

Silver Dragon Resources Inc.
Form 10-K
March 31, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2008**

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-29657

SILVER DRAGON RESOURCES INC.

(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0727323
(I.R.S. Employer Identification No.)

5160 Yonge Street, Suite 803
Toronto, Ontario, M2N 6L9
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: **(416) 223-8500**

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock \$0.0001 par value (Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
 No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Non-accelerated filer Accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

APPLICABLE TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The issuer had 85,893,488 shares of its Common Stock, \$0.0001 par value, as of March 31, 2009.

This Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. For this purpose any statements contained in this Form 10-K that are not statements of historical facts may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology is intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company's control. These factors include but are not limited to:

- the timing and outcome of our feasibility study;
- the estimation of mineral resources and the realization of mineral resources, if any, based on mineral resource estimates;
- the timing of exploration, development and production activities and estimated future production, if any;
- estimates related to costs of production, capital, operating and exploration expenditures;
- requirements for additional capital and our ability to raise additional capital;
- governmental regulation of mining operations, environmental risks;
- title disputes or claims;
- the timing and outcome of referrals, if any, of prospective mining properties identified by Tianjin North China Exploration Bureau;
- the development of cooperative relationship with North China Geological Exploration Bureau;
- our ability to procure the required permits;
- our ability to attract and retain qualified personnel; and
- the other factors and information disclosed and discussed under "Risk Factors" above and elsewhere in this report.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Corporate History

Silver Dragon Resources, Inc. was initially incorporated in the State of Delaware on May 9, 1996 under the name American Electric Automobile Company Inc. On July 16, 2002, we amended our Certificate of Incorporation to change our name to American Entertainment & Animation Corporation. On February 25, 2005, we again amended our Certificate of Incorporation to change our name to "Silver Dragon Resources, Inc." in order to better reflect our current business focus on global silver exploration and development. We operate in Mexico through our wholly-owned subsidiary, Silver Dragon Mining De Mexico S.A. de C.V. ("Silver Dragon Mexico"), a Mexico company incorporated on April 21, 2006.

We own a 40% equity interest in Sanhe Sino-Top Resources and Technologies, Ltd. ("Sino-Top"), which was originally formed by Sino Silver and certain other Chinese individuals as a joint venture company.

We are engaged in the acquisition, exploration and development of silver and other mineral properties in China and Mexico. Our primary focus is the exploration of nine properties located in the Erbaohuo Silver District in Northern China, as well as the Cerro Las Minitas property located in Guadalupe, Durango, Mexico. We are still in our exploration stage and have not generated any revenues from the mining properties in China and Mexico.

Silver Mining Business in China

Erbahuo Projects

On March 16, 2006, we entered into an agreement to acquire certain mining and exploration rights to the Erbahuo Silver Project by purchasing a 60% interest in Sino-Top from Sino Silver. Sino-Top was an equity joint venture company originally created under the Joint Venture Agreement dated April 14, 2005 between Sino Silver and certain other parties. Pursuant to the Asset Purchase Agreement, we acquired a 60% interest in Sino-Top and became a party to the Joint Venture Agreement. Sino-Top holds the exploration and mining rights to nine properties in the Erbahuo Silver District in Northern China ("Erbahuo Projects"). The total purchase price was \$650,000 plus 4,000,000 shares of our restricted common stock, all of which had been delivered to Sino Silver following receipt of the requisite approvals to the transfer by the local Provincial Department of Commerce in China. In March 2007 we increased our interest from 60% to 90% in exchange for 2 million restricted common shares of the company. On May 9, 2007 we received approval from the Ministry of Commerce to change the equity joint venture to a contractual joint venture. On June 10, 2008 we signed a letter of intent with our state owned Chinese joint venture partner Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. ("HIC") to sell 50% equity interest in Sanhe Sino-Top Resources & Technologies Ltd. ("Sino-Top"), not including Erbahuo, from Silver Dragon in exchange for US\$4.5 million. With respect to Erbahuo, the ninth exploration property controlled by Sino-Top, it will be 70% owned by Silver Dragon and 30% by HIC. On November 20, 2008 Gansu Shengda Group Ltd. (Shengda), a private Chinese conglomerate, agreed to acquire 52% of the equity interests in Sanhe Sino-Top Resources & Technologies, Ltd. ("Sino-Top") from Huaguan Industrial Corp. ("HIC"), Silver Dragon's state-owned Chinese joint venture partner.

Prior to entering into the Asset Purchase Agreement described above, on April 14, 2005 we entered into a Venture Agreement with Sino Silver to acquire 50% of Sino Silver's interest in the net proceeds from the sale of minerals or the sale of mining rights as a result of the exploration, evaluation, and development of the Aobaotugounao property located in the Erbahuo Silver District. Consideration for the interest included cash payments of \$350,000 over a two year period and the issuance of 500,000 shares of our common stock. On closing, we paid \$150,000 cash and issued 250,000 restricted common shares. In addition, 4,500,000 restricted common shares were issued to parties who assisted in the transaction. Three million of these shares were subsequently returned to us and cancelled. The Venture Agreement was superseded by the Asset Purchase Agreement described above.

We invested approximately a total of \$2,618,243 into Sino-Top as of December 31, 2008 (\$6,131,052 in 2007) and intend to invest funds to support approximately 40% of all of Sino-Top's expenses in 2008 with the focus on further exploration and bringing the Erbahuo silver mine into production in 2010, and conducting advanced stage exploration on two properties (Zuanxinhu and Saihanaobao).

Strategic Cooperation Agreements

Silver Dragon and Sino-Top are party to strategic agreements with various parties, including the North China Geological Exploration Bureau (NCGEB).

On July 26, 2006, we signed a Strategic Cooperation Agreement with the Tianjin North China Exploration Bureau (TNCEB) in China. The TNCEB has access to mine assets located in various locations in China. The 5-year Agreement provides that prospective mining properties identified by the TNCEB will be referred exclusively to Silver Dragon first. We have 90 days to review geological information and other information we reasonably may request. If we do not wish to develop such properties, TNCEB may show the properties to other prospective purchasers. In the event that Silver Dragon chooses to acquire, develop or exploit any mining opportunities referred by the TNCEB, Silver Dragon and TNCEB will work towards a mutually acceptable working agreement with respect to the purchase and/or development of the mining property. The TNCEB will provide technical, geological and other documentation as may be requested by Silver Dragon as part of its due diligence investigation of prospective properties. In the event

that TNCEB does not wish to participate in the joint development of the property, we are required to pay TNCEB the amount equal to 1% of the purchase price of such property in cash or 2% of the purchase price in non-cash consideration, including our common stock. If the seller of the property is an affiliate of TNCEB, we have no payment obligation.

Silver Mining Business in Mexico

Cerro las Minitas Project

On March 2, 2006, Silver Dragon Mexico acquired 16 mining concessions from four individuals by entering into various assignment agreements. The total consideration paid by us through March 2008 is \$1,045,000 plus 2,560,000 restricted shares. We were obligated to pay a further \$100,000 to one of these individuals by March 8, 2008 to fulfill our obligations under these agreements. This amount has not been paid as of yet, but we have been granted an extension for the payment.

Cerro las Minitas is comprised of 15 concessions covering 1,413 Hectares. It is located 68 kilometers northeast of the City of Durango, Mexico, and comprises the Cerro las Minitas mining district, part of the prolific silver belt of the Sierra Madre Occidental. An initial NI 43-101 report has been completed and concluded that the exploration done by Silver Dragon Mexico during 2006 indicates that the potential resources inferred there justify the cost of further exploration and development a second NI 43-101 has been completed and will be released in 2009.

Competitive Factors

The silver mining industry is fragmented, with many silver prospectors and producers, small and large. We do not compete with anyone with respect to our Chinese properties or on the Cerro las Minitas properties. There is no competition for the exploration or removal of minerals from these properties. We will either find silver on the properties or not. If we do not, we will cease or suspend further investment.

With respect to selling silver, we compete with both existing silver supplies and other silver producers. If the supply of silver exceeds demand in any given period, prices will fall until supply and demand is brought into balance. Many of these companies have substantially greater technical and financial resources than us. Thus we may be at a disadvantage with respect to some of our competitors.

Governmental Approvals and Regulations

Our mineral exploration programs are subject to the regulations of various Chinese and Mexican authorities.

Regulatory Obligations in Mexico

In Mexico, our mining activities are governed by the General Mining Law and the regulations promulgated thereunder.

We obtained initial authorizations and the relevant permits for the exploration of Cerro Las Minitas from the Ministry of Natural Resources (SEMARNAT). The initial authorization from SEMARNAT authorizing us to initiate the excavation of the soil on Cerro Las Minitas was issued in 2006. The excavation of soil must be carried out using digger machines, which are registered and authorized by SEMARNAT. Our machines are duly registered and authorized by SEMARNAT. The company has documented all requirements and has submitted its Environmental Impact Assessment / Manifestacion, or Manifestacion de Impacto Ambiental (MIA) for its Cerro las Minitas silver project in Durango, Mexico that includes a cyanide process for the sulfide handling and Heap Leaching process for the handling of oxides. The MIA was officially submitted on Mar 23, 2009 to the Secretaria de Medio Ambiente y Recursos Naturales of Mexico (SEMARNAT) for review, and is the principal document in the application process for a mine operating permit.

After the exploration stage, mining activities in Mexico are carried out in accordance with the permit issued by the General Direction of Mining Ministry of Economy under the plan of operations for mining activity submitted by an applicant. Since our current activities in Mexico are in the exploration stage, we have not yet submitted a plan of

operations. After receiving confirmation of the existence of minerals, we are required to file an application with the General Direction of Mining of the Ministry of Economy to obtain concession titles for the exploitation of the minerals. As of today, we have obtained fifteen (15) Concession Titles for the Exploitation of Minerals in Cerro Las Minitas, which titles were granted according to the applicable provisions of the General Mining Law. We are further required to obtain additional permits commonly referred to as the Sole Environmental License from SEMARNAT and the National Water Commission (NWC). After we successfully obtain concession titles, we are required to submit annual reports in May of each year, detailing the work performed during the designated year on the properties specified by such concession titles.

Once mining activities commence, we must obtain additional permits and authorizations from the Ministry of Labor to operate special machineries used for the exploration of the Mining Field. Such special machineries include but are not limited to pressured containers, boilers and other machineries designated for mining that are regulated by various National Official Norms (NOM). We are also required to file reports on safety, hygiene and minimum wage of our workers to the registry of the Labor Commissions as provided under Mexican Federal Labor Law.

Regulatory Obligations in China

Exploration for and exploitation of mineral resources in China is governed by the Mineral Resources Law of the PRC of 1986, amended effective January 1, 1997, and the Implementation Rules for the Mineral Resources Law of the PRC, effective March 26, 1994. In order to further implement these laws, on February 12, 1998 the State Council issued three sets of regulations: (i) Regulation for Registering to Explore Mineral Resources Using the Block System, (ii) Regulation for Registering to Mine Mineral Resources, and (iii) Regulation for Transferring Exploration and Mining Rights (together with the mineral resources law and implementation rules being referred to herein as "Mineral Resources Law").

Under Mineral Resources Law, the Ministry of Land and Resources and its local authorities (the "MLR") is in charge of the supervision of mineral resource exploration and development. The mineral resources administration authorities of provinces, autonomous regions and municipalities, under the jurisdiction of the State, are in charge of the supervision of mineral resource exploration and development in their respective administration areas. The people's governments of provinces, autonomous regions and municipalities, under the jurisdiction of the State, are in charge of coordinating the supervision by the mineral resources administration authorities on the same level.

The Mineral Resources Law, together with the Constitution of the PRC, provides that mineral resources are owned by the State, and the State Council, the highest executive organization of the State, which regulates mineral resources on behalf of the State. The ownership rights of the State include the rights to: (i) occupy, (ii) use, (iii) earn, and (iv) dispose of, mineral resources, regardless of the rights of owners or users of the land under which the mineral resources are located. Therefore, the State is free to authorize third parties to enjoy its rights to legally occupy and use mineral resources and may collect resource taxes and royalties pursuant to its right to earn. In this way, the State can control and direct the development and use of the mineral resources of the PRC.

Mineral Resources Licenses

China has adopted, under the Mineral Resources Law, a licensing system for the exploration and exploitation of mineral resources. The MLR is responsible for approving applications for exploration licenses and mining licenses. The approval of the MLR is also required to transfer exploration licenses and mining licenses.

Applicants must meet certain conditions as required by related rules/regulations. Pursuant to the Regulations for Registering to Mine Mineral Resources, the applicant for mining rights must present the required documents, including a plan for development and use of the mineral resources and an environmental impact evaluation report. The Mineral Resources Law allows individuals to exploit sporadic resources, sand, rocks and clay for use as construction materials and a small quantity of mineral resources for sustenance. However, individuals are prohibited from mining mineral resources that are more appropriately mined at a certain scale by a company, specified minerals that are subject to protective mining by the State and certain other designated mineral resources.

Once granted, all exploration and mining rights under the licenses are protected by the State from encroachment or disruption under the Mineral Resources Law. It is a criminal offence to steal, seize or damage exploration facilities, or disrupt the working order of exploration areas.

Exploration Rights

In order to conduct exploration, a Sino-foreign cooperative joint venture ("CJV") must apply to the MLR for an exploration license. Owners of exploration licenses are "licensees". The period of validity of an exploration license can be no more than three years. An exploration license area is described by a "basic block". An exploration license for metallic and non-metallic minerals has a maximum of 40 basic blocks. When mineral resources that are feasible for economic development have been discovered, a licensee may apply for the right to develop such mineral resources. The period of validity of the exploration license can be extended by application and each extension can be for no more than two years. The annual use fee for an exploration license is RMB 100 per square kilometre for the first three years and increases by RMB 100 per square kilometre for each subsequent year, subject to a maximum fee of RMB 500 per square kilometre.

During the term of the exploration license, the licensee has the privileged priority to obtain mining rights to the mineral resources in the exploration area, provided that the licensee meets the qualifying conditions for mining rights owners. An exploration licensee has the rights, among others, to: (i) explore without interference within the area under license during the license term, (ii) construct the exploration facilities, and (iii) pass through other exploration areas and adjacent ground to access the licensed area.

After the licensee acquires the exploration license, the licensee is obliged to, among other things: (i) begin exploration within the prescribed term, (ii) explore according to a prescribed exploration work scheme, (iii) comply with State laws and regulations regarding labour safety, water and soil conservation, land reclamation and environmental protection, (iv) make detailed reports to local and other licensing authorities, (v) close and occlude the wells arising from exploration work, (vi) take other measures to protect against safety concerns after the exploration work is completed, and (vii) complete minimum exploration expenditures as required by the Regulations for Registering to Explore Resources Using the Block.

Mining Rights

In order to conduct mining activities, a CJV must also apply for a mining license from the MLR. Owners of mining rights, or "concessionaires", are granted a mining license to mine for a term of no more than ten to thirty years, depending on the magnitude or size of the mining project. A mining license owner may extend the term of a mining license with an application 30 days prior to expiration of the term. The annual use fee for a mining license is RMB 1,000 per square kilometre per year.

A mining license owner has the rights, among others, to: (i) conduct mining activities during the term and within the mining area prescribed by the mining license, (ii) sell mineral products (except for mineral products that the State Council has identified for unified purchase by designated units), (iii) construct production and living facilities within the mine area, and (iv) use the land necessary for production and construction, in accordance with applicable laws.

A mining license owner is required to, among other things: (i) conduct mine construction or mining activities within a defined time period, (ii) conduct efficient production, rational mining and comprehensive use of the mineral resources, (iii) pay resources tax and mineral resources compensation (royalties) pursuant to applicable laws, (iv) comply with State laws and regulations regarding labour safety, water and soil conservation, land reclamation and environmental protection, (v) be subject to the supervision and management by the departments in charge of geology and mineral resources, and (vi) complete and present mineral reserves forms and mineral resource development and use statistics reports, in accordance with applicable law.

Transfer of Exploration and Mining Rights

A mining company may transfer its exploration or mining licenses to others, subject to the approval of MLR.

An exploration license may only be transferred if the transferor has: (i) held the exploration license for two years after the date that the license was issued, or discovered minerals in the exploration block, which are able to be explored or mined further, (ii) a valid and subsisting exploration license, (iii) completed the stipulated minimum exploration expenditures, (iv) paid the user fees and the price for exploration rights pursuant to the relevant regulations, and (v) obtained the necessary approval from the authorized department in charge of the minerals.

Mining rights may only be transferred if the transferor needs to change the ownership of such mining rights because it is: (i) engaging in a merger or split, (ii) entering into equity or cooperative joint ventures with others, (iii) selling its enterprise assets, or (iv) engaging in a similar transaction that will result in an alteration of the property ownership of the enterprise.

Additionally, when state-owned assets or state funds are involved in a transfer of exploration licenses and mining licenses, the related state-owned assets rules and regulations apply and a proper evaluation report must be completed and filed with the MLR.

Speculation in exploration and mining rights is prohibited. The penalties for speculation are that the rights of the speculator may be revoked, illegal income from speculation confiscated and a fine levied.

Environmental Laws

In the past ten years, Chinese laws and policies regarding environmental protection have moved towards stricter compliance standards and stronger enforcement. In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the PRC National People's Congress on 26 December 1989, the General Administration of Environmental Protection Bureau under the State Council sets national environmental protection standards. The various local environmental protection bureaus may set stricter local standards for environmental protection. CJVs are required to comply with the stricter of the two standards.

