# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended: June 30, 2014

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

For the transition period from: _____________ to _____________

Commission File Number: 0-29657

# SILVER DRAGON RESOURCES INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **33-0727323** |
| (State or Other Jurisdiction of Incorporation) | (I.R.S. Employer Identification No.) |

**200 Davenport Road**
**Toronto, Ontario**
**Canada M5R 1J2**
(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 [X] No [ ]

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [ ] | Smaller reporting company [X] |

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

[ ] Yes [X] No

As of August 12, 2014, there were 272,710,823 shares of common stock outstanding, par value $0.0001.

**SILVER DRAGON RESOURCES INC.**
**INDEX TO FORM 10-Q**
**FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2014**
(EXPRESSED IN UNITED STATES FUNDS)

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

| | | June 30, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | **$** | **-** | $ | 226,937 |
| Other receivables (note 5) | | **1,453** | | 20,488 |
| Deferred costs-current | | **55,999** | | 55,999 |
| Prepaid expenses | | **4,794** | | 35,319 |
| **Total current assets** | | **62,246** | | 338,743 |
| | | | | |
| **Deferred costs** | | **14,000** | | 42,000 |
| **Plant and equipment, net** (note 6) | | **142,642** | | 207,968 |
| **Equity investment** (note 7) | | **2,974,287** | | 3,680,774 |
| | | | | |
| **Total assets** | **$** | **3,193,175** | $ | 4,269,485 |
| | | | | |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness | **$** | **175** | $ | **-** |
| Advance credit note (note 8) | | **1,069,279** | | 1,069,279 |
| Accounts payable | | **762,894** | | 722,700 |
| Accrued liabilities | | **864,983** | | 704,590 |
| Promissory note payable (note 9) | | **166,623** | | 166,623 |
| Convertible notes payable (note 10) | | **3,630,867** | | 3,298,054 |
| Related party payable (note 11) | | **90,908** | | - |
| **Total liabilities** | | **6,585,729** | | 5,961,246 |
| | | | | |
| **Capital stock** (note 12) | | | | |
| Preferred stock, $0.0001 par value, 20,000,000 shares authorized, none issued and outstanding | | – | | – |
| Common stock, $0.0001 par value, 300,000,000 shares authorized (2013 – 300,000,000), 267,349,611 shares issued and outstanding (2013 – 267,999,611 issued and outstanding) | | **26,850** | | 26,915 |
| **Additional paid-in capital** | | **46,360,074** | | 46,569,009 |
| **Treasury** (nil shares; 2013-550,000 shares) | | **-** | | (209,000) |
| **Deficit accumulated during the exploration stage** | | **(49,883,617)** | | (48,197,148) |
| **Accumulated comprehensive income** | | **104,139** | | 118,463 |
| **Stockholders' deficit** | | **(3,392,554)** | | (1,691,761) |
| | | | | |
| **Total liabilities and stockholders' deficit** | **$** | **3,193,175** | $ | 4,269,485 |

**Going concern** (note 2)
**Commitments and contingencies** (note 14)

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 and six-month periods ended June 30, 2014 and 2013 and**
**Cumulative for the period from May 9, 1996 (date of inception) to June 30, 2014**
**(Unaudited)**

| | For the three-month periods ended | | For the six-month periods ended | | For the period from May 9, 1996 (date of inception) to |
|---|---|---|---|---|---|
| | **June 30, 2014** | June 30, 2013 | **June 30, 2014** | June 30, 2013 | **June 30, 2014** |
| **Operating expenses** | | | | | |
| Exploration | $ - | $ - | $ - | $ - | $ 7,174,048 |
| General and administrative | 254,695 | 565,547 | 597,182 | 799,567 | 31,385,401 |
| Write-off of Mexican assets | - | - | - | - | 3,242,039 |
| **Total operating expenses** | 254,695 | 565,547 | 597,182 | 799,567 | 41,801,488 |
| **Loss from operations** | (254,695) | (565,547) | (597,182) | (799,567) | (41,801,488) |
| **Other (expenses) income** | | | | | |
| Gain on disposal of plant and equipment | - | 14,769 | - | 14,769 | 14,769 |
| Interest expense | (278,411) | (124,994) | (382,800) | (149,987) | (3,914,461) |
| Interest income | - | - | | - | 85,553 |
| Loss on settlement | - | - | - | - | (2,195,458) |
| Net loss on equity investment | (601,912) | (308,602) | (706,487) | (453,312) | (4,243,624) |
| Forgiveness of debt | - | - | - | - | 38,871 |
| Gain on sale of interest in subsidiary | - | - | - | - | 1,816,733 |
| Gain on sale of interest in mining property | - | - | - | - | 1,078,491 |
| Non-recurring items | - | - | - | - | (713,269) |
| **Total other expenses** | (880,323) | (418,827) | (1,089,287) | (588,530) | (8,032,395) |
| **Loss before income taxes** | (1,135,018) | (984,374) | (1,686,469) | (1,388,097) | (49,833,883) |
| Provision for income taxes | - | - | - | - | - |
| **Net loss from continuing operations, after tax** | (1,135,018) | (984,374) | (1,686,469) | (1,388,097) | (49,833,883) |
| Minority interest | - | - | - | - | 253,021 |
| Loss from discontinued operations (net of tax) | - | - | - | - | (302,755) |
| **Net loss** | (1,135,018) | (984,374) | (1,686,469) | (1,388,097) | (49,883,617) |
| **Other comprehensive (loss) income:** | | | | | |
| Foreign exchange (loss) gain | (10,482) | 32,914 | (14,324) | (23,295) | 104,139 |
| **Comprehensive loss** | $ (1,145,500) | $ (951,460) | $ (1,700,793) | $ (1,411,392) | $ (49,779,478) |
| | | | | | |
| **Net loss per common share – basic and diluted** | $ (0.00) | $ (0.00) | $ (0.01) | $ (0.01) | |
| **Weighted average number of common shares outstanding – basic and diluted** | 267,756,754 | 257,999,611 | 267,877,512 | 267,999,611 | |

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' (Deficiency) Equity**
**For the six-month period ended June 30, 2014 and year end December 31, 2013**
**(Unaudited)**

| | Common Stock Number of Shares | Amount $ | Additional Paid-in Capital $ | Deficit Accumulated During the Exploration Stage $ | Treasury Stock $ | Accumulated Comprehensive Income (Loss) $ | Total Stockholders' Deficit $ |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2013** | **267,999,611** | **26,915** | **46,569,009** | **(48,197,148)** | **(209,000)** | **118,463** | **(1,691,761)** |
| Shares cancelled | (100,000) | (10) | 10 | - | - | - | - |
| Treasury stock | (550,000) | (55) | (208,945) | - | 209,000 | - | - |
| Accumulated comprehensive loss | - | - | - | - | - | (14,324) | (14,324) |
| Net loss, 2014 | - | - | - | (1,686,469) | - | - | (1,686,469) |
| **Balance, June 30, 2014** | **267,349,611** | **26,850** | **46,360,074** | **(49,883,617)** | **-** | **104,139** | **(3,392,554)** |

