

Silver Dragon Resources Inc.  
Form 10-Q  
May 15, 2012

---

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

**FORM 10-Q**

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

For the quarterly period ended: March 31, 2012

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

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

**SILVER DRAGON RESOURCES INC.**

*(Exact name of registrant as specified in its charter)*

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

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

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

*(Address of Principal Executive Office) (Zip Code)*

**(416) 223-8500**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer., or a smaller reporting company.

Edgar Filing: Silver Dragon Resources Inc. - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes  No

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

As of May 07, 2012 there were 176,751,338 shares of common stock outstanding, par value \$0.0001.

As of May 07, 2012 the aggregate market value was \$4,418,783 based on upon the closing sale price of the common stock as reported by the Over-the-Counter Bulletin Board ( OTCBB ) on that date.

---

**SILVER DRAGON RESOURCES INC.**

**INDEX TO FORM 10-Q**

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2012**  
**(EXPRESSED IN UNITED STATES FUNDS)**

<b>Part I</b>	<b>FINANCIAL INFORMATION</b>	
Item 1	Financial Statements	3
	Interim Condensed Consolidated Balance Sheets (Unaudited)	3
	Interim Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)	4
	Interim Condensed Consolidated Statement of Stockholders' Equity (Unaudited)	5
	Interim Condensed Consolidated Statements of Cash Flows (Unaudited)	6
	Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4	Controls and Procedures	21
<b>Part II</b>	<b>OTHER INFORMATION</b>	
Item 1	Legal proceedings	23
Item 1A	Risk Factors	24
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3	Defaults upon Senior Securities	29
Item 4	Mine Safety Disclosures	29
Item 5	Other information	29
Item 6	Exhibits	30

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

	March 31 2012	December 31 2011
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 68,959	\$ 114,568
Other receivable	26,845	12,474
Notes receivable (note 5)	1,020,595	2,277,500
Deferred expenses	87,479	75,500
Prepaid expenses	45,868	99,458
<b>Total current assets</b>	<b>1,249,746</b>	<b>2,579,500</b>
Notes receivable (note 5)	1,800,000	2,000,000
Deferred expenses	140,000	154,000
Plant and equipment, net (note 6)	229,970	43,762
Equity investment (note 7)	4,964,643	4,328,143
<b>Total assets</b>	<b>\$ 8,384,359</b>	<b>\$ 9,105,405</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 581,908	\$ 526,270
Accrued liabilities	516,793	494,503
Promissory note payable (note 8)	166,623	166,623
Convertible notes payable (note 9)	3,417,383	4,025,629
<b>Total liabilities</b>	<b>4,682,707</b>	<b>5,213,025</b>
<b>Capital stock (note 11)</b>		
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 (2011 300,000,000), 169,803,092 shares issued and outstanding (2011 136,400,449 issued and outstanding)	16,981	13,640
<b>Additional paid-in capital (note 11)</b>	<b>45,249,736</b>	<b>44,042,425</b>
<b>Treasury (550,000 shares)</b>	<b>(209,000)</b>	<b>(209,000)</b>
<b>Deficit accumulated during the exploration stage</b>	<b>(41,455,381)</b>	<b>(40,069,672)</b>
<b>Accumulated comprehensive income</b>	<b>99,316</b>	<b>114,987</b>
<b>Stockholders equity</b>	<b>3,701,652</b>	<b>3,892,380</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 8,384,359</b>	<b>\$ 9,105,405</b>
<b>Going concern (note 2)</b>		
<b>Commitments and Contingencies (note 13)</b>		

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



**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Interim Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**For the three-month periods ended March 31, 2012 and 2011 and**  
**Cumulative for the period from May 9, 1996 (date of inception) to March 31, 2012**  
**(Unaudited)**

