

Silver Dragon Resources Inc.  
Form 10-Q  
May 15, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended: **march 31, 2009**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 0-29657**

**SILVER DRAGON RESOURCES INC.**

(Exact name of registrant as specified 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)

**(416) 223-8500**

(Issuer's telephone number)

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 whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDS DURING THE PRECEDING FIVE YEARS

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

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 86,068,488 shares of its Common Stock, \$0.0001 par value, as of May 14, 2009.

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2009 and 2008

(UNAUDITED)

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SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES  
(AN EXPLORATION STAGE COMPANY)  
Condensed Consolidated Balance Sheets  
(Unaudited)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 755,121	1,207,227
Current portion of deferred expenses	406,010	544,662
<b>Total Current Assets</b>	<b>1,161,131</b>	<b>1,751,889</b>
<b>Deferred Expenses</b>	<b>168,760</b>	<b>160,458</b>
<b>Plant and Equipment, net</b> (note 5)	<b>434,767</b>	<b>457,455</b>
<b>Mineral Rights</b> (note 6)	<b>3,045,745</b>	<b>3,045,745</b>
<b>Equity Investment</b> (note 7)	<b>4,635,149</b>	<b>4,575,006</b>
<b>Total Assets</b>	<b>9,445,552</b>	<b>9,990,553</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	1,252,344	1,202,442
Accrued liabilities	26,220	87,041
Due to related parties (note 8)	7,935	24,497
<b>Total Liabilities</b>	<b>1,286,499</b>	<b>1,313,980</b>
<b>Commitments and Contingencies</b> (note 11)		
<b>STOCKHOLDERS' EQUITY</b>		
<b>Capital Stock</b> (note 9)		
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 85,893,488 shares issued and outstanding (2008 84,753,488 issued and outstanding)	<b>8,589</b>	<b>8,475</b>
<b>Additional Paid-in Capital</b> (note 9)	<b>34,857,567</b>	<b>34,771,264</b>
<b>Stock Subscriptions</b>	<b>(50,000)</b>	<b>(117,500)</b>
<b>Deficit Accumulated During the Exploration Stage</b>	<b>(26,737,006)</b>	<b>(26,043,912)</b>
<b>Accumulated Comprehensive Income</b>	<b>79,903</b>	<b>58,246</b>
<b>Stockholders' Equity</b>	<b>8,159,053</b>	<b>8,676,573</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 9,445,552</b>	<b>9,990,553</b>

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

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

Condensed Consolidated Statements of Operations and Comprehensive Loss  
For the Three-Month Periods Ended March 31, 2009 and 2008, and  
Cumulative for the Period from June 15, 1996 [date of inception]  
Through March 31, 2009  
(Unaudited)

	March 31, 2009	March 31, 2008	For the period from June 15, 1996 [date of inception] through March 31, 2009
<b>Revenues</b>	\$ -	\$ -	\$ 64,888
<b>Cost of Revenues</b>	-	-	74,482
<b>Gross Loss</b>	-	-	(9,594)
<b>Operating Expenses</b>			
General and administrative	497,817	1,068,311	20,595,559
Exploration	61,620	204,880	6,959,664
Development (non-mining)	-	-	60,000
<b>Total Operating Expenses</b>	<b>559,437</b>	1,273,191	27,615,223
<b>Loss From Continuing Operations</b>	<b>(559,437)</b>	(1,273,191)	(27,624,817)
<b>Other Income (Expenses)</b>			
Gain on sale of controlling interest in subsidiary	-	-	1,816,733
Interest expense	-	-	(36,517)
Interest income related parties	-	-	15,905
Interest expense - related parties	-	-	(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	<b>(133,657)</b>	-	(231,356)



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

Condensed Consolidated Statements of Operations and Comprehensive Loss  
For the Three-Month Periods Ended March 31, 2009 and 2008, and  
Cumulative for the Period from June 15, 1996 [date of inception]  
Through March 31, 2009  
(Unaudited)