The basic laws in China governing environmental protection in the mineral industry sector of the economy are the Environmental Protection Law and the Mineral Resources Law. Applicants for mining licenses must submit environmental impact assessments, and those projects that fail to meet environmental protection standards will not be granted licenses. In addition, after the exploration, a licensee must take further actions for environmental protection, such as performing water and soil maintenance. After the mining licenses have expired or a licensee stops mining during the license period and the mineral resources have not been fully developed, the licensee shall perform other obligations such as water and soil maintenance, land recovery and environmental protection in compliance with the original development scheme, or must pay the costs of land recovery and environmental protection. After closing the mine, the mining enterprise must perform water and soil maintenance, land recovery and environmental protection in compliance with mine closure approval reports, or must pay certain costs, which include the costs of land recovery and environmental protection.

Land and Construction

The holder of an exploration license or mining license should apply for land use right with MLR to conduct exploration or mining activities on the land covered by the exploration license or mining license. The license holder should file an application to MLR for the land use right with its exploration license or mining license. If the application is approved by the competent government authority, the MLR would issue an approval to the land use right applicant. Then, the local MLR would enter into a land use right contract with the license holder. The license holder should pay relevant price and fees in accordance with the contract and then obtain a land use right certificate from MLR. In practice, instead of obtaining a long-term land use right, an exploration license holder may apply for a temporary land use right, which would normally be valid for 2 years and may be renewed upon application.

The company should also apply for other zoning and construction permits to conduct construction on the land. PRC laws require a company to obtain the land zoning permit and construction zoning permit with the local zoning authorities under the Ministry of Construction (MOCON). Then, the company is required to enter into a construction contract with a qualified constructor and file the construction contract to the local construction authorities under the MOCON and obtain a construction permit. After the construction is completed, the company should apply for the construction authorities and related environmental and fire departments for the check and acceptance of the construction. Upon the pass of check and acceptance, the company should apply with local housing authorities to

register the constructed buildings in its own name and obtain a housing ownership certificate.

Environmental Law

We are responsible for providing a safe working environment, not disrupting archaeological sites, and conducting our activities to prevent unnecessary damage to the area in which our mineral claim is located. At this time, we do not believe that the cost of compliance at the federal, state and local levels will be significant.

We intend to secure all necessary permits required for exploration. We anticipate no discharge of water into active streams, creeks, rivers, lakes or other bodies of water regulated by environmental law or regulation. We also anticipate that no endangered species will be disturbed. Restoration of the disturbed land will be completed according to law, and all holes, pits and shafts will be sealed upon abandonment of the mineral claims. It is difficult to estimate the cost of compliance with the environmental laws, because the full nature and extent of our proposed activities cannot be determined until we start our operations.

We believe we are in compliance with the environment laws, and that we will continue to be able to comply with such laws in the future.

Employees and Employment Agreements

We have 6 full time employees and 10 total employees.

We currently have 3 employees in Mexico. We pay them a total of approximately \$12,000 per month for their services.

In China we have one employee serving as administrative staff member in our Beijing representative office. We pay him \$3,000 per month.

In our head office in Toronto we have 1 employee and 3 consultants. Our only employee is Marc Hazout, our Chief Executive Officer, President and Director. The three consultants working in our head office in Toronto include an office administrator and manger, an information and technology and investor relations manager and a Controller, being paid collectively a total of \$10,000 per month.

In addition, our Operations Manager, China, receives \$6,000 per month on a consulting basis.

On November 15, 2005, we entered into an Employment Agreement with Marc Hazout. The Employment Agreement provides that Mr. Hazout shall be employed by us for a term of five years, and is entitled to a base salary of \$288,000 per year. In the event we terminate the Employment Agreement without cause, he will be entitled to severance equal to 100% of his remaining base salary under the Employment Agreement, plus an amount equal to 100% of the base salary plus full medical coverage for 12 months following the termination date. The Employment Agreement contains provisions prohibiting him from competing with us or soliciting customers or employees from us for a period of one year following the termination of his employment.

Intellectual Property

We have no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts that management believes have any value.

Risk Factors

You should consider each of the following risk factors and any other information set forth in this Form 10-K and the other Company's reports filed with the Securities and Exchange Commission ("SEC"), including the Company's financial statements and related notes, in evaluating the Company's business and prospects. The risks and uncertainties

described below are not the only ones that impact on the Company's operations and business. Additional risks and uncertainties not presently known to the Company, or that the Company currently considers immaterial, may also impair its business or operations. If any of the following risks actually occur, the Company's business and financial condition, results or prospects could be harmed.

Risks Relating To Our Operations

None of the properties in which we have an interest or the right to earn an interest has any known reserves.

None of the properties in which we have an interest or the right to earn an interest has any reserves. To date, we have engaged in only limited preliminary exploration activities on the properties. Accordingly, in which we do not have sufficient information upon which to assess the ultimate success of our exploration efforts. If we do not establish reserves, we may be required to curtail or suspend our operations, in which case the market value of our common stock may decline, and you may lose all or a portion of your investment.

Our current cash will only fund our business as currently planned for 3 months. We will need additional funding, either through equity or debt financings or partnering arrangements, that could negatively affect us and our stock price.

We will need significant additional funds to continue operations, which we may not be able to obtain. We estimate that we must raise approximately \$1 million over the next 12 months to fund our anticipated capital requirements and our obligations in Mexico and China.

We invested approximately a total of \$2,618,243 into Sino-Top as of December 31, 2008 (\$6,131,052 in 2007) and intend to invest funds to support approximately 40% of all of Sino-Top's expenses in 2008 with the focus on further exploration and bringing the Erbaohuo silver mine into production in 2010, and conducting advanced stage exploration on two properties (Zuanxinhu and Saihanaobao). We currently do not have funds in place to finance these obligations.

We have historically satisfied our working capital requirements through the private issuances of equity securities and from our chief executive officer. We will continue to seek additional funds through such channels and from collaboration and other arrangements with corporate partners. However, we may not be able to obtain adequate funds when needed or funding that is on terms acceptable to us. If we fail to obtain sufficient funds, we may need to delay, scale back or terminate some or all of our mining exploration programs.

We are an exploration stage company, and based on our negative cash flows from operating activities there is uncertainty as to our ability to continue as a going concern.

From inception, we have generated limited revenues and have experienced negative cash flows from operating losses. We anticipate continuing to incur such operating losses and negative cash flows for the foreseeable future, and to accumulate increasing deficits as we increase our expenditures for exploration and mining of minerals, infrastructure, research and development and general corporate purposes. Any increases in our operating expenses will require us to achieve significant revenue before we can attain profitability. Our history of operating losses and negative cash flows from operating activities will result in our continued dependence on external financing arrangements. In the event that we are unable to achieve or sustain profitability or are otherwise unable to secure additional external financing, we may not be able to meet our obligations as they come due, raising substantial doubts as to our ability to continue as a going concern. Any such inability to continue as a going concern may result in our security holders losing their entire investment. There is no guaranty that we will generate revenues or secure additional external financing. Our financial statements, which have been prepared in accordance with the United States GAAP, contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern. See "Management's Plan of Operations".

The reports of independent auditors of our consolidated financial statements included in this annual report contain explanatory paragraphs which note our recurring operating losses since inception, our lack of capital and lack of long term contracts related to our business plans, and that these conditions give rise to substantial doubt about our ability to continue as a going concern. In the event that we are unable to successfully achieve future profitable operations and obtain additional sources of financing to sustain our operations, we may be unable to continue as a going concern. See "Management's Plan of Operation" and our consolidated financial statements and notes thereto included in this annual report.

We have a history of operating losses and we anticipate future losses.

Since we changed our business focus to silver exploration, we have generated no revenues. We incurred losses of approximately \$3,730,799 and \$10,498,500 respectively, for the fiscal years ended December 31, 2008 and 2007. We have accumulated losses since inception of approximately \$26,043,912. We anticipate that losses will continue until such time when revenue from operations is sufficient to offset our operating costs, if ever. If we are unable to increase our revenues or to increase them significantly enough to cover our costs, our financial condition will worsen and you could lose some or all of your investment.

Because we do not have much capital, we may have to limit our exploration activity, which may result in a loss of your investment.

Because we are small and do not have much capital, we must limit our exploration activity. As such, we may not be able to complete an exploration program that is as thorough as the one that we currently anticipate on conducting. In that event, an existing ore body may go undiscovered. Without an ore body, we cannot generate revenues, in which case, you will lose your investment.

Pursuant to Section 404 Of The Sarbanes-Oxley Act Of 2002 ("Section 404"), we will be required, beginning with our annual report on Form 10-KSB for the fiscal year ending December 31, 2007, to include in our annual reports on Form 10-KSB, our management's report on internal control over financial reporting and for the fiscal year ending December 31, 2008, the registered public accounting firm's attestation report on our management's assessment of our internal control over financial reporting.

We have not prepared an internal plan of action for compliance with the requirements of Section 404. As a result, we cannot guarantee that we will not have any "significant deficiencies" or "material weaknesses" reported by our independent registered public accounting firm. Compliance with the requirements of Section 404 is expected to be expensive and time-consuming. If we fail to complete this evaluation in a timely manner, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to establish an effective system of disclosure controls and procedures could cause our current and potential shareholders and customers to lose confidence in our financial reporting and disclosure required under the Securities and Exchange Act of 1934, which could adversely affect our business.

Because our interests are in Mexico and China, our business is subject to additional risks associated with doing business outside the United States.

We expect that a portion of our revenues, if any, may be derived from sales of our products in foreign markets. Accordingly, we will be subject to all risks associated with foreign trade. These risks include:

- shipping delays,
- increased credit risks,
- trade restrictions,
- export duties and tariffs,
- fluctuations in foreign currency, and
- uncertainties in international, political, regulatory and economic developments.

In addition, we anticipate that our foreign operations will require us to devote significant resources to system installation, training and service, areas in which we have limited experience.

It is possible that third parties will challenge our title for the properties in which we have an interest.

We have not obtained title insurance for our properties. It is possible that the title to the properties in which we have our interest will be challenged or impugned. If such claims are successful, we may lose our interest in such properties.

Because all of our assets, our officers and our directors are located outside the United States of America, it may be difficult for an investor to enforce within the United States any judgments obtained against us, our officer or our director.

All of our assets are located outside of the United States, the individuals serving our officers and directors are nationals and/or residents of a country or countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for an investor to effect service of process or enforce within the United States any judgments obtained against us or our officers and directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts of Canada and other jurisdictions would recognize or enforce such judgments rendered by the courts of the United States. There is also uncertainty as to whether the courts of Canada or other jurisdictions would be competent to hear original actions brought in Canada or other jurisdictions against us or our officers and directors predicated upon the securities laws of the United States or any state thereof.

Our President - Chief Executive Officer controls a significant percentage of our common stock.

As of March 26, 2009, Marc Hazout, our President and Chief Executive Officer, owned beneficially approximately 21.3% of our outstanding common stock. Mr. Hazout is able to influence all matters requiring stockholder approval, including election of directors and approval of significant corporate transactions. This concentration of ownership, which is not subject to any voting restrictions, could limit the price that investors might be willing to pay for our common stock. In addition, Mr. Hazout is in a position to impede transactions that may be desirable for other shareholders. He could, for example, make it more difficult for anyone to take control of us.

Risks Relating To The Industry In General

Planned exploration, and if warranted, development and mining activities involve a high degree of risk.

We cannot assure you of the success of our planned operations. Exploration costs are not fixed, and resources cannot be reliably identified until substantial development has taken place, which entails high exploration and development costs. The costs of mining, processing, development and exploitation activities are subject to numerous variables which could result in substantial cost overruns. Mining for silver and other base or precious metals may involve unprofitable efforts, not only from dry properties, but from properties that are productive but do not produce sufficient net revenues to return a profit after accounting for mining, operating and other costs.

Our mining operations may be curtailed, delayed or cancelled as a result of numerous factors, many of which are beyond our control, including economic conditions, mechanical problems, title problems, weather conditions, compliance with governmental requirements and shortages or delays of equipment and services. If our drilling activities are not successful, we will experience a material adverse effect on our future results of operations and financial condition.

In addition to the substantial risk that the mines that we drill will not be productive or may decline in productivity after commencement of production, there are hazards inherent in geothermal exploration and production. Such hazards include unusual or unexpected geologic formations, pressures, downhole fires, mechanical failures, blowouts, cratering, explosions, uncontrollable flows of well fluids, pollution and other physical and environmental risks. These hazards could result in substantial losses to us due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage and suspension of operations. As protection against operating hazards, we maintain insurance coverage against some, but not all, of the potential losses. We do not fully insure against all risks associated with our business because insurance is either unavailable or its cost of coverage is prohibitive. The occurrence of an event that is not fully covered or covered at all by insurance could have a material adverse effect on our financial condition and results of operations.

The impact of governmental regulation could adversely affect our business.

Our business is subject to applicable domestic and foreign laws and regulations, including laws and regulations on taxation, the exploration for and development, production and distribution of electricity, and environmental and safety matters. Many laws and regulations require drilling permits and govern the spacing of mines, rates of production, prevention of waste and other matters. These laws and regulations may increase the costs and timing of planning, designing, drilling, installing, operating and abandoning our silver mines and other facilities. In addition, our operations are subject to complex environmental laws and regulations adopted by domestic and foreign jurisdictions where we operate. We could incur liability to governments or third parties for any unlawful discharge of pollutants into the air, soil or water, including responsibility for remedial costs.

In addition, the submission and approval of environmental impact assessments may be required.

Environmental legislation is evolving in a manner which means stricter standards; enforcement, fines and penalties for noncompliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

Because the requirements imposed by these laws and regulations frequently change, we cannot assure you that laws and regulations enacted in the future, including changes to existing laws and regulations, will not adversely affect our business. In addition, because we acquire interests in properties that have been operated in the past by others, we may be liable for environmental damage caused by former operators. In Mexico, changes in government leadership and/or the unionization of workers could adversely affect our operations. In China, political instability and unexpected state intervention could adversely affect our assets.

Decline in silver prices may make it commercially infeasible for us to develop our property and may cause our stock price to decline.

The value and price of our common shares and warrants, our financial results, and our exploration, development and mining activities may be significantly adversely affected by declines in the price of silver and other precious metals. Silver prices fluctuate widely and are affected by numerous factors beyond our control such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of silver-producing countries throughout the world. The price of silver fluctuates in response to many factors, which are beyond anyone's prediction abilities. The prices used in making the estimates in our plans differ from daily prices quoted in the news media. The percentage change in the price of a metal cannot be directly related to the estimated mineralized material quantities, which are affected by a number of additional factors. Because mining occurs over a number of years, it may be prudent to continue mining for some periods during which cash flows are temporarily negative for a variety of reasons. Such reasons include a belief that the low price is temporary, and/or the expense incurred is greater when permanently closing a mine.

Declines in the price of silver may cause our stock price to decline, which could cause you to lose money while making it difficult for us to raise capital on terms acceptable to us.

Weather interruptions in China may affect and delay our proposed exploration operations.

Our proposed exploration work in China can only be performed approximately six to seven months out of the year. The cold, rain and snow make the roads leading to our claims impassible every year during certain times from November to March. When the roads are impassible, we are unable to conduct exploration operations on the mineral claim.

We may not have access to all of the supplies and materials we need to begin exploration, which could cause us to delay or suspend operations.

Competition and unforeseen limited sources of supplies in the industry could result in occasional spot shortages of supplies such as dynamite as well as certain equipment like bulldozers and excavators that we might need to conduct exploration. If we cannot obtain the necessary supplies, we will have to suspend our exploration plans until we do obtain such supplies.

Risks Relating To The Market For Our Securities

Because the public market for shares of our common stock is limited, investors may be unable to resell their shares of common stock.

Currently there is only a limited public market for our common stock on the Over-The-Counter Bulletin Board in the United States. Thus investors may be unable to resell their shares of our common stock. The development of an active public trading market depends upon the existence of willing buyers and sellers who are able to sell their shares as well as market makers willing to create a market in such shares. Under these circumstances, the market bid and ask prices for the shares may be significantly influenced by the decisions of the market makers to buy or sell the shares for their own account. Such decisions of the market makers may be critical for the establishment and maintenance of a liquid public market in our common stock. Market makers are not required to maintain a continuous two-sided market and are free to withdraw firm quotations at any time. We cannot give you any assurance that an active public trading market for the shares will develop or be sustained.

A significant number of shares of our common stock are eligible for sale in the United States, which could have an adverse effect on the market price for our common stock and could adversely affect our ability to raise needed capital.

As of March 31, 2009 the number of shares in the public float on the Over-The-Counter Bulletin Board in the U.S. is approximately 85,893,488. The market price for our common stock could decrease significantly and our ability to raise capital could be adversely affected by the availability of a large number of shares.

The price of our common stock is volatile, which may cause investment losses for our shareholders.

The market for our common stock is highly volatile, having ranged in the last twelve months from a low of \$0.06 to a high of \$0.41 on the Over-The-Counter Bulletin Board. The trading price of our common stock on the Over-The-Counter Bulletin Board is subject to wide fluctuations in response to, among other things, quarterly variations in operating and financial results, and general economic and market conditions. In addition, statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to our market or relating to us could result in an immediate and adverse effect on the market price of our common stock. The highly volatile nature of our stock price may cause investment losses for our shareholders. In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. If securities class action litigation is brought against us, such litigation could result in substantial costs while diverting management's attention and resources.