	March 31 2012	March 31 2011	For the period from May 9, 1996 (date of inception) to March 31, 2012
<b>Operating expenses</b>			
Exploration	\$	\$	\$ 7,174,048
General and administrative	<b>506,655</b>	588,601	28,437,031
Write-off of Mexican assets			3,242,039
<b>Total operating expenses</b>	<b>506,655</b>	588,601	38,853,118
<b>Loss from operations</b>	<b>(506,655)</b>	(588,601)	(38,853,118)
<b>Other (expenses) income</b>			
Interest expense	<b>(751,526)</b>	(93,835)	(2,372,712)
Interest income	<b>10,987</b>		96,540
Net loss on equity investment	<b>(138,515)</b>	(52,261)	(1,418,692)
Forgiveness of debt			38,871
Gain on sale of interest of subsidiary			1,816,733
Non-recurring items			(713,269)
<b>Total other expenses</b>	<b>(879,054)</b>	(146,096)	(2,552,529)
<b>Loss before income taxes</b>	<b>(1,385,709)</b>	(734,697)	(41,405,647)
Provision for income taxes			
Net loss from continuing operations, after tax	<b>(1,385,709)</b>	(734,697)	(41,405,647)
Minority interest			253,021
Loss from discontinued operations (net of tax)			(302,755)
<b>Net loss</b>	<b>(1,385,709)</b>	(734,697)	(41,455,381)
<b>Other comprehensive income (loss)</b>			
Foreign exchange gain (loss)	<b>(15,671)</b>	(24,165)	99,226
<b>Comprehensive loss</b>	<b>(1,401,380)</b>	\$ (758,862)	\$ (41,356,155)
<b>Net loss per common share - basic and diluted</b>	<b>\$ (0.01)</b>	\$ (0.01)	
<b>Weighted average number of common shares outstanding- basic and diluted</b>	<b>150,721,007</b>	100,130,353	

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

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Interim Condensed Consolidated Statements of Stockholders' Equity**  
**For the three-month period ended March 31, 2012 and year end December 31, 2011**  
**(Unaudited)**

	Common Stock Number of Shares	Common Stock Amount \$	Additional Paid-in Capital \$	Deficit Accumulated During the Exploration Stage \$	Treasury Stock \$	Accumulated Comprehensive Income (Loss) \$	Total Stockholders Equity \$
<b>Balance, December 31, 2010</b>	<b>98,728,017</b>	<b>9,873</b>	<b>39,641,412</b>	<b>(36,054,080)</b>	<b>(209,000)</b>	<b>21,354</b>	<b>3,409,561</b>
Shares issued for cash	2,812,500	281	249,719	-	-	-	250,000
Shares issued for services	1,490,000	149	174,426	-	-	-	174,575
Shares issued on conversion of notes	28,236,036	2,774	1,352,849	-	-	-	1,355,623
Shares issued for settlement of debt	5,883,896	588	434,085	-	-	-	434,673
Shares cancelled	(750,000)	(75)	(83,550)	-	-	-	(83,625)
Warrants issued for cash	-	-	80,389	-	-	-	80,389
Warrants issued for services	-	-	373,695	-	-	-	373,695
Shares issued on financing	500,000	50	24,950	-	-	-	25,000
Share issuance costs	-	-	(8,750)	-	-	-	(8,750)
Beneficial conversion feature	-	-	1,803,200	-	-	-	1,803,200
Accumulated comprehensive loss	-	-	-	-	-	93,633	93,633
Net loss, 2011	-	-	-	(4,015,592)	-	-	(4,015,592)
<b>Balance, December 31, 2011</b>	<b>136,400,449</b>	<b>13,640</b>	<b>44,042,425</b>	<b>(40,069,672)</b>	<b>(209,000)</b>	<b>114,987</b>	<b>3,892,380</b>
Shares issued for services	457,143	46	25,954	-	-	-	26,000
	32,945,500	3,295	1,023,361	-	-	-	1,026,656

Shares issued on conversion of notes							
Warrants issued for services	-	-	117,925	-	-	-	117,925
Beneficial conversion feature	-	-	40,071	-	-	-	40,071
Accumulated comprehensive loss	-	-	-	-	-	(15,671)	(15,671)
Net loss, 2012	-	-	-	(1,385,709)	-	-	(1,385,709)
<b>Balance, March 31, 2012</b>	<b>169,803,092</b>	<b>16,981</b>	<b>45,249,736</b>	<b>(41,455,381)</b>	<b>(209,000)</b>	<b>99,316</b>	<b>3,701,652</b>