	March 31, 2009	March 31, 2008	For the period from June 15, 1996 [date of inception] through March 31, 2009
<b>Net Loss Before Income Tax</b> (brought forward)	\$ (693,094)	\$ (1,273,191)	\$ (26,687,272)
<b>Provision for Income Taxes</b>			
Current	-	-	-
Deferred	-	-	-
<b>Net Loss From Continuing Operations, After Tax</b>	(693,094)	(1,273,191)	(26,687,272)
<b>Minority Interest</b>	-	-	253,021
<b>Loss From Discontinued Operations</b>			
Loss from discontinued operations (net of tax)	-	-	(302,755)
<b>Net Loss From Discontinued Operations</b>	-	-	(302,755)
<b>Net Loss</b>	(693,094)	(1,273,191)	(26,737,006)
Foreign exchange adjustment	21,657	52,174	79,903
<b>Comprehensive Loss</b>	\$ (671,437)	\$ (1,221,017)	\$ (26,657,103)
<b>Net loss per common share basic and diluted</b>	\$ (0.01)	\$ (0.02)	
<b>Net loss on continuing operations per common share basic and diluted</b>	\$ (0.01)	\$ (0.02)	
<b>Weighted average number of common shares outstanding basic and diluted</b>	84,965,762	69,706,720	

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



SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES  
(AN EXPLORATION STAGE COMPANY)  
Condensed Consolidated Statements of Cash Flows  
For the Three-Month Periods Ended March 31, 2009 and 2008, and  
Cumulative for the Period from June 15, 1996 [Date of Inception]  
through March 31, 2009  
(Unaudited)

	March 31, 2009	March 31, 2008	Cumulative For the Period from June 15, 1996 [Date of Inception] through March 31, 2009
<b>Cash Flows from Operating Activities</b>			
Net loss from continuing operations	\$ (693,094)	\$ (1,273,191)	\$ (26,737,006)
Net loss from discontinued operations	-	-	302,755
Net loss	(693,094)	(1,273,191)	(26,434,251)
Adjustments for:			
Depreciation	24,554	43,701	357,459
Gain on sale of controlling interest in subsidiary	-	-	(1,816,733)
Net loss from equity investment	133,657	-	231,356
Shares issued in settlement to Alpha Capital	-	-	214,281
Warrants issued in settlement to Alpha Capital	-	-	64,250
Shares issued for services	132,358	444,153	7,536,061
Warrants and options issued for services	21,559	52,000	1,889,086
Minority interest	-	-	(253,021)
Settlement with Cyper Entertainment Inc.	-	-	80,000
Writeoff of deferred offering costs	-	-	-
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	-	(30,922)	(15,389)
Deferred expenses	130,350	-	7,319
Accounts payable	49,902	396,630	2,454,844
Accrued liabilities	(60,821)	(80,221)	(4,615)
Accrued officer compensation	-	-	709,500
Inventories	-	-	(28,510)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (261,535)</b>	<b>\$ (447,850)</b>	<b>\$ (14,885,701)</b>

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



SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES  
(AN EXPLORATION STAGE COMPANY)  
Condensed Consolidated Statements of Cash Flows  
For the Three-Month Periods Ended March 31, 2009 and 2008, and  
Cumulative for the Period from June 15, 1996 [Date of Inception]  
through March 31, 2009  
(Unaudited)

	March 31, 2009	March 31, 2008	Cumulative For the Period from June 15, 1996 [Date of Inception] through March 31, 2009
<b>Cash Flows from Investing Activities</b>			
Investments in mineral rights	\$ -	\$ -	\$ (1,554,877)
Proceeds from sale of controlling interest in subsidiary	-	-	4,384,811
Additional contribution to Sino-Top	(193,800)	-	(2,812,042)
Acquisition of plant and equipment	-	(3,997)	(981,486)
Investment in other	-	-	(21,221)
Proceeds from sale of equipment	-	-	500
<b>Net Cash Used in Investing Activities</b>	<b>(193,800)</b>	<b>(3,997)</b>	<b>(984,315)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of common stock and warrants	-	60,000	15,946,016
Share issuance costs	-	(4,200)	(116,562)
Purchase of treasury shares	-	-	(392,830)
Related party advances	10,000	179,975	932,666
Deferred offering costs	-	(25,000)	-
Repayments of related party advances	(26,562)	-	(454,622)
Loans received	-	-	260,000
Repayments of loans payable	-	-	(260,000)
Restricted cash	-	(1,791)	(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	-	65,624	460
Proceeds from stock subscriptions	-	-	124,748
<b>Net Cash Used in Financing Activities</b>	<b>(16,562)</b>	<b>274,608</b>	<b>16,479,403</b>
<b>Effect of Change in Foreign Exchange</b>	<b>19,791</b>	<b>-</b>	<b>145,734</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(452,106)</b>	<b>(177,239)</b>	<b>755,121</b>
<b>Cash and Cash Equivalents - beginning of period</b>	<b>1,207,227</b>	<b>193,138</b>	<b>-</b>

