

Silver Dragon Resources Inc.  
Form 10-Q  
May 05, 2011

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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, 2011

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

**SILVER DRAGON RESOURCES INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**0-29657**  
(Commission  
File Number)  
**5160 Yonge Street, Suite 803**  
**Toronto, Ontario Canada**  
**M2N 6L9**

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

(Address of Principal Executive Office) (Zip Code)

**(416) 223-8500**

(Registrant's telephone number, including area code)

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, a non-accelerated filer., or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

As of May 4, 2011 there were 106,893,198 shares of common stock outstanding, par value \$0.0001.

As of May 4, 2011, the aggregate market value of the issuer's common stock held by non-affiliates of the issuer was \$17,102,912 based on upon the closing sale price of the common stock as reported by the OTCBB on that date.

**SILVER DRAGON RESOURCES INC.**

**INDEX TO FORM 10-Q**

**FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2011 and 2010**

(EXPRESSED IN UNITED STATES FUNDS)

|                |   |    |
|----------------|---|----|
| <b>Part I</b>  | <b>FINANCIAL INFORMATION</b>  |    |
| Item 1         | Financial Statements  | 1  |
|                | Consolidated Balance Sheets (Unaudited)   |    |
|                | Consolidated Statement of Operations and Comprehensive Loss (Unaudited)               |    |
|                | Consolidated Statements of Cash Flows (Unaudited)                                     |    |
|                | Notes to the Consolidated Financial Statements (Unaudited)                            |    |
| Item 2         | Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 4         | Controls and Procedures   | 18 |
| <b>Part II</b> | <b>OTHER INFORMATION</b>  |    |
| Item 1         | Legal proceedings   | 19 |
| Item 1A        | Risk Factors  | 20 |
| Item 2         | Unregistered Sales of Equity Securities and Use of Proceeds                           | 22 |
| Item 3         | Defaults upon Senior Securities   | 22 |
| Item 5         | Other information   | 22 |
| Item 6         | Exhibits  | 23 |

Part I FINANCIAL INFORMATION  
Item 1 Financial Statements

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Balance Sheets**  
**(Unaudited)**

|   | March 31<br>2011    | December 31<br>2010 |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>Current assets</b>   |                     |                     |
| Cash and cash equivalents   | \$ 78,550           | \$ 96,563           |
| Notes receivable (note 8)   | 1,400,000           |                     |
| Prepaid expenses  | 194,562             | 203,258             |
| <b>Total current assets</b>   | <b>1,673,112</b>    | <b>299,821</b>      |
| <b>Notes receivable</b> (note 8)  | <b>600,000</b>      |                     |
| <b>Deferred expenses</b>  | <b>202,750</b>      | 220,125             |
| <b>Plant and equipment, net</b> (note 4)  | <b>74,856</b>       | 90,875              |
| <b>Equity investment</b> (note 5)   | <b>4,780,661</b>    | 4,832,922           |
|   | <b>\$ 7,331,379</b> | <b>\$ 5,443,743</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                     |                     |
| <b>Current liabilities</b>  |                     |                     |
| Accounts payable  | \$ 715,815          | \$ 1,127,839        |
| Accrued liabilities   | 364,460             | 309,466             |
| Promissory note payable (note 6)  | 166,623             | 166,623             |
| Convertible notes payable (note 7)  | 121,453             | 170,000             |
| Related party payables (note 9)   | 92,570              | 260,256             |
|   | <b>1,460,921</b>    | <b>2,034,184</b>    |
| <b>Non-current liabilities</b>  |                     |                     |
| Convertible note payable (note 7)   | <b>1,964,116</b>    |                     |
| <b>Capital stock</b> (note 10)  |                     |                     |
| 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, 106,768,198 shares issued and outstanding (2010 98,728,017 issued and outstanding) | <b>10,677</b>       | 9,873               |
| <b>Additional paid-in capital</b> (note 10)   | <b>40,896,253</b>   | 39,641,412          |
| <b>Treasury</b> (550,000 shares)  | <b>(209,000)</b>    | (209,000)           |
| <b>Deficit accumulated during the exploration stage</b>   | <b>(36,788,777)</b> | (36,054,080)        |
| <b>Accumulated comprehensive (loss) income</b>  | <b>(2,811)</b>      | 21,354              |
| <b>Stockholders equity</b>  | <b>3,906,342</b>    | 3,409,559           |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 7,331,379</b> | <b>\$ 5,443,743</b> |
| <b>Commitments and contingencies</b> (note 11)  |                     |                     |

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



**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Consolidated Statements of Operations and Comprehensive Loss**  
**For the three-month periods ended March 31, 2011 and 2010, and**  
**Cumulative for the period from June 15, 1996 [date of inception] to March 31, 2011**  
**(Unaudited)**

|   | March 31<br>2011    | March 31<br>2010 | For the period from<br>June 15, 1996 (date<br>of inception) to<br>March 31, 2011 |
|---|---------------------|------------------|--|
| <b>Operating expenses</b>   |                     |                  |  |
| Exploration   | \$                  | \$ 125,948       | \$ 7,174,048   |
| General and administrative  | <b>588,601</b>      | 561,564          | 26,275,393   |
| Write-off of Mexican assets   |                     |                  | 3,242,039  |
| <b>Total operating expenses</b>   | <b>588,601</b>      | 687,512          | 36,691,480   |
| <b>Loss from operations</b>   | <b>(588,601)</b>    | (687,512)        | (36,691,480)   |
| <b>Other (expenses) income</b>  |                     |                  |  |
| Interest expense  | <b>(93,835)</b>     |                  | (567,605)  |
| Loss on embedded derivative   |                     | (63,000)         |  |
| Net loss on equity investment   | <b>(52,261)</b>     | (48,689)         | (622,293)  |
| Forgiveness of debt   |                     |                  | 38,871   |
| Gain on sale of interest in subsidiary  |                     |                  | 1,816,733  |
| Non-recurring items   |                     |                  | (713,269)  |
| <b>Total other expenses</b>   | <b>(146,096)</b>    | (111,689)        | (47,563)   |
| <b>Loss before income taxes</b>   | <b>(734,697)</b>    | (799,201)        | (36,739,043)   |
| <b>Provision for income taxes</b>   |                     |                  |  |
| <b>Net loss from continuing operations, after tax</b>                         | <b>(734,697)</b>    | (799,201)        | (36,739,043)   |
| <b>Minority interest</b>  |                     |                  | 253,021  |
| <b>Loss from discontinued operations (net of tax)</b>                         |                     |                  | (302,755)  |
| <b>Net loss</b>   | <b>(734,697)</b>    | (799,201)        | (36,788,777)   |
| <b>Other comprehensive loss</b>   |                     |                  |  |
| Foreign exchange loss   | <b>(24,165)</b>     | (23,439)         | (2,811)  |
| <b>Comprehensive loss</b>   | <b>\$ (758,862)</b> | \$ (822,640)     | \$ (36,791,588)  |
| <b>Net loss per common share basic and diluted</b>                            | <b>\$ (0.01)</b>    | \$ (0.01)        |  |
| <b>Weighted average number of common shares outstanding basic and diluted</b> | <b>100,130,353</b>  | 87,196,264       |  |