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



**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Interim Condensed Consolidated Statements of Cash Flows**  
**For the three-month periods ended March 31, 2012 and 2011 and**  
**Cumulative for the period from May 9, 1996 (date of inception) to March 31, 2012 (Unaudited)**

	March 31 2012	March 31 2011	For the period from May 9, 1996 (date of inception) through March 31, 2012
<b>Cash flows from operating activities</b>			
Net loss	\$ (1,385,709)	\$ (734,697)	\$ (41,455,381)
Net loss from discontinued operations	-	-	302,755
Net loss from continuing operations excluding minority interest	(1,385,709)	(734,697)	(41,152,626)
Adjustments for:			
Depreciation	11,288	16,019	583,241
Net loss from equity investment	138,515	52,261	1,516,390
Loss on recognition of embedded derivative	-	-	-
Interest on convertible notes payable	58,083	4,800	203,143
Shares issued for services	26,000	19,300	8,590,071
Warrants and options issued for services	117,925	129,085	3,991,090
Amortization of beneficial conversion feature	253,915	29,516	885,125
Write-down of mineral rights	-	-	3,411,309
Write-down of assets	-	-	240,063
Other	-	-	(1,630,814)
Changes in non-cash working capital:			
Other receivable	(14,371)	-	(103,017)
Prepaid expenses	53,590	-	53,590
Deferred expenses	2,021	26,071	315,935
Accounts payable	55,637	22,649	2,219,080
Accrued liabilities	22,290	54,994	485,958
Other	-	-	680,990
<b>Net cash used in operating activities</b>	<b>\$ (660,816)</b>	<b>\$ (380,002)</b>	<b>(19,710,472)</b>
<b>Cash flows from investing activities</b>			
Investments in mineral rights	-	\$ -	(1,920,441)
Additional contribution to Sino-Top	(775,015)	-	(4,426,570)
Acquisition of plant and equipment	(197,495)	-	(1,178,981)
Other	-	-	4,364,090
<b>Net cash (used in) investing activities</b>	<b>\$ (972,510)</b>	<b>-</b>	<b>(3,161,902)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock and warrants	-	-	18,147,492
Share issuance costs	-	-	(206,686)
Related party loans payable	-	-	1,192,922
Repayments of related party payables	-	(167,686)	(722,813)
Minority interest	-	-	253,021
Promissory note payable	-	-	516,623
Write-down of promissory note payable	-	-	(350,000)
Issuance of convertible notes payable (note 12)	1,603,388	553,840	4,026,535
Other	-	-	(59,609)
<b>Net cash provided by financing activities</b>	<b>1,603,388</b>	<b>386,154</b>	<b>22,797,485</b>

<b>Effect of exchange rate on cash</b>	<b>(15,671)</b>	(24,165)	143,848
<b>(Decrease) increase in cash</b>	<b>(45,609)</b>	(18,013)	68,959
<b>Cash - beginning of period</b>	<b>114,568</b>	96,563	-
<b>Cash - end of period</b>	<b>\$ 68,959</b>	\$ 78,550	\$ 68,959

**Supplemental cash flow information** (note 12)

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

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**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 13). 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 interim condensed 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, and pursuant to the regulations of the Securities and Exchange Commission (SEC) for interim condensed financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the fiscal year ended December 31, 2011 filed in the Company's Annual Report on Form 10-K.

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

These consolidated financial statements have been prepared in accordance with 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 March 31, 2012, the Company had working capital deficit of \$3,432,961 (December 31, 2011 \$2,633,525), has not yet achieved profitable operations, incurred a net loss of \$1,385,709 for the three-month period ended March 31, 2012 (2011 - \$734,697), has accumulated losses of \$41,455,381 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.

**3. 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). There was no material impact on the Company's results of operations, financial condition, or cash flows on adoption of this policy.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**3. 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). There was no material impact on the Company's results of operations, financial condition, or cash flows on adoption of this policy.

**4. 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 March 31, 2012 and December 31, 2011 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, \$27,788 of consolidated expenses for the three-month period ended March 31, 2012 are denominated in Mexican Pesos; and \$230,050 of consolidated expenses for the year ended December 31, 2011, are denominated in Canadian Dollars. As at March 31, 2012; \$787,579 of the net monetary liabilities are denominated in Mexican Pesos; and \$43,409 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.