<b>Cash and Cash Equivalents - end of period</b>	<b>\$ 755,121</b>	<b>\$ 15,899</b>	<b>\$ 755,121</b>
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**Represented by:**

Cash	<b>\$ 755,121</b>	<b>\$ 15,899</b>	<b>\$ 755,121</b>
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Notes to the Condensed Consolidated Financial Statements

March 31, 2009 and 2008

(Unaudited)

**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 March 31, 2009, 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.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. In the opinion of the Company's management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2009. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended December 31, 2008.

**2. Going Concern and Exploration Stage Activities**

These condensed 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 \$693,094 for the three-month period ended March 31, 2009 (2008 \$1,273,191) and has accumulated losses since inception of \$26,737,006. 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 intends to sell its 70% equity interest in the Erbahuo mine, which will help fund the required capital outlays related to bringing the Mexican property into production as well as fund the monthly expenditures at Silver Dragon's head office. 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 accompanying condensed 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. Recent Accounting Pronouncements

In April 2009, FASB issued FSP SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ( FSP SFAS 157-4 ), which provides guidance for making fair value measurements more consistent with the principles presented in SFAS 157. FSP SFAS 157-4 provides additional authoritative guidance in determining whether a market is active or inactive, and whether a transaction is distressed. It is applicable to all assets and liabilities (e.g. financial and nonfinancial) and will require enhanced disclosures. It is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently reviewing the effect, if any; the proposed guidance will have on the Company's condensed consolidated financial statements.

In April 2009, FASB issued FSP SFAS 115-2 and SFAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, ( FSP SFAS 115-2 and SFAS 124-2 ) which provides additional guidance to provide greater clarity about the credit and noncredit component of any other-than-temporary impairment event related to debt securities and to more effectively communicate when an other-than-temporary impairment event has occurred. It is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently reviewing the effect, if any; the proposed guidance will have on the Company's condensed consolidated financial statements.

In April 2009, FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, ( FSP SFAS 107-1 and APB 28-1 ) which amends SFAS 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. FSP SFAS 107-1 and APB 28-1 also amends APB Opinion 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. It is effective for interim periods ending after June 15, 2009. The Company is currently reviewing the effect, if any; the proposed guidance will have on the Company's condensed consolidated financial statements.

In April 2009, FASB issued FSP SFAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, ( FSP SFAS141(R)-1 ), which amends and clarifies SFAS 141 (revised 2007), *Business Combinations*, to address application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. It is effective assets and liabilities arising from contingencies in 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 reviewing the effect, if any; the proposed guidance will have on the Company's condensed consolidated financial statements.

In April 2009, the SEC released Staff Accounting Bulletin No. 111 ( SAB 111 ), which amends SAB Topic 5-M. SAB 111 notes that FSP SFAS 115-2 and SFAS 124-2 were scoped to debt securities only, and the FSP referred readers to SEC SAB Topic 5-M for factors to consider with respect to other-than-temporary impairments for equity securities. With the amendments in SAB 111, debt securities are excluded from the scope of Topic 5-M, but the SEC staff's views on equity securities are still included within the topic. The Company currently does not have any financial assets that are other-than-temporary impaired.

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

Notes to the Condensed Consolidated Financial Statements  
March 31, 2009 and 2008  
(Unaudited)

#### 4. 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 (level 1), deferred expenses, accounts payable, accrued liabilities, 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.

