

Silver Dragon Resources Inc.
Form 10-K
March 29, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

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

For the transition period from _____ to _____

Commission File Number 0-29657

SILVER DRAGON RESOURCES INC.

(Name of small business issuer in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

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

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

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

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock \$0.0001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

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Yes [] No [x]

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 [x] No []

Indicate by check mark whether the registrant has submitted electronically and posted on the corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [x] No []

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

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

Large accelerated filer [] Non-accelerated filer [] Accelerated filer [] Smaller reporting company[
x]

(Do not check if smaller
reporting
company)

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [] No [x]

As of March 22, 2012, there were 166,803,092 shares of common stock outstanding, par value \$0.0001.

As of June 30, 2011, the aggregate market value was \$11,137,579 based upon the closing sale price of the common stock as reported by the Over-the-Counter-Bulletin-Board (OTCBB) on that date.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, are subject to the safe harbor created by those sections. The forward-looking statements in this report are based on our management's beliefs and assumptions and on information currently available to our management. You can identify forward-looking statements by terms such as anticipates, believes, continue, could, estimates, expects, intends, may, plans, would and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this document in greater detail under the heading Risk Factors. We believe it is important to communicate our expectations to our investors. However, there will be events that we are not able to predict accurately, or over which we have no control. The risks described in Risk Factors included in this report, as well as any other cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in Risk Factors and elsewhere in this report could harm our business.

The forward-looking statements and associated risks set forth in this Annual Report include or relate to, among other things, (a) our growth strategies, (b) anticipated trends in the mining industry, (c) our ability to obtain and retain sufficient capital for future operations, and (d) our anticipated needs for working capital. These statements may be found under Management's Discussion and Analysis of Financial Condition and Results of Operations and Description of Business. The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions described herein. The assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Accordingly, although we believe that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed in Risk Factors, there are a number of other risks inherent in our business and operations, which could cause our operating results to vary markedly and adversely from prior results or the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause us to alter marketing, capital investment and other expenditures, which may also materially adversely affect our results of operations. In light of significant uncertainties inherent in the forward-looking information included in the report statement, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this document completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Part I

As used in this Annual Report, we, us, our, Company or Silver Dragon refers to Silver Dragon Resources Inc. of its 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 DC. 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.

Item 1. Description of business

Corporate history

Silver Dragon Resources Inc. was initially incorporated in the State of Delaware on May 9, 1996 under the name American Electric Automobile Company Inc. On July 16, 2002, we amended our Certificate of Incorporation to change our name to American Entertainment & Animation Corporation. On February 25, 2005, we again amended our Certificate of Incorporation to change our name to Silver Dragon Resources Inc. to reflect our current business focus on silver.

We own a 40% equity interest in Sanhe Sino-Top Resources and Technologies, Ltd. (Sino-Top), which was incorporated in 2003 as a Chinese company wholly owned by Huaguan Industrial Corp. (HIC), a subsidiary of the state-owned North China Geological Exploration Bureau. Sino-Top became an American-Chinese joint venture in 2005. Silver Dragon Resources Inc. acquired Sino-Top in 2006, and currently owns 40% of Sino-Top after having sold 50% of its ownership interest to its Chinese partners. The Chinese side, led by Gansu Shengda Group Ltd. (Shengda), at 52%, and HIC, at 8%, collectively own 60% of Sino-Top. Sino-Top holds exclusive exploration and development rights to six properties in northern China (Inner Mongolia), covering a total area of 139 km². We are also entitled to 70% interest of 30% of the net proceeds of Erbahuo Silver mine, to which Chifeng Silver Dragon, a wholly-owned subsidiary of Sino-Top, holds exclusive exploration and mining rights.

We operate in Mexico through our wholly-owned subsidiary, Silver Dragon Mining De Mexico S.A. de C.V. (Silver Dragon Mexico), a Mexican company incorporated on April 21, 2006. As noted in the next paragraph, activities in Mexico are now dormant pending resolution of the legal situation.

We are engaged in the acquisition and exploration of silver and other mineral properties. Our primary focus is the exploration of seven properties located in the Erbahuo Silver District in Northern China. We also had 15 concessions known as the Cerro Las Minitas property in Guadalupe, Durango, Mexico. The ownership of that property is now subject to legal dispute. Although management expects that it may eventually be successful, it has decided to write-off its Mexican assets as the outcome of the dispute is uncertain. Further details are provided on page 5 and in the notes to the financial statements.

We are still in the exploration stage and have not generated any revenues from the properties in China and Mexico.

Silver Mining Business in China

We acquired Sino-Top in 2006, and currently own 40% of Sino-Top. The Chinese side partners, led by Gansu Shengda Group Ltd. (Shengda), at 52%, and HIC, at 8%, collectively own 60% of Sino-Top. Sino-Top holds exclusive exploration and development rights to six properties in northern China (Inner Mongolia), covering a total area of 139 km².

Erbahuo projects

On March 16, 2006, we entered into an agreement to acquire certain mining and exploration rights to the Erbahuo Silver Project by purchasing a 60% interest in Sino-Top from Sino Silver Corp. (the Asset Purchase Agreement). Sino-Top was an equity joint venture company originally created under the Joint Venture Agreement dated April 14, 2005 between Sino Silver and certain other parties. Pursuant to the Asset Purchase Agreement, we acquired a 60% interest in Sino-Top and became a party to the Joint Venture Agreement. Sino-Top held the exploration and mining rights to nine properties in the Erbahuo Silver District in Northern China (Erbahuo Projects). The total purchase price was \$650,000 plus 4,000,000 shares of our restricted common stock, all of which had been delivered to Sino Silver following receipt of the requisite approvals to the transfer by the local Provincial Department of Commerce in China. In March 2007, we increased our interest from 60% to 90% in exchange for 2 million restricted common shares of the company. On May 9, 2007, we received approval from the Ministry of Commerce to change the equity joint venture to a contractual joint venture. On June 10, 2008 we signed a letter of intent with our state owned Chinese Joint venture partner Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. (HIC) to sell 50% equity interest in Sanhe Sino-Top Resources & Technologies Ltd. (Sino-Top), not including the Erbahuo mine, from Silver Dragon in exchange for \$4.5 million. A definitive agreement was signed on July 4, 2008 to sell 50% of Sino-Top to HIC from Silver Dragon for \$4.5 million. With respect to the Erbahuo mine, the ninth property controlled by Sino-Top at that time, Silver Dragon is entitled to a 70% interest in 30% of the net proceeds, and HIC would be entitled to 30%. On November 20, 2008 Gansu Shengda Group Ltd. (Shengda), a private Chinese conglomerate, agreed to acquire 52% of the equity interests in Sanhe Sino-Top Resources & Technologies, Ltd. (Sino-Top) from Huaguan Industrial Corp. (HIC), Silver Dragon s state-owned Chinese joint venture partner. On January 21, 2010 Sino-Top sold the Saihanaobao and Liangdi Properties to Chinese State-owned Entities for approximately \$4.2 Million.

Sino-Top is managed by its board of directors, which manages, supervises and controls the operating activities of the Company in accordance with the articles of association and makes decisions in accordance with the Sino-foreign Cooperative Joint Venture law of P.R. China and the articles of association. The board constitutes five members, with two members and the chairman appointed by Shengda, two members and the vice chairman appointed by Silver Dragon, and one member appointed by HIC. Neither party has the obligation to pay additional capital contribution to the joint venture. If the Board of Directors deems it necessary, each party may but is not obliged to contribute additional capital to the joint venture in accordance with the timing and amount as decided by Board of Directors. The parties shall re-determine the profit distribution proportion before either of the parties makes additional capital contribution.

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

During 2011, 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 was completed during the fourth quarter of this year and the N 43-101 report on Dadi was updated during the fourth quarter of this year.

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.

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.

- Extensive exploration work was carried out during the 2010 and 2011 seasons 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 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.

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. (GHM) 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 metres (incl. 1,000 metres contingency) drilling, 2,500m tunneling, a 200m inclined shaft and a 260m shaft at Dadi; 5,000 metres (incl. 1,000 metres contingency) drilling, 1,000m tunneling and a metallurgic test at Laopandao; 1,000 metres 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.

On July 12, 2011, the Erbahuo silver mine formally commenced production with an official ribbon cutting ceremony. Local officials visited the project, toured the facilities and participated in the ceremony. After three months of preparatory work, GHM started mining silver ore utilizing the currently existing tunnels. An on-site pool leaching system will process the ore with a breakthrough cyanide-free leaching technology.

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On September 7, 2011 we announced the completion of a preliminary feasibility study for the Company's Dadi Silver Polymetallic project located in Inner Mongolia, China in accordance with Canadian Securities Administrators National Instrument 43-101 Standards of Disclosure for Mineral Projects.

The economic analysis estimates that at a 40 g/t cut-off grade, the Dadi project will generate net cash flows over the seven-year project life of \$207 million, of which \$82 million will accrue to the Company. The report estimates an internal rate of return (IRR) of 175% and a net present value (NPV) of \$142 million applying an 8% discount rate. Based upon the Company's 40% interest in the project, the IRR is 153% and NPV is \$55 million. These figures are based on mineral resources and not on mineral reserves. The economic analysis included was based on measured and indicated resources. Inferred resources were not included in the economic analysis.

The report estimates the operating costs for the project at \$11.50 per metric tonne of ore processed and the capital costs to bring the mine into production have been estimated at \$13 million.

The key assumptions used in the estimates include a three-year average market price of \$21/oz for silver and market price of \$0.96/lb for zinc and \$1.00/lb for lead. Key assumptions also include 20% dilution, 70% mining recovery and 40% cutoff grade. Metallurgical studies indicate 90% of the lead and 40% of the silver will be contained in the lead concentrate and 75% of the zinc and 40% of the silver will be contained in the zinc concentrate. The average grade of the lead concentrate is 66% lead and 2,965 g/t silver. The average grade of the zinc concentrate is 42% zinc and 1.943 g/t silver.

The study includes an NI 43-101 compliant resource estimation and model study to test the resource estimation. The resource estimation was calculated using a modified polygonal method incorporating cut-off grades of 1g/t silver and 40g/t silver. The following tables summarize the resource estimate.

Cut-off > 1g/t AG	Tonnes	Silver (g/t)	Lead %	Zinc %
Measured	836,700	184.7	2.19	1.95
Indicated	1,895,800	196.32	1.83	3.19
Measured + Indicated	2,732,500	192.76	1.94	2.81
Inferred	2,446,800	133.18	1.59	2.53
Cut-off > 40g/t AG	Tonnes	Silver (g/t)	Lead %	Zinc %
Measured	671,811	224.46	2.63	1.99
Indicated	1,185,080	305.67	2.81	3.97
Measured + Indicated	1,856,900	276.29	2.74	3.25
Inferred	1,173,400	263.89	3.01	3.66

On September 27, 2011 we issued an update on our projects in China:

Mining project: Erbahuo silver mine:

The Erbahuo silver mine, located in Wengniute county, Inner Mongolia, China, is 70% owned by Silver Dragon through its subsidiary Chifeng Silver Dragon Resources & Technologies, Ltd. (Chifeng Silver) and is currently being operated by Chifeng Silver's partner GHM as part of a five-year agreement (see press release July 12, 2011).

Currently, mining work is mainly focused on tunnel development. Some new ore findings and mineralization are being studied for further exploration consideration.

Construction of the ore processing plant began. The facility will include a 100 ton per day grinding mill and a leaching facility. The ore will be processed with a breakthrough cyanide-free leaching technology that is proprietary to GHM.

Exploration projects: Dadi, Laopandao and Aobaotugounao

Exploration work is focused on three of the six exploration properties of Sanhe Sino-Top Resources and Technologies Ltd. ("Sino-Top"), a Chinese company that holds exclusive exploration rights to these properties, located in the prolific Erbaohuo Silver District in Inner Mongolia, China. Silver Dragon Resources Inc. has a 40% ownership interest in Sino-Top.

- Dadi Silver-Lead-Zinc Polymetallic project: Drilling and tunneling projects are in progress, with 1,072.7m drilling (3 holes completed and 1 in progress) and 264m tunneling completed in the year to date. The tunneling project includes an exploratory tunnel aimed to explore the No. IV mineralized body and a mining tunnel to reach the No. II mineralized body. Moreover, the engineering design for mine development is in progress, paving the way for permitting and production preparations. An application for a 2000 ton per day mining license has been submitted.
- Laopandao Silver-Tin-Copper Polymetallic project: A tunneling project is in progress, with 235.4m tunneling completed current year to date, which aims to continue defining the extensions of the No.III mineralized body. A metallurgical test is to be conducted later this year. An NI 43-101 report will be released in October.
- Aobaotugounao Silver-Lead-Zinc Polymetallic project: A drilling project is in progress, with 482.2m drilling (2 holes) completed current year to date. Three more drill holes have been approved within the 2011 exploration season due to the mineralization discovered.

On October 18, 2011, we reported on our on Exploration Progress at the Aobaotugounao Silver-Lead-Zinc Polymetallic Property in Northern China.

Highlights of the latest discoveries at Aobaotugounao include the following:

- Aobaotugounao is the third property with industrial silver, lead and zinc mineralization findings after the Dadi and Laopandao properties of Silver Dragon.
- Soil geochemical survey has revealed at least two NW trending anomaly zones at the Aobaotugounao Property.
- Surface testing samples also indicate silver, lead, and zinc enrichments along alteration zones in the hosting Jurassic volcanic strata.
- Two drill holes reveal silver, lead, and zinc mineralization intervals at exploration lines 15 and 11, and the highest grades of silver, lead and zinc reach 48.5 g/t, 3.2% and 3.72% respectively.

Aobaotugounao is one of six exploration properties of Silver Dragon in Inner Mongolia, China. This property is 21.07km³ and is located at 117°34'00"~117°37'30"N and 43°47'00"~43°50'00"E. It is approximately 9 kilometers to the Northwest of Tongxing Town of Keshiketeng County.

On December 7, 2011, Southampton Associates (retained by Silver Dragon) completed an Initial NI 43-101 Resource Estimate on our Laopandao Tin-Silver Polymetallic Project. Located in north central Inner Mongolia, approximately 650 kilometers north of Beijing, the Laopandao Tin-Silver Polymetallic project is readily accessible along modern, interprovincial, multi-lane highways, and secondary paved and gravel roads.

The report notes that tin-silver/lead-copper mineralization was discovered on the property during the 1970s. Subsequent prospecting, soil geochemical surveys, geological mapping geophysical surveys, diamond drilling and underground exploration/development discovered two anomalous areas on the property referred to as Anomaly 95 and Anomaly 102. Over the ensuing four decades the majority of the exploration activity focused on Anomaly 95, which contains three mineralized zones designated as Zone I, Zone II and Zone III. Each Zone contains numerous parallel

west northwesterly trending lenses ranging from 1m to 7m wide which have been traced along strike by trenching and diamond drilling for up to 300 metres.

Two different styles of hydrothermal mineralization were noted on the property

- Copper-Tin-polymetallic fracture controlled vein-zone mineralization within altered volcanic rocks reporting encouraging mineralization grading 243.29 gpt silver, 0.78% copper 0.061% tin over 4.5 metres.
- Diamond drill hole ZK3002, with a tin-polymetallic mineralization within the roof or internal contact zone of granite porphyry, was reported as a best assay, averaging 34.05% tin over 0.40 metres.

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The report classifies the resources on the Laopandao property as Inferred Resources in compliance with the Canadian Institute of Mining (CIM) definitions of Resources and Reserves as referenced in NI 43-101 to be as follows:

Laopandao NI 43-101 Resource Estimate

Zones	Tonnes	Ag (gpt)	Cu (%)	Sn (%)
Zone I	348,971	115.92	0.40	0.59
Zone II	417,633	58.45	0.41	0.15
Zone III	1,835,950	4.24	0.06	0.38
Total	2,602,554	27.91	0.16	0.37

NOTE: Cut-off grades include 0.1% Sn, 40 gpt Ag and 0.2% Cu.