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

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**

**Consolidated Statements of Cash Flows**

**For the three month periods ended March 31, 2011 and 2010, and  
Cumulative for the period from June 15, 1996 [date of inception] to March 31, 2011  
(Unaudited)**

|   | March 31,<br>2011   | March 31,<br>2010   | For the period<br>from June 15,<br>1996 (date of<br>inception)<br>through<br>March 31,<br>2011 |
|---|---------------------|---------------------|--|
| <b>Cash flows from operating activities</b>         |                     |                     |  |
| Net loss from continuing operations                 | \$ (734,697)        | \$ (799,201)        | \$ (36,851,887)  |
| Net loss from discontinued operations               | -                   | -                   | 302,755  |
| Net loss  | (734,697)           | (799,201)           | (36,549,132)   |
| Adjustments for:                                    |                     |                     |  |
| Depreciation  | 16,019              | 22,144              | 540,859  |
| Interest on convertibles notes payable              | 4,800               | -                   | 4,800  |
| Net loss from equity investment                     | 52,261              | 48,689              | 719,991  |
| Loss on recognition of embedded derivative          | -                   | 63,000              | -  |
| Shares issued for services                          | 19,300              | 183,400             | 8,492,421  |
| Warrants and options issued for services            | 129,085             | 59,735              | 3,737,297  |
| Amortization of beneficial conversion feature       | 29,516              | -                   | 129,357  |
| Write-down of mineral rights                        | -                   | -                   | 3,411,309  |
| Write-down of assets                                | -                   | -                   | 240,063  |
| Other   | -                   | -                   | (1,630,814)  |
| Changes in non-cash working capital:                |                     |                     |  |
| Deferred expenses                                   | 26,071              | 106,512             | 184,777  |
| Accounts payable                                    | 22,649              | 39,004              | 2,352,988  |
| Accrued liabilities                                 | 54,994              | (24,821)            | 333,625  |
| Other   | -                   | -                   | 665,601  |
| <b>Net cash used in operating activities</b>        | <b>\$ (380,002)</b> | <b>\$ (301,538)</b> | <b>\$ (17,303,748)</b>   |
| <b>Cash flows from investing activities</b>         |                     |                     |  |
| Investments in mineral rights                       | \$ -                | \$ -                | \$ (1,920,441)   |
| Additional contribution to Sino-Top                 | -                   | -                   | (3,446,189)  |
| Acquisition of plant and equipment                  | -                   | -                   | (981,486)  |
| Other   | -                   | -                   | 4,364,090  |
| <b>Net cash used in investing activities</b>        | <b>-</b>            | <b>-</b>            | <b>(1,984,026)</b>   |
| <b>Cash flows from financing activities</b>         |                     |                     |  |
| Proceeds from issuance of common stock and warrants | -                   | 335,000             | 17,897,492   |
| Share issuance costs                                | -                   | (15,750)            | (197,936)  |
| Related party loans payable                         | -                   | -                   | 1,192,922  |

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|  |                  |            |             |
|--|------------------|------------|-------------|
| Repayments of related party payables                         | (167,686)        | -          | (630,243)   |
| Minority interest  | -                | -          | 253,021     |
| Promissory note payable                                      | -                | -          | 516,623     |
| Write-down of promissory note payable                        | -                | -          | (350,000)   |
| Payment of convertible notes payable                         | -                | -          | 3,581       |
| Proceeds from issuance of convertible notes payable (note 7) | 2,620,000        | -          | 2,768,493   |
| Notes receivable (note 8)                                    | (2,000,000)      | -          | (2,000,000) |
| Deferred charges   | (66,160)         | -          | (66,160)    |
| Other  | -                | -          | (63,190)    |
| <b>Net cash provided by financing activities</b>             | <b>386,154</b>   | 319,250    | 19,324,603  |
| <b>Effect of exchange rate on cash</b>                       | <b>(24,165)</b>  | (34,631)   | 41,721      |
| <b>Change in cash and cash equivalents</b>                   | <b>(18,013)</b>  | (16,919)   | 78,550      |
| <b>Cash and cash equivalents - beginning of period</b>       | <b>96,563</b>    | 137,448    | -           |
| <b>Cash and cash equivalents - end of period</b>             | <b>\$ 78,550</b> | \$ 120,529 | \$ 78,550   |

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



SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

## 1. Nature of Business and Basis of Presentation

Silver Dragon Resources Inc. was incorporated on May 9, 1996 in the State of Delaware and its executive office is in Toronto, Canada. It carries out operations through a subsidiary and affiliate in Mexico and China, respectively. Silver Dragon Resources Inc. and its subsidiary and affiliate (collectively referred to as Silver Dragon or the Company) are in the exploration stage as defined by Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 915 Accounting and Reporting For Development Stage Entities.

The Company's strategy is to acquire and develop a portfolio of silver properties in proven silver districts globally. To date, the Company has generated no sales and has devoted its efforts primarily to financing, by issuing common shares, and to exploring its properties.

The accompanying consolidated financial statements of the Company have been prepared following generally accepted accounting principles in the United States (US GAAP), which are expressed in United States funds, and pursuant to the regulations of the Securities and Exchange Commission (SEC) for interim financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. These consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended December 31, 2010 filed in the Company's Annual Report on Form 10-K.

## 2. Going Concern and Exploration Stage Activities

These consolidated financial statements have been prepared in accordance with U.S. GAAP applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next twelve months.

At March 31, 2011, the Company had working capital of \$212,191 (December 31, 2010 (\$1,734,363)), had not yet achieved profitable operations, incurred a net loss of \$734,697 for the three months ended March 31, 2011 (2010 \$799,201), has accumulated losses of \$36,788,777 since its inception, and expects to incur further losses in the development of its business. These factors cast doubt as to the Company's ability to continue as a going concern, which is dependent upon its ability to obtain the necessary financing to repay liabilities when they come due, and in the long-run is dependent upon achieving profitable operations. Management believes that the Company will be able to obtain additional funds by equity financing; however, there is no assurance of additional funding being available or available on acceptable terms. Realization values may be substantially different from carrying values as shown. These consolidated financial statements do not include any adjustments to reflect the future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company were unable to continue as a going concern.

## 3. Financial Instruments

The carrying value of cash and cash equivalents, notes receivable, accounts payable, accrued liabilities, promissory note payable, current portion of convertible notes payable and related party payables approximated their fair value as of March 31, 2011 and December 31, 2010 due to their short-term nature. Management believes that the carrying value of the non-current portion of convertible notes payable and notes receivable approximates their fair value.

Cash and cash equivalents consist of demand deposits at a bank.

In the opinion of management, the Company is not exposed to significant interest or credit risks arising from the financial instruments. While the reporting currency is the US Dollar ( USD ), 4% of consolidated expenses for the three-month period ended March 31, 2011 are denominated in the Mexican Peso ( MXN ). As at March 31, 2011, 0% of the assets and 65% of the liabilities are denominated in MXN. The Company has not entered into any hedging transactions to reduce the exposure to currency risk.

SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

**4. Plant and Equipment, net**

|                        | Accumulated |              | March 31,      |    | December       |    |
|------------------------|-------------|--------------|----------------|----|----------------|----|
|                        | Cost        | depreciation | 2011           |    | 31, 2010       |    |
|                        |             |              | Net book value |    | Net book value |    |
| Computer hardware      | \$ 40,559   | \$ 29,269    | \$ 11,290      | \$ | \$ 12,205      | \$ |
| Office equipment       | 45,720      | 25,190       | 20,530         |    | 21,610         |    |
| Leasehold improvements | 195,667     | 152,631      | 43,036         |    | 57,060         |    |
|                        | \$ 281,946  | \$ 207,090   | \$ 74,856      | \$ | \$ 90,875      | \$ |

**5. Equity Investment****Sanhe Sino-Top Resources & Technologies Ltd., China**

The Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. ( HIC ), and the Company hold equity interests of 60% and 40%, respectively, in Sino-Top, whose assets mainly consist of six exploration properties. Erbahuo, the seventh exploration property controlled by Sino-Top, is 70% beneficially owned by the Company and 30% by HIC.

|   | March 31, 2011 |
|---|----------------|
| Carrying value of investment at December 31, 2010                     | \$ 4,832,922   |
| 40% share of net loss for the three-month period ended March 31, 2011 | (52,261)       |
| Carrying value of investment at March 31, 2011                        | \$ 4,780,661   |

**Share of loss for the three-month period:**

|   | 2011        |    | 2010        |    |
|---|-------------|----|-------------|----|
| Exploration expenses                              | \$ (30,963) | \$ | \$ (5,300)  | \$ |
| General and administrative expenses               | (21,298)    |    | (43,389)    |    |
| Share of loss for the three-month period (at 40%) | \$ (52,261) | \$ | \$ (48,689) | \$ |

**6. Promissory Note Payable**

In 2008, a promissory note was signed with a vendor in the amount of \$166,623 with a carried interest rate of 5% per month, unsecured, and no maturity date. During the three-month period ended March 31, 2011 the Company incurred interest of \$24,993.

**7. Convertible Notes Payable**

|   | Current |           | Non-current |           |
|---|---------|-----------|-------------|-----------|
| <b>Balance, December 31, 2010</b>       | \$      | 170,000   | \$          | -         |
| Issued during the three-month period    |         | 120,000   |             | 2,766,500 |
| Deferred charges                        |         | (48,547)  |             | (802,384) |
| Converted during the three-month period |         | (120,000) |             | -         |
| <b>Balance, March 31, 2011</b>          | \$      | 121,453   | \$          | 1,964,116 |

SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

**7. Convertible Notes Payable, continued**

On January 11, 2011, the Company issued a convertible note with a principal amount of \$65,000. On March 1, the Company issued a convertible note with a principal amount of \$55,000. The notes bear interest of 8% per annum, are unsecured, and are due on October 13 and December 2, 2011, respectively. The notes are convertible into common stock, at the lender's option, at a discount to the average of the three lowest closing prices of the common stock during the 10 trading day period prior to conversion. The lender has agreed to restrict its ability to convert the notes and receive shares of common stock such that the number of shares of common stock held by them and their affiliates in the aggregate after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

On February 15, 2011, the Company closed a convertible financing of \$2.5 million bearing interest of 5.5% per annum over a four-year period with Tonaquint Inc. The total amount to be funded (in cash and notes) at closing was \$2,500,000, with payment consisting of \$500,000 in cash paid at closing and \$2,000,000 to be paid in a series of ten notes (note 8), each in the principal amount of \$200,000, with each due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions, a series of dates beginning on September 15, 2011 and following on the 15th of each month thereafter. The Company has the right to offset the payment of any unpaid note receivable subject to certain conditions and obligations. In exchange for the note receivable issued by Tonaquint, the Company issued a convertible note payable to Tonaquint with a face amount of \$2,766,000 due February 15, 2015, which represents the \$2,500,000 paid or to be paid to the Company by Tonaquint and other fees and expenses. Tonaquint also received a warrant to purchase 8.6 million common shares at an exercise price of \$0.50 per share at any time within three years after the date of issuance.

The proceeds of the financing were allocated between the convertible note payable (\$1,938,233), the related warrants (\$242,090), the related expenses (\$343,391), and the beneficial conversion feature (\$242,786) based upon their respective fair values in accordance with ASC 470. The difference between the face value of the convertible note payable and the allocated value is being charged to interest expense over the term of the convertible note payable. The fair value of the beneficial conversion feature will be allocated over the term from commitment date to the maturity date of the convertible note payable. Contingent beneficial conversion features will be recognized when the outstanding conditions have been met and will be amortized from the date of recognition to the maturity date of the convertible note payable. The fair value of the warrants and the related expenses will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

**8. Notes Receivable**

Notes receivable consists of ten notes issued by Tonaquint (note 7), each in the principal amount of \$200,000 and bearing interest of 5% per annum, with payment to the Company for each due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions, a series of dates beginning on September 15, 2011 and following on the 15th of each month thereafter. Each payment would consist of the balance owing on the corresponding note receivable being paid. Three of the notes receivable are secured by real estate property owned by Tonaquint and the remainder are unsecured.

**9. Related Party Transactions and Balances**

March 31, 2011      December 31, 2010

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|                     |    |               |    |         |
|---------------------|----|---------------|----|---------|
| Unpaid remuneration | \$ | <b>92,570</b> | \$ | 213,040 |
| Advances            |    | -             |    | 47,216  |
|                     | \$ | <b>92,570</b> | \$ | 260,256 |

During the three-month period ended March 31, 2011, the Company incurred \$81,000 (March 2010 - \$81,000) in management fees paid to a company controlled by a director for services rendered other than in his capacity as director.

SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

**10. Capital Stock****Stock Issuances**

|                                      | Common Stock       |                  |                      | Deficit                |                     | Accumulated       |
|--------------------------------------|--------------------|------------------|----------------------|------------------------|---------------------|-------------------|
|                                      | Number             | Amount           | Additional           | Accumulated            | Treasury            | Comprehensive     |
|                                      | of                 |                  | Paid-in              | During the             |                     | (Loss) Income     |
|                                      | Shares             |                  | Capital              | Exploration            |                     |                   |
|                                      |                    |                  |                      | Stage                  |                     |                   |
| <b>Balance, December 31, 2010</b>    | <b>98,728,017</b>  | <b>\$ 9,873</b>  | <b>\$ 39,641,412</b> | <b>\$ (36,054,080)</b> | <b>\$ (209,000)</b> | <b>\$ 21,354</b>  |
| Shares issued for cash               | -                  | -                | -                    | -                      | -                   | -                 |
| Shares issued for services           | 165,000            | 17               | 19,283               | -                      | -                   | -                 |
| Shares issued on conversion of notes | 1,991,285          | 199              | 124,601              | -                      | -                   | -                 |
| Shares issued for settlement of debt | 5,883,896          | 588              | 434,085              | -                      | -                   | -                 |
| Warrants issued for cash             | -                  | -                | -                    | -                      | -                   | -                 |
| Warrants issued for services         | -                  | -                | 363,610              | -                      | -                   | -                 |
| Beneficial conversion feature        | -                  | -                | 313,262              | -                      | -                   | -                 |
| Shares issuance costs                | -                  | -                | -                    | -                      | -                   | -                 |
| Other comprehensive income (loss)    | -                  | -                | -                    | -                      | -                   | (24,165)          |
| Net loss, three-month period ended   | -                  | -                | -                    | (734,697)              | -                   | -                 |
| March 31, 2011                       |                    |                  |                      |                        |                     |                   |
| <b>Balance, March 31, 2011</b>       | <b>106,768,198</b> | <b>\$ 10,677</b> | <b>\$ 40,896,253</b> | <b>\$ (36,788,777)</b> | <b>\$ (209,000)</b> | <b>\$ (2,811)</b> |

Between January 3 and February 15, 2011 an investor elected to convert two outstanding notes payable totaling \$120,000 plus accrued interest of \$3,000 and \$1,800 respectively. The Company issued a total of 1,991,285 shares in lieu of a cash payment (note 7).