**5. Notes Receivable**

- (a) Notes receivable consists of ten notes issued by an investor, (note 9 (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 March 31, 2012, 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.

On January 31, 2012, the Company agreed with the investor to accelerate certain payments for a total of \$800,000 in exchange for redeeming \$1,142,857. The notes that were due on November 15, 2011, December 15,

2011, January 15, 2012, February 15, 2012 and March 15, 2012 were redeemed, and the note due on April 15, 2012 was partially redeemed. The difference was recorded as a financing expense.

- (b) Notes receivable includes a promissory note issued by an investor on April 11, 2011 (note 9 (b)) for \$300,000, bearing interest at 6% per annum and secured by assets pledged as collateral. The agreement was amended on 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. On February 10, 2012, the Company received \$150,000, and as at March 31, 2012, \$100,000 is outstanding.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**5. 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 9 (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 \$825,000 and the remaining \$2,175,000 receivable is outstanding, of which \$325,000 is included in current assets and relates the initial \$1,000,000 note that was advanced. The original non-interest bearing note was issued on April 19, 2011 and was due October 16, 2011. However, certain conditions were not met by the Company and the remaining balance is currently due.

**6. Plant and Equipment, net**

	Cost	Accumulated depreciation	March 31, 2012 Net book value	December 31, 2011 Net book value
Computer hardware	\$ 40,559	\$ 32,657	\$ 7,902	\$ 8,543
Office equipment	45,720	29,296	16,424	17,290
Leasehold improvements	393,163	187,523	8,148	17,929
	\$ 479,442	\$ 249,476	\$ 229,970	\$ 43,762

**7. 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.

	March 31 2012
Carrying value of investment at December 31, 2011	\$ 4,328,143
Additional investment and advances	775,015
40% share of net loss for the three-month period ended March 31, 2012	(138,515)
Carrying value of investment at March 31, 2012	\$ 4,964,643

**Share of loss for the three-month period ending March 31:**

	2012	2011
Exploration expenses	\$ (87,689)	\$ (30,903)
General and administrative expenses	(50,826)	(21,298)
Share of loss for the year (at 40%)	\$ (138,515)	\$ (52,261)

**8. Promissory Note Payable**

In 2008, a promissory note was signed with a vendor in the amount of \$166,623 with a carried interest rate of 5% per month, unsecured, and no maturity date. During the three-month period ended March 31, 2012, the Company incurred interest of \$24,993 (2011 - \$24,993).





**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**9. Convertible Notes Payable**

Balance, December 31, 2011	\$ 4,025,629
Issued during the three-month period ended March 31, 2012	93,500
Deferred charges	266,827
Converted during the three-month period ended March 31, 2012	(968,573)
Balance March 31, 2012	\$ 3,417,383

- (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 5(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 5(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 beneficial conversion feature as at March 31, 2012 is \$174,503. 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 5(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 5(b). The fair value of the beneficial conversion feature as at March 31, 2012 is \$154,214.

- (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.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**9. Convertible Notes Payable**, continued

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. 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 \$714,583. 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 August 24, 2011, the Company issued a convertible note with a principal amount of \$55,000, due on May 25, 2012 which was paid in full on March 13, 2012. On November 30, 2011, the Company issued a convertible note with a principal amount of \$75,000, due on September 5, 2012. On January 27, 2012, the Company issued a convertible note with a principal amount of \$42,500, due on October 30, 2012. On March 15, 2012, the Company issued a convertible note with a principal amount of \$51,000, due on December 19, 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. The fair value of the beneficial conversion feature as at March 31, 2012 is \$42,010.

**10. Related Party Transactions and Balances**

During the three-month period ended March 31, 2012, the Company incurred \$92,315 (2011 - \$81,000) in management fees paid to a company controlled by a director for his services as chief executive officer.

**11. Capital Stock**

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 9(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.

Edgar Filing: Silver Dragon Resources Inc. - Form 10-Q

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.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**11. Capital Stock, continued**

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.

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 9(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 9(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 9(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 9(d)).