Our common stock is considered to be a "penny stock," which may make it more difficult for investors to sell their shares.

Our common stock is considered to be a "penny stock." The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on some national securities exchanges or quoted on NASDAQ, provided that current price and volume information with respect to transactions in these securities is provided by the exchange or system). Prior to a transaction in a penny stock, a broker-dealer is required to:

- deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission that provides information about penny stocks and the nature and level of risks in the penny stock market;
- provide the customer with current bid and offer quotations for the penny stock;
- explain the compensation of the broker-dealer and its salesperson in the transaction;
- provide monthly account statements showing the market value of each penny stock held in the customer's account; and
- make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction.

These requirements may have the effect of reducing the level of trading activity in the secondary market for our stock, and investors may find it more difficult to sell their shares.

ITEM 2. DESCRIPTION OF PROPERTY

Erbaohuo

PROPERTY LOCATION AND DESCRIPTION

Erbaohuo is located at the common boundary of Keshiketeng county and Wenniute county in Inner Mongolia, within the Maoshandong village of Wenniute county. The property is about 13.85 km². Access to the property is 110km via paved highway from Chifeng City to the village of Maoshandong and then west 10 km by unsealed road to the property. The mine is an underground mine. A 10kv electricity power net passes through the concession and the electrical power is adequate for mining purposes.

AGREEMENTS

On March 16, 2006, we entered into an agreement to acquire certain mining and exploration rights to the Erbaohuo Silver Project by purchasing a 60% interest in Sino-Top from Sino Silver. Sino-Top was a joint venture company originally created under the Joint Venture Agreement dated April 14, 2005 between Sino Silver and certain other parties. Pursuant to the Asset Purchase Agreement, we acquired a 60% interest in Sino-Top and became a party to the Joint Venture Agreement. Sino-Top holds the exploration and mining rights to nine properties in the Erbaohuo Silver District in Northern China ("Erbaohuo Projects"). The total purchase price was \$650,000 plus 4,000,000 shares of our restricted common stock, all of which had been delivered to Sino Silver following receipt of the requisite approvals to the transfer by the local Provincial Department of Commerce in China. In March 2007 we increased our interest from 60% to 90% in exchange for 2 million restricted common shares of the company, valued at \$2,660,000. On June 10, 2008 we signed a letter of intent with our state owned Chinese Joint venture partner Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. ("HIC") to sell 50% equity interest in Sanhe Sino-Top Resources & Technologies Ltd. ("Sino-Top"), not including Erbaohuo, from Silver Dragon in exchange for US\$4.5 million. With respect to Erbaohuo, the ninth exploration property controlled by Sino-Top, it will be 70% owned by Silver Dragon and 30% by HIC. On November 20, 2008 Gansu Shengda Group Ltd. (Shengda), a private Chinese conglomerate, agreed to acquire 52% of the equity interests in Sanhe Sino-Top Resources & Technologies, Ltd. ("Sino-Top") from Huaguan Industrial Corp. ("HIC"), Silver Dragon's state-owned Chinese joint venture partner.

Prior to entering into the Asset Purchase Agreement described above, on April 14, 2005 we entered into a Venture Agreement with Sino Silver to acquire 50% of Sino Silver's interest in the net proceeds from the sale of minerals or the sale of mining rights as a result of the exploration, evaluation, and development of the Aobaotugounao property located in the Erbaohuo Silver District. Consideration for the interest included cash payments of \$350,000 over a two year period and the issuance of 500,000 shares of our common stock. On closing, we paid \$150,000 cash and issued 250,000 restricted common shares. In addition, 4,500,000 restricted common shares were issued to parties who assisted in the transaction. Three million of these shares were subsequently returned to us and cancelled. The Venture Agreement was superseded by the Asset Purchase Agreement described above.

HISTORY

Silver was discovered in Erbaohuo following analysis by the Comprehensive Gross Exploration Department from 1989 to 1992, when exploration was carried out for the purpose of finding the necessary silver reserves projected to be required to satisfy China's growing industrial demands. A geological survey at scales of 1:10,000 and 1:2,000 has been completed. In 1992, the department committed the Nonferrous Metal Metallurgy Institute in Beijing to complete the primary metallurgical trial. In 1997, the department completed detailed geological survey work. From 1998 to 2002, exploration and development was carried out leading to the eventual mining of approximately 30,000 tons of ore with an average grade of 248.02 gpt silver at a cut-off grade of 200 gpt Ag.

We invested approximately a total of \$2,618,243 into Sino-Top as of December 31, 2008 (6,131,052 in 2007) and intend to invest funds to support approximately 40% of all of Sino-Top's expenses in 2008 with the focus on further exploration and bringing the Erbaohuo silver mine into production in 2010, and conducting advanced stage exploration on two properties (Zuanxinhu and Saihanaobao).

MINERALIZATION

The main metallic minerals include the following: pyrolusite, psilomelane, limonite, pyrite, galena, sphalerite, chalcopyrite, and other silver related minerals.

Cerro las Minitas

PROPERTY LOCATION AND DESCRIPTION

The Cerro Las Minitas property is located in the Minitas Mining District, approximately seven kilometers north of the town of Guadalupe Victoria, Durango and 70 km northeast of the City of Durango, Ciudad Durango, the capital of the state of Durango, and six kilometers northwest of the town of Guadalupe Victoria, in the municipality of Guadalupe Victoria, Durango (Figure 6.1). The property can be reached from Ciudad Durango via Interstate Highway 40 (Toll Road) and Highway 40 (Free Access), the road from Francisco I. Madera to Cuencame. From Guadalupe Victoria, a graded dirt road leads north to the property. About half of the property is located north of Interstate Highway 40 (a limited access freeway) and an overpass over the highway affords access to the northern part of the property. The claims are located in the Minitas Mining District in the Mining Region of Guadalupe Victoria. The property consists of 16 mining concessions encompassing 1,423 hectares.

The nearby towns of Guadalupe Victoria and Ignacio Ramirez are serviced by the commercial electrical grid and a regional transmission line of the Comisión Federal de Electricidad (CFE) follows Interstate Highway 40. A 33,000 Kva power drop has been extended from the CFE line to the Mina Piña shaft and is serviceable, but in need of minor repair. Improvements on the property consist of a network of graded dirt roads and various mine buildings in a poor state of repair located in the Puro Corozon Santo Nino and Mina Pina La Bocona mining areas.

AGREEMENTS

In a news release dated December 13, 2005, Silver Dragon Resources, Inc. (the "Company") announced that it had entered into agreements to purchase a 100% interest in the Cerro Las Minitas Property. In March, 2006, Silver Dragon consolidated landholdings in the district and claims are now held by Silver Dragon Mining de Mexico S.A. De C.V, a wholly owned Mexican subsidiary of Silver Dragon Resources Inc, by virtue of "Agreements to Purchase" 15 of the mining concessions. Silver Dragon Mining de Mexico S.A. De C.V holds a production lease with option to purchase one additional claim.

Under the terms of the Purchase Agreement with Sr. Jaime Muguero Peña, the Company has earned 100% interest in ten mining concessions by payment of \$450,000, plus 450,000 restricted common shares. All payments to Sr. Muguero have been made.

Under the terms of the Purchase Agreement with Sr. & Sra. Ramon Davila Flores, the Company has earned 100% interest in five mining concessions by payment of \$245,000. All payments to Sr. and Sra. Flores have been made.

The surface access to the property is controlled by the Guadalupe Victoria and Ignacio Ramirez Ejidos. Silver Dragon Mining de Mexico, S.A. de C.V. has a surface agreement to cover the common ground of the Guadalupe Victoria Ejido that lies within the Cerro Las Minitas concessions. Agreements with individual Ejido landowners are negotiated as needed to cover deeded lands. Silver Dragon Mining de Mexico, S.A. de C.V. does not yet have a surface agreement with the Ignacio Ramirez Ejido, but negotiations for those rights are expected to be concluded successfully in the near future.

The minimum annual work requirement for these mining concessions is approximately \$19,500. According to the Mining Law and Ruling, there is an obligation to submit the evidence of the work expenditures to the authorities for properties larger than 1,000 hectares. It is therefore recommended that the required information for the previous reporting year be submitted annually each May. The filing for annual work requirements for 2006 was made in 2007.

PROPERTY HISTORY

There is little documentation regarding the history and production at Cerro Las Minitas, but local legend has it that Spaniards from the city of Victoria de Durango (now Durango City) discovered the silver mineralization at Cerro Las Minitas originally. The historical information presented herein has been gleaned from discussions with local miners and operators and the few previous evaluative reports concerning the property that do exist.

No reliable record of historic production have been found, but local miners and operators report that the mines have been active intermittently since the early 1960's. The properties have passed from hand to hand with no historical documentation. However, concessions covering the properties have been maintained in good standing since the early 60's.

The only two areas with significant exploitation in the district are the Santo Niño-Puro Corazón and La Bocona-Mina Piña areas.

Sr. Carlos Villaseñor discovered Ag-Pb-Zn-Cu mineralization in the Santo Niño-Puro Corazón area in 1960. He explored the deposits there and did minor exploitation of them until 1971, when he built a small mill in the Velardeña district. When the mill became operational, mining was stepped up and ores were shipped to the Velardeña mill to be processed. After attention was drawn to the area by the Villaseñor operations, exploration by others discovered the deposits in the La Bocona-Mina Piña area to the east.

The majority of the mining at Cerro Las Minitas is reported to have been done during the period 1970 - 1981, but has continued intermittently until the present. The mines were idle from 1997 - 2002 due to problems with mine water and the drop in metal prices. Intermittent, small-scale exploitation of the deposits in the Puro Corazón - Santo Niño area continued until 2005 and operations in the Mina Piña - La Bocona area continued to late 2006.

The Consejo de Recursos Minerales (CRM) has been giving support to the miners in the area since 1977. In 1979, CRM completed 834.55m of diamond drilling in seven holes on the Mina Piña area, which belonged at that time to Mr. Santiago Valdez. Mr. Valdez exploited the mine until 1997, when he suspended operations due to the drop in metal prices. CRM discovered additional mineralization in their drilling, but no further exploration or development of those discoveries has been done. CRM delivered drill and assay data to the operators in the district without interpretation. Silver Dragon's exploration staff is in the process of compiling and analyzing that data.

In 1981, CRM continued its support of the development of the district, completing 77m of shaft and 80m of crosscut to cut the upper, oxidized portion of the La Bocona deposit. Following that work, Sr. Jaime Muguero deepened the Mina Piña shaft another 59 meters to reach the 210 level. A 140-meter crosscut was driven, encountering a number of thin mineralized horizons and the Huisache mineralized chimney. Sr. Muguero then suspended operations due to problems with water inflow.

In 1995, Minas de Bacis (Minas de Bacis, 1995) completed a 30-day evaluation of Cerro Las Minitas which consisted of analysis of previous data, inspection of accessible workings and analysis of surficial geology. Minas de Bacis began negotiations to acquire the Concessions in the district. Those negotiations were unsuccessful and Minas de Bacis withdrew. A summary report of Minas de Bacis findings has been located, but much of the data used as the basis for the conclusions in the report has not.

From 1999 to 2000, Minerales Noranda, SA de CV (Noranda) optioned the properties and completed an exploration program including 861 soil and rock samples, an aeromagnetic survey covering the entire district, and seven widely-spaced diamond drill holes (3886 meters total) within the Cerro Las Minitas Dome. Results were encouraging but not up to Noranda's expectations and they abandoned the property. Unfortunately, the original Noranda data has not been found and all that has been located is fragmentary data presented in a summary report by Proyectos Minerales y Topografía, S.A. de C.V. (2001). Most of the core from Noranda's drilling has been located and a partial reexamination of that core has been made to confirm data used in estimating the inferred mineral resource reported herein. Continued re-examination of that core is ongoing, as Noranda's drill logs have not been recovered.

Minera Real Victoria (MRV) acquired leases on concessions in the Puro Corazón - Santo Niño area in 2005 and began a program of exploration and development in the area. In May 2005, MRV began driving a 2.5m X 2.5m decline into the old Puro Corazón - Santo Niño workings to develop resources believed to be present there. MRV drove 170 meters of workings to connect with level 2 of the Puro Corazón workings and to make a preliminary exploration of the near surface portion of the La Chive mineralized zone. That work was halted in November, 2005 when MRV entered negotiations with Silver Dragon Resources, Inc to acquire the property. The sampling and resource assessment started by MRV was not completed, but fragmentary data from that work has been recovered.

Silver Dragon Mining de Mexico, S.A. de C.V. signed agreements to acquire a 100% interest in the properties that now constitute the Company's holdings in the district in March, 2006. At that time geologists began compiling and analyzing existing data for the property. Examination of that data showed that it was inadequate to guide further exploration operations and a program of rehabilitation, mapping and sampling existing workings on the property began. A combined reverse-circulation and diamond drilling program to test continuity of mineralization at depth commenced in May of 2006. Eleven holes were drilled for 2915 meters. Nine of the eleven holes have been sampled, logged and assayed. Analysis of the two remaining holes will be completed when geotechnical personnel are available. The mine is an underground mine. On October 28, 2008 the company acquired a mill at a price of US\$245,000, including approximately US\$20,000 for delivery and assembly to commence production.

MINERALIZATION AND ROCK FORMATION

Cerro Las Minitas is located within the geomorphic province of the Mesa Central (Altiplano) of Mexico, northwest of the Sierra Madre Occidental in the State of Durango. In Durango, the Mesa Central is a broad plain at about 2000 meters elevation traversed by NW trending mountain ranges separated by broad NW-trending valleys. Within this province, Cerro Las Minitas lies within a belt of prolific Au, Ag, Pb, Zn and Cu deposits that stretches from the highly productive vein deposits of Fresnillo in Zacatecas to the south, to the massive manto deposits of Santa Eulalia in Chihuahua to the north. This belt includes the productive replacement deposits of San Martin, Santa Eulalia, Santa Barbara and Naica as well as the rich vein deposits of Fresnillo, El Bote, San Jose and various others.

The basement rocks of Mexico are now known to be composed of an assemblage of tectono-stratigraphic terranes derived from the Paleozoic Appalachian orogen and the Mesozoic of the Atlantic and Gulf of Mexico combined with basement rocks of the North American Cordillera. The assemblage includes deformed Pre-Cambrian intrusives and sediments, deformed Lower to Middle Paleozoic sediments and Lower Mesozoic sediments which are all covered with a thick succession of Mesozoic sedimentary and volcanic strata. Those are covered by a thick succession of Tertiary sediments and volcanics and cut by numerous Tertiary intrusives.

Cerro Las Minitas is located within the Parral tectono-stratigraphic terrane near the regional fault that marks the contact between the Parral terrane and the Sierra Madre Occidental terrane. The Parral terrane is characterized by a thick Late Mesozoic, miogeoclinal marine sequence deposited on a basement of Lower Mesozoic, eugeosynclinal sedimentary and volcanic strata. The Parral terrane is host to some of Mexico's larger Au, Ag, Pb, Zn and Cu replacement deposits, such as Santa Eulalia, Naica, Villardeña, San Martin and Santa Barbara.

ITEM 3. LEGAL PROCEEDINGS

On or about December 27, 2007, Alpha Capital Anstalt ("Alpha Capital") served an Order to Show Cause and Complaint on Silver Dragon. The Order to Show Cause sought a preliminary injunction (i) directing Silver Dragon to deliver 333,333 shares of its common stock to Alpha Capital and (ii) declaring that the exercise price of Silver Dragon Class A and B warrants purchased by Alpha Capital should be reduced to \$0.60 per share. The hearing on the Order to Show Cause was scheduled for January 9, 2008 in the United States District Court for the Southern District of New York. On or about January 14, 2008, an Order Granting Preliminary Injunction By Default was entered against Silver Dragon (i) directing Silver Dragon to deliver 333,333 shares of its common stock to Alpha Capital and (ii) declaring that the exercise price of Silver Dragon Class A and B warrants purchased by Alpha Capital was thereby reduced to \$0.60 per share (the "January 14th Order"). A second Order, restraining the issuance of any shares of Silver Dragon stock pending compliance with the Court's January 14th Order, was entered on default against Silver Dragon on or about January 25, 2008. Silver Dragon filed a Motion to Set Aside Default Judgments and also filed an Answer to the Complaint on February 5, 2008. Silver Dragon subsequently withdrew its Motion to Set Aside Default Judgments and complied with the Court's January 14, 2008 Order. The parties have settled and the company is no longer involved in any legal proceeding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were voted upon by the stockholders during the fourth quarter of the fiscal year ended December 31, 2008, as required to be reported upon by the Company in response to this Item 4.

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND OTHER SHAREHOLDER MATTERS**

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "SDRG." The following table shows the quarterly high and low trade prices on the Over-the-Counter Bulletin Board. The prices reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

The first trades of our shares on the Over-The-Counter Bulletin Board started January 1, 2001, and trading has been very limited since then; there can be no assurance that a viable and active trading market will develop. There can be no assurance that even if a market were developed for our shares, there will be a sufficient market so that holders of common stock will be able to sell their shares, or with respect to any price at which holders may be able to sell their shares. Future trading prices of our common stock will depend on many factors, including, among others, our operating results and the market for similar securities.