#### 5. Plant and Equipment, net

	<b>Accumulated</b>		<b>March 31,</b>	December
	<b>Cost</b>	<b>Depreciation</b>	<b>2009</b>	31, 2008
			<b>Net book</b>	Net book
			<b>value</b>	value
Computer hardware	\$ 53,384	\$ 25,651	\$ 27,733	\$ 30,080
Computer software	45,122	-	45,122	45,122
Vehicles	18,696	6,921	11,775	11,926
Office equipment	60,502	20,847	39,655	41,831
Mine equipment	256,624	71,685	184,939	188,929
Leasehold improvements	195,667	70,124	125,543	139,567
	\$ 629,995	\$ 195,228	\$ 434,767	\$ 457,455

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

#### 6. Mineral Rights

**Cerro  
Las  
Minitas  
Mexico**

Balance, December 31, 2008	\$ 3,045,745
Expenditures during the period	-
<b>Balance, March 31, 2009</b>	<b>\$ 3,045,745</b>

**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 March 31, 2009, the amount due for payment remained outstanding.



SILVER DRAGON RESOURCES INC. AND SUBSIDIARIES  
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Notes to the Condensed Consolidated Financial Statements

March 31, 2009 and 2008

(Unaudited)

## 6. Mineral Rights

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.

## 7. Equity Investment

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.

	<b>March 31, 2009</b>
Carrying value of investment at December 31, 2008 (40% holding)	\$ 4,575,006
Additional investment	193,800
40% share of net loss for the three-month period ended March 31, 2009	(133,657)
Carrying value of investment at March 31, 2009	\$ 4,635,149

## 8. Related Party Transactions and Balances

Due to related parties consists of the following:

	<b>March 31, 2009</b>	December 31, 2008
Unpaid Remuneration	\$ 7,935	\$ 24,497

During the three-month period ended March 31, 2009, the Company incurred \$72,000 (2008 - \$81,000) in management fees payable to a company controlled by a director for services rendered other than in his capacity as director.

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During the three-month period ended March 31, 2009, the Company incurred \$ Nil (2008 \$40,860) in fees payable to a director for services rendered other than in their capacity as director. There remains a total of \$7,935 in fees payable to the director.

**9. Capital Stock**

Stock Issuances	Common Stock		Additional Paid-in Capital	Deficit		Stock Subscriptions	Accumulated Comprehensive Loss	Total Stockholders' Equity
	Number of Shares	Amount		Accumulated During the Exploration Stage				
<b>Balance, December 31, 2008</b>	<b>84,753,488</b>	<b>\$ 8,475</b>	<b>\$ 34,771,264</b>	<b>\$ (26,043,912)</b>		<b>(117,500)</b>	<b>\$ 58,246</b>	<b>\$ 8,676,573</b>
Shares issued for services	1,390,000	139	132,219	-	-	-	-	132,358
Options issued for services	-	-	21,559	-	-	-	-	21,559
Shares returned and cancelled	(250,000)	(25)	(67,475)	-	67,500	-	-	-
Other comprehensive loss	-	-	-	-	-	-	21,657	21,657
Net loss, three-month period ended March 31, 2009	-	-	-	(693,094)	-	-	-	(693,094)
<b>Balance, March 31, 2009</b>	<b>85,893,488</b>	<b>\$ 8,589</b>	<b>\$ 34,857,567</b>	<b>\$ (26,737,006)</b>		<b>(50,000)</b>	<b>\$ 79,903</b>	<b>\$ 8,159,053</b>

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

Notes to the Condensed Consolidated Financial Statements

March 31, 2009 and 2008

(Unaudited)

**9. Capital Stock** (cont'd)

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 individual, in relation to investor relations services provided, for fair value of \$3,608.

**Warrants**

As at March 31, 2009, 7,986,667 warrants were outstanding, having an exercise price between \$0.25 and \$5.00 per share with an average remaining contractual life of 1.74 years.

	Number of warrants	Weighted average exercise price
<b>Balance, December 31, 2008</b>	8,570,667	\$ 1.48
Issued during the three month period	-	-
Exercised during the three month period	-	-
Forfeitures during the three month period	-	-
Expired during the three month period	(584,000)	3.50
<b>Balance, March 31, 2009</b>	<b>7,986,667</b>	<b>\$ 1.33</b>

As at March 31, 2009 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	1.76 years	\$0.57
\$1.01 - \$2.00	2,220,000	1.93 years	\$1.49
\$2.01 - \$5.00	1,120,000	1.29 years	\$4.20



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

Notes to the Condensed Consolidated Financial Statements

March 31, 2009 and 2008

(Unaudited)

**9. Capital Stock (cont'd)**

**Options**

As at March 31, 2009, 1,452,000 options were outstanding, having an exercise price between \$0.10 and \$2.50 per share with an average remaining contractual life of 2.30 years.