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 six-month periods ended June 30, 2014 and 2013 and**
**Cumulative for the period from May 9, 1996 (date of inception) to June 30, 2014**
**(Unaudited)**

| | June 30, 2014 | June 30, 2013 | For the period from May 9, 1996 (date of inception) through June 30, 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss | $ (1,686,469) | $ (1,388,097) | $ (49,883,617) |
| Net loss from discontinued operations | - | - | 302,755 |
| Net loss from continuing operations excluding minority interest | (1,686,469) | (1,388,097) | (49,580,862) |
| Adjustments for: | | | |
| Gain on disposal of plant and equipment | - | (14,769) | (14,769) |
| Depreciation | 65,326 | 63,536 | 854,546 |
| Amortization of deferred expenses | 28,000 | 28,000 | 419,825 |
| Gain on sale of investment | - | - | (1,078,491) |
| Net loss from equity investment | 706,487 | 453,312 | 4,243,624 |
| Interest on convertible notes payable | - | 100,000 | 145,060 |
| Shares issued for services | - | - | 8,590,071 |
| Warrants and options issued for services | - | - | 3,991,090 |
| Amortization of beneficial conversion feature | - | - | 2,337,940 |
| 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 receivables | 19,035 | 86,353 | (8,308) |
| Prepaid expenses | 30,525 | 25,275 | 78,937 |
| Accounts payable | 40,194 | 139,314 | 2,400,067 |
| Accrued liabilities | 160,393 | 266,935 | 834,148 |
| Other | - | - | 778,688 |
| **Net cash used in operating activities** | (636,509) | (240,141) | (23,987,876) |
| **Cash flows from investing activities** | | | |
| Investments in mineral rights | - | - | (1,920,441) |
| Proceeds from sale of investment | - | - | 1,099,140 |
| Proceeds on disposal of plant and equipment | - | 14,769 | 14,769 |
| Additional contribution to Sino-Top | - | - | (5,281,795) |
| Acquisition of plant and equipment | - | 10,675 | (1,362,959) |
| Other | - | - | 4,364,090 |
| **Net cash provided by (used in) investing activities** | - | 25,444 | (3,087,196) |
| **Cash flows from financing activities** | | | |
| Advances on credit note | - | - | 1,069,279 |
| Bank indebtedness | 175 | 31,178 | 175 |
| Proceeds from issuance of common stock and warrants | - | - | 18,168,492 |
| Share issuance costs | - | - | (206,686) |
| Related party loans payable | 90,908 | 98,346 | 1,472,876 |
| Repayments of related party payables | - | - | (911,859) |
| Minority interest | - | - | 253,021 |
| Promissory note payable | - | - | 516,623 |
| Write-down of promissory note payable | - | - | (350,000) |
| Issuance of convertible notes payable (note 13) | 332,813 | 122,500 | 6,974,089 |
| Other | - | - | (59,609) |
| **Net cash provided by financing activities** | 423,896 | 252,024 | 26,926,401 |

| | | | |
|---|---|---|---|
| **Effect of exchange rate on cash** | **(14,324)** | (23,295) | 148,671 |
| **(Decrease) increase in cash** | **(226,937)** | 14,032 | - |
| **Cash - beginning of period** | **226,937** | 13,406 | - |
| **Cash - end of period** | **$ -** | $ 27,438 | $ - |

**Supplemental cash flow information** (note 13)

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

## 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 in Canada and China. Silver Dragon Resources Inc. and its subsidiaries (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 accounting principles generally accepted in the United States ("US GAAP"), and are expressed in United States funds. 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, 2013 filed in the Company's Annual Report on Form 10-K.

## 2. Going Concern and Exploration Stage Activities

These interim condensed 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 June 30, 2014, the Company had a working capital deficit of $6,523,483 (December 31, 2013 – $5,622,503), had not yet achieved profitable operations, incurred a net loss of $1,686,469 for the six-month period ended June 30, 2014 (2013 – $1,388,097), had accumulated losses of $49,883,617 since its inception, and expects to incur further losses in the development of its business. These factors and those noted below, cast substantial 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 dependent upon achieving profitable operations.

Management has been unable to secure additional financing to meet its cash requirements, including ongoing capital, cash contributions for its equity investment and funds to repay all or certain of its convertible debt holders. There is no assurance of additional funding in any form, being available or available on acceptable terms.

In March of 2014, the Company received extensions of its obligations to repay the convertible debt holders from a date of March 31, 2014 to June 30, 2014. In addition, the Company had in place forbearance agreements with its convertible debt holders. The Company was not able to repay the obligations owing to the convertible debt holders on or before the June 30, 2014 deadline and thus is in default. Management continues to have discussions with the convertible debt holders in efforts to establish new deadlines for repayment and/or have them convert some or all of their convertible notes. The convertible debt holders continue to have the option to convert all or a portion of their notes. With the trading price at June 30, 2014, the Company did not have sufficient common stock to issue for a conversion of all the outstanding convertible debt.

If management is unable to secure additional financing and/or extend the payoff date for its convertible debt holders beyond June 30, 2014, the Company may be forced to dilute its equity investment which may still occur as a result of not having made the required contributions for its equity investment by June 15, 2014 or may ultimately file for bankruptcy. Since the date to make the required contributions for the equity investment has elapsed, it is now the option of the other equity investors whether to dilute the Company's 40% interest to 20%. The Company continues to have discussions with the other equity investors. Dilution may result in the Company's operations being considered an investment company. The registration requirements for an investment company would be a significant financial and operational burden and is unlikely to be feasible for the Company. As a result of this risk, the Company may be required to significantly limit its business activities and dissolve.

In addition, although there have been discussions between the Company and the private investor ("Investor"), there has been no resolution to the treatment of the $1,069,279 advance credit note received from the Investor and the Company may be required to return such funds, with or without interest, to the Investor.

Realization values may be substantially different from carrying values as shown. These interim condensed 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 was unable to continue as a going concern.

**3. Recent Accounting Pronouncements**

There were various accounting standards and interpretations issued during the period ended June 30, 2014, none of which are expected to have a material impact on the Company's consolidated financial position, operations, or cash flows.

**4. Financial Instruments**

The carrying value of other receivables, bank indebtedness, advance credit note, accounts payable, accrued liabilities, promissory note payable, convertible notes payable and related party payable approximated their fair value as of June 30, 2014 and December 31, 2013, due to their short-term nature.

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, $49,987 of consolidated expenses for the six-month period ended June 30, 2014 are denominated in Mexican Pesos; and $179,268 of consolidated expenses for the six-month period ended June 30, 2014, are denominated in Canadian Dollars. As at June 30, 2014, $1,198,669 of the net monetary liabilities are denominated in Mexican Pesos; and $206,025 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. Other Receivables**

The current balance in other receivables includes commodity taxes receivable of $1,453 (December 31, 2013-$3,968).