On January 18, 2011, the Company issued 50,000 shares of restricted common stock to a company, pursuant to the signing of a term sheet proposing \$2.5 million of convertible debt financing for the Company, for fair value of \$5,400 (note 7).

On January 25, 2011, the Company issued 1,410,000 common share purchase warrants to directors and consultants at an exercise price of \$0.11 exercisable for a period of three years from the date of issuance.

As an element of the Company's ongoing financing program on January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provided for settlement of Socius GC II, Ltd.'s (Socius) \$405,981 claim against the Company. Socius purchased the claims from seven creditors of Silver Dragon. On January 28, 2011, the Company issued 9,000,000 shares of common stock to Socius and Socius subsequently returned 3,116,104 shares for cancellation.

On January 31, 2011, the Company issued 15,000 shares of restricted common stock to an individual for investor relation services provided, for fair value of \$1,500.

On February 23, 2011, the Company issued 100,000 shares of restricted common stock to an individual pursuant to an addendum to an agreement signed October 7, 2010, for fair value of \$12,400.

On February 15, 2011 the Company issued 8.6 million share purchase warrants to an investor, as part of a financing arrangement (note 7) at an exercise price of \$0.50 for a period of three years from the date of issuance.

On February 17, 2011, the Company issued 250,000 share purchase warrants to a company at an exercise price of \$0.07 exercisable for a period of one year from the date of issuance.

SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

**10. Capital Stock, continued****Warrants**

As at March 31, 2011, 24,024,666 warrants were outstanding, having an exercise price between \$0.07 and \$5.00 per share with an average remaining contractual life of 2.38 years.

|                                       | Number of<br>warrants |           | Weighted<br>average exercise<br>price |
|---------------------------------------|-----------------------|-----------|---------------------------------------|
| <b>Balance, December 31, 2010</b>     | 15,218,237            | \$        | 0.55                                  |
| Issued during the three-month period  | 10,260,000            |           | 0.44                                  |
| Expired during the three-month period | (1,453,571)           |           | (0.48)                                |
| <b>Balance, March 31, 2011</b>        | <b>24,024,666</b>     | <b>\$</b> | <b>0.50</b>                           |

As at March 31, 2011, the range of exercise prices of the outstanding warrants were as follows:

| Range of exercise prices | Number of<br>warrants | Average remaining<br>contractual life | Weighted<br>average exercise<br>price |
|--------------------------|-----------------------|---------------------------------------|---------------------------------------|
| \$0.07 - \$1.00          | 22,789,666            | 2.43 years                            | \$0.45                                |
| \$1.01 - \$2.00          | 1,017,500             | 1.68 years                            | \$1.26                                |
| \$2.01 - \$5.00          | 217,500               | 0.90 years                            | \$2.93                                |

**Options**

As at March 31, 2011, 700,000 options were outstanding, having an exercise price between \$0.10 and \$0.95 per share with an average remaining contractual life of 1.23 years.

|                                   | Number of<br>options |           | Weighted<br>average exercise<br>price |
|-----------------------------------|----------------------|-----------|---------------------------------------|
| <b>Balance, December 31, 2010</b> | <b>700,000</b>       | <b>\$</b> | <b>0.70</b>                           |
| <b>Balance, March 31, 2011</b>    | <b>700,000</b>       | <b>\$</b> | <b>0.70</b>                           |

As at March 31, 2011, the range of exercise prices of the outstanding options were as follows:

| Range of exercise prices | Number of options | Average remaining<br>contractual life | Weighted<br>average exercise<br>price |
|--------------------------|-------------------|---------------------------------------|---------------------------------------|
| \$0.10 - \$1.00          | 700,000           | 1.23 years                            | \$0.70                                |



SILVER DRAGON RESOURCES INC.  
 (AN EXPLORATION STAGE COMPANY)  
 Notes to the Consolidated Financial Statements  
 March 31, 2011 and 2010  
 (Unaudited)

**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:

|      |    |        |  |
|------|----|--------|--|
| 2011 | \$ | 54,869 |  |
| 2012 |    | 13,717 |  |
|      | \$ | 68,586 |  |

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 an agreement with HIC, the Company has committed to provide capital contributions to cover expenses proportionate to its equity interest in Sino-Top.

c) In December, 2010, shareholders of the Company received a letter from a shareholder which contained two items. The first was a copy of a legal proceeding filed in China and the second was a letter making certain allegations regarding the Company and its management. The legal proceeding was filed by two shareholders and sought to invalidate the Company's sale in 2008 of 50% of Sanhe Sino-Top Resources & Technologies, Ltd. The Company believes that the legal proceeding was frivolous and wholly without merit. The sale in question was made to a Chinese government-owned entity, after the receipt of approval by the Ministry of Commerce in China. The second item was a letter written by a purported Minority Shareholder Committee, claiming that it had initiated the proceeding. The letter alleged that the Company and its management had engaged in various improper and illegal activities since 2005. The allegations made in the letter were similar to allegations that had been repeatedly made and published by an individual over the past three years. The Company, on several occasions, through its legal counsel in several countries, had asked that individual to cease and desist. The Company filed a Writ of Summons in the High Court of the Hong Kong Special Administrative Region, Court of First Instance claiming damages for libel, an injunction and other relief. On May 4, 2011, judgment was given in favor of the Company for damages for libel, malicious falsehood, interest and costs, with amounts to be assessed by the court.

d) The Company's Mexican subsidiary has been subjected to irregularities that it is seeking to redress. Legal proceedings were heard and decided on an ex parte basis, without notice to the Company that resulted in its Mexican subsidiary losing title to its mineral assets. In December 2010, the Company became aware of this situation, and is now taking steps through the courts in Mexico to redress the situation. It has commenced a Constitutional Rights Claim before the Federal Court in the City of Durango, premised on procedural irregularities. The court proceedings are continuing in Mexico, with the next hearing scheduled for May 24, 2011.

**12. Subsequent Events**

On April 20, 2011, the Company issued 125,000 shares of restricted common stock to a law firm for legal services provided in connection with the convertible financing agreement closed on April 21, 2011, for fair value of \$20,000.

On April 21, 2011 the Company closed a convertible financing agreement for \$3 million over a three-year period with JMJ Financial, a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 cash consideration through a convertible promissory note and four \$500,000 promissory

notes, secured and collateralized by JMJ Financial.

The initial note provides a \$1 million consideration in the form of cash payments to be made to Silver Dragon according to a funding schedule expiring 180 days after an effective registration statement covering the resale of the shares of common stock issuable upon conversion of the note, assuming certain share volume and prices are met. \$250,000 was paid to the Company on April 21, 2011. The subsequent notes each provide \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized by JMJ Financial, over the remainder of the three-year period. The total face amount of the convertible notes issued to JMJ Financial is \$3,150,000, which represents \$3,000,000 to be paid to the Company and includes other fees and expenses to be paid to JMJ Financial.