The following sets forth information relating to the trading of our common stock on the Over-The-Counter Bulletin Board.

	Sales Price on the Over-The-Counter Bulletin Board (\$)			
		High		Low
Fiscal Year Ended December 31, 2007				
First Quarter	\$	2.85	\$	1.50
Second Quarter	\$	2.82	\$	0.79
Third Quarter	\$	1.36	\$	0.62
Fourth Quarter	\$	1.05	\$	0.47
Fiscal Year Ended December 31, 2008				

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First Quarter	\$	0.235	\$	0.51
Second Quarter	\$	0.135	\$	0.261
Third Quarter	\$	0.10	\$	0.17
Fourth Quarter	\$	0.07	\$	0.12

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On March 30, 2009, the closing trade price of our common stock as reported on the Bulletin Board was \$0.08 per share. On that date, there were approximately 381 shareholders of record of our common stock.

Information concerning the Company's equity compensation plan is set forth in the attached audited financial statements.

We have never paid and do not intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings for reinvestment in our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and other relevant factors.

Descriptions of sales of unregistered securities during 2008, not previously reported on the Company's 10-Q

On November 14, 2008 the Company issued 1,400,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated November 14, 2008, for fair value of \$147,000.

The forgoing transactions were made in accordance with section 4(2) and/or Rule 506 of Regulation D under the 1933 Act.

ITEM 6. MANAGERMENTS' DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

You should read the following management's plan of operation together with our financial statements and related notes appearing elsewhere in this report. This management's plan of operation contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this annual report.

Plan of Operation

Overview.

Our primary objective is to explore for silver minerals and, if warranted, to develop those existing mineral properties. Our secondary objective is to locate, evaluate, and acquire other mineral properties, and to finance our exploration and development through equity financing, by way of joint venture or option agreements or through a combination of both.

Plans for the Year 2009.

Geologic mapping, trenching and drilling work is underway for nine properties in China. Our mining and exploration activities in Mexico are in the exploration stage. We are in the process of exploring the concessions through drilling, trenching and drifting. Our objective is to find new ore bodies and expand the resource of the existing ore bodies. There are currently four mining shafts, which were used to extract underground ore in the past. We built a ramp directly to one of the main ore bodies. Based on our initial findings, we have concluded that the exploration done by Silver Dragon Mexico indicates that the potential resources inferred there justify the cost of further exploration and development.

We intend to begin an exploration program of detailed geologic mapping, surface geochemical sampling and ground magnetic sampling to collect the basic geotechnical information that will be necessary to support an effective exploration and development program at Cerro Las Minitas. The program will include geologic mapping of the entire outcropping portion of the Cerro Las Minitas Dome at a scale of 1:2000, with more detailed mapping in areas of special interest, and definition of project stratigraphy in detail from examination of exposures and drill core. Additionally, the program will include reconnaissance geochemical soil and rock sampling and ground magnetic surveying to cover the entire property. This first phase program will include drilling 30 diamond drill holes from surface (4500 meters) to develop oxide resources identified on the property and an additional six diamond drill holes (1200 meters) drilled from underground in the Puro Corazón mine to further develop discoveries of sulfide mineralization made during the 2006 drilling program. The goals of this program are:

1. To compile a basic database of geotechnical information to support effective exploration at Cerro Las Minitas. All existing data will be incorporated into the database and recorded on maps, data sheets and reports on the various categories of geotechnical information. This geotechnical data will bear heavily on every phase of the Cerro Las Minitas Project and is strongly recommended.
2. To define, by analysis of geotechnical data collected, the sites on the property that offer the best potential for near-term discovery of near-surface oxide ore. Those discoveries are anticipated to extend downwards into unoxidized sulfide ores. Definition of the most favorable sites for further exploration expenditure will enhance the effectiveness of the Project and hasten its development and is strongly recommended.
3. To define and develop the inferred oxide resources that have been identified on the property, including drilling, trenching and preliminary metallurgical tests. Oxide resources already identified on the property offer the best potential for near-term, low- cost production from the project and justify this expenditure.
4. To define and further develop the carbonate replacement Ag-Pb-Zn mineralization that was discovered west of the Puro Corazón mine in 2006. The exploration model suggests that carbonate replacement deposits at Cerro Las Minitas may offer the greatest long-term production potential on the property and justifies this investigation.

We expect the cost of exploration, production activities and administration costs in Mexico over the next 12 months to be approximately \$300,000.

Cash Requirements.

The Company's current cash will only fund our business as currently planned for less than 3 months. We will need significant additional funds to continue operations, which we may not be able to obtain. We estimate that we must raise approximately \$1 million over the next 12 months to fund our anticipated capital requirements in Mexico and in China, as well as the costs of administration.

We estimate that we will require a minimum of \$2,000,000 for exploration and development in China through the end of 2009.

We have historically satisfied our working capital requirements through the private issuances of equity securities as well as from our chief executive officer. We will continue to seek additional funds through such channels and from collaborative and other arrangements with corporate partners. In particular, we will need \$1 million in additional funding to continue our operations for the next twelve months. If we fail to obtain sufficient funds, we may need to delay, scale back or terminate some or all of our mining exploration programs.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements or contractual obligations that have had or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that have not been disclosed in our financial statements.

Results of Operation for the Year Ended December 31, 2008 and 2007

Revenues and Losses

During the years ended December 31, 2008 and 2007, we did not have any revenues.

During the years ended December 31, 2008 and 2007, we incurred operating expenses of \$5,417,333 and \$10,486,817 respectively. Decreases were mainly due to:

- Lower consulting and management fees as the Company reduced the number of consultants at head office.
- Far less shares issued for services.
- Less advertising and promotion initiatives as the Company aimed to preserve funds.

During the years ended December 31, 2008 and 2007, we reported a net loss of \$3,730,799 and \$10,498,500 respectively. The reason for the decrease in 2008 is due to factors discussed above.

Liquidity and Capital Resources

As of December 31, 2008, we had \$1,207,227 in cash and \$189,883 in other receivables (which represented VAT refunds receivable). In addition, we had accounts payable and accrued liabilities totaling of \$1,289,483 for working capital of \$437,909 compared to a working capital deficit of (\$532,624) in 2007. During 2008, we have been dependent on the issuance of common stock and loans to satisfy expenses.

Going Concern

Our consolidated financial statements have been presented on the basis that we are a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As shown in the accompanying consolidated financial statements, we incurred a large net operating loss in the year ended December 31, 2008, and had significant unpaid accounts payable and accrued liabilities. These factors create an uncertainty about our ability to continue as a going concern. Our management has provided operating capital to us and has developed a plan to raise additional capital. Our ability to continue as a going concern is dependent on the success of this plan. The consolidated financial statements do not include any adjustments that might be necessary if we were unable to continue as a going concern.

Liquidity and Capital Resources

We will need additional capital in order to finance our obligations to Sino-Top, and the acquired properties in Cerro Las Minitas, Mexico, as well as to continue our attempt to acquire viable businesses and properties and to finance the administrative costs including but not limited to legal and accounting fees. Our management is seeking additional capital. However, there is no assurance that this needed capital can be raised on terms acceptable to us.

Going Concern

As of December 31, 2008, we had an accumulated deficit of \$26,043,912. Our continuation as a going concern is uncertain and dependent on successfully achieving future profitable operations and obtaining additional sources of financing to sustain our operations. In the event we cannot obtain the necessary funds, it will be necessary to delay, curtail or cancel the further development of our products and services. We plan to pursue additional financing; however there can be no assurance that we will be able to secure financing when needed or obtain such on terms satisfactory to us, if at all.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our possible inability to continue as a going concern.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are attached hereto as Exhibit A.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

Termination of Prior Independent Accountants

By resolution adopted on January 24, 2006, our board of directors elected to change independent accountants. The independent accounting firm of Moore Stephens Cooper Molyneux LLP notified us on January 24, 2006 that they were terminating their registration with the Public Company Accounting Oversight Board and therefore, were resigning as our accountants. The independent auditors report on the consolidated financial statements for the two years ended December 31, 2003 and December 31, 2004, and the subsequent periods preceding December 31, 2005 contained no adverse opinion, no disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles, except that each report issued by Moore Stephens Cooper Molyneux LLP for the years ended December 31, 2004 and 2003, and the interim periods ended March 31, 2005, June 30, 2005 and September 30, 2005 respectively raised substantial doubt about our ability to continue as a going concern. In connection with the audits of our consolidated financial statements for each of the two years ended December 31, 2003 and December 31, 2004, and during any subsequent interim periods preceding December 31, 2005, as well as the period up to and including January 24, 2006, there have been no disagreements with Moore Stephens Cooper Molyneux LLP on any matters of accounting principles or practices, financial statement disclosures, or auditing scope or procedures, which if not resolved to the satisfaction of Moore Stephens Cooper Molyneux LLP would have caused Moore Stephens Cooper Molyneux LLP to make reference to the subject matter of the disagreements in connection with their reports.

Engagement of New Independent Accountants

On January 24, 2006, our board of directors engaged SF Partnership LLP, 4950 Yonge Street, 4th Floor, Toronto, Ontario, M2N 6K1 as our new independent auditors (the "new" accounting firm) to audit our financial statements. During the two most recent fiscal years and the subsequent interim periods prior to the engagement of the new accounting firm, we did not consult with the new accounting firm with regard to any of the matters listed in Regulation S-B items 304 (a) (2) (i) or (ii).

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

At the end of the period covered by this report, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and Rule 15d-15(e)). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective in ensuring that information required to be disclosed by the Company in its reports that it files or submits to the SEC under the Exchange Act, is recorded, processed, summarized and reported within the time period specified in applicable rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures. Management is taking steps to improve our disclosure controls and procedures in order to ensure that we are alerted to such material information in a timely fashion.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the 1934 Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 through a series of discussions among management. As a result of this assessment, management concluded that, as of December 31, 2008, our internal control over financial reporting was not effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Except as discussed above, there has been no change in the Company's internal control over financial reporting during the Company's fourth fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Directors, Executive Officers and Significant Employees

The following sets forth information concerning our current directors, executive officers and significant employees. Each director has been elected to serve until our next annual meeting of shareholders and until his successor has been elected and qualified. Each executive officer serves at the discretion of our board of directors.

Name	Age	Position
Marc Hazout	44	Chief Executive Officer, President and Director
Colin Sutherland	38	Chief Financial Officer and Director
Manuel Chan	53	Director
R.Glen MacMullin	38	Director

Marc Hazout has been our President, Chief Executive Officer and a director since June 1, 2002. From 1985 to 1987, Mr. Hazout was the Canadian licensee and franchisee for a multinational retailer. From 1987 to 1991, Mr. Hazout established a private label apparel manufacturing and retailing company. From 1991 to 1998, Mr. Hazout developed, owned and operated entertainment complexes in Toronto. Mr. Hazout attended The Canadian Securities Institute from 1998-2000 and in 1999 worked as an equity trader for Swift Trade Securities Inc. in Toronto. Mr. Hazout studied International Relations and Economics at York University in Toronto from 1983 to 1985. Mr. Hazout completed the Real Estate Licensing Course at Humber College in Toronto in 1984.

Colin Sutherland, C.A. has been Chief Financial officer and a director since August 14, 2007. Mr. Sutherland has over 10 years of business of professional experience. Mr. Sutherland was previously a Director and Chief Financial Officer of Gammon Gold Inc. and Mexgold Resources Inc. Mr. Sutherland has extensive experience in the financial markets, and successfully raised in excess of US\$400 million for the development and construction of the Gammon assets. Mr. Sutherland is a Chartered Accountant and a graduate of Saint Francis Xavier University. In addition to his work with us, Mr. Sutherland is the President and Chief Executive Officer, and a director of Nayarit Gold Inc.

Manuel Chan joined our board of directors on August 29, 2007. Mr. Chan is also a member of the Board of Directors of Sanhe Sino-Top Resources & Technologies Ltd. ("Sino-Top") of which Silver Dragon owns a 90% equity interest. Mr. Chan possesses more than 20 years of experience in the real estate sector and holds a Bachelor of Commerce degree in Management Information Systems and Accounting from the University of British Columbia, Canada.

R. Glen MacMullin has been a director of the company since December, 2007. Mr. MacMullin is currently a Vice President of Finance with Minto Group, Inc. a fully integrated real estate development, construction and management company with operations in Ottawa, Toronto and Florida. Prior to joining Minto Group, Inc. in 2008, Mr. MacMullin was a Managing Director and Chief Operating Officer with Xavier Sussex, LLC; a New York based private equity firm he co-founded in 2004. In 2001, Mr. MacMullin was appointed Director and Chief Operating Officer with DB Advisors, LLC; a \$6 billion hedge fund group based in New York and a wholly owned subsidiary of Deutsche Bank AG. He has also held several senior management positions with Deutsche Bank Offshore in the Cayman Islands from 1998 through 2001, including Head of Investment Funds. He began his career in 1993 as a public accountant with Coopers & Lybrand in Ottawa, Canada and KPMG in the Cayman Islands. Mr. MacMullin received a Bachelor of Business Administration degree from Saint Francis Xavier University in 1993 and is a member of the Canadian Institute of Chartered Accountants. Mr. MacMullin also serves on the Board of Directors of Nayarit Gold, Inc.

Guoqiang Hao has been a director of the company since June, 2008.

Mr. Hao is currently head of Exploration Unit of North China Geological Exploration Bureau, a.k.a. Huaguan Industrial Corp.(HIC), a Chinese state-owned entity that operates in many diversified fields such as mining,

engineering, manufacturing, chemical analysis and real estate. Mr. Hao has served with HIC for over 30 years, first as a geologist, then as a manager, and has witnessed its development from a geological exploration team to a conglomerate that boasts a staff of over 700 and over 10 subsidiaries. Under the leadership of Mr. Hao, HIC is also in the process of acquiring mining properties in northern Africa and central Asia.

Mr. Hao is also a member of the Board of the Directors of Sanhe Sino-Top Resources & Technologies Ltd., a joint venture between Silver Dragon and HIC. Having a dual capacity of corporate executive and government officer, Mr. Hao has extensive connections with China's mining and industrial circles and the Chinese government.

Donald J. Robinson, Ph.D served on the board of the Company from March 28, 2005 until January 30, 2006, when he resigned due to his time commitments as President and Director of Eastmain Resources. There was no disagreement between Dr. Robinson and the Company on any matter relating to the Company's operations, policies or practices. Dr. Robinson did not resign for cause.

Legal Proceedings

None

Section 16(a) Beneficial Ownership Reporting Compliance

Based upon a review of the copies of Forms 3, 4, and 5, as applicable, and amendments thereto, provided to the Company and the written representations of its directors, executive officers and 10% stockholders, the Company believes that, during the fiscal year 2007, its directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements.

Code of Ethics and Policy Regarding Consideration of Director Candidates Recommended by Stockholders

The Company has not adopted a Code of Ethics that applies its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions as the Company feels that its current corporate governance policies and procedures in place are sufficient for this purpose.

Audit Committee

The Company does not have an audit committee.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation for services in all capacities for the fiscal years ended December 31, 2008 and 2007 of the executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Marc Hazout, Director, President and Chief Executive Officer	2008	288,000	-					None	288,000
	2007	288,000	-					None	288,000

*Travellers International Inc. ("Travellers") received 1,000,000 restricted common shares valued at \$0.6478/share, being Marc Hazout's signing bonus with respect to his Employment Agreement. Travellers received another 1,000,000 restricted common shares valued at \$0.6551/share in consideration for Marc Hazout successfully completed the transaction in Cerro las Minitas, Mexico. Marc Hazout is the sole director, officer and shareholder of Travellers.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Compensati (\$)	Change in Pension and Non- Qualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
Manuel Chan							
2008							
2007			315,000				315,000
R. Glen MacMullin							
2008							
2007			176,000				176,000

We do not have a Long-Term Incentive Plan.

Equity Compensation Plan Information

The Company had no equity compensation plan in 2008.

On November 15, 2005, the Company entered into an Employment Agreement with Marc Hazout. The Employment Agreement provides that Mr. Hazout shall be employed by the Company for a term of five years, and is entitled to a base salary of \$288,000 per year. Mr. Hazout is also entitled to a commission on sales generated by him consistent with the Company's commission policy for all sales personnel. In the event of a termination of the Employment Agreement without cause by the Company, he will be entitled to severance equal to 100% of his remaining base salary under the Employment Agreement, plus an amount equal to 75% of the base salary plus full medical coverage for 12 months following the termination date. The Employment Agreement contains provisions prohibiting him from competing with the Company or soliciting customers or employees from the Company for a period of one year following the termination of his employment.