**6. Plant and Equipment, net**

| | Cost | Accumulated depreciation | June 30, 2014 Net book value | December 31, 2013 Net book value |
|---|---|---|---|---|
| Computer hardware | $ 40,559 | $ 36,966 | **$ 3,593** | $ 4,221 |
| Office equipment | 45,720 | 35,728 | **9,992** | 11,098 |
| Leasehold improvements | 381,558 | 252,501 | **129,057** | 192,649 |
| | $ 467,837 | $ 325,195 | **$ 142,642** | $ 207,968 |

During the six-month period ended June 30, 2013, the Company disposed of certain leasehold improvements which had been fully depreciated, resulting in a gain of $14,769. The gain is disclosed in the interim condensed consolidated statements of operations and comprehensive loss under gain on disposal of plant and equipment.

**7. Equity Investment**

**Sanhe Sino-Top Resources & Technologies Ltd., China ("Sino-Top")**

The Company owns 40% of Sino-Top, whose assets consist mainly of six exploration properties.

The Company is required to fund its share of ongoing operations at Sino-Top. At a meeting of the board of directors for Sino-Top held on March 29, 2014, the 2014 budget was finalized. The total budget for 2014 is RMB171.0 million (approximately $27,565,000) and the Company's contribution is RMB76.0 million (approximately $12,251,000). The Company's investment in Sino-Top will be diluted to 20% if it does not make a contribution of RMB50.0 million (approximately $8,060,000) by April 8, 2014 (extended to April 15, 2014) and a further contribution of RMB26.0 million (approximately $4,191,000) by June 15, 2014, with no further required contributions. These are cumulative amounts and include past contributions which were not made by the Company. The Company was not able to meet these deadlines and has been in discussions with Sino-Top to satisfy its required contributions. The change in the equity interest, should it occur, would have to be approved by the Ministry of Commerce as a result of registration through the Administration of Industry and Commerce.

Since the dates to make the required contributions for the equity investment have elapsed, it is now the option of the other equity investors whether to dilute the Company's 40% interest to 20%. The Company continues to have discussions with the other equity investors.

| | |
|---|---|
| Carrying value of investment at December 31, 2013 | **$ 3,680,774** |
| 40% share of net loss for the six-month period ended June 30, 2014 | **(706,487)** |
| Carrying value of investment at June 30, 2014 | **$ 2,974,287** |

**Share of loss for the six-month periods ended June 30:**

| | **2014** | 2013 |
|---|---|---|
| Exploration expenses | **$ (571,929)** | $ (340,172) |
| General and administrative expenses | **(134,558)** | (113,140) |
| Share of loss for the period (at 40%) | **$ (706,487)** | $ (453,312) |

**7. Equity Investment,** continued

**Summarized unaudited financial data of Sino Top for the six-month periods ended June 30:**

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Revenue | **$** | **-** | $ | - |
| Net loss | **$** | **(1,766,218)** | $ | (1,133,280) |
| Current assets | **$** | **1,604,466** | $ | 1,634,563 |
| Total assets | **$** | **2,621,664** | $ | 2,282,591 |
| Current liabilities | **$** | **8,983,603** | $ | 5,326,164 |
| Total liabilities | **$** | **8,983,603** | $ | 5,326,164 |

**8. Advance Credit Note**

During the prior year's fourth quarter, the Company received advances on a note, in the amount of $1,069,279, from an Investor. A significant portion of the funds were disbursed before the prior year-end, to settle certain outstanding obligations and payables. The Company and the Investor did not resolve definitive agreements, nor did the Investor fund the remaining amounts initially anticipated to be required to complete the initial closing. Due to funding delays by the Investor and changes in the Investor's offer, the Company's Board of Directors (the "Board"), determined in March 2014, not to proceed with the contemplated transaction.

On April 18, 2014, the Investor demanded that the Company refund $1,014,140 of the initial advances made to the Company in 2013 and asserted that the Company's use of such advances was unauthorized. The Company disputed the Investor's assertions. Subsequent to these assertions, on May 7, 2014, the Investor proposed to the Company the terms of a new transaction that would result in the prior advances being treated as a loan and the provision of additional loans to the Company, subject to a change in the Company's board of directors and management. The Company did not accept the terms proposed, but is seeking to further negotiate with the Investor the treatment of the advances made to date, the potential for additional advances and the terms of any such transaction, in order to prevent a dilution of the Company's 40% interest in Sino-Top. Although there have been discussions and correspondence between the Investor and the Company, there has been no resolution to the treatment of the $1,069,279 advance credit note with the Investor and the Company may be required to return such funds, with or without interest, to the Investor.

**9. Promissory Note Payable**

In 2008, a promissory note was signed with a vendor in the amount of $166,623 with a carried interest rate of 5% per month, unsecured, and no maturity date. During the six-month period ended June 30, 2014, the Company incurred interest of $49,987 (2013 - $49,987).

## 10. Convertible Notes Payable

| | Secured Convertible Promissory Note (a) | Convertible Redeemable Note (b) | Convertible Promissory Note (c) | Convertible Notes (d) | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2013** | **$ 2,728,940** | **$ 271,510** | **$ 204,094** | **$ 93,510** | **$ 3,298,054** |
| Interest and other charges | **162,069** | **68,203** | **63,082** | **39,459** | **332,813** |
| **Balance, June 30, 2014** | **$ 2,891,009** | **$ 339,713** | **$ 267,176** | **$ 132,969** | **$ 3,630,867** |

(a) On November 27, 2013, the Company and the lender entered into a fourth supplemental letter of agreement, pursuant to which the lender agreed that, if the Company pays $2,500,000 (the agreed "Payoff Amount"), by a fixed time on March 31, 2014, such payment would constitute payment in full of any and all obligations due and owing to the lender pursuant to certain secured convertible promissory note issued by the Company to the lender and certain other agreements between the two parties. All other terms and conditions of the original letter of agreement remained in full force and effect.

On March 27, 2014, the Company and the lender agreed to replace reference to the Payoff Amount and accept an amount equal to $2,750,000, so long as such payment is made on or before June 30, 2014. All other terms and conditions of the payoff letter remained in full force and effect.

In consideration of the foregoing, the lender agreed, from the date of the letter of agreement through the payoff date (the "Payoff Date"), to forbear from exercising any right or remedy in respect of the secured convertible promissory note and certain other agreements between the parties, including without limitation any right to conversion, right to delivery of shares, right to assignment, purchase right or remedy arising as a result of any default or event of default. The parties have also agreed to a mutual release of claims, subject to and effective upon the receipt and collection of the Payoff Amount as set forth in the letter of agreement. If the Payoff Amount is not paid by the Payoff Date, the lender's agreement shall be deemed cancelled.

The Company was not able to make payment on or before June 30, 2014. As of June 30, 2014, the Company was in default of the payment required on this secured convertible promissory note. The lender continues to have the option to convert all or a portion of its secured convertible promissory note into common shares of the Company.

(b) On November 8, 2013, the Company entered into a third letter supplemental letter of agreement with the lender pursuant to which the lender agreed to extend the Payoff Date for the convertible redeemable note owed from September 30, 2013 to March 31, 2014. All other terms and conditions of the original Letter of Agreement remain in full force and effect.

On March 25, 2014, the Company and the lender agreed to replace all references to March 31, 2014 in the payoff letter with June 30, 2014. The Company paid the lender $10 in consideration for this extension to the Payoff Date. All other terms and conditions of the payoff letter remained in full force and effect.