The authors of the report believe that this estimate is conservative and that confirmation of continuity could increase both the contained metals and classification of the resource. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

In addition to the estimate above, the authors of the report believe the resource potential for the Laopandao Zones I, II and III could range from 2.0 million tonnes averaging 50gptAg, 0.15% Cu and 0.35%Sn to 4.0 million tonnes, averaging 25gpt Ag, 0.1% Cu and 0.22%Sn.

In support of the above resource potential, a deep penetrating geophysical survey, which was completed in 2011, discovered several potential mineral depositional environments on the property, which require drill testing.

On February 15, 2012, we provided an update on Production at our Erbahuo Property.

Silver Dragon is entitled to 70% of the after-tax proceeds from the Erbahuo Silver Mine through its subsidiary Chifeng Silver Dragon Resources & Technologies, Ltd. (Chifeng Silver) and is currently being operated by Chifeng Silver's partner Guangxi Hongteng Mining, Ltd. (GHM) as part of a five-year arrangement (see press release of March 23, 2011).

To date, GHM has mined and stockpiled 15,000 tonnes of ore for processing. Processing was suspended due to cold weather, delays in explosives permits and delays in construction of the crushing and leaching facility at the site. GHM completed construction of a new explosives magazine, crushing plant and heap-leaching pool at the Erbahuo site in November, 2011, and is currently testing the leaching system. Processing of ore is expected to commence in the second quarter, 2012, once indoor temperatures are warmer than 10 degrees Celsius, using a proprietary cyanide-free leaching technology. GHM expects to mine 30,000 tonnes of ore in its first year of operation, yielding approximately 100,000 ounces of silver (assuming a 90% recovery rate).

On February 21, 2012 we announced that our joint venture in China, Sanhe Sino-Top Resources & Technologies, Ltd., renewed its business license on February 15, 2012. The license was issued by the Industrial and Commercial Administration Agency of Sanhe City, China, extending the business operating period to March 24, 2023 and increasing the registered capital to \$ 7,270,000.

The business license scope covers the exploration and development of deposits of copper, lead, zinc, silver, gold and associated metals and sales of developed products.

On February 23, 2012, we reported that we completed a geological report on the results from the 2011 drilling program at our Dadi silver-lead-zinc polymetallic project in Inner Mongolia, Northern China.

The report revealed that the Dadi silver-polymetallic project has demonstrated potentially economic mineralization comprising silver, lead zinc and cadmium. The geological report described two main mineralization zones and provided estimates broken down into two categories, based on the Chinese National Non-ferrous Metal Resource Estimation Standards, category 122b (indicated) and category 333 (inferred), as follows:

- Approximately 725 thousand tonnes of minable ore describing 4.7 million ounces of category 122b silver, 33 million pounds of lead, 33 million pounds of zinc, and 1.2 million pounds of cadmium.
- Approximately 2 million tonnes of minable ore describing 7.8 million ounces of category 333 silver, 97 million pounds of lead, 136 million pounds of zinc, and 24 million pounds of cadmium.

Highlights from the report are as follows:

1. The Dadi silver-lead-zinc property is a key project of Silver Dragon in China. After several years of exploration, Dadi has become a medium-sized polymetallic ore deposit with significant economic potential.
2. In 2011, four drill holes totaling 1,401 metres, tunneling totaling 1,029 metres, and surface trenching totaling 101.1 cubic metres was completed. A total of 303 samples, collected from both drill cores and channel sampling within transverse adits were analyzed.
3. According to the annual exploration report of 2011, polymetallic resources of Dadi were estimated based on Chinese exploration standards. Within two main mineralization zones, total minable ore of 2,941,655 tonnes averaging Ag 104 g/t, Pb 1.04% and Zn 1.55% in mineralization zone I, and Ag 150.13g/t, Pb 1.63%, Zn 2.19% in mineralization zone II, respectively.
4. Three additional mineralization zones with significant resource potential have also been discovered and will be further explored.
5. In 2012, development of Dadi into a producing mine will continue, with the commencement of the construction of the underground mining system, processing plant, tailings dam, and related surface facilities.

The Dadi silver-polymetallic property is a key project of Silver Dragon Resources in Northern China. Since 2006, exploration projects at Dadi have been continuously operated. Based on the annual geological report of 2011, five mineralization zones have been identified in the property and the resources of silver, lead and zinc are controlled and estimated. All the controlled resources make the property a medium-sized polymetallic deposit hosted in Jurassic volcanic series. Development of Dadi into a producing mine will continue in 2012.

During the 2011 exploration season, four drill holes totaling 1,401 metres, tunneling totaling 1,029 metres, and surface trenching totaling 101.1 cubic metres was completed. A total of 303 samples, collected from both drill cores and channel sampling within transverse adits were analyzed. The exploration project focused on the central parts of both mineralization zone I and zone II in order to increase the resource category (category 122b (indicated) and category 333 (inferred) resources based on Chinese Geological Exploration Standards).

According to the Chinese Geological Exploration Standards, category 122b ore blocks of silver, lead and zinc shown in the longitudinal section map mean that the mineralized bodies are defined by drill holes, surface trenches, and underground tunnels with a 50 m x 50 m exploration grid or even a 50 m x 40 m grid. In contrast, category 333 ore blocks shown in the longitudinal section map have a 50 m x 100 m exploration grid.

The average grade for mineralization zone I are Ag 104 g/t, Pb 1.04%, Zn 1.55%; and the average grade for mineralization zone II are Ag 150.13g/t, Pb 1.63%, Zn 2.19% . The minable resources of silver, lead, and zinc, obtained in mineralization zone I and II, are estimated to be 2,941,655 tonnes.

Latest resource estimation of Dadi Ag-Pb-Zn property:

Mineralization zone	Mineralized ore block	Average grade				Amount of minable ores (t)	Metal resources (t)			
		Ag(g/t)	Pb(%)	Zn(%)	Cd(%)		Ag	Pb	Zn	Cd
I	122b	149.4	2.00	1.50	0.06	133,225	19.9	2,664	1,998	80
	333	59.6	1.08	1.59	0.06	911,828	54.4	9,829	14,533	547
II	122b	211.2	2.05	2.20	0.08	592,3312	125.1	12,145	13,031	474
	333-1	153.5	1.54	2.47	0.08	1,062,258	163.1	16,359	26,238	850
	333-2	93.8	1.27	2.44	0.08	242,012	22.7	3,079	5,899	194
Total	122b+333					2,941,655	385.1	44,076	61,699	2,145

Note: Resource estimation is divided into different categories based on Chinese National Non-ferrous Metal Resource Estimation Standards. Category 332 is an estimate defined by surface trenching, drilling and tunneling with advanced exploratory grids. Category 333 is an estimate defined by a single exploration project (surface trench, drill hole or drift) and the grades and thickness of the mineralized body are inferred based on average grades and thickness of all exploration projects used for resource estimation. Category 334 is inferred based on the mineralization area and a single exploration project. Category 332 has relatively higher accuracy and reliability and may be equivalent to indicated resources by CIM standards. Category 122b (inferred) estimates are reserves that are inferred or probable.

Besides silver, lead and zinc, mineralized bodies within the mineralization zones also contain cadmium, which can be a by-product during ore processing. All of these useful metals constitute significant resource values for Dadi.

Strategic cooperation agreements

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

On July 26, 2006, we signed a Strategic Cooperation Agreement with the Tianjin North China Exploration Bureau (TNCEB) in China. The TNCEB has access to mine assets located in various locations in China. The 5-year Agreement provides that prospective mining properties identified by the TNCEB will be referred exclusively to Silver Dragon first. We have 90 days to review geological information and other information we reasonably may request. If we do not wish to develop such properties, TNCEB may show the properties to other prospective purchasers. In the event that Silver Dragon chooses to acquire, develop or exploit any mining opportunities referred by the TNCEB, Silver Dragon and TNCEB will work towards a mutually acceptable working agreement with respect to the purchase and/or exploration of the mining property. The TNCEB will provide technical, geological and other documentation as may be requested by Silver Dragon as part of its due diligence investigation of prospective properties. In the event that TNCEB does not wish to participate in the joint exploration of the property, we are required to pay TNCEB the amount equal to 1% of the purchase price of such property in cash or 2% of the purchase price in non-cash consideration, including our common stock. If the seller of the property is an affiliate of TNCEB, we have no payment obligation. This five year agreement has now expired.

Silver Mining Business in Mexico

Cerro las Minitas Project

On March 2, 2006, Silver Dragon Mexico acquired 15 mining concessions from four individuals by entering into various assignment agreements. The total consideration paid by us through March 2008 is \$1,045,000 plus 2,560,000 restricted shares. We were obligated to pay a further \$100,000 to one of these individuals by March 8, 2008 to fulfill our obligations under these agreements. On March 13, 2010, the Company settled the outstanding debt of \$100,000 through the issuance of 360,000 shares of the Company's restricted stock. This was a full settlement of all outstanding amounts owing to the vendor. Cerro las Minitas is comprised of 15 concessions covering 1,413 hectares. It is located 68 kilometers northeast of the City of Durango, Mexico, and comprises the Cerro las Minitas mining district, part of the prolific silver belt of the Sierra Madre Occidental.

In December 2010 we became aware of various matters that transpired between 2006 and 2010, that resulted in our concessions being seized without notice to us.

In the city of Durango, Durango, Mexico, on August 18, 2006 the former legal representative of Silver Dragon Mexico in Mexico signed a promissory note for a principal amount of \$350,000 for a vendor, from whom we had purchased 10 of the 15 aforementioned mining concessions, due March 5, 2008. The actions of our former legal representative were not authorized by Silver Dragon Resources Inc., and he did not advise us about signing the promissory note, nor its terms.

On April 21, 2008 the vendor filed a lawsuit against Silver Dragon Mexico claiming payment of \$350,000 as well as ordinary interest at an annual rate of 10%, interest on past due and unpaid principal at an interest rate of 5% per month, as well as legal expenses. The lawsuit was registered under the file number 482/2008, before the Fourth Commercial Local Court of the city of Durango. On October 10, 2008, Silver Dragon Mexico was officially notified of the lawsuit through the former legal representative, but the representative did not advise Silver Dragon Mexico or us. The vendor then seized the following mining concessions: Mina Piña, El Refugio, Ampliación De Santo Niño, La Bocona, La Muralla, Victoria IV, Guadalupe, El Santo Niño and Piña Nueva. On October 28, 2008 the seizure of the mining concessions was recorded before the Public Registry of Mines of Durango.

During this time period, we had no knowledge of what had transpired. Since Silver Dragon Mexico never appeared before the court to reply to the lawsuit, Silver Dragon Mexico was declared in default and lost its opportunity to offer evidence in its favor. On January 8, 2009, the Court passed final sentence ordering Silver Dragon Mexico to pay to the vendor the principal amount plus interest and legal costs. On January 16, 2009 our former legal representative was formally notified of the sentence, but did not advise us. Since Silver Dragon Mexico never appealed the final sentence, on February 10, 2009 the Court declared the sentence as final and irrevocable. On March 30, 2009 the former legal representative of Silver Dragon Mexico, appeared again before the court to appoint an expert to appraise the mining concessions to be sold on a public auction. The appraisal of that expert was similar to the vendor's appraisal. On May 29, 2009 by public auction the mining concessions were granted to the vendor as payment of the principal and interest due, then on June 25, 2009 the Court approved a public auction of the concessions.

On July 31, 2009 those mining concessions were transferred to the vendor through public deed number 7,730 granted before public notary number 3 of the city of Durango. On August 19, 2009, the vendor filed a motion before the court to request a further seizure of the assets of Silver Dragon Mexico to guarantee the payment of \$39,000 as remaining amount to reach the principal claimed amount of \$350,000, since all concessions were appraised in the amount of \$311,000, which the court subsequently granted. On June 16, 2010 the vendor filed a motion before the court to request a further seizure of the assets of Silver Dragon Mexico to guarantee the payment of interest at a rate of 10% which at that date amounted to \$45,739, interest on past due and unpaid principal at an interest rate of 5% per month which at that date amounted to \$274,167, plus legal expenses of \$100,000. On November 5, 2010 the petition of the vendor was granted by the court.

Throughout this whole process the former legal representative never advised Silver Dragon Mexico or us of the existence of the promissory note nor the subsequent court actions. He also accepted court service numerous times on behalf of Silver Dragon Mexico as mentioned earlier to enforce payment of the note, but similarly did not advise Silver Dragon Mexico of this. In summary, from our perspective, the legal proceedings were heard and decided on an *ex parte* basis, without notice to us, nor allowing proper defense and representation of Silver Dragon Mexico.

In December 2010 we became aware of this situation and are now taking steps through the Federal courts in Mexico to seek appropriate redress. Our counsel filed a Constitutional Rights Claim before the Federal Court in the City of Durango, based upon procedural irregularities in the foreclosure proceedings, for the purposes of re-opening the case. On January 17, 2011, Silver Dragon Mexico provided certain evidence in connection with the claims to the court, which is currently reviewing the documentation. Various court hearings have been held since then but a decision has not yet been rendered. 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, in 2010 we wrote off the book value of these concessions, as well as related liabilities.

In late 2010 we became aware of another situation involving the same former legal representative. In November 2010, we and Silver Dragon Mexico approached certain suppliers in order to arrange payment of our outstanding accounts payables. Agreements were reached in most cases. One of Silver Dragon Mexico's creditors did not respond to the request, however, an individual purporting to represent that creditor subsequently emailed us in December 2010 requesting payment for an amount that was more than triple the amount of the debt and asserted that it was pursuant to a promissory note signed by Silver Dragon Mexico and a court decision related to the promissory note in Mexico. On January 17, 2011 we received a copy of the promissory note. It was dated April 24, 2008 and was for a principal amount of \$166,623 and carried interest at a rate of 5% per month. It was signed by the same former legal representative of Silver Dragon Mexico. His actions were not authorized by us, and he did not advise us about the promissory note, or the subsequent court actions. He also accepted court service several times on behalf of Silver Dragon Mexico to enforce payment of the note, but similarly did not advise Silver Dragon Mexico or us of this.

We subsequently determined that in April 2010 the creditor had obtained a judgment from a court in Chihuahua, Mexico, in its favor, for payments under the promissory note that the creditor asserts aggregates \$408,226 with interest, as well as a further 10% for its legal fees. In 2010 we restated the results from prior years to record the original promissory note and the interest.

We are continuing to pursue legal remedies regarding the irregularities in Mexico, and are continuing to engage local counsel to represent us and take appropriate actions in the courts. Various court hearings have been held, but as of the current date the court has not arrived at a decision.

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. 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.

Governmental approvals and regulations

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

As noted elsewhere, we have written off our ownership of the Mexican concessions, but if we are successful the following will be applicable.

Regulatory obligations and government approvals in Mexico

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

We obtained initial authorizations and the relevant permits for the exploration of Cerro Las Minitas from the Ministry of Natural Resources (SEMARNAT). The initial authorization from SEMARNAT authorizing us to initiate the

excavation of the soil on Cerro Las Minitas was issued in 2006. The excavation of soil must be carried out using digger machines, which are registered and authorized by SEMARNAT. Our machines are duly registered and authorized by SEMARNAT. The company has documented all requirements and has submitted its Environmental Impact Assessment / Manifestacion, or Manifestacion de Impacto Ambiental (MIA), for its Cerro las Minitas silver project in Durango, Mexico that includes a cyanide process for the sulfide handling and Heap Leaching process for the handling of oxides. The MIA was officially submitted on March 23, 2009 to SEMARNAT for review, and is the principal document in the application process for a mine operating permit. The environmental permit was received in the 2nd quarter of 2010.

After the exploration stage, mining activities in Mexico will be carried out in accordance with the environmental permit issued by the General Direction of Mining Ministry of Economy under the plan of operations for mining activity submitted by an applicant. Since our current activities in Mexico are in the exploration stage, we have not yet submitted a plan of operations. After receiving confirmation of the existence of minerals, we are required to file an application with the General Direction of Mining of the Ministry of Economy to obtain concession titles for the exploitation of the minerals. As of today, we have obtained fifteen 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. As noted above, we have lost title to those properties but are endeavoring to recover it. We will be 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 will be required to obtain additional permits and authorizations from the Ministry of Labor to operate special machineries used for the exploration of the Mining Field. Such special machineries include but are not limited to pressured containers, boilers and other machineries designated for mining that are regulated by various National Official Norms (NOM). Once mining activities commence we will also be 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 and government approvals in China

Exploration for and exploitation of mineral resources in China is governed by the Mineral Resources Law of the People's Republic of China (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 PRC'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 kilometer for the first three years and increases by RMB 100 per square kilometer for each subsequent year, subject to a maximum fee of RMB 500 per square kilometer.