Compensation of Directors

Directors are reimbursed for any reasonable expenses incurred in the connection with attendance at board or committee meetings or any expenses generated in connection with the performance of services on the behalf of the company.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth the common stock beneficially owned by (1) our directors and named executive officers, (2) persons known by us to beneficially own, individually, or as a group, more than 5% of our outstanding common stock as of March 27, 2008 and (3) all of our current directors and executive officers as a group. For the purposes of the information provided below, beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and, for each person, includes shares that person has the right to acquire within 60 days following April 13, 2007 subject to options, warrants, or similar instruments. Except as indicated in the footnotes to this table, and as affected by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares	% Shares ⁽¹⁾
Marc Hazout ⁽²⁾ Suite 803, 5160 Yonge Street, Toronto, Ontario, M2N 6L9	18,255,206 ⁽²⁾	24.4%
Colin Sutherland 146 Skye Cr, Hammonds Plains, NS, B4B 1W8	500,000	0.7%
Manuel Chan 5515 Elizabeth Street, Vancouver, B.C., V5Y 3K1	500,000	0.2%
Glen MacMullin 89 Third Avenue, Ottawa, Ontario, K1S 2J7	0	0%
Guoqiang Hao	250,000	0%
Officers and Directors as a group	18,305,206	25.3%

⁽²⁾ Owned by Travellers International Inc. solely owned by Mr. Hazout. Mr. Hazout is the President and CEO of Travellers.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On January 10, 2006 we issued Travellers 1,000,000 shares of common stock pursuant to the terms of the Employment Agreement dated November 15, 2005 with Marc Hazout.

On March 1, 2006 we issued Travellers 1,000,000 restricted common shares in consideration for its assistance to the Company in the acquisition of the mining rights in Cerro las Minitas, Mexico.

On August 17, 2007, we issued 500,000 shares of our common stock and options to purchase 500,000 shares of our common stock to Colin Sutherland pursuant to his appointment as our Chief Financial Officer and Director.

On October 10, 2007, we issued 500,000 share purchase warrants to Manuel Chan pursuant to his appointment as a Director. On November 2, 2007, we issued 500,000 share purchase warrants to Terry Christopher pursuant to his appointment as a Director. On December 5, 2007, we issued 250,000 share purchase warrants to Glen MacMullin pursuant to his appointment as a Director.

ITEM 13. EXHIBITS

(a) The financial statements filed as part of this report are listed separately in the Index to Financial Statements.

<u>Exhibit No.</u>	<u>Name of Exhibit</u>
3.1	Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation (2)
3.3	Bylaws (1)
4.1	Form of Subscription Agreement dated March 23, 2006 between Silver Dragon Resources Inc. and Heller Capital Investments LLC(3)
4.2	Form of Class A Common Stock Purchase Warrant issued to Heller Capital Investments LLC (4)
4.3	Form of Class B Common Stock Purchase Warrant issued to Heller Capital Investments LLC (4)
4.4	Subscription Agreement dated November 9, 2006 between Silver Dragon Resources, Inc. and Alpha Capital
4.5	Form of Class A Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
4.6	Form of Class B Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
4.7	Form of Class C Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
10.1	Assignment of Rights of Mining Concessions Agreement between Silver Dragon Mining De Mexico, S.A. de C.V. and Jamie MugurioPena (6)
10.2	Assets Bailment Agreement dated March 2, 2006 by and between Silver Dragon Mining De Mexico, S.A. de C.V. and Jaime MugurioPena (6)
10.3	Assets Purchase Agreement dated March 2, 2006 by and between Silver Dragon Mining De Mexico, S.A. de C.V. and Ramon Tomas Davila Flores(6)
10.4	Asset Purchase Agreement between Silver Dragon Mining De Mexico, S.A., de C.V. and Ramon Tomas Davila
10.5	Assignment of Rights of Mining Concessions Agreement dated March 8, 2006 by and between Silver Dragon Mining De Mexico, S.A.de C.V.and Minera Real Victoria S.A.de C.V.(6)
10.6	Addendum to the Mining Exploration and Exploitation Agreement dated March 9, 2006 by and between Silver Dragon Mining de Mexico, S.A.de C.V.and Silvia Villasenor Haro(6)
10.7	Asset Purchase Agreement dated as of March 16, 2006 among Silver Dragon Resources, Inc., Sino Silver Corp. andSanheSino-Top Resources and Technologies, Ltd.(7)
10.8	Strategic Cooperation Agreement dated July 26, 2006, between Silver Dragon Resources, Inc. and Tianjin North China Exploration Bureau(4)
10.9	Employment Agreement dated November 15, 2005 between Silver Dragon Resources, Inc. and Marc Hazout (managementcontract)(4)
11	Statement re: computation of per share earnings (8)
16.1	Letters from Moore Stephens Cooper Modyneux LLP on change in certifying accountants (9)
21	Subsidiaries of the Company (10)
23.1	Consent of SF Partnership, LLP, Chartered Accountants
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer</u>
<u>32.1</u>	<u>Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

(1) Incorporated by reference to Form 10-SB filed on February 23, 2000.

(2) Incorporated by reference to Form 10-SB/A filed on July 17, 2003.

(3) Incorporated by reference to Form 8-K/A filed December 14, 2006.

(4) Incorporated by reference to Form SB-2/A filed March 21, 2007.

- (5) Incorporated by reference to Form 8-K filed December 5, 2006.
- (6) Incorporated by reference to Form 8-K filed on March 20, 2006.
- (7) Incorporated by reference to Form 8-K filed March 24, 2006.
- (8) Included within financial statements attached hereto as Exhibit A.
- (9) Incorporated by reference to Form 8-K filed January 27, 2006.
- (10) Previously filed.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees. The aggregate fees billed for professional services rendered by SF Partnership LLP, the principal accountant, was \$167,634 for 2007 and \$136,950 for 2008.

Audit-Related Fees were \$26,000 for 2007 and \$83,000 for 2008.

Tax Fees were nil for 2007 and 2008.

All Other Fees were nil for 2006 and 2007.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SILVER DRAGON RESOURCES INC.

Date: March 31, 2009

/s/ Marc Hazout

By: Marc Hazout, Chief Executive Officer

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008, and 2007

(EXPRESSED IN UNITED STATES DOLLARS)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders' of
Silver Dragon Resources Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Silver Dragon Resources Inc. and Subsidiaries (a Delaware corporation in the exploration stage) as of December 31, 2008 and 2007, and the consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2008, and cumulative from inception (June 15, 1996) through to December 31, 2008, except as explained as follows: we did not audit the cumulative data from June 15, 1996 to December 31, 2004. The cumulative data was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts in the cumulative data through December 31, 2004, is based solely on the report of other auditors. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silver Dragon Resources Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company has experienced operating losses since inception and has no long term contracts related to its business plans. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Toronto, Canada
March 13, 2009

SF Partnership, LLP
CHARTERED ACCOUNTANTS

SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
Consolidated Balance Sheets
(Expressed in United States Dollars)

	December 31 2008	December 31 2007
ASSETS	\$	\$
Current Assets		
Cash and cash equivalents	1,207,227	193,138
Other receivables, net (Note 6)	-	104,217
Current portion of deferred expenses	544,662	1,394,690
Total Current Assets	1,751,889	1,692,045
Restricted Cash (Note 7)	-	41,217
Deferred Expenses	160,458	548,435
Plant and Equipment, net (Note 8)	457,455	813,958
Mineral Rights (Note 9)	3,045,745	9,076,897
Equity Investment (Note 10)	4,575,006	-
Deferred Offering Cost	-	25,219
Total Assets	9,990,553	12,197,771
LIABILITIES		
Current Liabilities		
Accounts payable	1,202,442	1,258,623
Accrued liabilities	87,041	244,421
Due to related parties (Note 11)	24,497	471,625
Loans payable (Note 12)	-	250,000
Total Liabilities	1,313,980	2,224,669
Commitments and Contingencies (Note 17)		
STOCKHOLDERS' EQUITY		
Capital Stock (Note 13)		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.0001 par value, 150,000,000 shares authorized 84,753,488 shares issued and outstanding (2007 69,545,988 issued and outstanding)	8,475	6,955
Additional Paid-in Capital (Note 13)	34,771,264	32,183,963
Stock Subscriptions - 300,000 shares receivable (2007 - 283,333 shares payable)	(117,500)	115,000
Deficit Accumulated During the Exploration Stage	(26,043,912)	(22,313,113)
Accumulated Comprehensive Income (Loss)	58,246	(19,703)
Stockholders' Equity	8,676,573	9,973,102

Total Liabilities and Stockholders' Equity	9,990,553	12,197,771
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The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND
SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Operations and
Comprehensive Loss
For the Years Ended December 31, 2008, and 2007, and
Cumulative for the Period from June 15, 1996 [date of
inception]
Through December 31, 2008
(Expressed in United States Dollars)

	December 31 2008	December 31 2007	Cumulative For the period from June 15, 1996 [Date of Inception] through December 31, 2008
	\$	\$	\$
Revenues	-	-	64,888
Cost of Revenues	-	-	74,482
Gross Loss	-	-	(9,594)
Operating Expenses			
General and administrative	3,758,966	7,473,836	20,097,742
Exploration	1,658,367	3,012,981	6,898,044
Development (non-mining)	-	-	60,000
Total Operating Expenses	5,417,333	10,486,817	27,055,786
Loss From Continuing Operations	(5,417,333)	(10,486,817)	(27,065,380)
Other Income (Expenses)			
Gain on sale of controlling interest in subsidiary (Note 10)	1,816,733	-	1,816,733
Interest expense	-	(15,924)	(36,517)
Interest income - related parties	-	-	15,905
Interest expense - related parties (Note 11)	(32,500)	-	(56,846)
Settlement with Cyper Entertainment, Inc.	-	-	(80,000)
Loss on disposal of asset	-	-	(15,371)
Loss on investment	-	-	(61,240)
Net loss on equity investment (Note 10)	(97,699)	-	(97,699)
Loss on sale of marketable securities	-	-	(389,365)
Other income (expense)	-	-	(24,398)
Total Other Income (Expenses)	1,686,534	(15,924)	1,071,202
Net Loss Before Income Tax	(3,730,799)	(10,502,741)	(25,994,178)

The accompanying notes are an integral part of these consolidated financial statements.

- 3 -

SILVER DRAGON RESOURCES INC. AND
SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Operations and
Comprehensive Loss
For the Years Ended December 31, 2008, and 2007, and
Cumulative for the Period from June 15, 1996 [date of
inception]
Through December 31, 2008
(Expressed in United States Dollars)

	December 31 2008	December 31 2007	Cumulative For the period from June 15, 1996 [Date of Inception] through December 31, 2008
	\$	\$	\$
Net Loss Before Income Tax (carried forward)	(3,730,799)	(10,502,741)	(25,994,178)
Provision for Income Taxes			
Current	-	-	-
Deferred	-	-	-
Net Loss From Continuing Operations, After Tax	(3,730,799)	(10,502,741)	(25,994,178)
Minority Interest	-	4,241	253,021
Loss From Discontinued Operations			
Loss from discontinued operations (net of tax)	-	-	(302,755)
Net Loss From Discontinued Operations	-	-	(302,755)
Net Loss	(3,730,799)	(10,498,500)	(26,043,912)
Foreign exchange adjustment	77,949	(18,141)	58,246
Comprehensive Loss	(3,652,850)	(10,516,641)	(25,985,666)
Net loss per common share basic and diluted	(0.05)	(0.16)	
Net loss on continuing operations per common share basic and diluted	(0.05)	(0.16)	
	76,644,497	64,641,270	

**Weighted average number of common shares
outstanding - basic and diluted**

The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Stockholders' Equity
Cumulative for the Period from June 15, 1996 [Date of Inception]
Through December 31, 2008
(Expressed in United States Dollars)

	Common Stock		Deficit					
	Number		Additional	Accumulated	Stock	Treasury	Accumulated	Total
	of	Amount	Paid-in	During the	Subscription	Stock	Comprehensive	Stockholders'
	Shares	\$	Capital	Exploration	\$	\$	Income (Loss)	Equity
			\$	Stage			\$	\$
Shares issued to founder for cash	333,334	33	967	-	-	-	-	1,000
Shares issued to founders for services	55,000	6	159	-	-	-	-	165
Shares issued for investment in CECK	50,000	5	37,495	-	-	-	-	37,500
Shares issued to purchase subsidiary	350,000	35	70	(1,060)	-	-	-	(955)
Shares issued for cash	13,333	1	9,999	-	-	-	-	10,000
Net Loss, 1996	-	-	-	(14,198)	-	-	-	(14,198)
Balance, December 31, 1996 (unaudited)	801,667	80	48,690	(15,258)	-	-	-	33,512
Shares issued for cash	37,333	4	28,896	-	-	-	-	28,900
Shares issued for services	46,333	5	34,745	-	-	-	-	34,750
Shares issued for vehicle	33,333	3	24,997	-	-	-	-	25,000
Net Loss, 1997	-	-	-	(142,622)	-	-	-	(142,622)
Balance, December 31, 1997 (unaudited)	918,666	92	137,328	(157,880)	-	-	-	(20,460)
Shares issued for cash	58,667	6	49,995	-	-	-	-	50,001
Shares issued for vehicle	10,667	1	7,999	-	-	-	-	8,000
Net loss, 1998	-	-	-	(54,404)	-	-	-	(54,404)
Balance, December 31, 1998 (unaudited)	988,000	99	195,322	(212,284)	-	-	-	(16,863)
Shares issued for cash	151,918	15	56,759	-	(4,000)	-	-	52,774
Shares issued for settlement of debt	16,000	2	8,773	-	-	-	-	8,775

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Shares issued for services	36,000	3	126,467	-	-	-	-	126,470
Forgiveness of debt of related party	-	-	23,000	-	-	-	-	23,000
Net loss, 1999	-	-	-	(181,898)	-	-	-	(181,898)
Balance, December 31, 1999 (unaudited)	1,191,918	119	410,321	(394,182)	(4,000)	-	-	12,258
Shares issued for cash	4,296,666	430	667,070	-	(278,539)	-	-	388,961
Shares cancelled for non-payment	(442,433)	(44)	(165,868)	-	153,791	-	-	(12,121)
Shares issued for services	653,667	65	28,365	-	-	-	-	28,430
Shares returned for subscription receivable	(10,667)	(1)	(3,999)	-	4,000	-	-	-
Forgiveness of debt reclassification	-	-	(23,000)	-	-	-	-	(23,000)
Net loss, 2000	-	-	-	(419,296)	-	-	-	(419,296)
Balance, December 31, 2000 (unaudited)	5,689,151	569	912,889	(813,478)	(124,748)	-	-	(24,768)

The accompanying notes are an integral part of these consolidated financial statements

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Stockholders' Equity
Cumulative for the Period from June 15, 1996 [Date of Inception]
Through December 31, 2008 (Cont'd)
(Expressed in United States Dollars)

Common Stock Number of Shares	Amount \$	Additional Paid-in Capital \$	Deficit Accumulated During the Exploration Stage \$	Stock Subscription \$	Treasury Stock \$	Accumulated Comprehensive Income (Loss) \$	Total Stockholders' Equity \$
Balance, December 31, 2000	5,689,151	569	912,889	(813,478)	(124,748)	-	(24,768)
Shares issued for services	879,415	88	59,814	-	-	-	59,902
Shares issued for consulting agreement	300,000	30	29,970	-	-	-	30,000
Cash received for subscription receivable	-	-	-	-	124,748	-	124,748
Other adjustment	-	-	-	1	-	-	1
Net loss, 2001	-	-	-	(339,546)	-	-	(339,546)
Balance, December 31, 2001 (unaudited)	6,868,566	687	1,002,673	(1,153,023)	-	-	(149,663)
Shares issued for cash	400,000	40	17,960	-	-	-	18,000
Shares issued for services - related party	1,100,833	110	32,390	-	-	-	32,500
Shares issued for the settlement of related party advances	370,000	37	66,619	-	-	-	66,656
Shares issued for the settlement of related party advances	116,118	12	23,212	-	-	-	23,224
Shares issued for the settlement of related party advances	2,233,333	223	46,777	-	-	-	47,000
Shares issued for the reverse acquisition of Cyper	20,000,000	2,000	-	-	-	-	2,000
Shares issued in relation to the reverse acquisition of Cyper	4,000,000	400	119,600	-	-	-	120,000
Shares rescinded for the cancellation of the reverse acquisition of Cyper	(20,000,000)	(2,000)	-	-	-	-	(2,000)
Shares issued for settlement of cancellation of Cyper reverse acquisition	250,000	25	17,475	-	-	-	17,500
Shares issued for settlement of advances made for the Cyper settlement	1,388,889	139	62,361	-	-	-	62,500
Shares cancelled in lieu of issuance of warrants for past services rendered	(1,912,748)	(191)	-	-	-	-	(191)

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Stock warrants issued for services related party	-	-	31,000	-	-	-	-	31,000
Stock warrants exercised by management	3,255,880	326	-	-	-	-	-	326
Cancellation of shares issued in prior years	(65,467)	(7)	7	-	-	-	-	-
Net loss, 2002	-	-	-	(570,874)	-	-	-	(570,874)
Balance, December 31, 2002 (unaudited)	18,005,404	1,801	1,420,074	(1,723,897)	-	-	-	(302,022)

The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Stockholders' Equity
And Cumulative for the Period from June 15, 1996 [Date of Inception]
Through December 31, 2008 (Cont'd)
(Expressed in United States Dollars)