In consideration of the foregoing, the lender agreed, from the date of the letter of agreement through the Payoff Date, to forbear from exercising any right or remedy in respect of the convertible redeemable note and certain other agreements between the parties, including without limitation any right to conversion, right to delivery of shares, right to assignment, purchase right or remedy arising as the result of any default or event of default. The parties have also agreed to a mutual release of claims, subject to and effective upon receipt and collection of the Payoff Amount as set forth in the letter of agreement. If the Payoff Amount is not paid by the Payoff Date, the lender's agreement shall be deemed cancelled.

The Company was not able to make payment on or before June 30, 2014. As of June 30, 2014, the Company was in default of the payment required on this convertible redeemable note. The lender continues to have the option to convert all or a portion of its convertible redeemable note into common shares of the Company.

(c) On November 8, 2013, the Company entered into a third supplemental letter of agreement with the lender, pursuant to which the lender agreed to extend the Payoff Date for the convertible promissory note owed from September 30, 2013 to March 31, 2014. In consideration for the extension to the Payoff Date, the Company agreed to increase the outstanding balance of the convertible promissory note and other obligations by $10. All other terms and conditions of the original letter agreements remained in full force and effect.

On March 25, 2014, the Company and the lender agreed to replace all references to March 31, 2014 in the payoff letter with June 30, 2014. The Company paid the lender $10 in consideration for this extension to the Payoff Date. All other terms and conditions of the payoff letter remained in full force and effect.

In consideration of the foregoing, the lender agreed, from the date of the letter of agreement through the Payoff Date, to forbear from exercising any right or remedy in respect of the convertible promissory note and certain other agreements between the parties, including without limitation any right to conversion, right to delivery of shares, right to assignment, purchase right or remedy arising as the result of any default or event of default. The parties have also agreed to a mutual release of claims, subject to and effective upon receipt and collection of the Payoff Amount as set forth in the letter of agreement. If the Payoff Amount is not paid by the Payoff Date, the lender's agreement shall be deemed cancelled.

The Company was not able to make payment on or before June 30, 2014. As of June 30, 2014, the Company was in default of the required payment on the convertible promissory note. The lender may impose penalties for non-payment. The lender continues to have the option to convert all or a portion of its convertible promissory note into common shares of the Company.

(d) On November 8, 2013, the Company entered into a third supplemental letter of agreement with the lender, pursuant to which the lender agreed to extend the Payoff Date for the convertible notes owed from September 30, 2013 to March 31, 2014.

On March 25, 2014, the Company and the lender agreed to replace all references to March 31, 2014 in the payoff letter with June 30, 2014. The Company paid the lender $10 in consideration for this extension to the Payoff Date. All other terms and conditions of the payoff letter remained in full force and effect.

In consideration of the foregoing, the lender agreed, from the date of the letter of agreement through the Payoff Date, to forbear from exercising any right or remedy in respect of the convertible notes and certain other agreements between the parties, including without limitation any right to conversion, right to delivery of shares, right to assignment, purchase right or remedy arising as the result of any default or event of default. The parties have also agreed to a mutual release of claims, subject to and effective upon receipt and collection of the Payoff Amount as set forth in the letter of agreement. If the Payoff Amount is not paid by the Payoff Date, the lender's agreement shall be deemed cancelled.

The Company was not able to make payment on or before June 30, 2014. As of June 30, 2014, the Company was in default of the required payment on these convertible notes. The lender continues to have the option to convert all or a portion of its convertible notes into common shares of the Company.

As noted under note 15, Subsequent Events, the lender converted one of their notes into common shares of the Company.

## 11. Related Party Transactions and Balances

| | **June 30, 2014** | December 31, 2013 |
|---|---|---|
| Related party payable, non-interest bearing, due on demand and unsecured. | **$ 90,908** | $ - |

During the six-month period ended June 30, 2014, the Company incurred $161,646 (2013 - $159,507) in management fees paid to an Ontario company, Travellers International Inc. ("Travellers"), controlled by a director and officer of the Company, for the officer's services as chief executive officer and $36,000 (2013-$36,000) of accrued fees to a director for management services. As at June 30, 2014, unpaid remuneration in the amount of $27,000 (December 31, 2013-$nil) is included in accounts payable and $82,920 (December 31, 2013-$nil) is included in accrued liabilities in relation to the chief executive officer and unpaid remuneration of $138,000 (December 31, 2013-$102,000) in relation to a director for management services is included in accrued liabilities.

During the six-month period ended June 30, 2014, the Company incurred $31,218 (2013-$44,947) in rent paid to a company controlled by a director and officer. Included in prepaid expenses is a rental deposit of $4,794 (December 31, 2013-$4,809). Also included under prepaid expenses as at June 30, 2014, is a prepayment for the chief executive officer's services paid to Travellers of $nil (December 31, 2013-$30,510), including commodity taxes payable.

**11. Related Party Transactions and Balances,** continued

These transactions were in the normal course of operations and have been recorded at the exchange amounts which the parties believe to be fair value.

**12. Capital Stock**

**Common Stock**

On May 27, 2014, 650,000 shares of the Company were cancelled, without the return of cash or property.

**Warrants**

As at June 30, 2014, 2,225,000 warrants were outstanding, having an exercise price of $0.06 per share with an average remaining contractual life of 0.72 years.

| | **Number of warrants** | | **Weighted average exercise price** |
|---|---|---|---|
| **Balance, December 31, 2013** | 12,235,000 | $ | 0.38 |
| Expired during the six-month period ended June 30, 2014 | (10,010,000) | | (0.45) |
| **Balance, June 30, 2014** | **2,225,000** | **$** | **0.06** |

**13. Supplemental Cash Flow Information**

| **Issuance of convertible notes payable** | | **June 30, 2014** | | June 30, 2013 | | For the period from May 9, 1996 (date of inception) through June 30, 2014 |
|---|---|---|---|---|---|---|
| Issuance of convertible notes payable | **$** | **-** | $ | - | $ | 5,037,500 |
| Cash advances | | **-** | | - | | 1,794,493 |
| Interest accrued and other charges | | **332,813** | | 102,500 | | 1,000,497 |
| Notes receivable | | **-** | | - | | (4,952,500) |
| Cash repayments on notes receivable | | **-** | | - | | 2,392,143 |
| Deferred charges | | **-** | | - | | 807,869 |
| Settlement of notes payable and receivable | | **-** | | **-** | | 894,087 |
| | **$** | **332,813** | $ | 102,500 | $ | 6,974,089 |

For the six-month period ended June 30, 2014, there were no cash payments for income taxes (2013-$nil) and no cash payments for interest expense (2013-$nil).

**14. Commitments and Contingencies**

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

| | | |
|---|---|---|
| 2014 | $ | 32,087 |
| 2015 | | 26,740 |
| | $ | 58,827 |

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) The Company has committed to provide capital contributions to cover expenses proportionate to its equity interest in Sino-Top.

(c) The Company's Mexican subsidiary was subjected to irregularities that it was 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 took steps through the courts in Mexico to redress the situation. It included a Constitutional Rights Claim before the Federal Court in the City of Durango, premised on procedural irregularities. On May 22, 2012, the Court ruled against the Constitutional Rights Claim. As a result, the Company determined that it will not pursue any further recourse with regard to this matter, and accordingly, will never recover the Mexican Concessions. The Company is working with its legal counsel to dissolve the Mexican subsidiary.