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 labor 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 kilometer per year.

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

A mining license owner is required to, among other things: (i) conduct mine construction or mining activities within a defined time period, (ii) conduct efficient production, rational mining and comprehensive use of the mineral resources, (iii) pay resources tax and mineral resources compensation (royalties) pursuant to applicable laws, (iv) comply with State laws and regulations regarding labor 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: (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) has 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.

Compliance with environmental laws

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

We intend to secure all necessary permits required for exploration. We anticipate no discharge of water into active streams, creeks, rivers, lakes or other bodies of water regulated by environmental law or regulation. We also anticipate that no endangered species will be disturbed. Restoration of the disturbed land will be completed according to law, and all holes, pits and shafts will be sealed upon abandonment of the mineral claims. During the exploration phase that we are in now, compliance costs are nil or nominal. 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.

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.

Foreign Exchange Controls

Pursuant to PRC foreign exchange regulations, foreign exchange dealings are administered by the State Administration of Foreign Exchange and its local agencies (the SAFE) and transacted through designated financial institutions. CJVs are required to conduct their corporate activities in accordance with the relevant PRC foreign exchange rules/regulations.

CJVs are entitled to borrow funds from overseas within such CJVs total investment amount. Once such loan agreements have been registered with the SAFE in accordance with the formal requirements, the principal and interest of loan can be paid out of China.

CJVs are also entitled to remit the profit/dividends derived from CJVs out of China once the relevant taxes of CJVs have been paid in compliance with PRC Law, if such foreign investor has made the capital contribution in compliance with the contribution schedule set in CJV Contract.

The shareholder of a CJV is entitled to transfer the funds out of China when it sells its equity in the CJV to a Chinese buyer, but such transfer of money should be approved by SAFE.

China has restrictions on Chinese persons and companies to make investment out of China. The Chinese investor should obtain various approvals from governmental authority, including SAFE s approval on foreign exchange payment, to make such overseas investment.

Employees

As of February 29, 2012, the Company had six employees of whom four are full-time employees.

Item 1A. Risk factors

You should consider each of the following risk factors and any other information set forth in this Form 10-K and the other reports we file with the Securities and Exchange Commission (SEC), including our financial statements and related notes, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones that might affect 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.

Risks relating to our operations

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

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

stock may decline, and you may lose all or a portion of your investment.

Our current cash will not be sufficient to fund our business as currently planned for the next 12 months. We will need additional funding, either through equity or debt financings or partnering arrangements that could negatively affect us and our stock price.

We will need significant additional funds to continue operations, which we may not be able to obtain. We estimate that we must raise approximately \$5 million over the next 12 months to fund our anticipated capital requirements and obligations.

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

We 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.

It is possible that third parties will challenge our title for the properties in which we have an interest or that there could be other issues with title to our property.

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.

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 Generally Accepted Accounting Principles (GAAP), contemplate that we will continue as a going concern and do not contain any adjustments that might result if we were unable to continue as a going concern. Changes in our operating plans, our existing and anticipated working capital needs, the acceleration or modification of our expansion plans, lower than anticipated revenues, increased expenses, potential acquisitions or other events will all affect our ability to continue as a going concern. See Management s Plan of Operations .

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

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

Since we changed our business focus to silver exploration, we have generated no revenues. We incurred losses of approximately \$4.0 million and \$4.3 million for the fiscal years ended December 31, 2011 and 2010. We have accumulated losses since inception of approximately \$40.0 million. We anticipate that losses will continue until such time as revenue from operations is sufficient to offset our operating costs, which may never occur. If we are unable to generate our revenues and to increase them sufficiently to cover our costs, our financial condition will worsen and you could lose some or all of your investment.

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

Because we are small and do not have much capital, we have limited our exploration activity. As such, we may not be able to complete exploration programs as planned. 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 of the speculative nature of mineral property exploration, there is substantial risk that no commercially exploitable minerals will be found and our business will fail.

Exploration for minerals is a speculative venture involving substantial risk. We cannot provide investors with any assurance that our claims and properties contain commercially exploitable reserves. The exploration work that we intend to conduct on our claims or properties may not result in the discovery of commercial quantities of silver or other minerals. Problems such as unusual and unexpected rock formations and other conditions are involved in mineral exploration and often result in unsuccessful exploration efforts. In such a case, our business may fail.

Because our interests are in China and Mexico, 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:

- uncertain legal environment
- inability to enforce legal rights
- political risks
- shipping delays,
- credit risks,
- fluctuations in foreign currency

As a result, even if our foreign operations are successful, these risks could result in unexpected costs and losses.

Joint ventures and other partnerships in relation to our properties may expose us to risks.

We are currently involved in, and may enter into in the future, joint ventures or other partnership arrangements with other parties in relation to the exploration, development and production of the properties in which we have an interest. Joint ventures can often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions such as an increase or reduction of registered capital, merger, division, dissolution, amendments of constating documents, and the pledge of joint venture assets, which means that each joint venture party may have a veto right with respect to such decisions which would lead to deadlock in the operations of the joint venture or partnership. Further, we may be unable to exert control over strategic decision made in respect of such properties. Any failure of such other companies to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their properties and, therefore, could have a material adverse effect on our results of operations, financial performance, cash flows and share price.

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

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

As of March 02, 2012, Marc Hazout, our President and Chief Executive Officer, owned beneficially approximately 11.8% of our outstanding common stock. Mr. Hazout is able to influence all matters requiring stockholder approval, including election of directors and approval of significant corporate transactions. This concentration of ownership, which is not subject to any voting restrictions, could limit the price that investors might be willing to pay for our common stock. In addition, Mr. Hazout is in a position to impede transactions that may be desirable for other shareholders. He could, for example, make it more difficult for anyone to take control of us.

Risks relating to the industry in general

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

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

Our 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.

There is a substantial risk that the properties that we drill will not eventually be productive or may decline in productivity over time. We do not 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 covered by insurance could have a material adverse effect on our financial condition.

The impact of government regulation could adversely affect our business.

Our business is subject to applicable domestic and foreign laws and regulations, including laws and regulations on taxation, exploration, 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.

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 your investment in our common shares, 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. 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.

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 OTCBB 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.

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 \$0.03 to a high of \$0.21 on the OTCBB. The trading price of our common stock on the OTCBB 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.

Shareholders may suffer dilution from the issuance of common stock, options, warrants and convertible notes to finance our operations.

All of our properties are in the exploration stage, and we will be required to raise additional capital, enter into joint venture relationships or find alternative means to finance placing one or more of our properties into commercial production, if warranted. On February 15, 2011, we entered into a Note and Warrant Purchase Agreement (the "Purchase Agreement") with Tonaquint, Inc., a Utah corporation (the "Investor") whereby we issued and sold, and the Investor purchased: (i) a Secured Convertible Promissory Note of the Company in the principal amount of \$2,766,000 (the "Company Note") and (ii) a Warrant to purchase common stock of the Company (the "Warrant"). In connection with the transaction, the Company also issued the Investor 50,000 shares of common stock. Beginning six months after closing, the Investor has the right to convert, subject to restrictions described in the Company Note, all or a portion of the outstanding amount of the Company Note that is eligible for conversion into shares of the Company's common stock. Furthermore, the Warrant to purchase 8.6 million shares of common stock of the Company may be exercised at an exercise price of \$0.50 per share at any time within three years after February 15, 2011. The conversion of the Company Note and exercise of the Warrant, in addition to any other outstanding options, warrants, convertible notes, as well as potential future transactions, would result in dilution, possibly substantial, to present and prospective holders of common shares.

On April 11, 2011, we issued two unsecured, convertible notes with a total principal amount of \$400,000, bearing interest at 6% per annum and maturing April 11, 2013. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the date of conversion. On December 15, 2011, we issued a further two unsecured, convertible notes with a total principal amount of \$400,000, bearing interest at 6% per annum and maturing December 15, 2013. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the date of conversion.

In addition, on April 19, 2011, we closed a convertible financing agreement with a privately-held US investment firm. The total planned funding amount is \$3,000,000, with a total face amount of convertible notes issued totalling \$3,150,000.

The conversion of the Company Note and exercise of the Warrant, in addition to any other outstanding options, warrants, convertible notes, as well as potential future transactions, would result in dilution, possibly substantial, to present and prospective holders of common shares.

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 has been subject to the provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the Exchange Act), commonly referred to as the penny stock rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. The Commission generally defines penny stock to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; issued by a registered investment company; excluded from the definition on the basis of price (at least \$5.00 per share) or the registrant's net tangible assets; or exempted from the definition by the Commission. 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. As our common stock is considered to be penny stock, trading in our common stock will be subject to additional sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. This may reduce the liquidity and trading volume of our shares.

Financial Industry Regulatory Authority, Inc. (FINRA) sales practice requirements may limit a shareholder's ability to buy and sell our common shares.

In addition to the penny stock rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

We do not intend to pay dividends.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide in our sole discretion not to pay dividends. The declaration, payment and amount of any future dividends will be made at the discretion of our board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors our board of directors may consider relevant. There is no assurance that we will pay any dividends in the future, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend.

As a public company, we are subject to complex legal and accounting requirements that will require us to incur significant expenses and will expose us to risk of non-compliance.

As a public company, we are subject to numerous legal and accounting requirements that do not apply to private companies. The cost of compliance with many of these requirements is material, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. Our relative inexperience with these requirements may increase the cost of compliance and may also increase the risk that we will fail to comply. Failure to comply with these requirements can have numerous adverse consequences including, but not limited to, our inability to file required periodic reports on a timely basis, loss of market confidence and/or governmental or private actions against us. We cannot assure you that we will be able to comply with all of these requirements or that the cost of such compliance will not prove to be a substantial competitive disadvantage vis-à-vis our privately held and larger public competitors.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) could have a material adverse effect on our business and operating results.

If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common shares.

Pursuant to Section 404 of the Sarbanes-Oxley Act and current SEC regulations, we are required to prepare assessments regarding internal controls over financial reporting. In connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover material weaknesses in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines significant deficiency as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected. We determined that our disclosure controls and procedures were not effective at December 31, 2011. Internal control over financial reporting was also not effective at December 31, 2011.

The process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

We may subject to shareholder litigation, thereby diverting our resources that may have a material effect on our profitability and results of operations. In fact, a lawsuit has been filed by two individuals in China. This will require cash to defend against and may adversely affect our share price.

As discussed in the preceding risk factors, the market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We are, and may in the future be, the target of similar litigation. Securities litigation will result in substantial costs and liabilities and will divert management's attention and resources.

As discussed in Item 3, on page 31, two individuals have commenced legal proceedings against the Company. While we believe it is without merit, regardless of the outcome, it will require funding and attention by management, and will likely adversely affect our share price. The next hearing is scheduled in Beijing for April 18, 2012.

Compliance with changing regulation of corporate governance and public disclosure will result in additional expenses and pose challenges for our management.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules and regulations promulgated thereunder, the Sarbanes-Oxley Act and SEC regulations, have created uncertainty for public companies and significantly increased the costs and risks associated with accessing the U.S. public markets. Our management team will need to devote significant time and financial resources to comply with both existing and evolving standards for public companies, which will lead to increased general and administrative expenses and a diversion of management time and attention from revenue generating activities to compliance activities.

SHOULD ONE OR MORE OF THE FOREGOING RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD THE UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED, INTENDED OR PLANNED.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Description of properties

Erbahuo

Property location and description

Erbahuo is located at the common boundary of Keshiketeng county and Wenniute county in Inner Mongolia, within the Maoshandong village of Wenniute county. The property is about 1.2 km². Access to the property is 110km via paved highway from Chifeng City to the village of Maoshandong and then west 10 km by unsealed road to the property. The mine is an underground and open pit mine. A 10kv electricity power net passes through the concession and the electrical power is adequate for mining purposes. The property has eight existing exploratory tunnels totaling about 800m in length. The property has a building used as onsite offices and dormitory, which was built in December 2006 at a cost of RMB235,000.

The neighboring exploration properties of Dadi, Laopandao, Aobaotugounao, Yuanlinzi, Zhuanxinhu and Shididonggou are all located within Keshiketeng County and cover a total area of 139 km².

Agreements

On March 16, 2006, we entered into an agreement to acquire certain mining and exploration rights to the Erbahuo Silver Project by purchasing a 60% interest in Sino-Top from Sino Silver (the Asset Purchase Agreement). Sino-Top was an equity joint venture company originally created under the Joint Venture Agreement dated April 14, 2005 between Sino Silver and certain other parties. Pursuant to the Asset Purchase Agreement, we acquired a 60% interest in Sino-Top and became a party to the Joint Venture Agreement. Sino-Top holds the exploration and mining rights to nine properties in the Erbahuo Silver District in Northern China (Erbahuo Projects). The total purchase price was \$650,000 plus 4,000,000 shares of our restricted common stock, all of which had been delivered to Sino Silver following receipt of the requisite approvals to the transfer by the local Provincial Department of Commerce in China. In March 2007, we increased our interest from 60% to 90% in exchange for 2 million restricted common shares of the company. On May 9, 2007, we received approval from the Ministry of Commerce to change the equity joint venture to a contractual joint venture. On June 10, 2008, we signed a letter of intent with our state-owned Chinese Joint venture partner Exploration Unit of North China Nonferrous Geological Exploration Bureau, also known as Huaguan Industrial Corp. (HIC) to sell a 50% equity interest in Sino-Top, not including the Erbahuo mine, from Silver Dragon in exchange for \$4.5 million. With respect to the Erbahuo mine, the then-ninth exploration property owned by Chifeng Silver Dragon, a wholly owned subsidiary of Sino-Top, Silver Dragon is entitled to a 70% interest of after-tax proceeds and HIC is entitled to 30%. On November 20, 2008, Gansu Shengda Group Ltd. (Shengda), a private Chinese conglomerate, agreed to acquire 52% of the equity interests in Sino-Top from HIC, Silver Dragon's state-owned Chinese joint venture partner. On January 21, 2010, Sino-Top sold the Saihanaobao and Liangdi Properties to Chinese State-owned Entities for approximately \$4.2 Million.

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

History

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

Operations

1. 2011 Sino-Top exploration project updates:

- All fieldwork was completed at Aobaotugounao, Laopandao and Dadi in year 2011. Planning for 2012 exploration and mine development plans are in progress.
- Dadi: 1,008 metres of tunneling was completed (Adit PD4 at 418m and the No. II ore body mining tunnel at 590.3m). 1,401 metres (4 holes) drilling was completed (Drill holes: ZK1601 at 150.2m, ZK2201 at 350.2m, ZK0305 at 400.3m and ZK1204 at 500.3m). 237 metres of in-pit drilling

- was completed (hole ZK1401 at 114m and ZK1205 at 123m).
- Laopandao: 364.47 metres of tunneling was completed (Adit PD3). Ore samples have been taken for metallurgic testing to be conducted in 2012.
- Aobaotugounao: 1,152.7 metres (4 holes) of drilling was completed (Drill holes: ZK1501 at 270m, ZK1101 at 230.2m, ZK1102 at 462m and ZK1901 at 190.5m).
- The Department of Commerce and the local foreign exchange administration have issued approval for capital increase from \$5.12 million to \$7.27 million

2. Chifeng Silver / Erbahuo silver mine project updates:

- The construction of the leaching facility has been completed. System debugging is in progress for trial production.
- The mining operation has stopped due to freezing weather, and about 15,000 tonnes of silver ore are stockpiled for processing.

Cerro las Minitas

Property location and description

As noted elsewhere, we have written off our ownership of the Mexican concessions, but if we are successful in our Constitutional Rights Claim, the following will be applicable.

