping projects (\$10 billion worth in water investments planned for the next 6 years) going into the development of alternative mining process water supply by many major mining companies in Northern Chile.

PDI's potential mining process water supply project in this region hold many significant technical, logistical and financial advantages over these planned sea water pumping projects. The next phase of the water use permit process, which is required to secure the quantum of water volumes which we expect to be technically achievable, is to drill the large diameter water extraction wells and conduct full scale pumping tests. The pumping test criteria are specified by the regulators and should confirm our current assumptions which were determined based on results obtained from our existing smaller bore drill holes, which discovered these untapped aquifers in the first instance.

The details of the proposed financing plans, water market analysis, project development plans and assumptions are set out on our website [www.golddragonresources.ca](http://www.golddragonresources.ca) in the GoldWater Information Memorandum: "*PDI Chile Water Utility\_Information Memorandum 25 Feb 2016*" and "*Potash Dragon Inc\_ GoldWater Project\_ 8 June 2016.pdf*" presentation.

Kind Regards

Gordon Miller

President and CEO

Gold Dragon Resources Corporation  
Potash Dragon Inc.