## 15. Subsequent Events

(a) On July 11, 2014, the Financial Industry Regulatory Authority provided clearance for the Company to enter quotations on the Over the Counter ("OTC") bulletin board.

(b) On July 22, 2014, one of the Company's convertible debt holders, Asher Enterprises, Inc., converted $20,000 of their $51,000 note dated March 15, 2012 into 1,010,101 common shares of the Company. In addition, on July 31, 2014, the same convertible debt holder converted a further $15,000 of the $51,000 note into 1,666,667 common shares of the Company. And further, on August 6, 2014, the convertible debt holder converted the balance of the $51,000 note, converting $16,000 plus accrued interest of $8,160 into 2,684,444 common shares of the Company.

(c) On July 24, 2014, Sino-Top provided funds as a loan, totaling RMB200,000 (approximately $32,200) to the Company's Chinese operations. These funds are part of a total contribution of RMB1.0 million approved at the March 29, 2014 meeting of the Sino-Top Board of Directors. These funds will bear interest at the rate of 12% per annum and will be due and payable within two years.

## 16. Segmented Information

| As at June 30, 2014 | Corporate | Mexico | China | Total |
|---|---|---|---|---|
| Equity investment | $ - | $ - | $ 2,974,287 | $ 2,974,287 |
| Total assets | $ 218,888 | $ - | $ 2,974,287 | $ 3,193,175 |

| Six-month period ended June 30, 2014 | Corporate | Mexico | China | Total |
|---|---|---|---|---|
| Revenues | $ - | $ - | $ - | $ - |
| Depreciation | $ (65,326) | $ - | $ - | $ (65,326) |
| Loss before income tax | $ (929,995) | $ (49,987) | $ (706,487) | $ (1,686,469) |

| As at December 31, 2013 | Corporate | Mexico | China | Total |
|---|---|---|---|---|
| Equity investment | $ - | $ - | $ 3,680,774 | $ 3,680,774 |
| Total assets | $ 588,711 | $ - | $ 3,680,774 | $ 4,269,485 |

| Six-month period ended June 30, 2013 | Corporate | Mexico | China | Total |
|---|---|---|---|---|
| Revenues | $ - | $ - | $ - | $ - |
| Depreciation | $ (63,536) | $ - | $ - | $ (63,536) |
| Loss before income tax | $ (884,798) | $ (49,987) | $ (453,312) | $ (1,388,097) |

## 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 ("Exchange Act"), including statements regarding 2014 plans and objectives and statements regarding potential financing, dilution, change of control, bankruptcy and/or dissolution, or lack thereof, in the future. Forward-looking 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, including, without limitation, inadequate capital; uncertainty of financing; uncertainty that we would be able to successfully negotiate terms with its joint venture partners that would prevent dilution of our 40% interest in Sino-Top, even if financing is available; the risk that we will be subject to litigation or regulatory enforcement actions; the potential that we may be required to, or may elect to, file for bankruptcy and dissolve; the potential that we will be asserted or deemed to be an investment company under the Investment Company Act of 1940, as amended, and required to severely restrict or discontinue operations; and those further risks specified in our annual report on Form 10-K. 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, except as required by law.

### Available information

We file annual, quarterly, current reports, proxy statements, and other information with the Securities Exchange Commission ("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.

### OVERVIEW

Our primary objective is to explore for silver minerals. Our secondary objective is to locate, evaluate, and acquire other mineral properties, and to finance our exploration through equity or debt financings, asset dispositions, joint ventures or option agreements (or any combination thereof), if and to the extent available.

### CHINESE PROPERTIES

#### Overview

By virtue of our 40% equity interest in Sino-Top Resources& Technologies, Ltd. ("Sino-Top"), we currently have an interest in the following six silver poly-metallic exploration properties owned by Sino-Top, which properties are located in the Erbahuo Silver District in Northern China (Inner Mongolia): Dadi; Laopandao; Aobaotugonao; Shididonggou; Yuanlinzi; and Zhuanxinhu. Prior to July 5, 2012, we also had a 70% interest in Chifeng Silver Dragon Resources & Technologies, Ltd. ("Chifeng"), which owns the Erbahuo property, also located in the Erbahuo Silver District in Northern China (Inner Mongolia).

**Sale of Interest in Chifeng**

On May 28, 2012, the Company entered into a definitive agreement to sell its 70% interest in Chifeng, which then owned the Erbahuo silver mine located on the boundary of Wengniute County and Keshiketeng County, Inner Mongolia. The Company sold such interest to Deng Zuoping, a private Chinese investor, for RMB 7.4 million or approximately US$1,164,000, of which RMB1.0 million or approximately $157,000 was to be paid within three business days after signing the agreement, RMB5.0 million or approximately $787,000 was to be paid before July 15, 2012 and RMB1.4 million or approximately $220,000 was to be paid by November 1, 2012. On June 1, 2012, an initial deposit of RMB1.0 million or approximately $157,000 was received, of which $12,584 was contributed to Chifeng for expenses incurred until the date of the sale. Concurrently with such payment, we transferred to the purchaser title to our interest in Chifeng. Of the remaining payments, RMB5.0 million or approximately $791,000 was paid to the Company during the fourth quarter of 2012. During 2013, RMB900,000 or approximately $146,000 was paid. In addition, in the third quarter of 2013, RMB400,000 or $64,880 was added to the costs in connection with the Chifeng sale. As at December 31, 2013, RMB100,000 or approximately $16,500 remained outstanding. This balance was received on January 3, 2014. All amounts approximate the noon exchange rate on the date of the transactions reported by the Bank of Canada.

**Status of Sino-Top Joint Venture Funding**

At the recent Sino-Top board of directors meeting held on March 29, 2014, the 2014 budget was finalized. The total budget for 2014 is RMB171.0 million or approximately $27,770,000 and the Company's contribution is RMB76.0 million or approximately $12,342,000. Approximately 85% of the budget is dedicated to exploration activity. The Company's investment in Sino-Top would be diluted to 20% if it did not make a contribution of RMB50.0 million or $8,120,000 by April 8, 2014 (on April 1, the Company was granted an extension from April 8, 2014 until April 15, 2014) and a further contribution of RMB26.0 million or $4,222,000 by June 15, 2014, with no further required contributions. These are cumulative amounts and include past contributions which were not made by the Company. All amounts approximate the noon exchange rate reported by the Bank of Canada on August 12, 2014.

The Company was not able to meet the deadlines and has been in discussions with Sino-Top and the private investor (the “Investor”) (noted below), to satisfactorily make its required contributions. No assurance can be provided that such discussions will be successful or that the Company will be able to prevent the dilution of its interest in Sino-Top to 20%, even if financing becomes available. The dilution of the Company’s equity interest in Sino-Top, should it occur, would have to be approved by the Ministry of Commerce, now that registration has taken place through the Administration of Industry and Commerce. If the Company’s interest is diluted, or if it is otherwise asserted or determined that the Company is an investment company under the United States Investment Company Act of 1940, as amended, the Company may be required to file for bankruptcy and dissolve.