The Cerro Las Minitas property is located in the Minitas Mining District, approximately seven kilometers north of the town of Guadalupe Victoria, Durango and 70 km northeast of the City of Durango, the capital of the state of Durango. Located in the municipality of Guadalupe Victoria, Durango, the property can be reached from Ciudad Durango via Interstate Highway 40 (Toll Road) and Highway 40 (Free Access), the road from Francisco I. Madera to Cuencame. From Guadalupe Victoria, a graded dirt road leads north to the property. About half of the property is located north of Interstate Highway 40 (a limited access freeway) and an overpass over the highway affords access to the northern part of the property. The claims are located in the Minitas Mining District in the Mining Region of Guadalupe Victoria. The property consists of 15 mining concessions encompassing 1,413 hectares.

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

Agreements

In a news release dated December 13, 2005, we announced that we had entered into agreements to purchase a 100% interest in the Cerro Las Minitas Property. In March 2006, Silver Dragon consolidated landholdings in the district and claims were now held by Silver Dragon Mining de Mexico S.A. De C.V, a wholly owned Mexican subsidiary of Silver Dragon Resources Inc. (Silver Dragon Mexico), by virtue of Agreements to Purchase 15 of the mining concessions (collectively, the Purchase Agreement).

Under the terms of the Purchase Agreement with Sr. Jaime Muguero Peña, the Company has earned 100% interest in ten mining concessions by payment of \$450,000, plus 450,000 restricted common shares. All payments to Sr. Muguero have been made. Under the terms of the Purchase Agreement with Sr. & Sra. Ramon Davila Flores, the Company has earned 100% interest in five mining concessions by payment of \$245,000. All payments to Sr. and Sra. Flores have been made.

The surface access to the property is controlled by the Guadalupe Victoria and Ignacio Ramirez Ejidos. Silver Dragon Mining de Mexico, S.A. de C.V. has a surface agreement to cover the common ground of the Guadalupe Victoria Ejido that lies within the Cerro Las Minitas concessions. Agreements with individual Ejido landowners are negotiated as needed to cover deeded lands.

On August 12, 2010, Silver Dragon Mexico entered into an agreement with Ema Violante, wherein Ms. Violante sold to Silver Dragon Mexico five hectares of land for \$15,564 in Guadalupe Victoria, Durango, Mexico to be used to build a tailings pond when the Company commences construction of its mill.

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

History

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

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

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

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

The Consejo de Recursos Minerales (CRM) has been giving support to the miners in the area since 1977. In 1979, CRM completed 834.55m of diamond drilling in seven holes on the Mina Piña area, which belonged at that time to

Mr. Santiago Valdez. Mr. Valdez exploited the mine until 1997, when he suspended operations due to the drop in metal prices. CRM discovered additional mineralization in their drilling, but no further exploration or development of those discoveries has been done. CRM delivered drill and assay data to the operators in the district without interpretation.

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

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

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

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

Operations

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

Mineralization and rock formation

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

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

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

Item 3. Legal proceedings

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. We, on several occasions, through our legal counsel in several countries, have asked that individual to cease and desist, and subsequently 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. The next hearing has been scheduled in Beijing for April 18, 2012.

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. Various hearing have been held and further court dates have been scheduled, but to date the court has not released its judgement.

Financing

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 \$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 have returned 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.

Item 4. Mine Safety Disclosures

Not applicable.

Part II**Item 5. Market for common equity and other shareholder matters**

Our common stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "SDRG." On February 17, 2012, the last reported sale of our common stock as reported on the OTCBB was \$0.045 per share. The following table shows the quarterly high and low trade prices on the Over-the-Counter Bulletin Board. The prices reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not represent actual transactions.

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

The following sets forth the high and low closing sale price for one share of common stock on the OTCBB.

	Sales Price on the Over-The-Counter Bulletin Board (\$)	
	High	Low
Fiscal Year Ended December 31, 2011		
First Quarter	0.21	0.07
Second Quarter	0.21	0.10
Third Quarter	0.15	0.06
Fourth Quarter	0.095	0.03
Fiscal Year Ended December 31, 2010		
First Quarter	\$ 0.44	\$ 0.22
Second Quarter	\$ 0.36	\$ 0.16
Third Quarter	\$ 0.29	\$ 0.155
Fourth Quarter	\$ 0.28	\$ 0.07

Holders

As of March 2, 2012, there were approximately 391 shareholders of record of our common stock.

Dividends

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

Equity Compensation Plan Information

The 2002 stock option plan which is no longer in use was cancelled by the board of directors on March 16, 2011.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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.

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 15, 2011 the Company issued 8.6 million share purchase warrants to an investor, as part of a financing arrangement (note 10) 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.

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 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 May 20, 2011, the Company issued 400,000 and 750,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$45,400 and \$83,625 respectively. On August 24, 2011, the Company cancelled 750,000 shares since the contract for services was cancelled.

On May 27, 2011, the Company closed a private placement and issued 1,250,000 units at \$0.10 per unit for a total of \$125,000. Each unit comprises of one common share and one common share purchase warrant. Each warrant of this type being exercisable for a period of 12 months to acquire one common share at an exercise price of \$0.20.

On May 27, 2011, the Company issued 1,250,000 warrants exercisable for a period of 24 months to acquire one common share at an exercise price of \$0.50.

On June 16, 2011, the Company issued 50,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$5,000.

On June 16, 2011, the Company issued 100,000 common share warrants for services provided at an exercise price of \$0.12 exercisable for a period of one year from the date of issuance, for fair value of \$3,946.

On August 10, 2011, the Company issued 100,000 common share warrants to an employee at an exercise price of \$0.15 exercisable for a period of two years from the date of issuance, for fair value of \$6,139.

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On December 8, 2011, the Company issued 1,562,500 shares at \$0.08 per unit for a total of \$125,000.

During the year ended December 31, 2011, the Company issued 5,010,000 shares pursuant to the conversion of a note of \$185,380 principal and \$103,105 interest.

During the year ended December 31, 2011, an investor elected to convert two outstanding notes payable totaling \$318,100 plus accrued interest of \$3,353. The Company issued a total of 8,686,428 shares.

During the year ended December 31, 2011, the Company issued 6,350,000 free trading shares pursuant to the conversion of a note with a balance of \$392,085 principal.

During the year ended December 31, 2011, an investor elected to convert six outstanding notes payable totaling \$340,000 plus accrued interest of \$13,600. The Company issued a total of 6,548,784 shares.

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

Item 6. Selected Financial Data

Not applicable

Item 7. Management's Discussion and Analysis and Plan of Operation

Management's Discussion and Analysis of Results of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the financial statements included herein. Further, this MD&A should be read in conjunction with the our Consolidated Financial Statements and Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K, for the years ended December 31, 2011 and December 31, 2010, as well as the Business and Risk Factors sections of this Annual Report on Form 10-K. Our financial statements have been prepared in accordance with GAAP.

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 through equity or debt financing, by way of joint venture or option agreements or through a combination of both.

Plans for the Year 2012

Our plan for 2012 is to continue move forward on operations as well as corporate matters. For operations, the main plans are to invest further in advanced stage exploration at the Chinese properties, while applying for mining licenses at the two flagship properties, Dadi and Laopandao, and scale up production at the Erbahuo mine during 2012. On the corporate side, we plan to raise further capital (equity and possibly debt), and to resolve the various legal matters listed elsewhere in this Annual Report.

Cash Requirements.

Our current levels of cash and funding will not be sufficient to fund our business as currently planned for 12 months. We will need significant additional funds to continue operations, which we may not be able to obtain. We estimate that we must raise approximately \$5 million over the next 12 months to fund our operating requirements.

Critical Accounting Policies

The preparation of financial statements in conformity with 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 this Annual Report on Form 10-K.

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.

Results of Operations for the Years Ended December 31, 2011 and 2010

Revenues and Losses

During the years ended December 31, 2011 and 2010, we did not have any revenues, as planned since we focused on exploration and development activities.

During the years ended December 31, 2011 and 2010, we incurred losses of approximately \$4.0 million and \$4.3 million, including losses from operations of \$2.2 million and \$4.8 million respectively. The higher loss in 2010 was due to the write-off of our Mexican operation, as discussed above. General and administrative expenses were approximately \$2.2 million in 2011, consistent to 2010.

Liquidity and Capital Resources

As of December 31, 2011, we had cash on hand of approximately \$115,000 and total current assets of approximately \$2.6 million. In addition, we had current liabilities totaling approximately \$5.2 million, for working capital deficit of \$2.6 million, compared to a working capital deficit of approximately \$1.7 million at December 31, 2010. During 2011, we have been dependent on the issuance of common stock and loans to pay our expenses.

On January 11, 2011, we issued a convertible note with a principal amount of \$65,000 which was paid in full on July 25, 2011. On March 1, we issued a convertible note with a principal amount of \$55,000 which was paid in full on September 27, 2011. On April 8, 2011, we issued a convertible note with a principal amount of \$50,000 which was paid in full on October 27, 2011. On August 24, 2011, we issued a convertible note with a principal amount of \$55,000, due on May 25, 2012. On November 30, 2011, we issued a convertible note with a principal amount of \$75,000, due on September 5, 2012. The notes bear interest of 8% per annum and are unsecured. 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.

As part of our ongoing financing program, in order to discharge some accounts payable, on January 27, 2011, the Superior Court of the State of California for the County of Los Angeles entered an order approving a Settlement of Claim in the matter entitled Socius CG II, Ltd. v. Silver Dragon Resources Inc. The order provided for the settlement of a claim by Socius for \$405,981.49. On January 28, 2011, we issued 9,000,000 free trading shares to Socius. On March 2, 2011, Socius agreed to return to us for cancellation 3,116,104 shares. For further information please see our Form 8-Ks filed January 28, 2011 and March 3, 2011.

On February 15, 2011, we closed a convertible financing of \$2.5 million bearing interest of 5.5% per annum over a four-year period, with consideration of \$500,000 paid at closing and \$2,000,000 paid in a series of ten notes (note 6(a)), each in the principal amount of \$200,000, 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 receivable subject to certain conditions. In exchange for the note receivable issued, we issued a convertible note payable with a face amount of \$2,766,000 due February 15, 2015, which represents the \$2,500,000 paid or to be paid to us by the investor and other fees and expenses. The investor also received a warrant to purchase 8.6 million common shares of the company 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 notes 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 (Debt). The difference between the face value of the convertible notes payable and the allocated value is being charged to interest expense over the term of the convertible notes 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 notes 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 notes 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 notes payable.

On April 11, 2011, we issued two unsecured, convertible notes with a principal amount of \$100,000 and \$300,000, bearing interest at 6% per annum and maturing April 11, 2013. This reflects an original issue discount of 4% and the sale of these notes to the holder for \$96,000 and \$288,000 respectively. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the day of conversion. As consideration, we received a note receivable.

On December 15, 2011, we issued two unsecured, convertible notes with a principal amount of \$150,000 and \$250,000, bearing interest at 6% per annum and maturing December 15, 2013. This reflects an original issue discount of 4% and the sale of this note to the holder for \$144,000 and \$240,000 respectively. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the day of conversion. As consideration, we received \$150,000 cash and the note receivable for \$250,000.

On April 19, 2011, we closed a convertible financing agreement with a privately-held US investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 through a convertible promissory note and four \$500,000 promissory notes, bearing interest at a 5% one-time interest charge on the principal sum due on maturity, secured and collateralized by the lender.

The initial note provides for \$1,000,000 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. The registration statement became effective on May 19, 2011. \$650,000 was paid to us. \$100,000 is currently due and \$250,000 is due on or after November 19, 2011 (note 6(c)). The subsequent notes each aggregate \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized, over the remainder of the three-year period. The total face amount of the convertible notes issued is \$3,150,000, which represents \$3,000,000 to be paid to us and other fees and expenses to be

paid to the lender. The difference between the fair 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 as at December 31, 2011 is \$802,083. The fair value of the beneficial conversion feature will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

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

Going Concern

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

As of December 31, 2011, we had an accumulated deficit of approximately \$40.1 million. Our continuation as a going concern is uncertain and dependent on successfully achieving future profitable operations and obtaining additional sources of financing to sustain our operations. In the event we cannot obtain the necessary funds, it will be necessary to delay, curtail or cancel our exploration programs. We plan to pursue additional financing; however there can be no assurance that we will be able to secure financing when needed or obtain such on terms satisfactory to us, if at all.

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

As shown in the accompanying consolidated financial statements, we incurred a large net operating loss in the year ended December 31, 2011, and had significant unpaid notes payable. These factors create an uncertainty about our ability to continue as a going concern. Our management has developed a plan to raise additional capital. Our ability to continue as a going concern is dependent on the success of this plan.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

The financial statements required by this Item, the accompanying notes thereto and the reports of independent accountants are included, as part of this Form 10-K immediately following the signature page.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 annual 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 above on page 13. Further, management has been unable to establish that disclosure controls and procedures are operating effectively to ensure that events and transactions occurring in Mexico are recorded, processed, summarized and reported within the required time periods. Management is of the view that controls over its operations in Canada and China are effective.

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 December 31, 2011, because we did not obtain completed internal control questionnaires and process descriptions from our subsidiary in Mexico. 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 December 31, 2011.

Changes in internal controls

There were no changes to internal controls in 2011.

Limitations of Internal 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 the previous 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.

Item 9B. Other Information

None.

Part III**Item 10. Directors, Executive Officers, and Corporate Governance***Directors and Executive Officers*

Information about our directors and executive officers as of March 2, 2012 is set forth below:

Name	Age	Position	Date of first election or appointment
Executive Officers			
Marc Hazout	47	Chief Executive Officer, President and Director	November 5, 2005
Jeffrey Sherman	56	Chief Financial Officer	September 8, 2010
Alessandro Motta	41	Vice President, Investor Relations	October 5, 2010
Directors			
Manuel Chan	61	Director	August 7, 2007
Charles McAlpine	77	Director	September 28, 2010
Guoqiang Hao	57	Director	June 18, 2008
R.Glen MacMullin	41	Director	December 6, 2007

A brief biography of our directors and executive officers follows. Each director has been elected to serve until our next annual meeting of shareholders and until his successor has been elected and qualified. Each executive officer serves at the discretion of our board of directors.

Mr. Marc Hazout, age 47, founded Silver Dragon Resources Inc. and currently serves as a Director, President and CEO. Mr. Hazout brings over 10 years of experience in public markets, finance and business operations to Silver Dragon Resources Inc. Over the past several years, Mr. Hazout has been involved in acquiring, restructuring and providing management services as both a director and an officer to several publicly traded companies. In 1998, Mr. Hazout founded and has been President and CEO of Travellers International Inc., a private investment banking firm headquartered in Toronto. Travellers has been involved in a multitude of successful capital market transactions, and over the past few years has focused on building relationships in China with the objective of participating in that country's tremendous growth opportunities. Mr. Hazout attended York University in Toronto studying International Relations and Economics. He attended The Canadian Securities Institute, after which, he traded equities with a securities firm in Toronto. Mr. Hazout speaks English, French, Hebrew and Arabic as well as some Spanish and Italian. The determination was made that Mr. Hazout should serve on our Board of Directors due to the fact that he is a founding member and CEO of the company, possesses significant experience in securities and capital markets and brings an extensive network of relationships in China.

Mr. Jeffrey Sherman, age 56, has had extensive experience as a director and CFO of numerous corporations, written over 20 books, and lectured extensively on finance, treasury and governance, including as an adjunct professor at York University for 15 years, and executive development and other programs for the institutes of Chartered Accountants across Canada since 1980. His most recent books include *Cash Management Toolkit*, and *Finance and Accounting PolicyPro*, both published by the Canadian Institute of Chartered Accountants., and the four-volume *Controllershship Guide*, published by Thomson-Reuters/Carswell. From 1999 to present Mr. Sherman has been President of Anagram Services, a consulting company, and from February 2008 to present he has been chief financial officer of Pure Nickel Inc., a mineral exploration company listed on the Toronto Stock Exchange. He graduated with a Bachelor of Commerce from the University of Toronto, and an M.B.A. from York University, and is a Fellow of the Institute of Chartered Accountants of Ontario.