	Number of options	Weighted average exercise price
<b>Balance, December 31, 2008</b>	<b>1,152,000</b>	<b>\$ 0.68</b>
Issued during the three month period	300,000	0.10
Exercised during the three month period	-	-
Forfeitures during the three month period	-	-
Expired during the three month period	-	-
<b>Balance, March 31, 2009</b>	<b>1,452,000</b>	<b>\$ 0.56</b>

As at March 31, 2009 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
\$0.10 - \$1.00	1,400,000	2.38 years	\$0.49
\$1.01 - \$2.00	-	-	-
\$2.01 - \$5.00	52,000	0.13 years	\$2.50

During the three month period ended March 31, 2009, 300,000 stock options, exercisable at \$0.10 with a three year period from the grant date were issued to a consultant to the Company. These options were valued at \$21,559 using the Black-Scholes model, using key assumptions of volatility of 122.81%, risk-free interest rates of 1.44%, a term life equivalent to the life of the options, and reinvestment of all dividends in the Company of zero percent.

**10. Consolidated Statements of Cash Flows Supplemental Disclosures**

For the three month period ended March 31, 2009, stock-based compensation amounted to \$304,531 (2008 - \$496,153). This amount is included in the condensed consolidated financial statements as follows:

	March 31, 2009	March 31, 2008
Statement of operations (stock-based compensation expensed)	<b>\$ 304,531</b>	<b>\$ 496,153</b>

For the three month period ended, March 31, 2009, there were no cash payments for income taxes or interest expense (2008 - \$ Nil).

**11. 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	\$ 33,601
2010	44,802
2011	44,802
2012	<u>11,201</u>
	<u>\$ 134,406</u>

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.

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

Notes to the Condensed Consolidated Financial Statements  
March 31, 2009 and 2008  
(Unaudited)

## 12. Subsequent Events

On May 1, 2009, the Company issued 175,000 of the Company's restricted common stock to an individual, pursuant to a one-year accounting services contract for fair value of \$17,500.

## 13. 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, deferred expenses, accounts payable, accrued liabilities, 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 ), 19% and 5% of consolidated costs and expenses for the quarter ended March 31, 2009 are denominated in the RMB and Mexican Peso ( MXN ), respectively. As at March 31, 2009, 5% of the assets and 44% 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.

## 14. Segmented Information

As at March 31, 2009	Corporate	China	Mexico	Total
Mineral Rights	\$ -	\$ -	\$ 3,045,745	\$ 3,045,745
Equity Investment	\$ 4,635,149	\$ -	\$ -	\$ 4,635,149
Total Assets	\$ 6,158,623	\$ -	\$ 3,286,829	\$ 9,445,552

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<b>Quarter Ended March 31, 2009</b>	<b>Corporate</b>	<b>China</b>	<b>Mexico</b>	<b>Total</b>
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 13,339	\$ -	\$ 11,215	\$ 24,554
Net Loss Before Income Tax	\$ (656,311)	\$ -	\$ (36,783)	\$ (693,094)

<b>As at December 31, 2008</b>	<b>Corporate</b>	<b>China</b>	<b>Mexico</b>	<b>Total</b>
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

<b>Year Ended December 31, 2008</b>	<b>Corporate</b>	<b>China</b>	<b>Mexico</b>	<b>Total</b>
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)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CERTAIN FORWARD-LOOKING INFORMATION

Certain statements in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements, expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed herein. The words "believe", "expect", "anticipate", "seek" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date the statement was made. The Company's financial performance and the forward-looking statements contained herein are further qualified by other risks including those set forth from time to time in the documents filed by the Company with the Securities and Exchange Commission, including the Company's most recent Form 10-K.

Plan of Operation (all figures stated in US Dollars unless otherwise stated)

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. The Company's primary objective right now is to monetize its assets in order to augment its cash flow and ensure increased value.

Plans for the Year 2009.