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.

Edgar Filing: Silver Dragon Resources Inc. - Form 10-Q

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.

On March 22, 2012, the Company issued 2,225,000 common share purchase warrants to directors and employees for services rendered at an exercise price of \$0.06 exercisable for a period of three years from the date of issuance, for a fair value of \$117,925.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**11. Capital Stock, continued**

During the three-month period ended March 31, 2012, the Company issued 17,138,219 shares pursuant to the conversion of a note of \$438,020 principal and \$53,200 interest (note 9(a)).

During the three-month period ended March 31, 2012, an investor elected to convert one outstanding notes payable totaling \$81,900 plus accrued interest of \$2,683. The Company issued a total of 1,522,690 shares (note 9 (b)).

During the three-month period ended March 31, 2012, the Company issued 12,394,552 shares pursuant to the conversion of a note of \$393,653 principal (note 9(c)).

During the three-month period ended March 31, 2012, the Company issued 1,890,039 shares pursuant to the conversion of a note of \$55,000 principal and \$2,200 interest (note 9(d)).

**Warrants**

As March 31, 2012, 24,553,000 warrants were outstanding, having an exercise price between \$0.06 and \$1.25 per share with an average remaining contractual life of 1.81 years.

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
<b>Balance, December 31, 2011</b>	22,978,000	\$ 0.49
Issued during the three-month period ended March 31, 2012	2,225,000	0.06
Expired during the three-month period ended March 31, 2012	(650,000)	(0.92)
<b>Balance, March 31, 2012</b>	<b>24,553,000</b>	<b>\$ 0.43</b>

As at March 31, 2012, the range of exercise prices of the outstanding warrants were as follows:

<b>Range of exercise prices</b>	<b>Number of warrants</b>	<b>Average remaining contractual life</b>	<b>Weighted average exercise price</b>
\$0.06 - \$1.00	23,553,000	1.85 years	\$0.40
\$1.01 - \$1.25	1,000,000	0.70 years	\$1.25

**Options**

As at March 31, 2012, 200,000 options were outstanding, having an exercise price between \$0.10 and \$0.95 per share with an average remaining contractual life of 0.38 years.

	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Balance, December 31, 2011</b>	<b>700,000</b>	<b>\$ 0.70</b>
Expired during the three-month period ended March 31, 2012	(500,000)	(0.10)
<b>Balance, March 31, 2012</b>	<b>200,000</b>	<b>\$ 0.95</b>

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

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

	<b>March 31</b>	March 31	For the period
	<b>2012</b>	2011	from May 9, 1996 (date of inception) through March 31, 2012
Issuance of convertible notes payable	\$ -	\$ -	\$ 5,240,000
Cash advances	<b>93,500</b>	170,000	1,751,993
Notes receivable	<b>356,905</b>	-	(4,770,595)
Cash repayments on notes receivable	<b>1,100,000</b>	-	1,950,000
Deferred charges	<b>52,983</b>	-	(144,863)
	<b>\$ 1,603,388</b>	170,000	\$ 4,026,535

**13. Commitments and Contingencies**

- (a) On December 19, 2011, the Company entered into a three year lease agreement for office, which was amended during the first quarter to commence from June 1, 2012 and end on May 31, 2015. The future minimum commitment under the lease obligations for office premises are as follows:

2012	\$ 35,769
2013	61,319
2014	61,319
2015	25,549
	<b>\$ 183,956</b>

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.

On April 18, 2012 the Company announced that a lawsuit filed against Silver Dragon Resources Inc., Marc Hazout, Hao Guoqiang, Zhou Lin, Beijing and Shengda Zhenxing Industrial Ltd. (collectively, the Defendants ) in the No.2 Intermediate People s Court of Beijing City (the Beijing Court ) has been formally withdrawn by the plaintiffs Yang Jingxian and Chen Jinghan (collectively, the Plaintiffs ) and formally approved by the Beijing Court.

The official approval was handed out by the Beijing Court on April 12, 2012.

**SILVER DRAGON RESOURCES INC.**  
**(AN EXPLORATION STAGE COMPANY)**  
**Notes to the Interim Condensed Consolidated Financial Statements**  
**March 31, 2012 and 2011**

**13. Commitments and Contingencies, continued**

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.