Mr. Manuel Chan, age 61, possesses more than 20 years of experience in the real estate sector and holds a Bachelor of Commerce Degree in Management Information Systems and Accounting from the University of British Columbia, Canada. Through his business dealings, Mr. Chan has established an extensive network of business and personal relationships throughout the Hong Kong and China Investment Community. Mr. Chan is also a member of the Board of Directors of Sanhe Sino-Top Resources & Technologies Ltd., of which Silver Dragon owns a 40% equity interest. Sino-Top holds the exploration and mining rights to nine properties including the Erbahuo Silver Mine located in the Erbahuo Silver District in Northern China. The determination was made that Mr. Chan should serve on our Board of Directors due to his experience and extensive professional relationships in China.

Mr. Guoqiang Hao, age 57, is currently head of Exploration Unit of North China Geological Exploration Bureau, also referred to as Huaguan Industrial Corp.(HIC), a Chinese state-owned entity that operates in the mining, engineering, manufacturing, chemical analysis and real estate sectors. Mr. Hao has served with HIC for over 30 years, first as a geologist, then as a manager, and has witnessed its development from a geological exploration team to a conglomerate with a staff of over 700 and 10 subsidiaries. Under the leadership of Mr. Hao, HIC is also in the process of acquiring mining properties in northern Africa and central Asia. Mr. Hao is also a member of the Board of the Directors of Sanhe Sino-Top Resources & Technologies Ltd., a joint venture between Silver Dragon and HIC. Having a dual capacity of corporate executive and government officer, Mr. Hao has extensive connections with China's mining and industrial circles and the Chinese government. The determination was made that Mr. Hao should serve on our Board of Directors due to his technical experience, geological background, professional relationships and industry expertise.

Mr. Charles McAlpine, age 77, brings almost 50 years of experience at executive-level positions in the mining industry. He holds a Business Administration degree from The Ivey School, University of Western Ontario and is a Chartered Accountant. Mr. McAlpine was President of Campbell Chibougamau Mines Ltd., (a listed Canadian copper-gold mining company) in 1973 when Campbell won The Ryan Trophy for Best Safety Record of all metalliferous mines in Canada. From 1989 to 2007 he was a Director of Hecla Mining Company, now the largest and one of the lowest cost silver producers in the USA. The determination was made that Mr. McAlpine should serve on our Board of Directors due to his understanding of the precious metals industry, his financial background and qualifications and his extensive experience in the mining sector.

Mr. Glen MacMullin, age 41, is currently Senior Vice President, Asset Management with Minto Group, an integrated real estate development, construction and management company. Prior to joining Minto Group in 2008, he was a Managing Director at Xavier Sussex, LLC; a private investment firm he co-founded in 2004. Previously, Mr. MacMullin was a Director and Chief Operating Officer with DB Advisors, LLC, a \$6 billion hedge fund group based in New York and wholly owned by Deutsche Bank AG. He has also held several senior management positions with Deutsche Bank Offshore in the Cayman Islands, including Head of Investment Funds. He started his career in public accounting with Coopers & Lybrand in Ottawa, Canada and KPMG in the Cayman Islands. Mr. MacMullin received a Bachelor of Business Administration degree from Saint Francis Xavier University and is a member of the Canadian Institute of Chartered Accountants. He serves on the Board of Directors of Nayarit Gold Inc. The determination was made that Mr. MacMullin should serve on our Board of Directors due to his extensive financial background, professional relationships and industry knowledge.

Mr. Alessandro M. Motta, age 41, assumed his current responsibilities as VP Investor Relations in October, 2010 after serving as Director of IR & IT for the company since September 2006. Previously, Mr. Motta held senior positions and consulted for several financial and service institutions including CIBC-Intria, Scotiabank, CGI and Exodus Communications. Serving as an independent technology and management consultant since July of 2002, Alessandro has assisted government, enterprise and large non-profit organizations with implementing new technologies and adopting best practices in business management. Mr. Motta speaks English, Italian and French, and is continuing studies of Mandarin Chinese at the University of Toronto.

Involvement in Certain Legal Proceedings

To the best of the Company's knowledge, during the past ten years, none of the following occurred with respect to a director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a Federal or State securities or commodities law, and the judgment has not been reversed, suspended or vacated; (5) being subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any Federal or State securities or commodities law or regulation or any law or regulation respecting financial institutions or insurance companies or prohibiting mail or wire fraud or fraud in connection with any business entity; or (6) being subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization, any registered entity of the Commodity Exchange Act, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

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

We have adopted a Code of Conduct and Ethics and a Financial Management Code of Conduct that apply to our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions. The Code of Conduct and Ethics and Financial Management Code of Conduct are available on our website at www.silverdragonresources.com.

Audit Committee and Audit Committee Financial Expert

The board of directors has determined that Glen MacMullin, a member of our Audit Committee, is an audit committee financial expert. Mr. MacMullin is independent as independence for audit committee members is defined by the listing standards of NASDAQ.

Item 11. Executive compensation*Summary Compensation Table*

The following table sets forth information concerning the compensation for services in all capacities for the fiscal years ended December 31, 2011 and 2010 of the named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity	Nonqualified	All Other Compensation (\$)	Total (\$)
						Incentive Plan Compensation (\$)	Deferred Compensation Earnings (\$)		
Marc Hazout, Director, President and Chief Executive Officer	2011	324,000 ⁽²⁾	-	-	16,138	-	-	None	340,138
	2010	324,000 ⁽²⁾	-	279,000 ⁽¹⁾	-	-	-	None	603,000
Jeffrey Sherman, Chief Financial Officer and Corporate Secretary	2011	48,029	-	-	8,069	-	-	None	56,098
	2010	16,000 ⁽³⁾	-	-	23,058	-	-	None	39,058

(1) The shares granted in 2010 were pursuant to a financing and extension of contract for five years. The shares issued to Travellers International Inc., a corporation owned by Mr. Hazout, consisted of 1,000,000 shares of the Company's restricted common stock, valued at \$0.279 per share on the grant date, which vested immediately and are restricted from resale for six months from the date of issuance of the shares.

(2) Payments were made to Travellers International Inc.

(3) Mr. Sherman commenced employment effective September 1, 2010.

Outstanding Equity Awards at 2011 Fiscal Year End

No options have been awarded to Named Executive Officers, share purchase warrants have been awarded as noted under *Option Awards* above. Any stock awards granted to Named Executive Officers are fully vested. See Item 12, below.

Compensation of Directors

Directors who are also officers of the Company are not remunerated for their services rendered as a director of the Company. Outside directors received warrants as remuneration for their office. Directors are reimbursed for any reasonable expenses incurred in the connection with attendance at board or committee meetings or any expenses generated in connection with the performance of services on the behalf of the company.

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The following table summarizes compensation paid or earned by our directors who are not Named Executive Officers for their services as directors of our Company during the fiscal year ended December 31, 2011:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
		(\$)	(\$)	(\$)			(\$)
Manuel Chan							
2011			16,138 ⁽¹⁾				16,138
2010			20,426 ⁽²⁾				20,426
Guoqiang Hao							
2011			16,138 ⁽³⁾				16,138
2010			-				-
Glen MacMillen							
2011			16,138 ⁽⁴⁾				16,138
2010			-				-
Charles Alpine							
2011			16,138 ⁽⁵⁾				16,138
2010			32,704 ⁽⁶⁾				32,704

- (1) 200,000 share purchase warrants were awarded to Manuel Chan exercisable at an exercise price of \$0.11 for a period of three years from the date of issuance.
- (2) 200,000 share purchase warrants were awarded to Manuel Chan exercisable at an exercise price of \$0.18 for a period of two years from the date of issuance.
- (3) 200,000 share purchase warrants were awarded to Guoqiang Hao exercisable at an exercise price of \$0.11 for a period of three years from the date of issuance.
- (4) 200,000 share purchase warrants were awarded to Glen MacMillen exercisable at an exercise price of \$0.11 for a period of three years from the date of issuance.
- (5) 200,000 share purchase warrants were awarded to Charles McAlpine exercisable at an exercise price of \$0.11 for a period of three years from the date of issuance.
- (6) 200,000 share purchase warrants were awarded to Charles McAlpine exercisable at an exercise price of \$0.25 for a period of three years from the date of issuance.

Consulting Agreements

On November 1, 2010, we entered into a consulting agreement with Travellers International Inc., a corporation owned by Mr. Hazout, to provide consulting services including all activities required to direct, oversee, and manage us including providing the services that would be provided by a chief executive officer. The consulting agreement provides that the Mr. Hazout is entitled to an annual fee of \$288,000 for a term of five years, a travel allowance of \$3,000 per month, and eight weeks paid holidays each calendar year. Upon termination of the consulting agreement, Mr. Hazout will be provided with 100% of his annual fee rate for the remaining period of the agreement. The agreement contains provisions prohibiting him from competing with us or soliciting customers or employees for a period of one year following the termination of the agreement.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters.

Equity Compensation Plan Information

The 2002 stock option plan was cancelled by the board of directors on March 16, 2011.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 2, 2012, by: (1) our directors, named executive officers and beneficial holders of more than 5% of our common stock, and (2) all of our current directors and executive officers as a group. The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 under the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated in the footnotes to this table, and as affected by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them.

Name and Address of Beneficial Owner	Number of Shares	% Shares ⁽¹⁾
Marc Hazout ⁽²⁾ Suite 803, 5160 Yonge Street, Toronto, Ontario, M2N 6L9	18,141,206	11.80%
Jeffrey Sherman ⁽³⁾	300,000	0.20%
Manual Chan ⁽⁴⁾	852,500	0.56%
Guoqiang Hao ⁽⁵⁾	400,000	0.26%
Glen MacMullin ⁽⁶⁾	450,000	0.29%
Charles McAlpine ⁽⁷⁾	400,000	0.26%
Officers and Directors as a group (6 persons)	20,543,706	13.22%

- (1) Based on 152,624,641 shares outstanding as of March 2, 2012, plus any shares of common stock deemed to be beneficially owned pursuant to warrants that are exercisable within 60 days from the above date.
- (2) Owned by Travellers International Inc. solely owned by Mr. Hazout. Mr Hazout is the President and CEO of Travellers. Marc Hazout own purchase warrants expiring October 10, 2012, to purchase 100,000 shares of Common Stock at an exercise price of \$0.50. He owns further share purchase warrants, expiring December 21, 2013, to purchase 768,000 shares of Common Stock at an exercise price of \$0.25. He owns further share purchase warrants, expiring January 25, 2014, to purchase 200,000 shares of Common Stock at an exercise price of \$0.11.
- (3) Jeffrey Sherman owns share purchase warrants, expiring September 1, 2012, to purchase 200,000 shares of Common Stock at an exercise price of \$0.18. He owns further share purchase warrants, expiring January 25, 2014, to purchase 200,000 shares of Common Stock at an exercise price of \$0.11.
- (4) Manual Chan owns share purchase warrants, expiring September 1, 2012, to purchase 200,000 shares of Common Stock at an exercise price of \$0.18. He owns further share purchase warrants, expiring January 25, 2014, to purchase 200,000 shares of Common Stock at an exercise price of \$0.11.
- (5) Guoqiang Hao own share purchase warrants, expiring January 25, 2014, to purchase 200,000 shares of Common Stock at an exercise price of \$0.11.
- (6) Glen MacMullin owns share purchase warrants, expiring January 25, 2014, to purchase 200,000 share of Common Stock at an exercise price of \$0.11. He owns further share purchase warrants, expiring December 5, 2012, to purchase 250,000 shares of Common Stock at an exercise price of \$0.11.
- (7) Charles McAlpine owns share purchase warrants, expiring September 28, 2013, to purchase 200,000 shares of Common Stock at an exercise price of \$0.25. He owns further share purchase warrants, expiring January 25, 2014 to purchase 200,000 shares of Common Stock at an exercise price of \$0.11.

Item 13. Certain relationships and related transactions, and Director Independence

On October 6, 2010 we issued 1,000,000 shares of common stock to a Travellers International Inc., a company owned by Marc Hazout, pursuant to the signing of a consultant agreement. The fair value of the shares issued on the date of issuance was \$279,000.

Glen MacMullin and Charles McAlpine were both considered independent under the independence standards of the NASDAQ Stock Market Rule 5605 during the past fiscal year. Mr MacMullin and Mr. McAlpine currently sit on the audit committee and on the compensation committee.

Item 14. Principal accountant fees and services

The aggregate fees billed by the Company's external auditors in each of the last two fiscal years are as follows:

	2011	2010
Audit fees	36,852	52,119

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Audit-related fees ⁽¹⁾	57,945	63,525
Tax fees	-	-
All other fees	-	-
Total	\$ 94,797	\$ 115,644

(1) These fees were for reviews of quarterly financial statements. The audit committee was formed in the fourth quarter of 2010 and as such, did not have a role in approving audit-related fees, tax fees, and all other fees as shown above during the previous year.

Part IV**Item 15. Exhibits, Financial Statement Schedules**

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

<u>Exhibit No.</u>	<u>Name of Exhibit</u>
---------------------------	-------------------------------

3.1	Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation (2)
3.3	Bylaws (1)
4.1	Form of Subscription Agreement dated March 23, 2006 between Silver Dragon Resources Inc. and Heller Capital Investments LLC (3)
4.2	Form of Class A Common Stock Purchase Warrant issued to Heller Capital Investments LLC (4)
4.3	Form of Class B Common Stock Purchase Warrant issued to Heller Capital Investments LLC (4)
4.4	Subscription Agreement dated November 9, 2006 between Silver Dragon Resources, Inc. and Alpha Capital Anstalt (5)
4.5	Form of Class A Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
4.6	Form of Class B Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
4.7	Form of Class C Common Stock Purchase Warrant issued to Alpha Capital Anstalt (5)
10.1	Assignment of Rights of Mining Concessions Agreement between Silver Dragon Mining De Mexico, S.A. de C.V. and Jamie Mugurio Pena (6)
10.2	Assets Bailment Agreement dated March 2, 2006 by and between Silver Dragon Mining De Mexico, S.A. de C.V. and Jaime Mugurio Pena (6)
10.3	Assets Purchase Agreement dated March 2, 2006 by and between Silver Dragon Mining De Mexico, S.A. de C.V. and Ramon Tomas Davila Flores (6)
10.4	Asset Purchase Agreement between Silver Dragon Mining De Mexico, S.A., de C.V. and Ramon Tomas Davila (6)
10.5	Assignment of Rights of Mining Concessions Agreement dated March 8, 2006 by and between Silver Dragon Mining De Mexico, S.A. de C.V. and Minera Real Victoria S.A. de C.V.(6)
10.6	Addendum to the Mining Exploration and Exploitation Agreement dated March 9, 2006 by and between Silver Dragon Mining de Mexico , S.A. de C.V. and Silvia Villasenor Haro (6)
10.7	Asset Purchase Agreement dated as of March 16, 2006 among Silver Dragon Resources, Inc., Sino Silver Corp. and Sanhe Sino-Top Resources and Technologies, Ltd. (7)
10.8	Strategic Cooperation Agreement dated July 26, 2006, between Silver Dragon Resources, Inc. and Tianjin North China Exploration Bureau (4)
10.9	Employment Agreement dated November 15, 2005 between Silver Dragon Resources, Inc. and Marc Hazout (management contract) (4)
11	Statement re: computation of per share earnings (8)
16.1	Letters from Moore Stephens Cooper Modyneux LLP on change in certifying accountants (9)
21	Subsidiaries of the Company (10)
23.1	Consent of SF Partnership, LLP, Chartered Accountants
<u>31.1</u>	<u>Sarbanes-Oxley Section 302 Certification by the Chief Executive Officer</u>
<u>31.2</u>	<u>Sarbanes-Oxley Section 302 Certification by the Chief Financial Officer</u>
<u>32.1</u>	<u>Sarbanes-Oxley Section 906 Certification by the Chief Executive Officer</u>
<u>32.2</u>	<u>Sarbanes-Oxley Section 906 Certification by the Chief Financial Officer</u>

- (1) Incorporated by reference to Form 10-SB filed on February 23, 2000.
(2) Incorporated by reference to Form 10-SB/A filed on July 17, 2003.
(3) Incorporated by reference to Form 8-K/A filed December 14, 2006.