	Common Stock		Additional	Deficit	Stock	Treasury	Accumulated	Total
	Number	Amount	Paid-in	Accumulated	Subscription	Stock	Comprehensive	Stockholders'
	of		Capital	During the			Income (Loss)	Equity
	Shares	\$	\$	Exploration	\$	\$	\$	\$
				Stage				
				\$				\$
Balance, December 31, 2002	18,005,404	1,801	1,420,074	(1,723,897)	-	-	-	(302,022)
Shares issued for the settlement of related party advances	4,861,111	486	149,514	-	-	-	-	150,000
Shares issued for the settlement of accounts payable for services performed	66,300	7	1,319	-	-	-	-	1,326
Shares returned as a result of clerical error in a prior year	(66,300)	(7)	(1,319)	-	-	-	-	(1,326)
Net loss, 2003	-	-	-	(414,601)	-	-	-	(414,601)
Balance, December 31, 2003 (unaudited)	22,866,515	2,287	1,569,588	(2,138,498)	-	-	-	(566,623)
Shares issued for the settlement of related party advances	575,000	58	24,942	-	-	-	-	25,000
Short swing profits of shareholder	-	-	50,496	-	-	-	-	50,496
Net loss, 2004	-	-	-	(399,028)	-	-	-	(399,028)

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Balance, December 31, 2004	23,441,515	2,345	1,645,026	(2,537,526)	-	-	-	(890,155)
Shares issued for cash	7,175,000	717	596,783	-	(9,500)	-	-	588,000
Shares issued for services	3,950,000	395	814,105	-	-	-	-	814,500
Shares issued for property acquisition	1,350,000	135	388,365	-	-	-	-	388,500
Shares issued for the settlement of accounts payable to related party for services performed	3,254,018	325	813,180	-	-	-	-	813,505
Cancelled stock returned to company	(3,500,000)	(350)	(724,650)	-	-	-	-	(725,000)
Net loss, 2005	-	-	-	(584,879)	-	-	-	(584,879)
Balance, December 31, 2005	35,670,533	3,567	3,532,809	(3,122,405)	(9,500)	-	-	404,471

The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Stockholders' Equity
And Cumulative for the Period from June 15, 1996 [Date of Inception]
Through December 31, 2008 (Cont'd)
(Expressed in United States Dollars)

	Common Stock		Additional Paid-in Capital	Deficit	Stock Subscription	Treasury Stock	Accumulated Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount \$		Accumulated During the Exploration Stage \$				
Balance, December 31, 2005	35,670,533	3,567	3,532,809	(3,122,405)	(9,500)	-	-	404,471
Shares issued for cash	13,050,000	1,305	5,155,164	-	458,500	-	-	5,614,969
Shares issued for services	4,180,000	418	2,763,952	-	-	-	-	2,764,370
Shares issued for property acquisition	6,560,000	656	4,728,089	-	-	-	-	4,728,745
Shares issued for the settlement of accounts payable to related party for services performed	2,000,000	200	1,302,780	-	-	-	-	1,302,980
Warrants issued for cash	-	-	4,734,031	-	-	-	-	4,734,031
Warrants issued for services	-	-	207,005	-	-	-	-	207,005
Share issuance costs	-	-	(63,237)	-	-	-	-	(63,237)
Treasury stock	-	-	-	-	-	(392,830)	-	(392,830)
Other comprehensive loss	-	-	-	-	-	-	(1,562)	(1,562)
Net loss, 2006	-	-	-	(8,692,208)	-	-	-	(8,692,208)
Balance, December 31, 2006	61,460,533	6,146	22,360,593	(11,814,613)	449,000	(392,830)	(1,562)	10,606,734
Shares issued for cash	2,989,000	299	1,448,681	-	(499,000)	-	-	949,980
Shares issued for related party debt settlement	500,000	50	424,950	-	-	-	-	425,000
Shares issued for services	2,868,000	286	2,741,764	-	-	-	-	2,742,050
Shares issued for property	2,000,000	200	2,659,800	-	-	-	-	2,660,000

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acquisition								
Shares issued for cash pursuant to exercise of share purchase warrants	5,000	1	3,999	-	-	-	-	4,000
Shares issued for settlement of preliminary injunction (note 16)	-	-	(165,000)	-	165,000	-	-	-
Treasury stock (note 10)	(276,545)	(27)	(392,803)	-	-	392,830	-	-
Warrants issued for cash	-	-	1,540,020	-	-	-	-	1,540,020
Warrants issued for related party debt settlement of preliminary injunction (note 16)	-	-	75,000	-	-	-	-	75,000
Warrants issued for services	-	-	1,102,000	-	-	-	-	1,102,000
Options issued	-	-	459,959	-	-	-	-	459,959
Share issuance costs	-	-	(75,000)	-	-	-	-	(75,000)
Other comprehensive loss	-	-	-	-	-	-	(18,141)	(18,141)
Net loss, 2007	-	-	-	(10,498,500)	-	-	-	(10,498,500)
Balance, December 31, 2007	69,545,988	6,955	32,183,963	(22,313,113)	115,000	-	(19,703)	9,973,102

The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Stockholders' Equity
And Cumulative for the Period from June 15, 1996 [Date of Inception]
Through December 31, 2008 (Cont'd)
(Expressed in United States Dollars)

	Common Stock		Additional	Deficit	Stock	Treasury	Accumulated	Total
	Number	Amount	Paid-in	Accumulated	Subscription	Stock	Comprehensive	Stockholders'
	of		Capital	During the			Income (Loss)	Equity
	Shares	\$	\$	Exploration	\$	\$	\$	\$
				Stage				
				\$				
Balance, December 31, 2007	69,545,988	6,955	32,183,963	(22,313,113)	115,000	-	(19,703)	9,973,102
Shares issued for cash	8,349,167	835	1,141,023	-	-	-	-	1,141,858
Shares issued for settlement with Alpha Capital	2,833,333	283	398,050	-	(165,000)	-	-	233,333
Shares issued for services	1,450,000	145	156,855	-	-	-	-	157,000
Shares issued for compensation	875,000	87	135,663	-	-	-	-	135,750
Shares issued for settlement of due to related parties	1,200,000	120	107,880	-	-	-	-	108,000
Shares issued for cash pursuant to exercise of warrants	500,000	50	74,950	-	-	-	-	75,000
Warrants issued for cash	-	-	260,642	-	-	-	-	260,642
Warrants issued for settlement of due to related parties	-	-	192,000	-	-	-	-	192,000
Warrants issued for services	-	-	44,600	-	-	-	-	44,600
Options issued for services	-	-	82,200	-	-	-	-	82,200
Share issuance costs	-	-	(6,562)	-	-	-	-	(6,562)
Shares to be returned	-	-	-	-	(67,500)	-	-	(67,500)
Other comprehensive loss	-	-	-	-	-	-	77,949	77,949
Net loss, year ended December 31, 2008	-	-	-	(3,730,799)	-	-	-	(3,730,799)
Balance, December 31, 2008	84,753,488	8,475	34,771,264	(26,043,912)	(117,500)	-	58,246	8,676,573

The accompanying notes are an integral part of these consolidated financial statements.

SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007, and
Cumulative for the Period from June 15, 1996 [Date of Inception]
through December 31, 2008

(Expressed in United States Dollars)

	2008	2007	Cumulative For the Period from June 15, 1996 [Date of Inception] through December 31, 2008
Cash Flows from Operating Activities			
Net loss from continuing operations	\$ (3,730,799)	\$ (10,498,500)	\$ (26,043,912)
Net loss from discontinued operations	-	-	302,755
Net loss	(3,730,799)	(10,498,500)	(25,741,157)
Adjustments for:			
Depreciation	161,003	115,918	332,905
Gain on sale of controlling interest in subsidiary	(1,816,733)	-	(1,816,733)
Net loss from equity investment	97,699	-	97,699
Shares issued in settlement to Alpha Capital	233,333	-	214,281
Warrants issued in settlement to Alpha Capital	64,250	-	64,250
Shares issued for services	1,593,686	1,994,157	7,403,703
Warrants and options issued for services	126,800	1,561,959	1,867,527
Minority interest	-	(4,241)	(253,021)
Settlement with Cyper Entertainment Inc.	-	-	80,000
Deferred offering costs	-	50,000	-
Writeoff of deferred offering costs	25,219	(25,219)	-
Write-down of assets	-	-	42,253
Write-down of inventory	-	-	19,169
Loss on investment	-	-	61,240
Changes in non-cash working capital:			
Other receivables	104,217	434,935	(15,389)
Deferred expenses	3,381	(50,272)	(123,031)
Accounts payable	1,052,549	1,089,638	2,404,942
Accrued liabilities	(157,380)	(242,988)	56,206
Accrued officer compensation	-	-	709,500
Inventories	-	-	(28,510)

Net Cash Used in Operating Activities	(2,242,775)	(5,574,613)	(14,624,166)
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The accompanying notes are an integral part of these consolidated financial statements.

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES

(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007, and

Cumulative for the Period from June 15, 1996 [Date of Inception]
through December 31, 2008

(Expressed in United States Dollars)

	2008	2007	Cumulative For the Period from June 15, 1996 [Date of Inception] through December 31, 2008
Cash Flows from Investing Activities			
Investments in mineral rights	-	(100,000)	(1,554,877)
Proceeds from sale of controlling interest in subsidiary	4,384,811	-	4,384,811
Additional contribution to Sino-Top	(2,618,242)	-	(2,618,242)
Acquisition of plant and equipment	(9,458)	(661,435)	(981,486)
Investment in other	-	-	(21,221)
Proceeds from sale of equipment	-	-	500
Net Cash Provided by (Used in) Investing Activities	1,757,111	(761,435)	(790,515)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock and warrants	1,477,500	2,994,000	15,946,016
Share issuance costs	(6,562)	(75,000)	(116,562)
Purchase of treasury shares	-	-	(392,830)
Related party advances	441,855	480,811	922,666
Repayments of related party advances	(288,983)	-	(428,060)
Loans received	10,000	250,000	260,000
Repayments of loans payable	(260,000)	-	(260,000)
Restricted cash	-	(41,217)	(41,217)
Minority interest	-	-	253,021
Payment of notes payable	-	-	3,581
Proceeds from issuance of notes payable	-	-	(21,507)
Advances payable related party	-	-	245,649
Bank indebtedness	-	-	460
Proceeds from stock subscriptions	-	-	124,748
Net Cash Provided by Financing Activities	1,373,810	3,608,594	16,495,965
Effect of Change in Foreign Exchange	125,943	-	125,943
Change in Cash and Cash Equivalents	1,014,089	(2,727,454)	1,207,227
Cash and Cash Equivalents - beginning of period	193,138	2,920,592	-
Cash and Cash Equivalents - end of period	\$ 1,207,227	\$ 193,138	\$ 1,207,227

Represented by:

Cash	\$ 1,207,227	\$ 193,138	\$ 1,207,227
Cash equivalents	-	-	-
	\$ 1,207,227	\$ 193,138	\$ 1,207,227

The accompanying notes are an integral part of these consolidated financial statements.

SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Expressed in United States Dollars)

1. Nature of Business and Basis of Presentation

Silver Dragon Resources Inc. ("SDR"), a Delaware corporation, was incorporated on May 9, 1996. SDR is headquartered in Ontario, Canada and operates primarily in Mexico and China. On June 15, 1996, SDR acquired all of the outstanding stock of California Electric Automobile Co., Inc. ("CEAC"), a California corporation incorporated on November 14, 1995.

SDR and its subsidiaries (the "Company") are in the exploration stage as defined by Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No.7. *"Accounting and Reporting For Development Stage Enterprises."* As of December 31, 2008, the Company has generated minimal sales and has devoted its efforts primarily to developing its products, implementing its business strategy and raising working capital through equity financing or short-term borrowings.

The Company's mission is to acquire and develop a portfolio of silver properties in proven silver districts globally.

2. Going Concern and Exploration Stage Activities

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company incurred a net loss of \$3,730,799 for the year ended December 31, 2008 (2007 \$10,498,500) and has accumulated losses since inception of \$26,043,912. The Company's continuation as a going concern is uncertain and dependant on successfully bringing its product to market, achieving future profitable operations and obtaining additional sources of financing to sustain its operations. In the event the Company cannot obtain the necessary funds, it will be necessary to delay, curtail or cancel the further exploration of its products and services. The Company is currently in discussions with several parties in an attempt to raise debt and/or equity and is considering monetizing certain assets to increase general working capital, finance existing obligations, and fund future exploration programs. Although the Company intends to phase its Mexican operations into some light production by the end of 2009, there is no assurance that it will be able to develop a sufficient customer base to maintain profitable operations. The Company was able to raise approximately \$4.4 Million through the sale of its controlling interest in its former Chinese subsidiary, Sanhe Sino-Top Resources and Technologies, Ltd ("Sino-Top"). The Company intends to raise additional funds through private equity financing, which will help fund the required capital outlays related to bringing the Mexican property into production. It will also fund the monthly expenditures at Silver Dragon head office until late 2009, at which time it will have to seek further financing. There can be no assurance the Company can successfully raise monies, and these matters raise some doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

3. Summary of Significant Accounting Policies

a)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CEAC, and Silver Dragon Mining De Mexico S.A. de C.V ("Silver Dragon Mexico"). During the year the Company sold its controlling interest in Sino-Top but maintained a shareholding that gave the Company significant influence over Sino-Top. It was therefore deconsolidated from the date of sale in accordance with the Financial Accounting Standards Board (FASB) statement FASB 141, *Business Combinations* , and accounted for using the equity method of accounting, in accordance with the Accounting Principles Board Opinion (APB) 18, *The Equity Method of Accounting for Investments in Common Stock* . All significant inter-company balances and transactions have been eliminated on consolidation.

b)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results may ultimately differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become available.

c)

Cash and Cash Equivalents

The Company considers cash deposits held in financial institutions and all highly liquid investments with original maturities of three months or less at the time of purchase to be cash and cash equivalents.

d)

Mineral Rights

The Company records its interest in mineral rights at cost. Accordingly, all costs associated with acquisition, exploration and development of mineral reserves, including directly related overhead costs, are capitalized and are subject to ceiling tests to ensure the carrying value does not exceed the fair value.

All capitalized costs of mineral properties subject to amortization and the estimated future costs to develop proven reserves are amortized using the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major exploration and development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the capitalized cost of the property will be added to the costs to be amortized. The Company presently has no proven reserves. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying values can be recovered. If the carrying values exceed estimated recoverable values, then the costs are written-down to fair values with the write-down expensed in the period.

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3. Summary of Significant Accounting Policies (cont'd)

e) Equity Investment

Equity investments are entities over which the Company exercises significant influence but does not exercise control. These are accounted for using the equity method of accounting in accordance with APB 18 and are initially recognized at cost net of any accumulated impairment loss. The Company's share of these entities' profits or losses after acquisition of its interest is recognized in the statement of operations and cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses of these investments equals or exceeds the carrying amount of the investment, the Company only recognizes further losses where it has incurred obligations or made payments on behalf of the affiliate.

f) Deferred Expenses

Deferred expenses consists of those expenses which will derive benefit for the Company in the future and are deferred until such time as the benefit is realized.

g)

Revenue Recognition

The Company has not earned revenues from its planned principal operations. Revenues incidental to the planned principal operations have been recognized as follows: Revenues from the provision of mine exploration services are recognized when the services are performed and collection is reasonably assured.

Revenues from the sale of silver are recognized when the product is shipped.

h)

Deferred Offering Costs

The Company defers as other assets the direct incremental costs of raising capital until such time as the offering is completed. At the time of the completion of the offering, the costs are charged against the capital raised. Should the offering be terminated, deferred offering costs are charged to operations during the period in which the offering is terminated.

i)

Income Taxes

The Company accounts for income taxes pursuant to SFAS No. 109, "*Accounting for Income Taxes*" ("SFAS No. 109"). Deferred tax assets and liabilities are recorded for differences between the consolidated financial statements and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or refundable for the

period, increased or decreased by the change in deferred tax assets and liabilities during the period.

j)

Plant and Equipment

Plant and equipment are stated at cost. Depreciation is based on the estimated useful life of the asset and depreciated annually as follows:

Category	Rate	Method
Computer hardware	30%	declining balance
Computer software	30%	declining balance
Vehicles	20%	declining balance
Office equipment	20%	declining balance
Mine equipment	20%	declining balance
Buildings	20 years	straight line
Leasehold improvements	5 years	straight line

Equipment awaiting installation on site is not depreciated until it is commissioned.

k)

Earnings (Loss) per Share

The Company accounts for earnings (loss) per share pursuant to SFAS No. 128, "*Earnings per Share*", which requires disclosure on the consolidated financial statements of "basic" and "diluted" earnings (loss) per share. Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus potentially dilutive securities outstanding for each year. The computation of diluted earnings (loss) per share has not been presented as its effect would be anti-dilutive.

l)

Impairment of Long Lived Assets

In accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long Lived Assets*", long lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the carrying amounts are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value.

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3.
Summary
of
Significant
Accounting
Policies

(cont'd)

m)

Stock-based Compensation

In accordance with SFAS No. 123(R) (Revised 2004), "*Share-Based Payment*": ("SFAS No. 123R"), the Company measures and recognizes compensation expense for all stock-based awards made to employees and directors based on the estimated grant date fair value of those awards. SFAS No. 123R also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The fair value of stock options is calculated using the Black-Scholes option-pricing model.

Prior to January 1, 2006, the Company used the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (" APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*" (" APB No.25"), and, as permitted by SFAS No. 123, "*Accounting for Stock-Based Compensation*" (" SFAS No. 123"), provided pro forma disclosures of net income and earnings per common share as if the fair value methods had been applied in measuring compensation expense. Under the intrinsic value method, compensation cost for employee stock awards was recognized as the excess, if any, of the deemed fair value for financial reporting purposes of the Company's common stock on the date of grant over the amount an employee must pay to acquire the stock.