**14. Subsequent Events**

After the quarter ended March 31, 2012, the Company issued 6,248,246 shares pursuant to a conversion of a note payable with a principal balance of \$140,275.

On April 10, 2012, the Company issued 700,000 shares pursuant to a private placement at \$0.03 per unit for a total of \$21,000.

**15. Segmented Information**

<b>As at March 31, 2012</b>	<b>Corporate</b>	<b>Mexico</b>	<b>China</b>	<b>Total</b>
Equity investment	\$ -	\$ -	\$ 4,964,643	\$ 4,964,643
Notes receivable	\$ 2,820,595	\$ -	\$ -	\$ 2,820,595
Total assets	\$ 3,189,746	\$ -	\$ 4,964,643	\$ 8,384,359

<b>Three-month period ended March 31, 2012</b>	<b>Corporate</b>	<b>Mexico</b>	<b>China</b>	<b>Total</b>
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 11,288	\$ -	\$ -	\$ 11,288
Loss before income tax	\$ (1,219,406)	\$ (27,788)	\$ (138,515)	\$ (1,385,709)

<b>As at December 31, 2011</b>	<b>Corporate</b>	<b>Mexico</b>	<b>China</b>	<b>Total</b>
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

<b>Three-month period ended March 31, 2011</b>	<b>Corporate</b>	<b>Mexico</b>	<b>China</b>	<b>Total</b>
Revenues	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 16,019	\$ -	\$ -	\$ 16,019
Loss before income tax	\$ (654,016)	\$ (28,402)	\$ (52,261)	\$ (734,679)

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

### Forward-looking statements

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

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

### Available information

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

### OVERVIEW

Our primary objective is to explore for silver minerals and, if warranted, to develop those existing mineral properties. Our secondary objective is to locate, evaluate, and acquire other mineral properties, and to finance our exploration and development through equity financing, by way of joint venture or option agreements or through a combination of both. The Company's primary objective right now is to monetize its assets in order to augment its cash flow and ensure increased value.

### CHINA

The properties in China, in which we have an interest, continue to be drilled and tunneled. Geologic mapping, trenching, tunneling and drilling work are underway for three of the properties known as Dadi, Laopandao, and Aobaotugounao. An NI 43-101 report on Laopandao property was completed during the fourth quarter of 2011 year and the N 43-101 report on Dadi was updated during the third quarter of 2011.

On February 15, 2012 the Company issued an update regarding production at its Erbahuo silver mine, located in Wengniute county, Inner Mongolia, China. The Erbahuo mine 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 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, the Company reported that its 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 US\$ 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.

Edgar Filing: Silver Dragon Resources Inc. - Form 10-Q

On February 23, 2012, the Company announced that it has completed a geological report on the results from the 2011 drilling program at its award-winning 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.

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.

In 2011, four drill holes totaling 1,401 metres, tunneling totaling 1,029 metres, and surface trenching totaling 101.1 cubic meters 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).

The results of the resource estimates are in the table below. 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	592,331	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
<b>Total</b>	<b>122b+333</b>					<b>2,941,655</b>	<b>385.1</b>	<b>44,076</b>	<b>61,699</b>	<b>2,145</b>

Notes: Chinese Geological Resource Categories 332 [indicated], 333 [inferred], 334 [prospective], 122b [inferred reserves]

On April 10, 2012, the Company announced that it has completed a geological report on the results from the 2011 exploration program at its Laopandao silver-copper-tin polymetallic project in Inner Mongolia, Northern China.

After five years of exploration, Laopandao has evolved into an advanced exploration project with a completed initial NI 43-101 compliant resource estimate, and a metallurgical analysis in progress. An extensive underground tunnel

system has been constructed and a drilling, trenching & tunneling program is well underway with a total of 7,174 meters of surface trenching, 14,632 meters of diamond drilling, and 2,822 meters of underground exploration-development (tunneling) completed to date.

In 2011, the exploration work focused on mineralization zone III and included 308 meters tunneling, 192 pieces of sampling and assaying, as well as hydrogeological, engineering, geological, and environmental surveys within the property demonstrating a potential viable operation.