Since the dates to make the required contributions for the equity investment have elapsed, it is now the option of the other equity investors whether to dilute the Company’s 40% interest to 20%. The Company continues to have discussions with Sino-Top.

**Potential Transaction with Investor**

In 2013, the Company began to engage in discussions with the Investor regarding a potential transaction that, if completed, would have involved the Investor making a secured loan to the Company and taking over control of the management and board of directors of the Company. On November 29 and December 31, 2013, the Company received advances totaling $1,069,279 from the Investor; however, the parties did not resolve definitive agreements, nor did the Investor fund the remaining amounts initially anticipated to be required to complete the initial closing. Due to funding delays by the Investor and changes in the Investor’s offer, the Company’s Board of Directors (the “Board”), determined in March 2014 not to proceed with the contemplated transaction.

In this report, the “Investor” generally refers to Man Kwan Fong, an investor based in China; however, the Company believes that the Investor may be coordinating activities with one or more additional investors based in China, and therefore, the term Investor is intended to refer to each such person. In the negotiations with the Investor, one of the Investor’s representatives has been Chan King Yuet, who has filed a Schedule 13D/A disclosing that pursuant to a voting agreement she has shared voting power over 23,481,584 shares of our common stock, in addition to sole voting and dispositive power over 150,000 shares of our common stock.

The Investor and the Company have continued to engage in additional discussions regarding the potential for further financing of the Company in order to prevent dilution of the Company’s 40% interest in Sino-Top. On April 8, 2014, the Investor provided RMB1.0 million or approximately $160,900 to Sino-Top directly, without the prior request or consent of the Company. The treatment of these funds, which remain in Sino-Top’s account as of August 12, 2014, is uncertain. All amounts approximate the noon exchange rate on the date of the transaction reported by the Bank of Canada.

On April 18, 2014, the Investor demanded that the Company refund $1,014,140 of the initial advances made to the Company in 2013 and asserted that the Company’s use of such advances was unauthorized. The Company disputed the Investor’s assertions. Subsequent to making these assertions, on May 7, 2014, the Investor proposed to the Company the terms of a new transaction that would result in the prior advances being treated as a loan, and the provision of additional loans to the Company, subject to a change in the Company’s board of directors and management. The Company did not accept the terms proposed, but is seeking to further negotiate with the Investor the treatment of the advances made to date, the potential for additional advances, and the terms of any such transaction in order to prevent dilution of the Company’s interest in Sino-Top. If the Company’s negotiations with the Investor or the Company’s joint venture partners are unsuccessful, the Company may be required to return the Investor’s funds. There has been no resolution to the treatment of the $1,069,279 advance credit note with the Investor and the Company may be required to return such funds, with or without interest, to the Investor. The Company has insufficient funds to do so and may therefore become subject to bankruptcy.

**General Update on Operations**

Of the six properties in which we have an indirect interest through Sino-Top, two are currently considered to be material to us: Dadi and Laopandao. We no longer consider Aobaotugounao to be material as a result of Sino-Top having determined, based on the results of work done to date, not to further invest in Aobaotugounao.

Five mineralized zones have been discovered at the Dadi property. Among them, mineralization zones I, II and IV are controlled by adits, transverse drifts, surface trenches, surface drill holes and underground drill holes intensively. The general features of the mineralization zones are as follows:

- Mineralization zone I is located in the central part of the property and is approximately 1000m long with widths ranging from 5m to 60m and with a 310° to 340° strike. Within mineralization zone I, five mineralized bodies are identified. The largest is mineralized body I, which is 350m long, 2.8m wide, and its dip extension reaches 350m.
- Mineralization zone II is located in the northeast part of the property and is approximately 1000m long with width from 5m to 60m and dips to northeast with 60°~70°dip angle. Within mineralization zone II, six mineralized bodies are discovered by surface trenches, surface drill holes, underground drill holes, exploration tunnels at 1,426m (PD2), 1,384m (PD1), and at 1,350m levels. According to estimation, mineralization zone II accounted for 80% of all the polymetallic mineralization at the Dadi Property.

- Mineralized body II is the most important polymetallic body within mineralization zone II. It is of 320°~340° strike, dips to NE with 70°~75°dip angle. On the surface (1,500m elevation), mineralized body II is 300m long and its widest part is 6m at trench TC26-2. At 1,426m level adit (PD1), it is 330m long; at 1,384m level adit, it is 290m long; and at 1,350m level adit, it reaches 550m long. All transverse drifts at each three level tunnels hit mineralized body II, with the widths ranging from 0.5m to 17.4m. Within mineralized body II, massive vein forms and disseminated galena are common.
- Surface drill holes control mineralized body II in the range of 400m along its strike with dipping depths ranging from 130m to 430m. The true thickness of mineralized body II at depth is from 2.9m to 22m, discovered by drilling. The thickest part (20.8m) is discovered by drill hole ZK0801, which is located at exploration line 8.
- Mineralization zone III is located 250m southwest of mineralization zone II. It is approximately 250m long and 1m wide, and controlled by four surface trenches. Its occurrence is NW strike, and it dips to NE25°~75° with dip angle 55°. Mineralization zone IV is located at the central part of the property. On the surface, it is 450m long with width 0.8~7.2m. Its deep part is controlled by tunnel PD4 at 1,329m level and 18 underground drill holes. The controlled length of mineralization zone IV at depth reaches 350m and the width ranges from 0.7m to 5.5m. The dipping depth controlled by underground drilling reaches 140m.
- Mineralization zone V is located between mineralization zones I and II. It is 200m long and consists of 10 mineralized bodies.
- Tunneling in progress, with approximately 766m adit, 26m shaft, 22m inclined shaft and 138m ventilation shaft completed year to date. Mine design and equipment procurement in progress. Mining license application in progress, currently in the stage of environmental appraisal (including water resource utilization review).

**2014 Program and Capital Budget**

At a meeting of the Sino-Top board, held on March 29, 2014, the 2014 exploration and work program was established, as follows:

*Dadi Property*

1. Mining projects:

- Completing the sinking of the shaft and installation work on the basis of last year’s work; conducting cut mining engineering on ore bodies I and II; conducting stope preparations on part of ore body IV; producing enough ores for the test run.

2. Exploration projects:

- Conducting drilling and tunneling projects on uncontrolled or unidentified parts of ore bodies I, II, III and IV to further control the ore occurrence, form, scale, mineral characteristics and quality change, so as to increase the resources for sustainable production of the mill.
- Exploration plan for each ore body (mineralized zone):
- Ore Body I: conducting tunneling along the ore body northwest of exploration line 3 at the levels of 1384m and 1350m to control the extensions, continuity and thickness of ore body; conducting tunneling at 1426m level between exploration lines 3 and 5 to understand the oxidation of the upper parts and the continuity of ore body.