For non-employee stock-based compensation, the Company uses the fair value method in accordance with SFAS No. 123R and Emerging Issues Task Force (" EITF ") 96-18, "*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services*" ("EITF 96-18").

n)

Foreign Currency Translation

The Company accounts for foreign currency translation pursuant to SFAS No. 52, "*Foreign Currency Translation*". The Company's functional currency is United States dollars ("USD"). In foreign operations, the local currency is the functional currency, in China it's the Yuan ("RMB") and in Mexico it's the Nuevo Peso ("MXN"). All assets and liabilities are translated into United States dollars using the current exchange rate. Revenues and expenses are translated using the average exchange rates prevailing throughout the year. Translation adjustments are included in other comprehensive income for the period.

4. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. SFAS 157 applies under other accounting pronouncements that require or permit

fair value measurements and does not require any new fair value measurements. SFAS 157 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. In February 2008, the FASB issued FASB Staff Positions (FSP) SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, and FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157*. FSP SFAS 157-1 removes leasing transactions from the scope of SFAS No. 157, while SFAS No. 157-2 defers the effective date of SFAS 157 to the fiscal year beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. It does not defer recognition and disclosure requirements for financial assets and financial liabilities or for nonfinancial assets and nonfinancial liabilities that are remeasured at least annually. Effective January 1, 2008, the Company adopted SFAS 157, with the exception of the application of the statement to non-recurring nonfinancial assets and nonfinancial liabilities. The adoption of SFAS 157 did not impact the Company's financial position or results of operations.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS 158"). The Company has adopted SFAS 158 except for the requirement to measure plan assets and benefit obligations as of the date of the Company's fiscal year-end statement of financial position which is effective to fiscal years beginning after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 158 could have on its consolidated financial statements.

In December 2007, FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"* ("SFAS 141(R)"). This statement replaces SFAS No. 141, *"Business Combinations"* and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) amends SFAS No. 109, *"Accounting for Income Taxes"*, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, *"Goodwill and Other Intangible Assets"*, to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 141(R) could have on its consolidated financial statements.

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4. Recent Accounting Pronouncements (cont'd)

In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 160 could have on its consolidated financial statements.

In February 2008, FASB issued FSP on SFAS No. 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* (FSP SFAS 140-3). The objective of this FSP is to provide guidance on accounting for a transfer of a financial asset and a repurchase financing. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"). However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS No. 140. FSP SFAS 140-3 is effective for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within these fiscal years. Earlier application is not permitted. The Company is currently reviewing the effect, if any, the proposed guidance will have on its consolidated financial statements.

In March 2008, FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 161 could have on its consolidated financial statements.

In April 2008, FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP SFAS 142-3"). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (revised 2007), *Business Combinations*, and other U.S. generally accepted accounting principles (GAAP). FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The requirement for determining useful lives

must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Early adoption is prohibited. The Company is currently reviewing the effect, if any, the proposed guidance will have on its consolidated financial statements.

In May, 2008, FASB issued FSP Accounting Principles Board ("APB") 14-1 "*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*" ("FSP APB 14-1"). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "*Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants.*" Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. The Company is currently reviewing the effect, if any; the proposed guidance will have on its consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*". The Company is currently reviewing the effect, if any; the proposed guidance will have on its consolidated financial statements.

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4. Recent Accounting Pronouncements (cont'd)

In September 2008, FASB issued FSP SFAS 133-1 and FIN 45-4, "*Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*" (FSP SFAS 133-1 and FIN 45-4). FSP SFAS 133-1 and FIN 45-4 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* , to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. FSP SFAS 133-1 and FIN 45-4 also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* , to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, FSP SFAS 133-1 and FIN 45-4 clarifies the Board's intent about the effective date of FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* . FSP SFAS 133-1 and FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The adoption of FSP SFAS 133-1 and FIN 45-4 will have no impact on the Company's consolidated financial statements.

In December 2008, FASB issued FSP SFAS 140-4 and FIN 46 (R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* (FSP SFAS 140-4 and FIN 46 (R)). FSP SFAS 140-4 and FIN 46 (R) amends FASB SFAS 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* , to require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB SFAS 46 (revised December 2003), *Consolidation of Variable Interest Entities* , to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor (nontransferor) of financial assets to the qualifying SPE. The disclosures required by FSP SFAS 140-4 and FIN 46 (R) are intended to provide greater transparency to financial statement users about a transferor's continuing involvement with transferred financial assets and an enterprise's involvement with variable interest entities and qualifying SPEs. FSP SFAS 140-4 and FIN 46 (R) is effective for reporting periods (annual or interim) ending after December 15, 2008. The Company is currently reviewing the effect, if any, the proposed guidance will have on its consolidated financial statements.

In December 2008, FASB issued FSP SFAS 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* , (FSP SFAS 132 (R)-1). FSP SFAS 132 (R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. It also includes a technical amendment that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. FSP SFAS 132 (R)-1 is effective for fiscal years ending after December 15, 2009. The adoption of FSP SFAS 132 (R)-1 will have no impact on the Company's consolidated financial statements.

5. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP SFAS 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that

market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Cash and cash equivalents, restricted cash (level 1), other receivables, accounts payable, accrued liabilities, loans payable, and due to related parties (level 2) are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

6. Other Receivables

Other receivables are \$189,883 (2007 - \$358,653) gross and are net of an allowance for doubtful accounts of \$189,883 (2007 - \$254,436). The allowance for doubtful accounts was determined based on management's best estimate of the collectability of the receivables.

7. Restricted Cash

Restricted cash consisted of a mandatory deposit held as security under workers' safety provisions of the People's Republic of China. The Company can withdraw the interest; however the principal will remain on deposit for the duration of the life of the mining property. The balance as at December 31, 2008 was \$nil as the Company was no longer required to consolidate the assets and liabilities of Sanhe Sino-Top Resources & Technologies Ltd., subsequent to the equity sale further detailed in Note 10.

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8. Plant and Equipment, net

		Accumulated		December	December 31,
	Cost	Depreciation		31, 2008	2007
				Net book	Net book
				value	value
Computer hardware	\$ 53,738	\$ 23,658	\$	30,080	\$ 80,477
Computer software	45,122	-		45,122	45,123
Vehicles	19,210	7,284		11,926	109,334
Office equipment	60,909	19,078		41,831	59,561
Mine equipment	263,698	74,769		188,929	305,701
Buildings	-	-		-	39,303
Leasehold improvements	195,667	56,100		139,567	174,459
	\$ 638,344	\$ 180,889	\$	457,455	\$ 813,958

The Company did not claim any depreciation on the computer software as it has not been placed in service.

9. Mineral Rights

	Sino-Top	Cerro	
	China	Las	
		Minitas	Total
		Mexico	
Balance, December 31, 2007	\$ 6,131,052	\$ 2,945,845	\$ 9,076,897
Expenditures during the period	-	99,900	99,900
Divestitures during the period	(6,131,052)	-	(6,131,052)
Balance, December 31, 2008	\$ -	\$ 3,045,745	\$ 3,045,745

Sanhe Sino-Top Resources & Technologies Ltd., China

On December 12, 2008 the Company sold its controlling interest in Sino-Top and therefore deconsolidated the mining rights related to Sino-Top.

Cerros Las Minitas, Mexico

On March 1, 2006, the Company's wholly-owned subsidiary, Silver Dragon Mexico entered into an agreement with Jaime Muguero Pena wherein Mr. Pena assigned to Silver Dragon Mexico the mining and exploration rights to ten mining concessions in Guadalupe, Durango, Mexico in consideration for the payment to Mr. Pena of \$450,000 and issuance of 450,000 restricted common stock of the Company valued at \$456,750.

On March 2, 2006, Silver Dragon Mexico entered into an agreement with Ramon Tomas Davila Flores wherein Mr. Flores assigned to Silver Dragon Mexico the mining and exploration rights to five mining concessions in Guadalupe, Durango, Mexico in consideration for the payment to Mr. Flores of \$245,000 and issuance of 110,000 restricted common stock of the Company valued at \$71,995.

On March 8, 2006, Silver Dragon Mexico entered into an agreement with Minera Real Victoria, S.A. De C.V. ("Minera") for the assignment to Silver Dragon Mexico the mining and exploration rights to a mining concession known as "Puro Corazon" in Guadalupe, Durango, Mexico. On March 9, 2006, Silver Dragon Mexico obtained the consent of the owner of the concession, Silvia Villasenor Haro, for the assumption of mining and exploration rights from Minera.

The consideration payable to Minera Real Victoria, S.A. De C.V. ("Minera") for the assignment of mining and exploration rights consisted of \$400,000 and the issuance of 2,000,000 restricted common stock of the Company valued at \$1,372,000. In accordance with the terms of the agreement with Minera \$200,000 was paid in 2006; \$100,000 was due and paid in March 2007; and the final installment of \$100,000 was due for payment on March 8, 2008. As of December 31, 2008, the amount due for payment remained outstanding.

The consideration paid by Silver Dragon Mexico to Silvia Villasenor Haro, for consenting to the assignment of rights from Minera, was \$50,000. In addition, the exploration rights agreement was amended as follows:

i)The consideration to be paid to the owner for granting the exploration rights shall be \$1.50 per ton of economic ore that is extracted from the mine, due and payable monthly, effective six months from the date of execution of the agreement, at a guaranteed minimum of \$3,500 per month regardless of ore extraction.

The Company is currently in negotiations with Silvia Villasenor Haro to purchase the Puro Corazon concession and is no longer committed to pay any guaranteed payments since the last payment made to the above.

ii)Silver Dragon Mexico has the option to purchase the Puro Corazon concession and the price shall be \$2,000,000 if exercised within three years, or \$3,000,000 if exercised within five years, from March 2, 2006, the date of execution of the agreement of consent to assignment of rights.

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10. Equity Investment

Sanhe Sino-Top Resources & Technologies Ltd., China

On December 12, 2008, the Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. (HIC), acquired 50%, in addition to its previous 10%, of the Company's equity interest in Sino-Top, not including the Erbahuo property, from the Company in exchange for Chinese Yuan (RMB) 30 million (approximately USD\$4.4 million). HIC and the Company hold equity interest of 60% and 40%, respectively, in Sino-Top, whose assets now mainly consist of eight exploration properties. With respect to Erbahuo, the ninth exploration property controlled by Sino-Top, it will be 70% owned by the Company and 30% by HIC, subject to regulatory approval. The proceeds will be used to further develop the Company's properties in China and Mexico. All proceeds and expenses from the new venture will be shared between HIC and the Company proportionate to their respective equity interests.

Carrying value of total investment in Sino-Top previously held (90%) as at December 12, 2008	\$ 4,622,541
Carrying value as at December 12, 2008 of 50% holding sold	2,568,078
Proceeds received on disposition of 50% holding	4,384,811
Gain on disposal of 50% holding	\$ 1,816,733

	December 31, 2008
Carrying value of investment at December 12, 2008 (40% holding)	\$ 2,054,463
Additional investment	2,618,242
40% share of net loss for the period December 13 - December 31, 2008	(97,699)
Carrying value of investment at December 31, 2008	\$ 4,575,006

Total assets and liabilities associated with the Company's equity investment in Sino-Top are as follows:

	December 31, 2008
Total Assets	\$ 3,383,446
Total Liabilities	\$ 5,702,358

11. Related Party Transactions and Balances

Due to related parties consists of the following:

	December 31, 2008	December 31, 2007
Unpaid Remuneration	\$ 24,497	\$ 36,000
Loans payable	-	435,625
Payable Due	\$ 24,497	\$ 471,625

Loans from directors or companies controlled by directors in the amount of \$ Nil (2007 - \$435,625) were unsecured, non-interest bearing and had no fixed terms of repayment and have been repaid.

During the year ended December 31, 2008, the Company paid \$32,500 (2007 - \$ Nil) in interest to a company controlled by a director of the Company, in relation to a loan that was secured by the aforementioned party on behalf of the Company.

During the year ended December 31, 2008, the Company incurred \$279,000 (2007 - \$162,000) in management fees payable to a company controlled by a director for services rendered other than in his capacity as director.

During the year ended December 31, 2008, the Company incurred \$50,000 (2007 - \$ Nil) in fees payable to a director for services rendered other than in their capacity as director. There remains a total of \$24,497 in fees payable to the director.

During the year ended December 31, 2008, the Company issued 200,000 restricted shares of the Company's stock to a director of the Company for services performed as director. The director also received 500,000 options to purchase shares of the Company's stock at a per share purchase price of \$0.23, exercisable for a period of two years from June 18, 2008.

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12. Loans Payable

The loans payable in the amount of \$Nil (2007 - \$250,000) were unsecured, non-interest bearing and due on demand.

13. Capital Stock

On February 5, 2007 the Company closed a private placement totaling 584,000 units at \$1.00 per unit for gross proceeds of \$584,000. Each unit consists of one share of the Company's common stock and one one-half \$2.00 per share purchase warrant and one one-half \$5.00 per share purchase warrant exercisable at any time over a period of two years from the date of the closing of the private placement.

On April 2, 2007 the Company closed a private placement totaling 230,000 units at \$1.00 per unit for gross proceeds of \$230,000. Each unit consists of one share of the Company's common stock and one one-half \$2.00 per share purchase warrant and one one-half \$5.00 per share purchase warrant exercisable at any time over a period of two years from the date of the closing of the private placement. As at December 31, 2007, 50,000 of the units remained unsubscribed.

On April 2, 2007 the Company issued 5,000 of the Company's restricted common stock to an individual, pursuant to an administrative services contract dated May 16, 2006, for fair value of \$9,100.

On April 2, 2007 the Company issued 50,000 shares of the Company's restricted common stock to an individual, pursuant to an administrative services contract dated August 29, 2006, for fair value of \$91,000. The amount is being amortized over the service period, of which \$60,667 is included in the statement of operations. Included in the current portion of deferred expenses is \$30,333.

On April 2, 2007 the Company issued 100,000 shares of the Company's restricted common stock to certain individuals, pursuant to investor relations services contracts dated March 1, 2007, for fair value of \$165,900. The amount is being amortized over the service period, of which \$138,250 is included in the statement of operations. Included in the current portion of deferred expenses is \$27,650. In accordance with the service contracts, the individuals received 400,000 share purchase warrants, for fair value of \$323,000. The warrants are exercisable at any time during a five year period from March 1, 2007 to purchase 200,000 shares at \$2.50 per share and 200,000 shares at \$3.00 per share.

On April 9, 2007 the Company issued 25,000 shares of the Company's restricted common stock to a company, pursuant to a twelve month investor relations services contract dated April 6, 2007, for fair value of \$53,750. The amount is being amortized over the service period, of which \$40,313 is included in the statement of operations. Included in the current portion of deferred expenses is \$13,437.

On April 30, 2007 the Company issued 5,000 shares of the Company's unrestricted common stock at \$0.80 per share upon the exercise of warrants.

On May 2, 2007 the Company issued 38,500 shares of the Company's restricted common stock to a company for services rendered in connection with a private placement, for fair value of \$38,500.

On May 22, 2007 the Company closed a private placement totaling 175,000 units at \$1.00 per unit for gross proceeds of \$175,000. Each unit consists of one share of the Company's common stock and one one-half \$2.00 per share purchase warrant and one one-half \$5.00 per share purchase warrant exercisable at any time over a period of two years from the date of the closing of the private placement.

On June 12, 2007 the Company issued 75,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations services contract dated May 29, 2007, for fair value of \$69,000. The amount is being amortized over the service period, of which \$40,250 is included in the statement of operations. Included in the current portion of deferred expenses is \$28,750.

On June 27, 2007 the Company issued 50,000 shares of the Company's restricted common stock to a company, pursuant to a consulting services contract dated June 15, 2007, for fair value of \$34,000.

On July 27, 2007 the Company closed a private placement totaling 500,000 units at \$1.00 per unit for gross proceeds of \$500,000. Each unit consists of one share of the Company's common stock and one one-half \$2.00 per share purchase warrant and one one-half \$5.00 per share purchase warrant exercisable at any time over a period of two years from the date of the closing of the private placement.

On July 27, 2007 the Company issued 550,000 shares of the Company's restricted common stock to a company, in fulfillment of obligations under an investor relations services contract dated December 8, 2005, for fair value of \$638,000.

On August 17, 2007 the Company issued 250,000 of the Company's restricted common stock to an individual, pursuant to an accounting services contract effective July 2, 2007, for fair value of \$232,500. The amount is being amortized over the service period, of which \$38,750 is included in the statement of operations. Included in the current portion of deferred expenses is \$77,500.

On August 17, 2007 the Company issued 500,000 of the Company's restricted common stock to a director, as compensation for his appointment as an officer of the Company, for fair value of \$472,500. The amount is being amortized over the service period, of which \$59,063 is included in the statement of operations. Included in the current portion of deferred expenses is \$157,500.

On October 1, 2007 the Company issued 360,000 of the Company's restricted common stock to a company pursuant an agreement to extend an existing investor relations services contract for an additional year, for fair value of \$252,000. This amount will be amortized over the extended service period to commence on May 29, 2008.

On October 10, 2007 the Company issued 500,000 share purchase warrants to a director following an executive appointment, exercisable at \$0.75 per share and expiring October 10, 2012, for fair value of \$287,000.