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- (4) Incorporated by reference to Form SB-2/A filed March 21, 2007.
- (5) Incorporated by reference to Form 8-K filed December 5, 2006.
- (6) Incorporated by reference to Form 8-K filed on March 20, 2006.
- (7) Incorporated by reference to Form 8-K filed March 24, 2006.
- (8) Included within financial statements attached hereto as Exhibit A.
- (9) Incorporated by reference to Form 8-K filed January 27, 2006.
- (10) Previously filed.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto authorized.

SILVER DRAGON RESOURCES INC.

By: */s/ Marc M. Hazout*

Marc M. Hazout

President and Chief Executive Officer

Dated: March 22, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant, in the capacities and on the dates indicated.

Signature	Title	Date
<i>/s/ Marc M. Hazout</i> Marc M. Hazout	President and Chief Executive Officer, and Director	March 22, 2012
<i>/s/ Jeffrey D. Sherman</i> Jeffrey D. Sherman	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 22, 2012
<i>/s/ Manuel Chan</i> Manuel Chan	Director	March 22, 2012
<i>/s/ Glen MacMullin</i> Glen MacMullin	Director	March 22, 2012
<i>/s/ Guoqiang Hao</i> Guoqiang Hao	Director	March 22, 2012
<i>/s/ Charles McAlpine</i> Charles McAlpine	Director	March 22, 2012

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

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(EXPRESSED IN UNITED STATES FUNDS)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Silver Dragon Resources Inc. and Subsidiaries (the Company)

We have audited the accompanying consolidated balance sheets of Silver Dragon Resources Inc. and Subsidiaries (a Delaware corporation in the exploration stage) as of December 31, 2011 and 2010, and the consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2011, and cumulative from inception (June 15, 1996) through to December 31, 2011, except as explained as follows: we did not audit the cumulative data from June 15, 1996 to December 31, 2004. The cumulative data was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts in the cumulative data through December 31, 2004, is based solely on the report of other auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silver Dragon Resources Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

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

Toronto, Canada
March 22, 2012

/s/ SF Partnership, LLP
CHARTERED ACCOUNTANTS

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

	December 31 2011	December 31 2010
ASSETS		
Current assets		
Cash	\$ 114,568	\$ 96,563
Other receivable	12,474	
Notes receivable (note 6)	2,277,500	
Deferred expenses	75,500	164,583
Prepaid expenses	99,458	38,675
Total current assets	2,579,500	299,821
Notes receivable (note 6)	2,000,000	
Deferred expenses	154,000	220,125
Plant and equipment, net (note 7)	43,762	90,875
Equity investment (note 8)	4,328,143	4,832,922
Total assets	\$ 9,105,405	\$ 5,443,743
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 526,270	\$ 1,127,839
Accrued liabilities	494,503	309,466
Promissory note payable (note 9)	166,623	166,623
Convertible notes payable (note 10)	4,025,629	170,000
Related party payables (note 11)		260,256
	5,213,025	2,034,184
Total liabilities	5,213,025	2,034,184
Capital stock (note 12)		
Preferred stock, \$0.0001 par value, 20,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.0001 par value, 300,000,000 shares authorized (2010 150,000,000), 136,400,449 shares issued and outstanding (2010 98,728,017 issued and outstanding)	13,640	9,873
Additional paid-in capital (note 12)	44,042,425	39,641,412
Treasury (550,000 shares)	(209,000)	(209,000)
Deficit accumulated during the exploration stage	(40,069,672)	(36,054,080)
Accumulated comprehensive income	114,987	21,354
Stockholders equity	3,892,380	3,409,559
Total liabilities and stockholders equity	\$ 9,105,405	\$ 5,443,743
Going concern (note 2)		

Commitments and contingencies (note 14)

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

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SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Operations and Comprehensive Loss
For the Years ended December 31, 2011 and 2010, and
Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011

	December 31, 2011	December 31, 2010	For the period from May 9, 1996(date of inception) to December 31, 2011
Operating expenses			
Exploration	\$	\$ 213,248	\$ 7,174,048
General and administrative	2,243,584	2,245,330	27,930,376
Write-off of Mexican assets		2,335,289	3,242,039
Total operating expenses	2,243,584	4,793,867	38,346,463
Loss from operations	(2,243,584)	(4,793,867)	(38,346,463)
Other (expenses) income			
Interest expense	(1,147,416)	121,139	(1,621,186)
Interest income	85,553		85,553
Gain (loss) on embedded derivative		261,000	
Net loss on equity investment	(710,145)	93,410	(1,280,177)
Forgiveness of debt			38,871
Gain on sale of interest of Subsidiary			1,816,733
Non-recurring items			(713,269)
Total other expenses	(1,772,008)	475,549	(1,673,475)
Loss before income taxes	(4,015,592)	(4,318,318)	(40,019,938)
Provision for income taxes			
Net loss from continuing operations, after tax	(4,015,592)	(4,318,318)	(40,019,938)
Minority interest			253,021
Loss from discontinued operations (net of tax)			(302,755)
Net loss	(4,015,592)	(4,318,318)	(40,069,672)
Other comprehensive income (loss)			
Foreign exchange gain (loss)	93,633	(19,150)	114,987
Comprehensive loss	(3,921,959)	\$ (4,337,468)	\$ (39,954,685)
Net loss per common share basic and diluted	\$ (0.03)	\$ (0.05)	
Weighted average number of common shares outstanding and diluted	basic 113,995,849	95,157,809	

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

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SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Stockholders Equity
Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011

	Common Stock			Deficit			Accumulated		Total
	Number of		Additional	Accumulated	Stock	Treasury	Comprehensive		Stockholder
	Amount		Paid-in	During the	Subscription	Stock	Income		Equity
	Shares	\$	Capital	Exploration	\$	\$	(Loss)	\$	\$
				Stage					
Shares issued to founders	388,334	39	1,126	-	-	-	-	-	1,165
Share issued	413,333	41	47,564	(1,060)	-	-	-	-	46,504
Net loss, 1996	-	-	-	(14,198)	-	-	-	-	(14,198)
Balance, December 31, 1996	801,667	80	48,690	(15,258)	-	-	-	-	33,807
Share issued	116,999	12	88,638	-	-	-	-	-	88,650
Net loss, 1997	-	-	-	(142,622)	-	-	-	-	(142,622)
Balance, December 31, 1997	918,666	92	137,328	(157,880)	-	-	-	-	(20,394)
Share issued	69,334	7	57,994	-	-	-	-	-	58,011
Net Loss, 1998	-	-	-	(54,404)	-	-	-	-	(54,404)
Balance, December 31, 1998	988,000	99	195,322	(212,284)	-	-	-	-	(16,797)
Share issued	203,918	20	191,999	-	(4,000)	-	-	-	188,019
Forgiveness of debt of related party	-	-	23,000	-	-	-	-	-	23,000
Net loss, 1999	-	-	-	(181,898)	-	-	-	-	(181,898)
Balance, December 31, 1999	1,191,918	119	410,321	(394,182)	(4,000)	-	-	-	12,121
Share issued for services	4,950,333	495	695,435	-	(278,539)	-	-	-	417,396
Shares cancelled	(453,100)	(45)	(169,867)	-	157,791	-	-	-	(12,076)
Forgiveness of debt reclassification	-	-	(23,000)	-	-	-	-	-	(23,000)
Net loss, 2000	-	-	-	(419,296)	-	-	-	-	(419,296)
	5,689,151	569	912,889	(813,478)	(124,748)	-	-	-	(24,149)

**Balance,
December 31,
2000**

Share issued for services	1,179,415	118	89,784	-	-	-	-	89,9
Cash received for subscription	-	-	-	-	124,748	-	-	124,7
Other adjustment	-	-	-	1	-	-	-	-
Net loss, 2001	-	-	-	(339,546)	-	-	-	(339,5
Balance, December 31, 2001	6,868,566	687	1,002,673	(1,153,023)	-	-	-	(149,0

Shares issued	29,859,173	2,986	386,394	-	-	-	-	389,3
Shares cancelled	(21,978,215)	(2,198)	7	-	-	-	-	(2,1
Stock warrants issued	-	-	31,000	-	-	-	-	31,0
Stock warrants exercised	3,255,880	326	-	-	-	-	-	3,2
Net loss, 2002	-	-	-	(570,874)	-	-	-	(570,8
Balance, December 31, 2002	18,005,394	1,801	1,420,074	(1,723,897)	-	-	-	(302,0

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

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Stockholders Equity

Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011 (continued)

	Common Stock		Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Stock Subscription	Treasury Stock	Accumulated Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount						
Balance, December 31, 2002	18,005,394	\$ 1,801	\$ 1,420,074	(1,723,897)	-	-	-	(30)
Share issued for services	4,927,411	493	150,833	-	-	-	-	15
Shares returned	(66,300)	(7)	(1,319)	-	-	-	-	(6)
Net loss, 2003	-	-	-	(414,601)	-	-	-	(41)
Balance, December 31, 2003	22,866,505	2,287	1,569,588	(2,138,498)	-	-	-	(56)
Share issued	575,000	58	24,942	-	-	-	-	2
Short swing profits of shareholder	-	-	50,496	-	-	-	-	5
Net loss, 2004	-	-	-	(399,028)	-	-	-	(39)
Balance, December 31, 2004	23,441,505	2,345	1,645,026	(2,537,526)	-	-	-	(89)
Shares issued	15,729,018	1572	2,612,433	-	(9,500)	-	-	2,60
Shares cancelled	(3,500,000)	(350)	(724,650)	-	-	-	-	(72)
Net Loss, 2005	-	-	-	(584,879)	-	-	-	(58)
Balance, December 31, 2005	35,670,533	3,567	3,532,809	(3,122,405)	(9,500)	-	-	40
Share issued	25,790,000	2,579	13,949,985	-	458,500	-	-	14,41
Warrants issued	-	-	4,941,036	-	-	-	-	4,94
Share issuance costs	-	-	(63,237)	-	-	-	-	(6)
Treasury stock	-	-	-	-	-	(392,830)	-	(39)
Other comprehensive loss	-	-	-	-	-	-	(1,562)	(1)

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Net loss, 2006	-	-	-	(8,692,208)	-	-	-	(8,692,208)
Balance, December 31, 2006	61,460,533	6,146	22,360,593	(11,814,613)	449,000	(392,830)	(1,562)	10,602,757
Shares issued	8,362,000	836	7,114,194	-	(334,000)	-	-	6,782,930
Treasury stock	(276,545)	(27)	(392,803)	-	-	392,830	-	(276,545)
Warrants issued	-	-	2,717,020	-	-	-	-	2,717,020
Options issued	-	-	459,959	-	-	-	-	459,959
Share issuance costs	-	-	(75,000)	-	-	-	-	(75,000)
Other comprehensive loss	-	-	-	-	-	-	18,141	18,141
Net loss, 2007	-	-	-	(10,665,000)	-	-	-	(10,665,000)
Balance, December 31, 2007	69,545,988	6,955	32,183,963	(22,479,613)	115,000	-	(19,703)	9,800,620

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

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)
Consolidated Statements of Stockholders' Equity
Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011 (continued)

	Common Stock		Deficit		Stock	Treasury	Accumulated	Total
	Number	Amount	Additional	Accumulated			Comprehensive	Stockholders'
	of		Paid-in	During the			Income	Equity
	Shares		Capital	Exploration	Subscription	Stock	(Loss)	
		\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2007	69,545,988	6,955	32,183,963	(22,479,613)	115,000	-	(19,703)	9,800,000
Shares issued for cash	8,349,167	835	1,141,023	-	-	-	-	1,141,858
Shares issued for settlement	2,833,333	283	398,050	-	(165,000)	-	-	2,666,333
Shares issued for services	1,450,000	145	156,855	-	-	-	-	1,606,855
Shares issued for compensation	875,000	87	135,663	-	-	-	-	1,010,663
Shares issued for settlement of due to related parties	1,200,000	120	107,880	-	-	-	-	1,307,880
Shares issued for cash pursuant to exercise of warrants	500,000	50	74,950	-	-	-	-	574,950
Warrants issued for cash	-	-	260,642	-	-	-	-	260,642
Warrants issued for settlement of due to related parties	-	-	192,000	-	-	-	-	192,000
Warrants issued for services	-	-	44,600	-	-	-	-	44,600
Options issued for services	-	-	82,200	-	-	-	-	82,200
Share issuance costs	-	-	(6,562)	-	-	-	-	(6,562)
Shares to be returned	-	-	-	-	(67,500)	-	-	(67,500)

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Other comprehensive loss	-	-	-	-	-	-	77,949	-
Net loss, 2008	-	-	-	(3,969,299)	-	-	-	(3,969,299)
Prior period adjustment	-	-	-	(417,477)	-	-	-	(417,477)
Balance, December 31, 2008	84,753,488	8,475	34,771,264	(26,866,389)	(117,500)	-	58,246	7,866,389
Share issued for cash	4,729,198	473	489,232	-	-	-	-	4,729,198
Shares issued for services	2,490,000	249	347,909	-	-	-	-	2,490,000
Shares issued for compensation	175,000	18	14,857	-	-	-	-	175,000
Shares issued for property	550,000	55	208,945	-	-	(209,000)	-	550,000
Warrants issued for cash	-	-	728,771	-	-	-	-	728,771
Warrants issued for services	-	-	1,442,484	-	-	-	-	1,442,484
Options issued for services	-	-	24,134	-	-	-	-	24,134
Share issuance costs	-	-	(54,877)	-	-	-	-	(54,877)
Shares returned	(1,100,000)	(110)	(201,390)	-	117,500	-	-	(1,100,000)
Accumulated comprehensive loss	-	-	-	-	-	-	(17,742)	(17,742)
Net loss, 2009	-	-	-	(4,869,373)	-	-	-	(4,869,373)
Balance, December 31, 2009	91,597,686	9,160	37,771,329	(31,735,762)	-	(209,000)	40,504	5,866,389

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

SILVER DRAGON RESOURCES INC.
(AN EXPLORATION STAGE COMPANY)

Consolidated Statements of Stockholders' Equity

Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011 (continued)

	Common Stock		Deficit				Accumulated		
	Number of	Amount	Additional	Accumulated	Stock	Treasury	Comprehensive		Total
	Shares	\$	Paid-in	During the	Subscription	Stock	Income		Stockholders'
			Capital	Exploration	\$	\$	(Loss)		Equity
			\$	Stage			\$		\$
				\$					
Balance, December 31, 2009	91,597,686	9,160	37,771,329	(31,735,762)	-	(209,000)	40,504		5,8
Share issued for cash	4,038,237	404	468,298	-	-	-	-		4
Shares issued for services	3,092,094	309	790,076	-	-	-	-		7
Warrants issued for cash	-	-	264,298	-	-	-	-		2
Warrants issued for services	-	-	274,067	-	-	-	-		2
Share issuance costs	-	-	(26,497)	-	-	-	-		(
Beneficial conversion feature	-	-	99,841	-	-	-	-		
Accumulated comprehensive loss	-	-	-	-	-	-	(19,150)		(
Net loss, 2010	-	-	-	(4,318,318)	-	-	-		(4,3
Balance, December 31, 2010	98,728,017	9,873	39,641,412	(36,054,080)	-	(209,000)	21,354		3,4
Shares issued for cash	2,812,500	281	249,719	-	-	-	-		2
Shares issued for services	1,490,000	149	174,426	-	-	-	-		1
Shares issued on conversion of notes	28,236,036	2,774	1,352,849	-	-	-	-		1,3
Shares issued for settlement of debt	5,883,896	588	434,085	-	-	-	-		4
Shares cancelled	(750,000)	(75)	(83,550)	-	-	-	-		(
	-	-	80,389	-	-	-	-		

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Warrants issued for cash								
Warrants issued for services	-	-	373,695	-	-	-	-	3
Shares issued on financing	500,000	50	24,950	-	-	-	-	
Share issuance costs	-	-	(8,750)	-	-	-	-	
Beneficial conversion feature	-	-	1,803,200	-	-	-	-	1,8
Accumulated comprehensive loss	-	-	-	-	-	-	93,633	
Net loss, 2011	-	-	-	(4,015,592)	-	-	-	(4,0
Balance, December 31, 2011	136,400,449	13,640	44,042,425	(40,069,672)	-	(209,000)	114,987	3,8