SILVER DRAGON RESOURCES INC.  
(AN EXPLORATION STAGE COMPANY)  
Notes to the Consolidated Financial Statements  
March 31, 2011 and 2010  
(Unaudited)

**13. Segmented Information**

| <b>As at March 31, 2011</b>                    | <b>Canada</b> | <b>Mexico</b> | <b>Total</b> |
|--|---------------|---------------|--------------|
| Equity investment                              | \$ 4,780,661  | \$ -          | \$ 4,780,661 |
| Current liabilities                            | \$ 536,372    | \$ 924,549    | \$ 1,460,921 |
| Total assets                                   | \$ 7,331,379  | \$ -          | \$ 7,331,379 |
| <b>Three-month period ended March 31, 2011</b> |               |               |              |
| Revenues                                       | \$ -          | \$ -          | \$ -         |
| Depreciation                                   | \$ 16,019     | \$ -          | \$ 16,019    |
| Loss before income tax                         | \$ (706,295)  | \$ (28,402)   | \$ (734,697) |
| <b>As at December 31, 2010</b>                 |               |               |              |
| Equity investment                              | \$ 4,832,922  | \$ -          | \$ 4,832,922 |
| Current liabilities                            | \$ 1,106,504  | \$ 927,680    | \$ 2,034,184 |
| Total assets                                   | \$ 5,443,743  | \$ -          | \$ 5,443,743 |
| <b>Three-month period ended March 31, 2010</b> |               |               |              |
| Revenues                                       | \$ -          | \$ -          | \$ -         |
| Depreciation                                   | \$ 12,442     | \$ 9,702      | \$ 22,144    |
| Loss before income tax                         | \$ (736,647)  | \$ (62,554)   | \$ (799,201) |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-looking statements

Statements made in this Form 10-Q that are not historical or current facts are forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (the Act) and Section 21E of the Securities Exchange Act of 1934. These statements often can be identified by the use of terms such as may, will, expect, believe, anticipate, estimate, approximate, or continue, or the negative thereof. We intend forward-looking statements be subject to the safe harbors for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

All references herein to the terms we, our, us, SDR, and the Company refer to Silver Dragon Resources Inc. subsidiaries.

### Available information

We file annual, quarterly, current reports, proxy statements, and other information with the SEC. You may read and copy documents that have been filed with the SEC at their Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You can also obtain copies of our SEC filings by going to their website at [www.sec.gov](http://www.sec.gov).

## 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.

## CHINA

The properties in China, in which we have an interest, continue to be drilled and tunneled. Geologic mapping, trenching, tunneling and drilling work are underway for three of the properties known as Dadi, Laopandao, and Aobaotugounao. An NI 43-101 report on Laopandao property will be completed by the third quarter of this year and the NI43-101 report on Dadi will also be updated by the third quarter.

On February 1, 2011 we reported an initial geological report from recently completed exploration work at the Company's Laopandao Silver-Tin-Copper-Lead Polymetallic project in Inner Mongolia, Northern China. Since 2006, an advanced drilling program has been carried out on the project, focusing on three mineralization zones and it is these three zones which were the focus of the report. Highlights from the report are as follows:

- Mineralization zone I is featured by a silver-copper-tin enrichment and is approximately 540m long, 100m wide with a dip extension of over 300m, containing 8 mineralized bodies with average grades Ag 231.7 g/t, Cu 0.48%, and Sn 0.335%.

- Mineralization zone II is also featured by a silver-copper-tin enrichment and is approximately 200m long and 80m wide, containing 16 mineralized bodies with the highest average grade of individual mineralized body at Ag 274.46 g/t, Cu 1.26 % (II-3 mineralized body), and Sn 0.185% (II-1a mineralized body) .
- Mineralization zone III is characterized by tin mineralization, approximately 300m long and 200m wide and occurs within a granite porphyry intrusion. A total of 21 mineralized bodies were identified with the highest Tin ore grade at 34.08% and average Tin grade of 0.413%.
- All mineralized bodies have been defined by drill holes and/or underground drifts, the samples were analyzed with internal and external verification.
- The initial resource estimate of the three mineralization zones are based on Chinese National Non-ferrous Metal Resource Estimation Standards. Estimates show 4,616,370 t (metric tonnes) of ore with 318.2 t (10.2 million oz.) silver, 10,239 t copper, and 15,184.5 t tin.
- We will continue advanced exploration of Laopandao in 2011, conduct metallurgical testing on the 2010 exploration results and commission an initial NI 43-101 technical report based on CIM standards.

On February 23, 2011, we announced the completion of a geological report on the results from the 2010 drilling program at our Dadi Silver-Lead-Zinc Polymetallic project in Inner Mongolia, Northern China.

**Highlights were as follows (for additional details, please refer to our press release of February 23, 2010, available at [www.silverdragonresources.com/Investor\\_Center/News\\_Releases/2011/02-23-2011.asp](http://www.silverdragonresources.com/Investor_Center/News_Releases/2011/02-23-2011.asp):**

- Extensive exploration work has been carried out during the 2010 season with the major focus on mineralization zones I and II. These zones show the most significant mineralization so far. Although mineralization zones (III, IV, and V) also show significant potential, they were not the focus of the 2010 season.
- Additional resource estimation based on the Chinese National Non-ferrous Metal Resource Estimation Standards indicates that mineralization zones I and II contain 3,375,000t ore with 358.4 metric tonnes (11.5 million ounces) silver; 42,621 metric tonnes (93.9 million pounds) lead, and 60,240 metric tonnes (132.8 million pounds) zinc. These estimates are in addition to previous estimates disclosed in our NI 43-101 released in Q1 2010.
- An associated element, cadmium, was found in the polymetallic ores. The cadmium resource could be of significant industrial and economic value.

Further details are set out below.

### **1. Exploration work in 2010**

In December 2009, Southampton Associates Inc. (Consulting Engineers and Geoscientists) prepared an initial NI 43-101 report on the Dadi Polymetallic Project. Based on the recommendations of the NI43-101 report on further exploration, a new round of exploration on the Dadi Property was completed successfully in 2010. In total, 7,938m drilling (18 holes), 1,910.7m tunneling, and 226m<sup>3</sup> surface trenching were completed. The amount of assaying samples analyzed total 1,216. In addition, geophysical detection on main mineralization zones and sampling work for metallurgical testing was also carried out.

### **2. General geology and Ag-Pb-Zn mineralization type**

The Dadi Property is located at the south end of Xingan Mountain Poly-metallic Metallogenic Belt and within a Jurassic volcanic faulted basin. The exposed rocks in the property are mainly Upper Jurassic volcanic series, consisting of rhyolitic and dacitic lava, welded tuff, tuff, and sandy conglomerate. Polymetallic mineralization zones are mainly controlled by the northwest trending fault system. Mineralization is volcanic hydrothermal fluid fracture filling type. The multiple mineralized bodies with vein and veinlet forms occur within the mineralization zones.

### **3. Ag-Pb-Zn mineralization zones and mineralized bodies**

At Dadi, five mineralization zones are identified and controlled by surface trenches, drill holes, and underground tunneling. From north to south of the Property, they are mineralization zone II, mineralization zone I, mineralization zone III, and mineralization zone IV. Mineralization zone V is a blind one (being not exposed on the surface) and is located between mineralization zone I and zone II. Most exploration work, including surface trenching, drilling and underground tunneling, was focused on mineralization zone I and zone II.

#### **(1) Mineralization zone I**

Mineralization zone I, located in the central part of the Property, is about 1,000m long, and its width ranges from 5m to 60m. Laterally, the distribution pattern of the mineralization zone on the surface is like an S shape. The occurrence of mineralization zone I is of 310°~340° strike and dips to northwest. The southeast end of mineralization zone I is covered by Quaternary sediments.