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13. Capital Stock (cont'd)

On October 19, 2007 the Company issued 500,000 units in the capital of the Company to certain directors or companies controlled by the directors as consideration for the conversion of loans payable in the amount of \$500,000. Each unit consists of one common share and one one-half \$2.00 per share purchase warrant and one one-half \$5.00 per share purchase warrant exercisable within a two year period from October 19, 2007.

On October 19, 2007 the Company issued 180,000 of the Company's restricted common stock as compensation under the terms of an investor relations services contract dated October 10, 2007, for fair value of \$122,400. The amount is being amortized over the service period, of which \$30,600 is included in the statement of operations. Included in the current portion of deferred expenses is \$91,800.

On November 2, 2007 the Company issued 500,000 share purchase warrants as compensation to a new member of the Board of Directors, exercisable at \$0.60 per share and expiring November 2, 2012, for fair value of \$250,000. The warrants are exercisable at any time during a five year period from November 2, 2007 to purchase 500,000 shares at \$0.60 per share.

On November 14, 2007 the Company issued 50,000 share purchase warrants to an individual, pursuant a one-year extension of an investor relations services contract dated August 1, 2006, for fair value of \$42,000. The warrants are exercisable at any time during a five year period from November 14, 2007 to purchase 50,000 shares at \$0.94 per share.

On November 16, 2007 the Company closed a private placement totaling 500,000 units at \$1.00 per unit for gross proceeds of \$500,000. Each unit consists of one share of the Company's common stock and one \$1.25 per share purchase warrant exercisable at any time over a period of two years from the date of the closing of the private placement.

On November 16, 2007 the Company issued 180,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations services contract dated November 14, 2007, for fair value of \$154,800.

On December 5, 2007 the Company issued 250,000 share purchase warrants as compensation to a new member of the Board of Directors, exercisable at \$0.84 per share and expiring December 5, 2012, for fair value of \$176,000.

On December 10, 2007 the Company issued 500,000 shares of the Company's restricted common stock to an individual, pursuant to an investor relations services contract for a one year term, for fair value of \$405,000. The amount is being amortized over the service period, of which \$33,750 is included in the statement of operations. Included in the current portion of deferred expenses is \$371,250.

On December 10, 2007 the Company closed a private placement totaling 1,000,000 units at \$1.00 per unit for gross proceeds of \$1,000,000. Each unit consists of one share of the Company's common stock and one \$1.25 per share purchase warrant exercisable at any time over a period of five years from the date of the closing of the private placement.

On December 14, 2007 the Company issued 4,500 shares of the Company's restricted common stock to an individual for services rendered in connection with a private placement, for fair value of \$3,600.

On January 18, 2008 the Company engaged the services of a consultant for a term of twelve months and issued 100,000 options, for a fair value of \$43,000, to purchase one common share per option of the Company at an exercise price of \$0.62 at any time within three years from the date of the agreement.

On February 26, 2008 the Company issued 30,000 share purchase warrants to an individual for services rendered in connection with a private placement, for a fair value of \$9,000. The warrants are exercisable at any time during a two year period from February 26, 2008 to purchase 30,000 shares at \$0.60 per share.

On February 27, 2008 the Company closed a private placement totaling 120,000 units at \$0.50 per unit for gross proceeds of \$60,000. Each unit consists of one common share and one one-half \$0.60 per share purchase warrant exercisable within a two year period from the date of the closing of the private placement.

On February 28, 2008 the Company issued 333,333 shares of the Company's restricted common stock to a company in settlement of a Preliminary Injunction. As part of the settlement, the per share purchase price of each of the 250,000 Class A and 250,000 Class B warrants held by the company were reduced to \$0.15, on July 10, 2008, from \$2.00 and \$5.00, respectively.

In April 2008 the Company closed private placements totaling 900,000 units at \$0.25 per unit for gross proceeds of \$225,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a two year period from the date of the closing of the private placement.

On April 1, 2008 the Company requested that 250,000 restricted shares of the Company's stock, that were initially issued on August 17, 2007, be returned and cancelled due to non-performance of contract terms.

On April 18, 2008, the Company issued 1,200,000 units of the capital of the Company to a company controlled by a director as consideration for the conversion of loans payable in the amount of \$300,000. Each \$0.25 unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a two year period from April 18, 2008.

On April 29, 2008 the Company closed a private placement totaling 166,667 units at \$0.15 per unit for gross proceeds of \$25,000. Each unit consists of one common share and one \$0.40 per share purchase warrant and one \$0.50 per share purchase warrant exercisable within a one and two year period, respectively, from the date of the closing of the private placement.

On May 1, 2008 the Company issued 25,000 of the Company's restricted common stock to an individual, pursuant to a one-year accounting services contract for fair value of \$5,000.

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13. Capital Stock (cont'd)

On May 6, 2008 the Company closed a private placement totaling 250,000 units at \$0.20 per unit for gross proceeds of \$50,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a two year period from the date of the closing of the private placement.

In May 2008 the Company closed further private placements totaling 112,500 units at \$0.20 per unit for gross proceeds of \$22,500. Each unit consists of one common share and one \$0.40 per share purchase warrant and one \$0.50 per share purchase warrant exercisable within a one and two year period, respectively, from the date of the closing of the private placement.

On June 2, 2008 the Company closed a private placement totaling 133,333 units at \$0.15 per unit for gross proceeds of \$20,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a two year period from the date of the closing of the private placement.

On June 2, 2008 the Company issued 150,000 shares of the Company's restricted common stock to a company, pursuant to a consulting services contract dated June 2, 2008, for fair value of \$30,000. The shares were subsequently cancelled on July 16, 2008 due to non-performance of contract terms.

On June 19, 2008 the Company issued 50,000 shares of the Company's restricted common stock to an individual, pursuant to an administrative services contract dated June 1, 2008, for fair value of \$10,000.

On July 10, 2008, Alpha Capital Anstalt (Alpha) and the Company entered into a Settlement Agreement and Release (the "Settlement Agreement") whereby all claims and disputes between the parties relating to the pending litigation were resolved and all agreements between the parties are to terminate - in accordance with the terms of the Settlement Agreement. Additionally, in accordance with the terms of the Settlement Agreement, the Company issued 2,946,734 free trading (shares which include the exercise of the 250,000 Class A and 250,000 Class B warrants at \$0.15 per warrant) and 53,266 restricted shares of the Company's stock and paid \$100,000 of Alpha's legal fees.

On July 23, 2008 the Company issued 200,000 restricted shares of the Company's stock to a director of the Company for services performed as director. The director also received 500,000 options to purchase shares of the Company's stock at a per share purchase price of \$0.23, exercisable for a period of two years from June 18, 2008.

On July 23, 2008 the Company issued share purchase warrants to an employee of a subsidiary of the Company to purchase 20,000 shares of the Company's restricted stock at a per share purchase price of \$0.25, exercisable for a period of two years.

On July 29, 2008 the Company closed a private placement totaling 6,666,667 shares of the Company's restricted common stock at \$0.15 per share for gross proceeds of \$1,000,000.

On September 1, 2008 the Company issued 150,000 shares of the Company's restricted common stock to an individual, pursuant to a consulting agreement dated September 1, 2008 to provide investor relations and information technology services, for fair value of \$23,250.

On September 1, 2008 the Company issued 500,000 shares of the Company's restricted common stock to an individual, pursuant to a consulting agreement dated September 1, 2008, for fair value of \$77,500.

On November 14, 2008 the Company issued 1,400,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated November 14, 2008, for fair value of \$147,000.

Warrants

As at December 31, 2008, 8,570,667 warrants were outstanding, having an exercise price of between \$0.25 and \$5.00 per share with an average remaining contractual life of 1.48 years.

	Number of warrants	Weighted average exercise price
Balance, December 31, 2007	14,969,000	\$ 2.87
Issued during the year	3,151,667	0.49
Exercised during the year	(500,000)	0.15
Forfeitures during the year	-	-
Expired during the year	(9,050,000)	3.50
Balance, December 31, 2008	8,570,667	\$ 1.48

As at December 31, 2008 the range of exercise prices of the outstanding warrants were as follows:

Range of exercise prices	Number of warrants	Average remaining contractual life	Weighted average exercise price
\$0.25 - \$1.00	4,646,667	2.01 years	\$0.57
\$1.01 - \$2.00	2,512,000	1.94 years	\$1.55
\$2.01 - \$5.00	1,412,000	1.24 years	\$4.36
	8,570,667		

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13. Capital Stock (cont'd)

During the year ended December 31, 2008, 50,000 share purchase warrants, exercisable at prices between \$0.25 and \$0.60 expiring two years from their respective date of issuance were issued to a consultant and an employee of a subsidiary of the Company. These warrants were valued using the Black-Scholes model, using key assumptions of volatility between 115.65% and 124.82%, risk-free interest rates between 2.04% and 2.81%, a term life equivalent to the life of the warrants, and reinvestment of all dividends in the Company of zero percent.

Warrants were valued using the Black-Scholes model, using the weighted average key assumptions of volatility of 115.65% - 125.96%, a risk-free interest rate of 1.84% - 2.81%, a term equivalent to the life of the warrant, and reinvestment of all dividends in the Company of zero percent.

Options

As of December 31, 2008, 1,152,000 options were outstanding, having an exercise price between \$0.23 and \$2.50 per share with an average remaining contractual life of 2.40 years.

	Number of options	Weighted average exercise price
Balance, December 31, 2007	552,000	\$ 1.10
Issued during the year	600,000	0.30
Exercised during the year	-	-
Forfeitures during the year	-	-
Expired during the year	-	-
Balance, December 31, 2008	1,152,000	\$ 0.68

As of December 31, 2008 the range of exercise prices of the outstanding options were as follows:

Range of exercise prices	Number of options	Average remaining contractual life	Weighted average exercise price
\$0.20 - \$1.00	1,100,000	2.50 years	\$0.59
\$1.01 - \$2.00	-	-	-
\$2.01 - \$5.00	52,000	0.38 years	\$2.50
	1,152,000		

During the year ended December 31, 2008, 600,000 stock options, exercisable at prices between \$0.23 and \$0.62 with two and three year periods from their respective grant dates were issued to a consultant and a director of the Company. These options were valued at \$116,200 using the Black-Scholes model, using key assumptions of volatility of between 117.23% and 125.79%, risk-free interest rates of between 2.39% and 2.89%, a term life equivalent to the life of the options, and reinvestment of all dividends in the Company of zero percent.

14. Consolidated Statements of Cash Flows Supplemental Disclosures

For the year ended December 31, 2008, stock-based compensation and the current portion of deferred expenses amounted to \$2,138,348 (2007 - \$472,048). These amounts are included in the consolidated financial statements as follows:

	December 31, 2008	December 31, 2007
Statement of operations (current portion of deferred expenses)	\$ 544,662	\$ 1,008,246
Statement of operations (stock-based compensation expensed)	1,593,686	1,970,064
	\$ 2,138,328	\$ 2,978,310

For the year ended December 31, 2008 there were no cash payments for income taxes (2007 - \$ Nil). Cash payments for interest expense amounted to \$32,500 (2007 - \$15,924).

15. Litigation

The Company is not aware of any pending actions or litigation arising from current or past environmental practices that are likely to have a material adverse impact on its financial position. In the normal course of its operations, the Company has been or, from time to time, may be named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, management does not expect that they will have a material effect on the Company's business or financial condition or results of operations.

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16. Income Taxes

The Company's income tax provision (recovery) has been calculated as follows:

	2008	2007
Loss before income taxes	\$ (3,730,799)	\$ (10,502,741)
Deferred: Expected income tax recovery at the combined average statutory rates of 27.98% (2007 31.18%)	(1,043,871)	(3,274,618)
Losses not available to carryforward	475,945	-
Change in valuation allowance	567,926	3,274,618
Provision for income taxes	\$ -	\$ -

The following summarizes the principal temporary differences and related future tax effect:

	2008	2007
Losses carried forward	\$ 6,435,648	\$ 6,808,516
Valuation allowance	(6,435,648)	(6,808,516)
Deferred income tax asset	\$ -	\$ -

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109 as of its inception. Pursuant to SFAS No. 109 the Company is required to compute tax asset benefits for net operating losses carried forward.

Potential benefits of net operating losses have not been recognized in these consolidated financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

The Company has accumulated approximately \$18,900,000 of taxable losses, which may be used to offset future federal taxable income. The utilization of the losses expires in years 2016 to 2028.

The Company's tax returns have not yet been filed and are subject to audit and potential reassessment by taxation authorities. The outcome of audits cannot be reasonably determined and the potential impact on the financial statements is not determinable.

The Tax Reform Act of 1986 (Internal Revenue Code) imposed substantial restrictions on the utilization of net operating losses and tax credits in the event of an "ownership change", as defined by the *Internal Revenue Code*. Federal and State net operating losses are subject to limitations as a result of these restrictions. Under such circumstances, the Company's ability to utilize its net operating losses against future income may be reduced.

17. Commitments and Contingencies

a) On April 1, 2007, the Company entered into a five year lease agreement for office space with an option to renew for an additional five years. The future minimum commitment under the lease obligations for office premises are as

follows:

2009	44,951
2010	46,105
2011	46,105
2012	11,526
	\$ 148,687

In addition, the Company is required to pay its proportionate share of realty taxes and certain other occupancy costs under the terms of the lease.

b) Under the terms of the agreement with Jaime Muguero Pena, the Company purchased 100% interest in 10 mining concessions in consideration for \$450,000 and the issuance of 450,000 restricted common stock of the Company. The agreement also stipulates that the 450,000 common shares issued under the purchase agreement have a minimum value of \$450,000 (\$1.00 per share issued), which therefore obligates the Company to compensate for any shortfall in the share price on disposition.

c) Under the terms of the Equity Transfer Agreement with HIC, the Company had committed to provide capital contributions to cover all expenses proportionate to its equity interest in Sino-Top.

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18. Subsequent Events

On January 20, 2009 the Company issued 600,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated January 20, 2009, for fair value of \$57,000.

On January 21, 2009 the Company issued 650,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated January 15, 2009, for fair value of \$61,750.

On January 23, 2009 the Company cancelled 250,000 restricted shares of the Company's stock, which were initially issued on August 17, 2007 and requested to be returned and cancelled due to non-performance of contract terms.

On February 4, 2009 the Company issued 100,000 shares of the Company's restricted common stock to an employee of a subsidiary of the Company, in relation to the facilitation of the mill purchase, for fair value of \$10,000.

On February 6, 2009 the Company issued 300,000 options, to an individual, to purchase shares of the Company's stock at a per share purchase price of \$0.10, exercisable for a period of three years from contract date. The options were issued pursuant to a management consulting agreement dated February 6, 2009.

On February 12, 2009 the Company issued 40,000 shares of the Company's restricted common stock to an employee of a subsidiary of the Company, in relation to investor relations services provided, for fair value of \$3,608.

19. Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of the financial instruments approximates their carrying values, unless otherwise noted.

The carrying amount of cash and cash equivalents, restricted cash, other receivables, accounts payable, accrued liabilities, loans payable, and due to related parties, as applicable, approximates fair value due to the short term nature of these items and/or the current interest rates payable in relation to current market conditions.

Financial risk is the risk that the Company's earnings are subject to fluctuations in interest risk or currency risk and are fully dependent upon the volatility of these rates. The Company does not use derivative instruments to moderate its exposure to financial risk, if any.

Concentration of Credit Risk

SFAS No. 105, "Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentration of Credit Risk", requires disclosure of any significant off-balance-sheet risk and credit risk concentration. The Company does not have significant off-balance-sheet risk or credit concentration. The Company maintains cash and short-term investments with major financial institutions. From time to time, the Company has funds on deposit with commercial banks that exceed federally insured limits. Management does not consider this to be a significant credit risk as these banks and financial institutions are well-known.

Currency Risk

While the reporting currency is the US Dollar (USD), 42% and 13% of consolidated costs and expenses for the year ended December 31, 2008 are denominated in the RMB and Mexican Peso (MXN), respectively. As at December 31, 2008, 4% of the assets and 42% of the liabilities are denominated in MXN. The Company is exposed to foreign exchange risk as the results of operations may be affected by fluctuations in the exchange rates between the USD and the MXN.

The Company has not entered into any hedging transactions in an effort to reduce the exposure to currency risk.

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20. Segmented Information

As at December 31, 2008	Corporate	China	Mexico	Total
Mineral Rights	\$ -	\$ -	\$ 3,045,745	\$ 3,045,745
Equity Investment	\$ 4,575,006	\$ --	\$ -	\$ 4,575,006
Total Assets	\$ 6,701,705	\$ --	\$ 3,288,848	\$ 9,990,553

Year Ended December 31, 2008	Corporate	China	Mexico	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 52,402	\$ 54,154	\$ 54,447	\$ 161,003
Net Loss Before Income Tax	\$ (1,670,370)	\$ (1,570,899)	\$ (489,530)	\$ (3,730,799)

As at December 31, 2007	Corporate	China	Mexico	Total
Mineral Rights	\$ -	\$ 6,131,052	\$ 2,945,845	\$ 9,076,897
Total Assets	\$ 2,299,386	\$ 6,511,700	\$ 3,386,685	\$ 12,197,771

Year Ended December 31, 2007	Corporate	China	Mexico	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 30,937	\$ 40,433	\$ 44,548	\$ 115,918
Net Loss Before Income Tax	\$ (6,612,600)	\$ (1,964,603)	\$ (1,925,538)	\$ (10,502,741)

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