- Ore Body II: conducting drilling work to control the extensions in the northwest of the ore body II and define the scale, ore occurrence and the grades along the extension of ore body in the deeper parts, so as to increase the mineralization zone; conducting tunneling in the deeper parts at the 1300m and 1250m levels upon completion of the shaft in order to control ore body II with tunneling.
- Ore Body III (with no previous exploration work): conducting drifting to explore mineralization zone III based on the tunnels at exploration line 5 in ore body IV, with surface drilling followed by verification through tunneling work, in order to obtain new ore-finding clues.
- Ore Body IV: based on the current tunnels, conducting drifting at the levels of 1330m and 1380m to control the mineralization zone in the upper parts. The inclined shaft below 1330 leads to two levels for exploring the deeper parts and reserves. Conducting drifting west of exploration line 17 at 1330m level for further exploration.
- Designed workload: Tunneling 2,143m, drilling 3,000m, 600 general assays.

3. Mill Construction Plan:

- The overall requirement is the completion of the construction of the mill and equipment installation for Dadi and its supporting projects and a test run before the end of 2014.
- Completing the equipment bidding for mill construction, preliminary assessment and design of tailings pond in March and April;
- Completing the design of mill and tailings pond before the end of May; completing the design assessment of electric transmission and distribution circuits.
- Commencing in June, the construction work for power lines and substations, mill, tailings pond, water tanks, water pipes leading to the water source, etc. with the goal of completing the construction and installation before the end of October;
- Completing the construction projects before the end of September for the mill equipment storage, offices, boiler room, lab, workshop, roads, and transformer station, etc.
- Conducting equipment installation beginning in August (civil engineering and installation work done at the same time) and completing and debugging the installation before the end of October;
- Conducting test run of the mill and tailings pond from October to December and make necessary modifications.

4. Completing the Dadi mining license application work before the end of 2014.

*Laopandao Property*

- Completing the review and filing of the geological report.
- Obtaining the mining license by the end of 2014. Currently in the stage of mining area delimination.
- Upon obtaining the mining license, Sino-Top intends to sell the Laopandao property (assuming an interested buyer).

*Aobaotugounao Property*

- No investment in this property is planned for 2014.
- Sino-Top intends to sell the Aobaotugounao property (assuming an interested buyer).

*Zhuanxinhu Property*

1. Objectives and tasks:

- Conducting drilling work to control the strike and dip of ore body I based on work completed in 2013; conducting other exploration work to understand its ore-controlling structure and find new mineralization zones; conducting drilling and tunneling work to increase the mineralization zones; studying ore-processing parameters and economic values.
- Drilling currently in progress with approximately 500m (2 holes) completed year to date.

2. Planned workload:

- Drilling (geologic) 4,000m, tunneling 500m, geophysical prospecting 6.24 $km^{2,}$ 1 metallurgical test sample, 500 general assays, hydrological drilling 1,000m, hydrological-engineering-environmental investigation 6$km^2$, and trenching 2,000$m^3$.

*Yuanlinzi Property*

1. Objectives and tasks:

- Further identifying the deeper parts of the original tin bodies I and II with the use of the old data of the 1970's, recalculating the economic values and identifying the promising anomalies.
- Preparations currently underway for the commencement of exploration.

2. Planned workload:

- 1:2000 topographical survey over 1.25 $km^2$, 1:2000 geological survey 1.25 $km^2$, trenching, 2,000 $m^3$, drilling 1,500m and 300 general assays.

*Shididonggou Property*

1. Objectives and tasks:

- Conducting trenching and drilling work to find out the ore-bearing potentials and continuity of major mineralization and verify the geophysical and geochemical anomalies based on last year's exploration work.
- Preparations currently underway for the commencement of drilling.

2. Planned workload:

- 1:2000 topographical survey over 3.11 $km^2$, 1:2000 geological survey over 3.11 $km^2$, trenching 2,000 $m^3$, 5 geophysical profiles, drilling 1,500m, and 500 general assays.

*Relocation and Reincorporation*

- Sino-Top relocated to Keshiketeng County, Inner Mongolia and the registration process for changing the place of incorporation will be completed by the end of 2014.

No assurance can be provided that the foregoing plans and objectives will be achieved.

**RESULTS OF OPERATIONS**

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Net sales were $nil for both six-month periods ended June 30, 2014 and June 30, 2013, as there was no production at any of the properties.

The net loss for the six-month period ended June 30, 2014 was $1,686,469 compared to $1,388,097 for the six-month period ended June 30, 2013, an increase of $298,372, primarily as a result of a higher net loss on the Company's equity investment of $253,175, increased interest expense on the convertible notes of $232,813, offset by reduced general and administrative expenses of $202,385 and the absence of the gain on disposal of plant and equipment of $14,769, incurred in the prior period.

General and administrative expenses decreased to $597,182 for the six-month period ended June 30, 2014 from $799,567 for the six-month period ended June 30, 2013, primarily as a result of reduced professional fees, including legal and audit and reduced payroll related costs as a result of not employing full-time staff and a reduction in expenses related to the operation of the China location. The Company continues to employ part-time contractors to carry out accounting and administrative responsibilities.

Total other expenses increased by $500,757 to $1,089,287 for the six-month period ended June 30, 2014 from $588,530 for the six-month period ended June 30, 2013, primarily as a result of a higher net loss on the Company's equity investment of $253,175, additional interest expense of $232,813 on the convertible notes offset by the absence of the gain on disposal of plant and equipment of $14,769, incurred in the prior period.

The net loss on equity investment increased by $253,175, as noted above, primarily due to the increase in exploration activity.

**Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013**

Net sales were $nil for both of the three-month periods ended June 30, 2014 and June 30, 2013, as there was no production at any of the properties.

The net loss for the three-month period ended June 30, 2014 was $1,135,018 compared to $984,374 for the three-month period ended June 30, 2013, primarily due to reduced expenditures in general and administrative of $310,852, increased interest expense of $153,417 and a higher net loss on equity investment of $293,310, offset by the absence of the gain on disposal of plant and equipment of $14,769, incurred in the prior period.

General and administration expenses decreased to $254,695 for the three-month period ended June 30, 2014 from $565,547 for the three-month period ended June 30, 2013, primarily as a result of lower professional fees, including legal and audit, reduced payroll related costs as a result of not employing full-time staff and a reduction in expenses related to the operation of the China location. The Company continues to employ part-time contractors to carry out accounting and administrative responsibilities.

Total other expenses increased by $461,496 to $880,323 in the three-month period ended June 30, 2014 from $418,827 in the three-month period ended June 30, 2013, primarily as a result of a higher net loss on the Company's equity investment of $293,310, increased interest expense on the convertible notes of $153,417, offset by the absence of the gain on disposal of plant and equipment of $14,769, incurred in the prior period.

The net loss on equity investment increased by $293,310, as noted above, primarily due to the increase in exploration activity.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary cash requirements are for the exploration and acquisition of mining exploration properties, corporate and administrative costs and the payoff of our outstanding debt. At June 30, 2014, we had a working capital deficit of $6,523,483 (December 31, 2013-$5,622,503), cash on hand of $nil (December 31, 2013-$226,937) and current debt obligations in the amount of $6,585,729 (December 31, 2013-$5,961,246). To pay our debts and to fund any future operations, we require significant new funds, which we may not be able to obtain. As at June 30, 2014, in addition to the funds we require to liquidate our $6,585,729 in current debt obligations and the funds we require to satisfy our RMB76.0 million or approximately $12,342,000 contributions to Sino-Top, we estimate that we must raise approximately $1,200,000 million to fund capital requirements and general corporate and administrative costs for the next 12 months. See also above, "Status of Sino-Top Joint Venture Funding" and "Potential Transaction with Investor". All amounts are based on the noon exchange rate reported by the Bank of Canada on August 12, 2014.