The country rocks consist of Upper Jurassic Baiyingaolao Formation volcanic series. Within the mineralization zone, strong alteration is characterized by silicification, chloritization, carbonatization, limonitization, as well as epidotization, sericitization, and fluoritization.

#### **4. Quality control of sampling, assaying and data verification**

For drilling core, the sampling method consists of dividing the core along the middle line into two parts; one part for assaying and the other for storage. The sample lengths are from 1 m to 1.5m and the minimum sample length is 0.4m. Closing samples are taken from each mineralized body at the hanging wall and footwall to ensure that the mineralized body is closed by sampling.

Within underground drifts, the sampling method is channel sampling which is cut to 10cm wide and 3cm deep on the drift wall. The sample length is from 0.4m to 1.5m. Samples are collected close to the mineralized body at the hanging wall and footwall.

Collected samples are analyzed in the Yanjiao Central Laboratory of North China Nonferrous Geological Survey Bureau. From 2006 to 2009, 3,435 samples were analyzed, among which 126 samples were subject to internal assay verification and 61 samples were subject to external assay verification. In 2010, 1,000 samples were analyzed, among which 85 samples were subject to internal assay verification at the Central Laboratory and 53 samples were sent to ALS Laboratory Group, Mineral Division ALS Chemex in Guangzhou ([www.alschemex.com](http://www.alschemex.com)) for external assay verification.

The results of both the internal and external verifications show that the original assay results are of high quality and accuracy.

## 5. Initial resource estimation

Based on available data, the initial resource estimation of silver, lead and zinc has been carried out according to Chinese National Non-ferrous Metal Resource Estimation Standards.

The results of resource estimation as follows:

- Mineralization zone I (332+333+334): 1,755,000t ore, containing 207 tonnes of silver, 30,636 tonnes of lead, and 24,517 tonnes of zinc;
- Mineralization zone II (332+333+334): 5,745,000t ore, containing 719.4 tonnes of silver, 72,054 tonnes of lead, and 114,224 tonnes of zinc;
- Other mineralization zones (334): 4,770,000t ore, containing 94.7 tonnes of silver, 14,334 tonnes of lead, and 60.607 tonnes of zinc.
- Total resources for all five mineralization zones (332+333+334) are 12,270,000 tonnes of ore, containing 1021.4 tonnes (32.7 million oz.) of silver, 117,023 tonnes of lead and 199,348 tonnes of zinc. These numbers include previously disclosed resources from exploration prior to 2010 defined in the Company's NI 43-101 released in Q1 2010.
- Additional resource estimation based on the Chinese National Non-ferrous Metal Resource Estimation Standards indicates that mineralization zones I and II contain 3,375,000 tonnes ore with 358.4 tonnes (11.5 million ounces) of silver; 42,621 metric tonnes (93.9 million pounds) of lead, and 60,240 metric tonnes (132.8 million pounds) of zinc. These estimates are based on exploration and analysis conducted after the Company's NI 43-101 released in Q1 2010.

In addition, 10 combined ore samples were collected from mineralized body (i) and mineralized body (ii) to analyze the contents of associated useful metal elements, including Au, Ge, Ga, In, Cd, Co, and Ni. The results of chemical analyses indicate that the average Cd (Cadmium) content reaches 0.06% in mineralized body (i) and 0.08% in mineralized body (ii) respectively (industrial grades of Cd are from 0.01% to 0.09%). Based on this data, an initial estimation of Cd resources reaches 5,649t in mineralized body (i) and mineralized body (ii). This indicates a further economic potential in addition to silver, lead and zinc.

## 6. Further exploration and development plan

- Further exploration will focus on mineralization zones I and II in order to increase the amounts of mineable polymetallic resources by tunneling and underground drilling. For other mineralization zones, surface drilling will be continued
- Metallurgical testing will be completed shortly to provide basic industrial and economic parameters for development design.
- The construction of the ore processing mill and the underground mining system will commence in order for Dadi to become a producing property by 2012.

Since the associate element Cadmium is found in polymetallic ores, further testing work will be conducted to evaluate its industrial and economic values.

On March 23, 2011 Chifeng Silver Dragon Resources & Technologies, Ltd. which owns the Erbahuo mine signed a definitive agreement with Guangxi Hongteng Mining, Ltd. to commence production at the Erbahuo silver mine.

On April 5, 2011 we announced that Sanhe Sino-Top Resources & Technologies, Ltd. commenced this year's approved exploration program on three of its properties in Northern China. The exploration targets include 6,000



meters (incl. 1,000 meters contingency) drilling, 2,500m tunneling, a 200m inclined shaft and a 260m shaft at Dadi; 5,000 meters (incl. 1,000 meters contingency) drilling, 1,000m tunneling and a metallurgic test at Laopandao; 1,000 meters drilling at Aobaotugounao. In addition, field surveys will be conducted on the Yuanlinzi, Zhuanxinhu and Shididonggou properties for exploration consideration and potential in 2012.

On April 12, 2011 Sanhe Sino-Top Resources & Technologies, Ltd. completed an initial metallurgic analysis of the Dadi polymetallic silver project. The ore processing test was carried out by Inner Mongolia Minerals Experiment Research Institute, China, an ISO certified testing facility for exploration, assaying and ore processing. Crude ores for the metallurgic test were collected, using the channel sampling method, from underground drifts within mineralization zone II at Dadi. One 300 kilogram composite testing sample collected from four groups of underground sampling was submitted for the ore processing test. The combined samples have a grade of 1.50% lead and 1.78% zinc and constitute good representation of the Dadi project.

Ore processing testing and analysis included sample preparation, chemical and mineralogical composition analysis, mineral phase analysis, crude ore sizing analysis, crude ore gravity measurement, floatation reagent test, floatation condition test, grinding condition experiment, open-circuit test, closed-circuit test, chemical analysis of concentrates, and settling speed test of tailings.

The main conclusions of the ore processing test for the Dadi project are as follows:

1. Collected crude ore samples from Dadi Property are composed of metal minerals of sphalerite, galena, chalcopyrite, pyrite, argentite and small amounts of arsenopyrite; and gangue minerals of quartz, carbonates, epidote, and chlorite. Main recoverable metals from crude ores are lead, zinc, and silver. Other metal contents do not reach economic parameters.
2. Based on the ore processing test, the floatation process consists of two stages. The first stage recovers lead and then the second stage recovers zinc from lead tailings. The grade of lead concentrate is 66.40% Pb and the recovery rate of lead reaches 90.14%; and the grade of zinc concentrate is 42.48% Zn and the recovery rate reaches 74.79%. The grade of silver in lead concentrate is 2,965.04 g/t and silver recovery rate is 40.19% in the first stage of processing; the silver grade in zinc concentrates reaches 1,943.48 g/t and silver recovery rate reaches 40.35% in the second stage. The total silver recovery rate through the two-stage floatation process is 80.54%.

| Products          | Production rate (%) | Grade (%) |       | Grade (g/t) |        |        | Recovery rate (%) |  |
|-------------------|---------------------|-----------|-------|-------------|--------|--------|-------------------|--|
|                   |                     | Pb        | Zn    | Ag          | Pb     | Zn     | Ag                |  |
| Lead concentrates | 2.05                | 66.40     | 3.90  | 2,965.04    | 90.14  | 4.48   | 40.19             |  |
| Zinc concentrates | 3.14                | 1.12      | 42.48 | 1,943.48    | 2.33   | 74.79  | 40.35             |  |
| Tails             | 94.81               | 0.12      | 0.39  | 31.04       | 7.53   | 20.73  | 19.46             |  |
| Crude ore         | 100.00              | 1.51      | 1.78  | 151.24      | 100.00 | 100.00 | 100.00            |  |

3. The ore processing test has provided efficient results on the recovery of useful metals.
4. Lead occurs in sulfides, which have good floatability and are easily recovered.
5. Since oxidized zinc grades 0.5% in crude ores accounts for 28.12% of the total zinc content in crude ores, the high content of oxidized zinc leads to a relatively low recovery rate of zinc. It is suggested that further processing tests on oxidized zinc should be conducted in order to reduce processing costs.