China

Our properties in China continue to be drilled and tunneled. A feasibility study has been completed on the Erbahuo mine to provide basic data on design, ore dressing and business profits to be used in planning for future large-scale production or for the sale of the asset. Geologic mapping, trenching and drilling work is underway for four of the properties known as Dadi, Saihanaobao, Laopandao and Liangdi. The initial NI 43-101 report on the Erbahuo property was released on July 17, 2007 the second NI 43-101 commissioned on Laopandao is expected in the fourth quarter of 2009.

The NI 43-101 report recommends additional work in the areas of QA, QC, sampling, survey drill hole recovery and additional sample data for both more reliable interpretation and interpolation. The report recommends that the work be carried out in two phases but that the Phase 2 exploration work not be contingent on the results of Phase 1. However Phase 2 will not commence until Phase 1 is completed. The results of Phase 1 will assist the planning of Phase 2 exploration.

Phase 1

Compile all existing geophysical surveys and extend an induced polarization survey over the concession area, replacing any lines from historical exploration that have any doubt. Compile all available data.

Conduct a gravity survey.

Conduct a magnetic survey and process an image using the very latest software. All magnetic data will be DGPS registered and reduced to pole.

Generate a full 3D geological model of the deposit. Such a geological model should help to better understand the morphology of the mineralized lodes and also to assign specific gravity values on the basis of rock types.

Substantially increase the specific gravity determinations database.

Add geology modeling software and plotting facilities at the site office, including 3D modeling and GIS. Compile all existing data.

Generate a total station surveyed surface DTM tying in with the existing closed survey station control.

Open up the previous workings, ensure sufficient support and use these for underground sampling and drilling.

Produce a 3D wire framed model of all old workings.

Integrate detailed geological mapping with multi-spectral Landsat and ultra-detailed imagery from Ikonos satellite imagery. Integrate with IP and gravity survey data. This will add structural and lithological data and will identify zones of alteration. Multi-spectral Landsat and satellite radar imagery can be processed using advanced techniques at the Beijing Institute of Remote Sensing.

#### Phase 2:

There is additional resource potential for Erbahuo; both along strike and in some areas at depth. It is recommended to carry out additional brownfields exploration to increase the understanding of the geology, and conduct additional drilling. The 3d model indicates that the resource can possibly be extended along strike and is open at depth in some sections. Drilling from surface and possibly from underground should be employed to explore for additional resources at depth and to close the resource along strike. Use the developed 3d models to plan infill drill and other sampling programs. Diamond drilling of 10 holes for 3,000 metres should be planned to infill and target strike and depth resource potential. At least 2 drill holes should twin old holes to check for bias and to determine if historical drilling should be retained in the database or replaced. The cost of drilling is around \$100/metre and for assaying \$60/assay. We intend to ensure international standard drill program supervision and procedures, downhole deviation measurement, depth of drilling versus core run checks and improve core recovery for the drilling. The drillcore must be stored in a core farm. We will follow the exploration program recommended by the NI 43-101 report and revisit the program on a quarterly basis.

Management has decided to monetize the Erbahuo mine by selling the asset and is now reviewing possible offers.

#### Mexico

Our mining and exploitation activities in Mexico are in the exploration stage. We continue exploring the concessions through tunneling, trenching and drifting upon.

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Our objective is to find new ore bodies and expand the resource of the existing ore bodies. There are currently seven mining shafts, which were used to extract underground ore in the past. We have built a ramp directly to one of the main ore bodies in order to extract the ore daily. 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. The cost of this report was approximately \$25,000.

The NI 43-101 report recommends a 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 has 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 will follow the exploration program recommended by the NI 43-101 report and revisit the program on a quarterly basis. Currently, surface geochemical sampling and geologic mapping are underway to define drill targets in the southwest of the Puro Curazon working and to the southeast of the La Pina-La Bocona workings. In the La Chiva structure in the Puro Corazon workings, work is underway to define grades and tonnages. Vector Engineering has been commissioned again to update the existing NI 43-101 and is expected to be completed before year end.

We expect the cost of exploration activities, mine development and administration costs in Mexico over the next 12 months to be financed by the sale or processing of ore through the new mill recently acquired. This mill is expected to be fully operational in the fourth quarter of 2009, producing concentrates and generating revenue through the sale of those concentrates.