Exploration to date has demonstrated economic tin resources in mineralization zone III with more than 1% tin discovered in many areas including in mineralized bodies III-10 and III-12.

21 mineralized bodies have been defined in mineralization zone III with several mineralized bodies of tin defined by tunneling.

Edgar Filing: Silver Dragon Resources Inc. - Form 10-Q

The recalculation of tin resources in mineralization III shows the total amount of polymetallic ore reaching 2,657,105 metric tonnes (332 [indicated] + 333 [inferred] category resources following Chinese Geological Exploration Standards) with 11,383 metric tonnes (25 million pounds) of tin, demonstrating significant resource potential.

Two groups of samples have been collected for metallurgic testing. The test results are expected during the second quarter of 2012, which will provide basic economic parameters for a pre-feasibility study.

The resource estimates for Laopando are summarized in the following table:

Resource estimates for Laopandao

<b>Resource Estimate</b>					
<b>Mineral Zone</b>	<b>Resource Category</b>	<b>Metal Ore (metric tonnes)</b>	<b>Silver (metric tonnes)</b>	<b>Tin (metric tonnes)</b>	<b>Copper (metric tonnes)</b>
2011 Exploration Season					
III	332	17,765		77	
III	333	2,639,339		11,306	
Historical (2010)					
I	332	57,705	3	795	127
	333	284,471	74	1,222	2,033
	334	232,399	159.1	188	2,257
II	332	380,738	24.4	472	1,858
	333	544,250	25.6	445	2,025
	334	445,967	32.1	636	1,939

Notes: Chinese Geological Resource Categories 332 [indicated], 333 [inferred], 334 [prospective]

On May 2, 2012 the Company announced that its 40% equity owned joint venture Sanhe Sino-Top Resources & Technologies, Ltd. ( Sino-Top ) has commenced this year s approved exploration program on three of its properties in Northern China. The exploration targets include 4,000 meters (incl. 1,000 meters contingency) drilling, 3,000 meters tunneling, and 500 meters trenching at Dadi; 4,000 meters (incl. 1,000 meters contingency) drilling, 700 meters tunneling and 500 meters trenching at Laopandao; 4,000 meters drilling and 5,000 meters trenching at Aobaotugounao. In total, the budget for this year s exploration is RMB 36,845,000 (US\$ 5.8 million).

## MEXICO

We previously reported in our Annual Report on Form 10-K for the year ended December 31, 2011 about certain irregularities regarding our Cerro las Minitas Project in Mexico that resulted in our writing off of our investment in assets in Mexico in the years ended December 31, 2010 and 2009.

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

## RESULTS OF OPERATIONS

**Three-month period ended March 31, 2012**

Total operating expenses for three-month period ended March 31, 2012 were \$521,923 compared to \$588,601 for the same period in the prior year. Loss on equity investment increased from \$52,261 in the prior period to \$97,449 in the current period due to current exploration. Interest expenses increased significantly from \$98,835 to \$727,740 as a result of the issuance and conversion of convertible notes payable.



Net sales were \$nil for both the periods ended March 31, 2012 and March 31, 2011 as there was no production at any of the properties.

### Summary of Quarterly Results

The following table sets forth selected results of operations for our most recently completed quarters:

Quarter ended	Total operating expenses (\$)	Total other expenses/ (income) (\$)	Net loss (\$)	Basic and diluted net loss per common share
March 31, 2012	521,923	811,202	1,333,125	\$0.01
December 31, 2011	504,552	636,530	1,141,082	\$0.01
September 30, 2011	602,596	586,178	1,188,774	\$0.01
June 30, 2011	547,835	403,204	951,039	\$0.01
March 31, 2011	588,601	146,096	734,697	\$0.01
December 31, 2010	3,083,621	(1,654,828)	1,428,793	\$0.03
September 30, 2010	551,137	378,919	930,056	\$0.01
June 30, 2010	471,597	688,671	1,160,268	\$0.01
March 31, 2010	687,512	111,689	799,201	\$0.01

In the quarter ended December 31, 2010 we wrote off our Mexican assets for a total of \$2,335,289 which was included in total operating expenses. Other expenses increased significantly since March 31, 2011, as a result of interest incurred on the convertible notes payable.

### LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012 we had working capital deficit of \$3,223,798 (December 31, 2011 \$2,633,525). We have funded our expenses and capital requirements through the issuance of shares, warrants and notes. Sales of shares were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, and/or Regulation D thereunder, and/or Regulation S thereunder. All of the purchasers of the shares were sophisticated or accredited investors. The shares were issued with a restrictive legend.

We expect to invest approximately \$250,000 into Sino-Top in the remainder of 2012. These funds are to be invested towards exploration and property maintenance on the seven properties in the portfolio and conducting a Canadian National Instrument (NI) 43-101 report on the Laopandao property and updating the NI43-101 report on the Dadi property.

On February 15, 2011, we closed a convertible financing of \$2.5 million 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, 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 our 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 beneficial conversion feature as at March 31, 2012 is \$174,503. 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. The fair value of the beneficial conversion feature as at March 31, 2012 is \$154,214.

On April 19, 2011, we 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 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. 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 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 \$714,583. 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.

## **SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates are based on management's best knowledge of current events and actions we 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 4 to the Consolidated Financial Statements included in our Annual Report on Form 10-K filed on March 29, 2012.

### **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 and are initially recognized at cost net of any accumulated impairment loss. Our share of these entities' profits or losses after acquisition of our interest is recognized in the statement of operations and cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When our share of losses on these investments equals or exceeds the carrying amount of the investment, we only recognize further losses where we have incurred obligations or made payments on behalf of the affiliate.

## **OFF BALANCE-SHEET ARRANGEMENTS**

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

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**No report required.**

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

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

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

Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were not effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Material events occurred in Mexico over the past five years that were not reported to head office on a timely basis, as disclosed herein. Further, management has been unable to establish that disclosure controls and procedures are operating effectively to ensure that events and transactions affecting our subsidiary 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 September 30, 2011, because we were unable to obtain complete information regarding internal controls 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 March 31, 2012.

### **Changes in internal controls**

There were no changes to internal controls in the first quarter.

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

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how

well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake.

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

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

**CEO and CFO Certifications**

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

**Audit Committee report**

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

## **PART II: OTHER INFORMATION**

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

#### China

In December, 2010, shareholders of the Company received a letter from a shareholder which contained two items. The first was a copy of a legal proceeding filed in China and the second was a letter making certain allegations regarding Silver Dragon and its management. The legal proceeding was filed by two shareholders and sought to invalidate our sale in 2008 of 50% of Sanhe SinoTop Resources & Technologies, Ltd. We believe that the legal proceeding was frivolous and wholly without merit. The sale in question was made to a Chinese government-owned entity, after the receipt of approval by the Ministry of Commerce in China. The second item was a letter written by a purported "Minority Shareholder Committee," claiming that it had initiated the proceeding. The letter alleged that the Company and its management had engaged in various improper and illegal activities. 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. On April 18, 2012 we announced that the lawsuit filed in China was formally withdrawn by the plaintiffs, and the withdrawal was approved by the Beijing Court.

#### Mexico

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

#### 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 is returning to us for cancellation 3,116,104 shares which equals the difference between the number of VWAP Shares and the number of shares originally issued. The number of shares is equal to (i) \$405,981.49 plus \$28,691.32 of Socius' legal fees divided by 75% of the VWAP of our common stock over the 20-day trading period immediately following the date on which the shares were originally issued. The final number of shares issued to Socius is 5,883,896.





## Item 1B. Risk Factors

*You should consider each of the following risk factors and other information set forth in this Form 10-Q and the other reports we have filed with the SEC, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones that may 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. A full set of risk factors is set out in our Form 10-K filed with the SEC on March 29, 2012.*

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

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

***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.

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

No report required.

**Item 3. Defaults upon senior securities**

No report required.

**Item 4. Mine safety disclosures**

No report required.

**Item 5. Other information**

No report required.

**Item 6. Exhibits**

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

**SIGNATURES**

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

**SILVER DRAGON RESOURCES INC.**

Dated: May 11, 2012

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

Dated: May 11, 2012

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