6. The results of the ore processing test indicate that the crude ores at the Dadi Property are easy-to-process ores and the parameters of the test can be used for resource evaluation of the property.
7. Since the ore processing test is on laboratory scale, industrial-scale and continued ore processing testing should be carried out in order to provide more reliable references for feasibility study, mill design and development of Dadi Property.

## **MEXICO**

We previously reported in our Annual Report on Form 10-K for the year ended December 31, 2010 about certain irregularities regarding our Cerro las Minitas Project in Mexico that resulted in our writing off of our investment in assets in Mexico in the years ended December 31, 2010 and 2009.

While we expect that we may eventually be successful with the Constitutional Rights Claim, since we have lost title to our 15 concessions in Mexico, pursuant to court judgments, at the end of 2010 we wrote off our Mexican properties.

## **RESULTS OF OPERATIONS**

Three months ended March 31, 2011

Total operating expenses for the three months ended March 31, 2011 were \$588,601 (2010 \$687,512). The decrease in the expenses from the previous year was primarily due to a decrease in shares and warrants issued for services.

Net sales were \$ nil for both the quarters ended March 31, 2011 and March 31, 2010 as there was no production at any of the properties.

Three months ended March 31, 2011 and March 31, 2010.

Total expenses for the three months ended March 31, 2011 were \$734,697 (2010 \$799,201). The decrease in the expenses from the previous year was primarily due to a decrease in shares and warrants issued for services.

## **LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2011 we had working capital of \$212,191 (December 31, 2010 (\$1,734,363)). We have funded our expenses and capital requirements through the issuance of shares, warrants and notes. Sales of shares were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D thereunder, and/or Regulation S thereunder. All of the purchasers of the shares were sophisticated or accredited investors. The shares were issued with a restrictive legend.

We expect to invest approximately \$1,050,000 into Sino-Top in 2011. These funds are to be invested towards exploration and property maintenance on the seven properties in the portfolio and conducting a Canadian National Instrument (NI) 43-101 report on the Laopandao property and updating the NI43-101 report on the Dadi property.

On February 15, 2011, we closed a convertible financing of \$2.5 million over a four-year period with Tonaquint Inc. The total amount funded (in cash and notes) at closing was \$2,500,000, with payment consisting of \$500,000 in cash paid at closing and \$2,000,000 to be paid in a series of ten notes, each in the principal amount of \$200,000, with each due on or before the earlier of (i) 49 months from February 15, 2011, or (ii) subject to certain conditions, a series of dates beginning on September 15, 2011 and following on the 15th of each month thereafter. We have the right to offset the payment of any unpaid note subject to certain conditions and obligations. The face amount of the convertible note issued to Tonaquint was \$2,766,000, which represented the \$2,500,000 paid or to be paid to us and other fees and expenses.

Tonaquint also received a warrant to purchase 8.6 million common shares at an exercise price of \$0.50 per share at any time within three years after the date of issuance

On April 21, 2011 we closed a convertible financing agreement for \$3 million over a three-year period with JMJ Financial, a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 cash consideration through a convertible promissory note and four \$500,000 promissory notes, secured & collateralized by JMJ Financial.

The initial note provides a \$1 million consideration in the form of cash payments to be made to us according to a funding schedule expiring 180 days after an effective registration statement covering the resale of the shares of common stock issuable upon conversion of the note, assuming certain share volume and prices are met. \$250,000 was paid to us on April 21, 2011. The subsequent notes each provide \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized by JMJ Financial, over the remainder of the three-year period. The total face amount of the convertible notes issued to JMJ is \$3,150,000, which represents \$3,000,000 to be paid to us and includes other fees and expenses.

## **SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on management's best knowledge of current events and actions the

Company may undertake in the future. Significant areas requiring the use of estimates relate to mineral rights, equity investment, plant and equipment, and stock-based compensation. Actual results could differ from these and other estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the respective period.

We have identified below certain accounting policies that we believe are most important for the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 3 to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed on March 22, 2011.

### **Mineral Rights**

We record our interest in mineral rights at cost. Exploration costs are expensed. Costs associated with acquisition and development of mineral reserves, including directly related overhead costs, are capitalized and are subject to ceiling tests to ensure the carrying value does not exceed the fair value.

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

### **Equity Investment**

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

### **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.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of disclosure controls and procedures**

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date").

Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were not effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Material events occurred in Mexico over the past five years that were not reported to head office on a timely basis, as reported in the 10K. Further, management has been unable to establish that disclosure controls and procedures are operating effectively to ensure that events and transactions occurring in China and Mexico are recorded, processed, summarized and reported within the required time periods.

### **Report by Management on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in the Securities Exchange Act of 1934 Rule 13a-15(f). The framework used by management to evaluate internal controls over financial reporting is *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO), as implemented by their subsequent publication *Internal Control over Financial Reporting - Guidance for Smaller Public Companies*. Based on this evaluation, management concluded that our

internal control over financial reporting was not effective as of March 31, 2011, because we were unable to obtain complete information regarding internal controls and process descriptions from our subsidiary in Mexico and our affiliate in China. In addition, the weaknesses referred to above under evaluation of disclosure controls and procedures also lead us to believe that our internal control over financial reporting was not effective as of March 31, 2011.

**Changes in internal controls**

We are continuing to make enhancements to internal control over financial reporting and to disclosure controls and procedures and expect to be able to report that internal control over financial reporting and disclosure controls and procedures are effective, commencing at some point during 2011. The enhancements include documenting internal controls, improving the control environment by enhancing procedures, and an increased focus on compliance. At this point in time further improvements remain to be implemented.

### **Limitations on the effectiveness of controls**

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **CEO and CFO Certifications**

Attached as Exhibits to this Form 10-Q are Certifications by the CEO and the CFO, in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

### **Audit Committee report**

The audit committee was formed in the fourth quarter of our last fiscal year. The board of directors has determined that both Charles McAlpine and Glen MacMullin, as members of our Audit Committee, are audit committee financial experts. The audit committee's primary function is to provide advice with respect to our financial matters and to assist our Board of Directors in fulfilling its oversight responsibilities regarding finance, accounting, and legal compliance. The audit committee charter is published on our website at [www.silverdragonresources.com](http://www.silverdragonresources.com).