#### Cash Requirements.

We estimate that approximately \$1 million over the next 12 months will be required to fund our anticipated capital requirements and our obligations under the agreements for the concessions in Cerro las Minitas, Mexico and the

agreement with Sino-Top, as well as the costs of exploration, mine development and administration. This will be funded from the funds received from our planned sale of 70% equity interest in the Erbahuo mine, the existing and further private placement funds received from HIC our state owned joint venture partner in China and the sale of concentrates from our new mill operation in Mexico.

Our agreement with Minera Real Victoria, S.A. de C.V. required us to make a \$100,000 payment on closing along with 2,000,000 common shares in 2006, further payments of \$100,000 on September 11, 2006, and March 14, 2007, as well as one final payment of \$100,000 which was due on March 14, 2008 and still outstanding at May 14, 2009. In addition, we will require additional funds should we choose to purchase the mining concession from Silvia Villasenor Haro.

We have historically satisfied our working capital requirements through the private issuances of equity securities as well as advances from related parties. We will satisfy our capital requirements from the funds received from our planned sale of 70% equity interest in the Erbahuo mine, the existing and further private placement funds received from HIC our state owned joint venture partner in China and the sale of concentrates from our new mill operation in Mexico.

#### 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.

#### 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.

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### 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.

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. 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 sixteen (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 machinery used for the exploration of the Mining Field. Such special machinery includes but are not limited to pressured containers, boilers and other machinery 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.

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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 claims are 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.

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## Employees and Employment Agreements

We currently have three employees in Mexico.

In China we have one employee serving as administrative staff member in our Beijing representative office and one consultant and director. We pay both employee and consultant \$9,000 per month in total.

Other than the foregoing, we employ Marc Hazout as President and CEO. In addition, we have three consultants working in our head office in Toronto, an Information Technology and Investor Relations Manager, a Corporate Controller and an Office Administrator, being paid collectively a total of approximately \$11,000 per month.

## 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-Q 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 and accordingly, 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.

The Company does not have sufficient funds to meet all of its future obligations. We will need additional funding, either through equity or debt financings or partnering arrangements, which 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 will require approximately \$1 million over the next 12 months to fund our anticipated capital requirements and our obligations under the agreements for the concessions in Cerro las Minitas, Mexico and the agreement with Sino-Top. Our agreement with Jaime Muguero Pena required us to make a \$100,000 payment on closing, with further payments totaling \$350,000 made during 2006, along with 450,000 restricted common shares. Our agreement with Ramon Tomas Davila Flores required us to make a payment of closing at \$245,000 along with 110,000 restricted common shares. Our agreement with Minera Real Victoria, S.A. de C.V. required us to make a \$100,000 payment on closing along with 2,000,000 restricted common shares; further payments of \$100,000 were paid on September 11, 2006 and March 14, 2007, a final payment of \$100,000 was due on March 14, 2008 and remains payable at May 14, 2009. All payments in Mexico were and are subject to Value Added Tax (V.A.T.) for which we are entitled to be refunded as a non-Mexican entity.

We intend to invest approximately \$840,000 (which represents 40% of the \$2,100,000, in total, committed) into Sino-Top in 2009 of which \$193,799 has already been invested towards exploration and property maintenance on the nine properties in the portfolio and conducting a Canadian National Instrument ("NI") 43-101 conversion program on the balance of the eight properties. We currently have a NI 43-101 report for the Erbaohuo property. The second NI 43-101 commissioned on the Laopandao is expected in the fourth quarter of 2009.

We have historically satisfied our working capital requirements through the private issuances of equity securities and from related parties. We will satisfy our capital requirements from the funds received from our planned sale of 70% equity interest in the Erbaohuo mine, further private placement funds received from HIC our state owned joint venture partner in China and the sale of concentrates from our new mill operation in Mexico.

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 guarantee 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 the previously filed 10-K 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 little revenue. We incurred losses of approximately \$3,730,799 and \$693,094 respectively, for the fiscal year ended December 31, 2008 and the three month period ending March 31, 2009. We have accumulated losses since inception of approximately \$26,737,006. 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.

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Because our management does not have technical training or experience in exploring for, starting and operating an exploration program, we will have to hire personnel to conduct these efforts. If we can not effectively supervise or retain such personnel, we may have to suspend or cease operations, which will result in the loss of your investment.