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 Years ended December 31, 2011 and 2010, and
Cumulative for the period from May 9, 1996 (date of inception) to December 31, 2011

	2011	2010	For the period from May 9, 1996 (date of inception) through December 31, 2011
Cash flows from operating activities			
Net loss	\$ (4,015,592)	\$ (4,318,318)	\$ (40,069,672)
Net loss from discontinued operations	-	-	302,755
Net loss from continuing operations excluding minority interest	(4,015,592)	(4,318,318)	(39,766,917)
Adjustments for:			
Depreciation	47,113	92,687	571,953
Net loss from equity investment	710,145	(93,410)	1,377,875
Loss on recognition of embedded derivative	-	(261,000)	-
Interest on convertible notes payable	145,060	-	145,060
Shares issued for services	90,950	790,385	8,564,071
Warrants and options issued for services	264,953	274,067	3,873,165
Amortization of beneficial conversion feature	531,369	99,841	631,210
Write-down of mineral rights	-	2,504,559	3,411,309
Write-down of assets	-	197,810	240,063
Other	-	-	(1,630,814)
Changes in non-cash working capital:			
Other receivable	(73,257)	-	(88,646)
Deferred expenses	155,208	(80,931)	313,914
Accounts payable	(166,896)	143,304	2,163,443
Accrued liabilities	185,037	(196,828)	463,668
Other	-	-	680,990
Net cash used in operating activities	(2,125,910)	(847,834)	(19,049,656)
Cash flows from investing activities			
Investments in mineral rights	-	(15,564)	(1,920,441)
Additional contribution to Sino-Top	(205,366)	65,451	(3,651,555)
Acquisition of plant and equipment	-	-	(981,486)
Other	-	-	4,364,090
Net cash (used in) provided by investing activities	(205,366)	49,887	(2,189,392)
Cash flows from financing activities			
Proceeds from issuance of common stock and warrants	250,000	733,000	18,147,492
Share issuance costs	(8,750)	(26,497)	(206,686)
Related party loans payable	-	260,256	1,192,922
Repayments of related party payables	(260,256)	-	(722,813)
Minority interest	-	-	253,021
Promissory note payable	-	(350,000)	516,623
Write-down of promissory note payable	-	-	(350,000)

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Issuance of convertible notes payable (note 13)	2,274,654	170,000	2,423,147
Other	-	-	(59,609)
Net cash provided by financing activities	2,255,648	786,759	21,194,097
Effect of exchange rate on cash	93,633	(29,697)	159,519
(Decrease) increase in cash	18,005	(40,885)	114,568
Cash - beginning of period	96,563	137,448	-
Cash - end of period	\$ 114,568	\$ 96,563	\$ 114,568
Supplemental cash flow information (note 13)			

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

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

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 subsidiaries in Canada and Mexico and an affiliate in China, although operations in Mexico are dormant pending resolution of a lawsuit (see note 14(d)). 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 convertible debt, and 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), are expressed in United States funds.

2. Going Concern and Exploration Stage Activities

These consolidated financial statements have been prepared in accordance with US 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 December 31, 2011, the Company had working capital of \$1,295,390 (December 31, 2010 (\$1,734,363)), had not yet achieved profitable operations, incurred a net loss of \$4,015,592 for the year ended December 31, 2011 (2010 \$4,318,318), has accumulated losses of \$40,069,672 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 or convertible debt 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.

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

3. Summary of Significant Accounting Policies

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Silver Dragon Mining De Mexico S.A. de C.V (a Mexican corporation). All significant inter-company balances and transactions have been eliminated on consolidation. The Company's ownership of 40% of Sanhe Sino-Top Resources & Technology, Ltd. (a China corporation) (Sino-Top) is recorded on the equity basis.

b) Use of estimates

The preparation of financial statements in conformity with U.S. 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 the estimated useful lives of plant and equipment, valuation of mineral rights, and stock-based compensation. Actual results could differ from these estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period in which they become available.

c) Cash and cash equivalents

Cash and cash equivalents consist of deposits held in financial institutions and liquid investments with original maturities of three months or less at the time of purchase.

d) Financial instruments

The Company classifies all financial instruments as held-for-trading or other financial liabilities. Financial liabilities are measured at amortized cost. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations. Debt transaction costs are allocated to the related debt and amortized over the life of the loan using the effective interest method. Equity transaction costs are recorded in equity.

The Company has designated its cash and cash equivalents as held for trading, which is measured at fair value. Accounts payable, accrued liabilities, promissory and convertible notes payable and related party payables are classified as other liabilities, which are measured at amortized cost. Notes receivable and other receivables are classified as loans and receivables, which are measured at amortized cost.

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

3. Summary of Significant Accounting Policies, continued

e) Mineral rights

The Company records its interest in mineral rights at cost. Accordingly, costs associated with the acquisition and the development of mineral reserves are capitalized. Exploration costs are expensed as incurred.

Capitalized costs of mineral properties are amortized using the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major exploration and development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that a property is impaired, the capitalized cost of that property will be charged to expense at that time. The Company presently has no proven reserves. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses 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. The Company evaluates the carrying amounts of its mineral rights when events or changes in circumstances indicate that the carrying amount may not be recoverable.

f) Equity investment

The Company exercises significant influence but does not exercise control over its equity investment, Sino-Top. It is accounted for using the equity method of accounting and is initially recognized at cost. The Company's share of the entity's profits or losses is recognized in the statement of operations, and cumulative post-acquisition changes in the investment are adjusted against the carrying amount of the investment. Were the Company's share of losses on its investment to equal or exceed the carrying amount of the investment, the Company would then only recognize further losses if it incurred obligations or made payments on behalf of the equity investment.

g) Income taxes

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes. Deferred tax assets and liabilities are recorded for differences between the accounting and tax basis of the assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is recorded for the amount of income tax payable or receivable for the period, increased or decreased by the change in deferred tax assets and liabilities during the period.

h) Revenue recognition

The Company has not earned revenues from its planned principal operations. Revenues incidental to the planned principal operations will be recognized as follows: Revenues from the provision of mine exploration services are recognized when the services are performed and collection is reasonably assured. Revenues from the sale of silver and other byproducts are recognized when title and risk of ownership of metal and metal bearing concentrates passes to the buyer and collection is reasonably assured.

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

3. Summary of Significant Accounting Policies, continued

i) Plant and equipment

Plant and equipment are stated at cost. Equipment awaiting installation on site is not depreciated until it is commissioned. Depreciation is based on the estimated useful life of the asset and depreciated annually as follows:

Category	Rate	Method
Computer hardware	30%	Declining balance
Computer software	30%	Declining balance
Vehicles	20%	Declining balance
Office equipment	20%	Declining balance
Mine equipment	20%	Declining balance
Leasehold improvements	5 years	Straight line

j) Loss per share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus potentially dilutive securities outstanding for each year. The computation of diluted earnings (loss) per share has not been presented as its effect would be anti-dilutive.

k) Stock-based compensation

From time to time the Company grants warrants to management, directors, employees and consultants. The Company recognizes compensation expense at fair value. Under this method, the fair value of each warrant is estimated on the date of the grant and amortized over the vesting period, with the resulting amortization credited to contributed surplus. The fair value of each grant is determined using the Black-Scholes option-pricing model. Consideration paid upon the exercise of stock options is recorded as share capital.

l) Asset retirement obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mineral properties. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred and the corresponding asset retirement cost is added to the carrying amount of the related asset. The cost is amortized over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2011, the Company had not incurred any asset retirement obligations related to the exploration of its mineral properties.

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3. Summary of Significant Accounting Policies, continued

m) Impairment of long lived assets

In accordance with ASC 360, "Property, Plant and Equipment", long lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

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

n) Comprehensive Loss

The Company accounts for comprehensive loss in accordance with ASC 220, Comprehensive Income, which establishes standards for reporting and presentation of comprehensive loss and its components. Comprehensive loss is presented in the statements of stockholders' equity, and consists of net loss and foreign currency translation adjustments.

o) Foreign currency translation

The Company accounts for foreign currency translation pursuant to ASC 830, "Foreign Currency Matters". The Company's functional currency is United States dollars. For operations in Mexico, the local currency is the functional currency. All assets and liabilities denominated in Mexican Pesos are translated into United States dollars using the current exchange rate. Revenues and expenses are translated using average exchange rates during the year. Foreign exchange gains or losses are included in other comprehensive income for the period. The functional currency of the equity investment in China is United States dollars. Net income or loss recorded on the equity basis is translated using average exchange rates during the year.

4. Recent Accounting Pronouncements

The Company continually assesses any new accounting pronouncements to determine their applicability. Where it is determined that a new accounting pronouncement affects the Company's financial reporting, the Company undertakes a study to determine the consequence of the change to its financial statements and assures that there are proper controls in place to ascertain that the Company's financials properly reflect the change. A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, the Company has not determined whether implementation of such proposed standards would be material to the Company's financial statements. New pronouncements assessed by the Company recently are discussed below:

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 is effective

for fiscal years and interim periods beginning after December 15, 2011 (March 1, 2012 for the Company). The Company does not expect the adoption of ASU 2011-05 to have a material impact on its results of operations, financial condition, or cash flows.

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4. Recent Accounting Pronouncements, continued

In May 2011, FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). The amendments in this update improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs and result in common fair value measurement and disclosure requirements. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011 (March 1, 2012 for the Company). The Company does not expect the adoption of ASU 2011-04 to have a material impact on its results of operations, financial condition, or cash flows.

5. Financial Instruments

The carrying value of cash, other receivable, 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 December 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 using the present value method.

Interest and Credit Risk

In the opinion of management, the Company is not exposed to significant interest or credit risks arising from its financial instruments.

Currency Risk

While the reporting currency is the United States Dollar, \$139,298 of consolidated expenses for the year ended December 31, 2011 are denominated in Mexican Pesos; and \$919,425 of consolidated expenses for the year ended December 31, 2011, are denominated in Canadian Dollars. As at December 31, 2011; \$917,687 of the net monetary liabilities are denominated in Mexican Pesos; and \$54,063 of the net monetary liabilities are denominated in Canadian Dollars. The Company has not entered into any hedging transactions to reduce the exposure to currency risk.

6. Notes Receivable

- (a) Notes receivable consists of ten notes issued by an investor. (note 10 (a)), each in the principal amount of \$200,000 and bearing interest of 5% per annum, with payment to the Company 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 September 15, 2011 and continuing on the 15th of each month thereafter. As at December 31, 2011, these conditions have not been met. Three of the notes receivable are secured by real estate property owned by the investor and the remainder are unsecured.

On June 20, 2011, the Company agreed with the investor to modify the terms of certain notes. The notes that were due on September 15, 2011 and October 15, 2011 were redeemed in exchange for \$271,561 on July 1, 2011 with the difference recorded as interest expense.

- (b) Notes receivable includes a promissory note issued by an investor on April 11, 2011 (note 10 (b)) for \$300,000, bearing interest at 6% per annum and secured by assets pledged as collateral. The agreement was amended on

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October 12, 2011, and as a result \$200,000 was paid on October 14, 2011 and the remaining \$100,000 was paid on November 15, 2011.

On December 15, 2011 an additional promissory note was issued for \$250,000, bearing interest at 6% per annum and secured by assets pledged as collateral. \$125,000 of principal under this note shall be due and payable on June 15, 2012 and the balance of \$125,000 of principal and accrued interest shall be due and payable on August 1, 2012.

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SILVER DRAGON RESOURCES INC.
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6. Notes Receivable, continued

- (c) Notes receivable comprises of five notes issued to an investor. Four non-interest bearing notes were issued April 19, 2011 (note 10 (c)) of \$500,000 each, totaling \$2,000,000 and with payment of principal and a one-time financing fee of 5.25% due on the principal sum, due on maturity on April 19, 2014. The notes are secured and collateralized. The Company has received \$650,000 of the \$1,000,000 initial note issued April 19, 2011, and the remaining \$350,000 receivable is currently outstanding.

7. Plant and Equipment, net

				December 31, 2011	December 31, 2010
	Cost	Accumulated depreciation		Net book value	Net book value
Computer hardware	\$ 40,559	\$ 32,016	\$	8,543	\$ 12,205
Office equipment	45,720	28,430		17,290	21,610
Leasehold improvements	195,667	177,738		17,929	57,060
	\$ 281,946	\$ 238,184	\$	43,762	\$ 90,875

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

Gansu Shengda Group Ltd. (Shengda), owns 52%, and Exploration Unit of North China Geological Exploration Bureau, also known as Huaguan Industrial Corp. (HIC) and 5 individuals own 8%, and the Company owns 40% of Sino-Top, whose assets mainly consist of six exploration properties. Erbahuo, a seventh exploration property controlled by Sino-Top, is not controlled by the Company, although it has a right to receive 70% of its net income and 30% by HIC.

	2011	2010
Carrying value of investment at December 31, 2010	\$ 4,832,922	\$ 4,804,963
Additional investment and advances	205,366	81,049
Return of funds advanced	-	(146,500)
40% share of net (loss)/income for the year ended December 31, 2011	(710,145)	93,410
Carrying value of investment at December 31, 2011	\$ 4,328,143	\$ 4,832,922

Share of (loss) income for the year ending December 31:

	2011	2010
Exploration expenses	\$ (536,495)	\$ (1,351,294)
General and administrative expenses	(173,650)	(197,171)
Gain on disposal of properties	-	1,684,096
Income taxes	-	(42,102)
Share of (loss) income for the year (at 40%)	\$ (710,145)	\$ 93,410

9. 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 year ended December 31, 2011, the Company incurred interest of

\$99,974 (2010 - \$99,974).

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SILVER DRAGON RESOURCES INC.
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10. Convertible Notes Payable

	Current
Balance, December 31, 2009	\$ -
Issued during the year ended December 31, 2010	170,000
Balance, December 31, 2010	\$ 170,000
Issued during the year ended December 31, 2011	6,580,000
Deferred charges	(1,661,347)
Converted during the year ended December 31, 2011	(1,063,024)
Balance December 31, 2011	\$ 4,025,629

- (a) 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 consideration of \$500,000 paid at closing and \$2,000,000 paid in a series of ten notes (note 6(a)), each in the principal amount of \$200,000, 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 (note 6(a)). The Company has the right to offset the payment of any unpaid note receivable subject to certain conditions. In exchange for the note receivable issued, the Company issued a convertible note payable 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 the investor and other fees and expenses. The investor also received a warrant to purchase 8.6 million common shares of the Company 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 notes 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 (Debt). The difference between the face value of the convertible notes payable and the allocated value is being charged to interest expense over the term of the convertible notes 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 notes 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 notes 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 notes payable.

- (b) On April 11, 2011, the Company issued two unsecured, convertible notes with a principal amount of \$100,000 and \$300,000, bearing interest at 6% per annum and maturing April 11, 2013. This reflects an original issue discount of 4% and the sale of these notes to the holder for \$96,000 and \$288,000 respectively. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the day of conversion. As consideration, the Company received the note receivable set out in note 6(b).

On December 15, 2011, the Company issued two unsecured, convertible notes with a principal amount of \$150,000 and \$250,000, bearing interest at 6% per annum and maturing December 15, 2013. This reflects an original issue discount of 4% and the sale of this note to the holder for \$144,000 and \$240,000 respectively. The notes are convertible into common stock, at the lender's option, at a 30% discount of any four trading days prior to and including the day of conversion. As consideration, the Company received \$150,000 cash and the note receivable for \$250,000 set out in note 6(b).

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10. Convertible Notes Payable, continued

- (c) On April 19, 2011, the Company closed a convertible financing agreement with a privately-held United States investment firm. The total planned funding amount is \$3,000,000, with payment consisting of \$1,000,000 through a convertible promissory note and four \$500,000 promissory notes, bearing interest at a 5% one-time interest charge on the principal sum due on maturity, secured and collateralized by the lender.