## **PART II: OTHER INFORMATION**

### **Item 1A. Legal Proceedings.**

China

In December, 2010, shareholders of the Company received a letter from a shareholder which contained two items. The first was a copy of a legal proceeding filed in China and the second was a letter making certain allegations regarding Silver Dragon and its management. The legal proceeding was filed by two shareholders and sought to invalidate our sale in 2008 of 50% of Sanhe SinoTop Resources & Technologies, Ltd. We believe that the legal proceeding was frivolous and wholly without merit. The sale in question was made to a Chinese government-owned entity, after the receipt of approval by the Ministry of Commerce in China. The second item was a letter written by a purported Minority Shareholder Committee, claiming that it had initiated the proceeding. The letter alleged that the Company and its management had engaged in various improper and illegal activities since 2005. The allegations made in the



letter were similar to allegations that had been repeatedly made and published by an individual over the past three years. We, on several occasions, through our legal counsel in several countries, have asked that individual to cease and desist. We filed a Writ of Summons in the High Court of the Hong Kong Special Administrative Region, Court of First Instance claiming damages for libel, an injunction and other relief. On May 4, 2011, judgment was given in favor of the Company for damages for libel, malicious falsehood, interest and costs, with amounts to be assessed by the court.

#### Mexico

Our Mexican subsidiary has been subjected to irregularities that it is seeking to redress. Legal proceedings were heard and decided on an ex parte basis, without notice to us that resulted in our Mexican subsidiary losing title to its mineral assets. In December 2010, we became aware of this situation, and are now taking steps through the courts in Mexico to redress the situation. We have commenced a Constitutional Rights Claim before the Federal Court in the City of Durango, premised on procedural irregularities. The court proceedings are continuing in Mexico, with the next hearing scheduled for May 24, 2011.

As an element of our ongoing financing program, on January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of Claim in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provides for the settlement of Socius GC II, Ltd. s \$405,981.49 claim against us, which they purchased from seven creditors.

Pursuant to the order, we initially issued to Socius 9,000,000 shares of our common stock, representing approximately 8.28% of the total number of shares outstanding. We issued the shares in reliance upon the exemption from registration provided by Section 3(a)(10) of the Securities Act of 1933, as amended. Such shares were issued in exchange for the Claims pursuant to the Order of the Court, which determined that such exchange was fair to Socius following notice to the Court of our intent to rely upon the exemption and a hearing of which Socius received notice and in which it participated.

The total number of shares issued to Socius was adjusted on the 21st trading day following the date on which they were issued as follows: the number of Volume Weighted Average Price (VWAP) shares were less than the number of shares issued and therefore Socius is returning to us for cancellation 3,116,104 shares which equals the difference between the number of VWAP Shares and the number of shares originally issued. The number of shares is equal to (i) \$405,981.49 plus \$28,691.32 of Socius legal fees divided by 75% of the VWAP of our common stock over the 20-day trading period immediately following the date on which the shares were originally issued. The final number of shares issued to Socius is 5,883,896. The remaining 3,116,104 shares were returned to us and cancelled.

#### **Item 1B. Risk Factors**

*You should consider each of the following risk factors and other information set forth in this Form 10-Q and the other reports we have filed with the SEC, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones that our operations and business. Additional risks and uncertainties not presently known to us, or that we currently consider immaterial, may also impair our business or operations. A full set of risk factors is set out in our Form 10-K filed with the SEC on March 22, 2011.*

***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 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 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 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.

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.

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

Since we changed our business focus to silver exploration, we have generated no revenue. We anticipate that losses will continue until such time when revenue from operations is sufficient to offset our operating costs, if ever.

***We will have to hire additional personnel with technical training or experience in exploring for, starting and operating an exploration program. If we cannot effectively supervise or retain such personnel, we may have to suspend or cease operations, which will result in the loss of your investment.***

We hired new contractors to perform surveying, exploration and excavation of mineral claims that we may acquire. 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 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.

***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, legal, 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. Title to the properties in which we have an interest may be and in fact has been challenged in Mexico. In Mexico we have lost title and, if such an event occurred in China, we will likely incur significant costs and lose valuable time in defending such a challenge. If such claims are successful, we will lose our interest in the respective 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 officers or our directors.***

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.

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

Between January 3 and February 15, 2011 an investor elected to convert two outstanding notes payable totaling \$120,000 plus accrued interest of \$3,000 and \$1,800 respectively. The Company issued a total of 1,991,285 shares in lieu of a cash payment.

On January 18, 2011, the Company issued 50,000 shares of restricted common stock to a company, pursuant to the signing of a term sheet proposing \$2.5 million of convertible debt financing for the Company, for fair value of \$5,000.

On January 25, 2011, the Company issued 1,410,000 common share purchase warrants to directors and consultants at an exercise price of \$0.11 exercisable for a period of three years from the date of issuance.

On January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provides for settlement of Socius GC II, Ltd. s \$405,981 claim against the Company. Socius purchased the claims from seven creditors of Silver Dragon. On January 28, 2011, the Company issued 9,000,000 shares of common stock to Socius and Socius subsequently returned 3,116,104 shares for cancellation. For further information please see the Company Form 8-Ks filed January 28 and March 3, 2011.

On January 31, 2011, the Company issued 15,000 shares of the Company s restricted common stock to an individual for investor relation services provided, for fair value of \$1,500.

On February 23, 2011, the Company issued 100,000 shares of the Company s restricted common stock to an individual pursuant to an addendum to an agreement signed October 7, 2010, for fair value of \$12,400.

On February 15, 2011, The Company entered into a Note and Warrant Purchase Agreement with Tonaquint, Inc. ( the Investor ), whereby the Company issued and sold, and the Investor purchased: (i) a Secured Convertible Promissory Note of the Company in the principal amount of \$2,766,500 and (ii) a Warrant to purchase 8.6 million shares of common stock of the Company at an exercise price of \$0.50 per share at any time within three years after February 15, 2011. In connection with the transaction, the Company also issued to the Investor 50,000 shares of the Company s restricted common stock. For further information please see the Company s Form 8-K filed February 18, 2011.

On February 11, 2011, the Company issued 250,000 share purchase warrants to a company at an exercise price of \$0.07 exercisable for a period of one year from the date of issuance.

On April 20, 2011, the Company issued 125,000 shares to a law firm for legal services provided in connection with the convertible financing agreement closed on April 21, 2011, for fair value of \$20,000

On April 21, 2011 the Company closed a convertible financing agreement for \$3 million over a three-year period with JMJ Financial, a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 cash consideration through a convertible promissory note and four \$500,000 promissory notes, secured & collateralized by JMJ Financial.

The initial note provides a \$1 million consideration in the form of cash payments to be made to Silver Dragon according to a funding schedule expiring 180 days after an effective registration statement covering the resale of the shares of common stock issuable upon conversion of the note, assuming certain share volume and prices are met. \$250,000 was paid to the Company on April 21, 2011. The subsequent notes each provide \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized by JMJ Financial, over the remainder of the three-year period. The total face amount of the convertible notes issued to JMJ is \$3,150,000, which represents \$3,000,000 to be paid to the Company and includes other fees and expenses to be paid to JMJ Financial.

**Item 3. Defaults upon senior securities**

No report required.

**Item 4. Submission of matters to a vote of security holders**

No report required.

**Item 5. Other information**

No report required.

**Item 6. Exhibits**

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

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

32.1 Certifications pursuant to Securities Exchange Act of 1934 Rule 13a-14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

**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.**

Dated: May 5, 2011

By: /s/ Marc Hazout  
Marc Hazout, President and Chief Executive Officer

Dated: May 5, 2011

By: /s/ Jeffrey D. Sherman  
Jeffrey D. Sherman, Chief Financial Officer