Because our management is inexperienced with exploring for, starting and operating an exploration program, we hired new employees and contractors to perform surveying, exploration and excavation of mineral claims that we may acquire. Other than our Independent Director, Colin Sutherland, our management has no direct training or experience in these areas and as a result may not be fully aware of many of the specific requirements related to working within the industry. Management must rely on the personnel it has hired or retained to assist them in making critical engineering and business decisions. Consequently, our operations, earnings and ultimate financial success could suffer irreparable harm due to management's lack of experience in this industry if our management is unable to supervise and retain qualified personnel to carry out these tasks. As a result we may have to suspend or cease operations, which will result in the loss of your investment.

Our success also depends on our ability to hire and retain skilled operating, marketing, technical, financial and management personnel. In the mining sector, competition in connection with hiring and retaining skilled, dependable personnel is intense. We may not offer salaries or benefits that are competitive with those offered by our competitors, who may have significantly more resources when compared to us. As such, even if we were to succeed in hiring skilled personnel, we may not succeed in retaining them.

Because we have limited capital, we may have to limit our exploration activity, which may result in a loss of your investment.

Because we have limited 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-K for the fiscal year ending December 31, 2007, to include in our annual reports, 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 as 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 their 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.

A Director controls a significant percentage of our common stock.

As of May 15, 2009, Marc Hazout, a Director, owned beneficially approximately 21% 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.

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## 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. We do have directors and officers liability insurance.

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 for our ongoing operations.

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 May 15, 2009, the number of shares in the public float on the Over-The-Counter Bulletin Board in the U.S. is approximately 86,068,488. 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 \$0.26 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.

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2008 and March 31, 2009

Net sales were \$NIL for both the quarters ended *March 31, 2008* and *March 31, 2009* as there was no production at any of the mining properties.



Total operating expenses for the Company were \$559,437 (*March 31, 2008*: \$1,273,191). There were decreases in exploration expenditures and decreases in General and Administrative expenses due to the Company's need to obtain financing. The overall expenditures decreased compared to 2008 as a result of insufficient funding, consequently impairing the Company's ability to commission advertising and promotions activity similar to those levels in 2008.

Net loss for the quarter ended *March 31, 2009* was \$693,094, compared to a net loss of \$1,273,191 for the similar period in 2008. The principal reason for this is the impact of the factors discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company will need additional capital in order to finance its obligations to Sanhe Sino-Top Resources and Technologies Ltd., and the acquired properties in Cerro Las Minitas, Mexico, as well as to continue its attempt to acquire viable businesses and properties and to finance the administrative costs including but not limited to legal and accounting fees.

## GOING CONCERN

As of *March 31, 2009* the Company had an accumulated deficit of \$26,737,006. The financial statements therefore have been prepared on a going concern basis as explained in Note 2 to the Financial Statements.

## ITEM 3. CONTROLS AND PROCEDURES

The Company is taking actions to prevent the recurrence of significant deficiencies and material weaknesses in the future, including hiring a Chief Financial Officer and a Chief operating Officer to oversee the financial operations of the Company. Under the supervision and with the participation of our management, including our Chief Executive Officer and Corporate Controller, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act) as of *March 31, 2009* (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Corporate Controller concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in timely alerting them to material information relating to us required to be included in our periodic SEC filings.

Except as discussed above, there has been no change in the Company's internal control over financial reporting during the Company's 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.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

None

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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 individual, in relation to investor relations services provided, for fair value of \$3,608.

On May 1, 2009 the Company issued 175,000 of the Company's restricted common stock to an individual, pursuant to a one-year accounting services contract for fair value of \$17,500.

The sale of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D promulgated thereunder, and/or Regulation S promulgated thereunder. All of the purchasers of the shares were sophisticated and/or accredited investors, and were provided with information comparable to what would be required in a registration statement. The shares were issued with a restrictive legend.

The funds received from the above-mentioned private placements were used to meet the financial requirements to pay legal, accounting and administrative expenses.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

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**Item 6. Exhibits.**

31.1      Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

32.1      Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

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**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: May 14<sup>th</sup>, 2009

*/s/ Marc Hazout*

By: Marc Hazout, Chief Executive Officer

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