The initial note provides for \$1,000,000 in the form of cash payments to be made to the Company 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. The registration statement became effective on May 19, 2011. \$650,000 was paid to the Company. \$350,000 was due on December 31, 2011 (note 6(c)). The subsequent notes each aggregate \$500,000 consideration, totaling \$2,000,000, which are secured and collateralized, over the remainder of the three-year period. The total face amount of the convertible notes issued is \$3,150,000 due April 19, 2014, which represents \$3,000,000 to be paid to Company and other fees and expenses to be paid to the lender. The difference between the fair 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 as at December 31, 2011 is \$802,083. The fair value of the beneficial conversion feature will be allocated over the term from the commitment date to the maturity date of the convertible note payable.

- (d) On January 11, 2011, the Company issued a convertible note with a principal amount of \$65,000 which was paid in full on July 25, 2011. On March 1, the Company issued a convertible note with a principal amount of \$55,000 which was paid in full on September 27, 2011. On April 8, 2011, the Company issued a convertible note with a principal amount of \$50,000 which was paid in full on October 27, 2011. On August 24, 2011, the Company issued a convertible note with a principal amount of \$55,000, due on May 25, 2012. On November 30, 2011, the Company issued a convertible note with a principal amount of \$75,000, due on September 5, 2012. The notes bear interest of 8% per annum and are unsecured. 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.

11. Related Party Transactions and Balances

	December 31, 2011	December 31, 2010
Unpaid remuneration	\$ -	\$ 213,040
Advances	-	47,216
	\$ -	\$ 260,256

During the year ended December 31, 2011, the Company incurred \$360,688 (2010 - \$216,000) in management fees paid to a company controlled by a director for his services as chief executive officer.

SILVER DRAGON RESOURCES INC.
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12. Capital Stock

On January 22, 2010, the Company issued warrants, to an organization, to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.50, exercisable for a period of three years from the contract date. The warrants were issued pursuant to a consulting agreement dated January 22, 2010, for fair value of \$39,380.

On January 25, 2010, the Company issued 200,000 shares of the Company's restricted common stock to a company, pursuant to a consulting agreement dated January 25, 2010, for fair value of \$63,200.

On February 1, 2010, the Company issued 25,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated February 1, 2010, for fair value of \$7,500. The Company also issued warrants to purchase 150,000 shares of the Company's restricted common stock at an exercise price of \$0.30, exercisable for a period of one year from the contract date, for fair value of 20,355.

On February 1, 2010, an individual exercised 100,000 options to purchase shares of the Company's restricted common stock at a per share price of \$0.10 for gross proceeds of \$10,000.

On February 3, 2010, the Company closed a private placement totaling 803,571 units at \$0.28 per unit for gross proceeds of \$225,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On March 1, 2010, the Company issued 25,000 shares of the Company's restricted common stock to a company, pursuant to the investor relations agreement dated February 1, 2010 for fair value of \$7,500.

On March 13, 2010 the Company settled the outstanding debt of \$100,000 with Minera Real Victoria through the issuance of 360,000 shares of the Company's restricted common stock.

On March 24, 2010, the Company closed a private placement totaling 500,000 units at \$0.20 per unit for gross proceeds of \$100,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On April 1, 2010, the Company issued 25,000 shares of the Company's restricted common stock to a company, pursuant to the investor relations agreement dated February 1, 2010 for fair value of \$7,000.

On April 12, 2010, the Company made an addendum to a consulting agreement dated January 22, 2010 and issued additional warrants, to an organization, to purchase 180,000 shares of the Company's restricted common stock at an exercise price of \$0.50, exercisable for a period of one year from the date of issuance, for fair value of 21,834.

On April 15, 2010, the Company issued warrants to purchase 50,000 shares of the Company's restricted common stock at an exercise price of \$0.50, exercisable for a period of two years from the date of issuance to an operations manager of the Company in China, for fair value of \$9,095.

On April 15, 2010, the Company issued warrants to purchase 50,000 shares of the Company's restricted common stock at an exercise price of \$0.50, exercisable for a period of two years from the date of issuance to a geologist in China, for fair value of \$9,095.

On May 1, 2010, the Company issued 25,000 shares of the Company's restricted common stock to a company, pursuant to the investor relations agreement dated February 1, 2010 for fair value of \$8,000.

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SILVER DRAGON RESOURCES INC.
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12. Capital Stock, continued

On May 14, 2010, the Company closed a private placement totaling 300,000 units at \$0.28 per unit for gross proceeds of \$84,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On May 25, 2010, the Company issued 75,000 shares of the Company's restricted common stock to a company, pursuant to a long-term consulting agreement dated May 19, 2010, for fair value of \$14,625. The Company also issued warrants to purchase 300,000 shares of the Company's restricted common stock at an exercise price of \$0.28, exercisable for a period of one year from the issuance date, for fair value of \$20,430.

On May 27, 2010, the Company closed a private placement totaling 1,250,000 units at \$0.12 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On June 1, 2010, the Company issued 375,000 of the Company's restricted common stock to an individual, pursuant to a one-year accounting services contract for fair value of \$75,000.

On June 23, 2010, the Company issued 300,000 shares of the Company's restricted common stock to a company, pursuant to the investor relations agreement dated June 23, 2010 for fair value of \$74,850.

On September 1, 2010, the Company issued warrants to an individual to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.18, exercisable for a period of two years from the contract date. The warrants were issued pursuant to a consulting agreement dated September 1, 2010, for fair value of \$20,426.

On September 8, 2010, the Company issued warrants to an individual to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.18, exercisable for a period of three years from the contract date. The warrants were issued pursuant to a contract to provide services as Chief Financial Officer, for fair value of \$23,058.

On September 21, 2010, the Company issued 25,000 of the Company's restricted common stock to an individual, pursuant to an employment agreement dated September 21, 2010 for fair value of \$6,250.

On September 28, 2010, the Company issued warrants, to a Director, to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.25, exercisable for a period of three years from the contract date. The warrants were issued pursuant to the appointment of the Director to the Company's Board of Directors, for fair value of \$32,704.

On October 1, 2010, the Company issued 300,000 shares of the Company's restricted common stock to a company, pursuant to an investor relations agreement dated October 1, 2010 for fair value of \$79,500.

SILVER DRAGON RESOURCES INC.
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12. Capital Stock, continued

On October 4, 2010, the Company closed a private placement totaling 50,000 units at \$0.20 per unit for gross proceeds of \$10,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On October 6, 2010, a Director of the Company subscribed to a private placement totaling 100,000 units at \$0.28 per unit for gross proceeds of \$28,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a two year period from the date of the closing of the private placement.

On October 6, 2010, the Company issued 1,000,000 shares of the Company's restricted common stock to a Director pursuant to the renewal of an employment agreement dated October 6, 2010, for fair value of \$279,000.

On October 7, 2010, the Company issued warrants, to an individual, to purchase 50,000 shares of the Company's restricted common stock at an exercise price of \$0.25, exercisable for a period of two years from the contract date. The warrants were issued pursuant to a consulting agreement dated October 7, 2010, for fair value of \$7,754.

On October 7, 2010, the Company issued 50,000 shares of the Company's restricted common stock, to an individual, pursuant to an employment agreement dated October 7, 2010, for fair value of \$13,000. The Company also issued warrants to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.25, exercisable for a period of one year from the contract date, for fair value of \$31,015.

On October 8, 2010, the Company issued 100,000 shares of the Company's restricted common stock, to an individual, as well as warrants to purchase 200,000 shares of the Company's restricted common stock at an exercise price of \$0.27, exercisable for a period of two years from the date of issuance. The shares and warrants were issued pursuant to the appointment of the individual to the Strategic Advisory Board of the Company on October 8, 2010, for fair value of \$27,000 and \$31,770, respectively.

On October 14, 2010, the Company closed a private placement totaling 50,000 units at \$0.20 per unit for gross proceeds of \$10,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On October 15, 2010, the Company closed a private placement totaling 50,000 units at \$0.20 per unit for gross proceeds of \$10,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On November 15, 2010, the Company closed a private placement totaling 33,333 units at \$0.15 per unit for gross proceeds of \$5,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On November 29, 2010, the Company issued 6,000 shares of the Company's restricted common stock to an individual as a finder's fee, for fair value of \$1,140.

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12. Capital Stock, continued

On December 11, 2010, the Company closed a private placement totaling 33,333 units at \$0.15 per unit for gross proceeds of \$5,000. Each unit consists of one common share and one \$0.50 per share purchase warrant exercisable within a one year period from the date of the closing of the private placement.

On December 21, 2010, the Company closed a private placement totaling 768,000 units at \$0.125 per unit for gross proceeds of \$96,000. Each unit consists of one common share and one \$0.25 per share purchase warrant exercisable within a three year period from the date of the closing of the private placement.

On December 21, 2010, pursuant to the signing of a term sheet proposing equity financing for the Company, the Company issued 201,094 shares of the Company's restricted common stock to a company, for fair value of \$22,120.

On December 23, 2010, the Company issued warrants to purchase 100,000 shares of the Company's restricted common stock, to a consultant for assisting with a financing transaction, at an exercise price of \$0.12, exercisable for a period of two years from the issuance date, for fair value of \$7,152.

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 10(d)).

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 15, 2011 the Company issued 8.6 million share purchase warrants to an investor, as part of a financing arrangement (note 10) 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.

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 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.

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12. Capital Stock, continued

On May 20, 2011, the Company issued 400,000 and 750,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$45,400 and \$83,625 respectively. On August 24, 2011, the Company cancelled 750,000 shares since the contract for services was cancelled.

On May 27, 2011, the Company closed a private placement and issued 1,250,000 units at \$0.10 per unit for a total of \$125,000. Each unit comprises of one common share and one common share purchase warrant. Each warrant of this type being exercisable for a period of 12 months to acquire one common share at an exercise price of \$0.20.

On May 27, 2011, the Company issued 1,250,000 warrants exercisable for a period of 24 months to acquire one common share at an exercise price of \$0.50.

On June 16, 2011, the Company issued 50,000 shares of restricted common stock for services provided in connection with investor relations, for a fair value of \$5,000.

On June 16, 2011, the Company issued 100,000 common share warrants for services provided at an exercise price of \$0.12 exercisable for a period of one year from the date of issuance, for fair value of \$3,946.

On August 10, 2011, the Company issued 100,000 common share warrants to an employee at an exercise price of \$0.15 exercisable for a period of two years from the date of issuance, for fair value of \$6,139.

On December 8, 2011, the Company issued 1,562,500 shares at \$0.08 per unit for a total of \$125,000.

During the year ended December 31, 2011, the Company issued 5,010,000 shares pursuant to the conversion of a note of \$185,380 principal and \$103,105 interest (note 10(a)).

During the year ended December 31, 2011, an investor elected to convert two outstanding notes payable totaling \$318,100 plus accrued interest of \$3,353. The Company issued a total of 8,686,428 shares (note 10(b)).

During the year ended December 31, 2011, the Company issued 6,350,000 free trading shares pursuant to the conversion of a note with a balance of \$392,085 principal (note 10(c)).

During the year ended December 31, 2011, an investor elected to convert six outstanding notes payable totaling \$340,000 plus accrued interest of \$13,600. The Company issued a total of 6,548,784 shares (note 10(d)).

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12. Capital Stock, continued**Warrants**

As at December 31, 2011, 22,978,000 warrants were outstanding, having an exercise price between \$0.07 and \$5.00 per share with an average remaining contractual life of 1.89 years.

	Number of warrants	Weighted average exercise price
Balance, December 31, 2009	15,814,198	\$ 0.58
Issued during the year ended December 31, 2010	6,018,237	0.40
Expired during the year ended December 31, 2010	(6,614,198)	(0.50)
Balance, December 31, 2010	15,218,237	\$ 0.55
Issued during the year ended December 31, 2011	12,960,000	0.41
Expired during the year ended December 31, 2011	(5,200,237)	(0.49)
Balance, December 31, 2011	22,978,000	\$ 0.48

As at December 31, 2011, 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
\$0.07 - \$1.00	21,778,000	1.95 years	\$0.43
\$1.01 - \$2.00	1,000,000	0.95 years	\$1.25
\$2.01 - \$5.00	200,000	0.17 years	\$2.75

Options

As at December 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 0.48 years.

	Number of options	Weighted average exercise price
Balance, December 31, 2010	700,000	\$ 0.70
Balance, December 31, 2011	700,000	\$ 0.70

As at December 31, 2011, 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 - \$0.95	700,000	0.48 years	\$0.70

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13. Supplemental Cash Flow Information**Issuance of convertible notes payable**

	December 31, 2011	December 31, 2010	For the period from June 15, 1996(date of inception) through December 31, 2011
Issuance of convertible notes payable	\$ 5,240,000	\$ -	\$ 5,240,000
Cash advances	1,510,000	170,000	1,658,493
Notes receivable	(5,127,500)	-	(5,127,500)
Cash repayments on notes receivable	850,000	-	850,000
Deferred charges	(197,846)	-	(197,846)
	\$ 2,274,654	170,000	2,423,147

14. Commitments and Contingencies

- (a) In 2007, the Company entered into a five year lease agreement for office, which ends March 31, 2012. On December 19, 2011, the Company entered into a three year lease agreement for office, which commences April 1, 2012 and ends March 31, 2015. The future minimum commitment under the lease obligations for office premises are as follows:

2012	\$ 73,114
2013	60,355
2014	60,355
2015	15,089
	\$ 208,913

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. The Company, on several occasions, through its legal counsel in several countries, had asked that individual to cease and desist, and subsequently 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. The next hearing has been scheduled in Beijing for April 18, 2012.

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14. Commitments and Contingencies, continued

- (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 has taken 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.

15. Subsequent Events

On January 27, 2012, the Company issued a secured convertible promissory note, bearing interest at 8% per annum for \$42,500; payable by October 30, 2012. The note is secured by assets pledged as collateral.

On February 3, 2012, 357,143 shares were issued for legal services rendered for a fair value of \$20,000.

On February 15, 2012, 100,000 shares were issued for services rendered for a fair value of \$6,000.

On March 15, 2012, the Company issued a secured convertible promissory note, bearing interest at 8% per annum for \$51,000; payable by December 19, 2012. The note is secured by assets pledged as collateral.

After the year ended December 31, 2011, the Company issued 17,138,219 shares pursuant to the conversion of a note of \$437,594 principal and \$53,626 interest (note 10(a)).

After the year ended December 31, 2011, an investor elected to convert one outstanding notes payable totaling \$81,900 plus accrued interest of \$2,683. The Company issued a total of 2,663,514 shares (note 10(b)).

After the year ended December 31, 2011, the Company issued 11,394,552 free trading shares pursuant to the conversion of a note with a principal balance of \$360,428 to convert one outstanding notes payable totaling \$55,000 plus accrued interest of \$5,200. The Company issued a total of 1,890,039 shares (note 10(d)).

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16. Segmented Information

As at December 31, 2011	Corporate	Mexico	China	Total
Equity investment	\$ -	\$ -	\$ 4,328,143	\$ 4,328,143
Notes receivable	\$ 4,277,500	\$ -	\$ -	\$ 4,277,500
Total assets	\$ 4,776,665	\$ 597	\$ 4,328,143	\$ 9,105,405

Year ended December 31, 2011	Corporate	Mexico	China	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 47,113	\$ -	\$ -	\$ 47,113
Loss before income tax	\$ (3,166,149)	\$ (139,298)	\$ (710,145)	\$ (4,015,592)

As at December 31, 2010	Corporate	Mexico	China	Total
Equity investment	\$ -	\$ -	\$ 4,832,922	\$ 4,832,922
Notes receivable	\$ -	\$ -	\$ -	\$ -
Total assets	\$ 609,859	\$ 962	\$ 4,832,922	\$ 5,443,743

Year ended December 31, 2010	Corporate	Mexico	China	Total
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 54,008	\$ 38,679	\$ -	\$ 92,687
Loss before income tax	\$ (1,889,519)	\$ (2,335,389)	\$ (93,410)	\$ (4,318,318)

17. Comparative Figures

Certain items have been reclassified to conform to the presentation adopted in 2011.