We do not have sufficient funds to satisfy our current debt obligations. Should our creditors seek or demand payment, we do not have the resources to pay or satisfy any such claims. Thus, we face a risk of bankruptcy.

Our interim condensed consolidated financial statements have been presented on the basis that we are a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and continued operations for the next twelve months.

At June 30, 2014, the Company had a working capital deficit of $6,523,483 (December 31, 2013 – $5,622,503), had not yet achieved profitable operations, incurred a net loss of $1,686,469 for the six-month period ended June 30, 2014 (2013 – $1,388,097), had accumulated losses of $49,883,617 since its inception, and expects to incur further losses in the development of its business. These factors and those noted below, cast substantial 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 dependent upon achieving profitable operations.

Management has been unable to secure additional financing to meet its cash requirements, including ongoing capital, cash contributions for its equity investment and funds to repay all or certain of its convertible debt holders. There is no assurance of additional funding in any form, being available or available on acceptable terms.

In March of 2014, the Company received extensions of its obligations to repay the convertible debt holders from a date of March 31, 2014 to June 30, 2014. In addition, the Company had in place forbearance agreements with its convertible debt holders. The Company was not able to repay the obligations owing to the convertible debt holders on or before the June 30, 2014 deadline and thus is in default. Management continues to have discussions with the convertible debt holders in efforts to establish new deadlines for repayment and/or have them convert some or all of their convertible notes. The convertible debt holders continue to have the option to convert all or a portion of their notes. At the current trading price, the Company does not have sufficient common stock to allow for a conversion of all the remaining outstanding convertible debt.

If management is unable to secure additional financing and/or extend the payoff date for its convertible debt holders beyond June 30, 2014, the Company may be forced to dilute its equity investment which may still occur as a result of not having made the required contributions for its equity investment by June 15, 2014 or may ultimately file for bankruptcy. Since the date to make the required contributions for the equity investment has elapsed, it is now the option of the other equity investors whether to dilute the Company's 40% interest to 20%. The Company continues to have discussions with the other equity investors. Dilution may result in the Company's operations being considered an investment company. The registration requirements for an investment company would be a significant financial and operational burden and is unlikely to be feasible for the Company. As a result of this risk, the Company may be required to significantly limit its business activities and dissolve.

In addition, although there have been discussions between the Company and the Investor, there has been no resolution to the treatment of the $1,069,279 advance credit note received from the Investor and the Company may be required to return such funds, with or without interest, to the Investor.

Realization values may be substantially different from carrying values as shown. These interim condensed 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 was unable to continue as a going concern.

As discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (“2013 Form 10-K”), we are currently subject to deferral agreements with our four convertible note lenders. Such deferral agreements generally provided that, if we were able to pay an aggregate of $3,319,144 to the lenders by June 30, 2014, such payments would have constituted payment in full of any and all obligations due and owing under our outstanding convertible notes owed to these lenders. We are currently in default on our deferral agreements with our four convertible note lenders as a result of not having repaid our notes on or before June 30, 2014. Management is currently in discussions with the convertible note lenders concerning additional deferrals and/or note conversions. The convertible note lenders continue to have the option of converting all or a portion of their convertible notes. In addition, one or more, may impose penalties. On July 22, 2014, one of our convertible note lenders, Asher Enterprises, Inc., converted $20,000 of their $51,000 note for 1,010,101 common shares of the Company. In addition, on July 31, 2014, this note lender converted an additional $15,000 of the same note for 1,666,667 common shares of the Company. Further, on August 6, 2014, this convertible note lender converted the balance of their $51,000 note and accrued interest of $8,160 for a total of $24,160 for 2,684,444 common shares of the Company. At the current trading price, the Company does not have sufficient common stock to allow for a conversion of all the remaining outstanding convertible debt.

As discussed above under “Potential Transaction with Investor”, we have received advances of $1,069,279 from the Investor that has demanded the refund of $1,014,140 of such amount. In addition, on April 8, 2014, the Investor provided RMB1.0 million (approximately $160,900) directly to Sino-Top, without the prior request or consent of the Company. The treatment of the funds, which remained in Sino-Top’s account, is uncertain.

We do not have sufficient funds to satisfy the Investor’s demand for a refund. Thus, we face a risk of bankruptcy.

We are also party to the Travellers Facility with Travellers, a company controlled by the Company’s President, Chief Executive Officer and Principal Financial and Accounting Officer, Marc Hazout. Under the Travellers Facility, Travellers has made certain historical loans to or for the benefit of the Company and may in the future make further loans to or for the benefit of the Company. Such loans are unsecured, due on demand and non-interest bearing. As of the date of this filing, the net amount of loans outstanding under the Travellers Facility was CDN$145,000 or approximately $132,500 with CDN$10,000 or approximately $9,100 advanced on March 24, 2014, CDN$10,000 or approximately $9,100 advanced on May 1, 2014, CDN$75,000 or approximately $68,600 advanced on May 20, 2014, CDN$15,000 or approximately $13,700 advanced on July 2, 2014 and $35,000 or approximately $32,000 advanced on August 1, 2014. All amounts approximate the noon exchange rate reported by the Bank of Canada on August 12, 2014.

## 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 3 to the Consolidated Financial Statements included in our 2013 Form 10-K.

### Mineral Rights

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

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

### Equity Investment

Equity investments are entities over which we exercise significant influence but do not exercise control. These are accounted for using the equity method of accounting 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

Not applicable.

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of disclosure controls and procedures**

Under the supervision and with the participation of our senior management, including our principal executive officer and principal 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 Exchange Act as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, Marc Hazout, our chief executive officer and principal financial officer, concluded as of the Evaluation Date, that such disclosure controls and procedures were not effective as of the Evaluation Date. Such conclusions were based on our missing a Form 8-K during the prior year's fourth quarter and certain other filings being made late or with errors, earlier in the prior year.

**Changes in internal controls**

There were no changes to the Company's internal control over financial reporting (as such term is defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) during our second fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II: OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

None.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors set forth in our 2013 Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We have defaulted under the terms of some or all of our convertible financing arrangements, as disclosed under the heading "Liquidity and Capital Resources" in our 2013 Form 10-K, which discussion is incorporated herein by reference.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

**ITEM 6. Exhibits**

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|---|---|
| 1.1 | Entry into a Material Definitive Agreement (incorporated by reference to Exhibit 1.01to form 8-K filed with the SEC on August 1, 2014) |
| 2.1 | Silver Dragon's Sino-Top Joint Venture Receives New Business License (incorporated by reference to Exhibit 1.01 to form 8-K filed with the SEC on August 11, 2014) |
| 31.1 | Certification pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a) |
| 31.2 | Certification pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a) |
| 32.1 | Certification 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: August 13, 2014

By: /s/ Marc Hazout
Marc Hazout,
President and Chief Executive Officer
(principal executive, financial and accounting officer)