SILVER DRAGON RESOURCES, INC.
Form 10KSB/A
April 11, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-KSB/A

(Mark One)

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

For the fiscal year ended December 31, 2004

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

For the transition period from _______ to __________

Commission File Number 0-29657

SILVER DRAGON RESOURCES INC.

(Name of small business issuer in its charter)

| | |
|---|---|
| Delaware | 33-0727323 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1121 Steeles Avenue West, Suite 803

Toronto, Ontario, Canada M2R 3W7

(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (416) 661-4989

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

Securities registered under Section 12(g) of the Exchange Act:

Common Stock $0.0001 par value

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State the issuer's revenues for its most recent fiscal year: $0.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: The aggregate market value of the shares of Common Stock held by non-affiliates of the Registrant, as of April 6, 2005 was $3,688,210.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date: As of April 6, 2005, the Registrant had 28,375,533 common shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

This Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation reform Act of 1995. For this purpose any statements contained in this Form 10-KSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology is intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within the Company's control. These factors include but are not limited to economic conditions generally and in the industries in which the Company may participate; competition within the Company's chosen industry, including competition from much larger competitors; technological advances and failure by the Company to successfully develop business relationships.

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**Explanatory Note**

The purpose of this Form 10-KSB/A is to include the name and signature of the independent auditors ("Moore Stephens Cooper Molyneux LLP"). This information was inadvertently omitted from the previous Form 10-KSB filing for the year ended December 31, 2004. Aside from this clarification there have been no other changes to any of the information contained within this report.

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PART I

Item 1. Description of Business

Corporate History

Silver Dragon Inc., f/k/a American Entertainment and Animation Corporation, and American Electric Automobile Company, Inc. (the "Company") was formed in the State of Delaware on May 9, 1996.

Electric Car Operations

The Company was originally formed to go into the business of developing and marketing electric automobiles. On June 15, 1996 the Company acquired all of the outstanding stock of California Electric Automobile Co., Inc. ("CEAC"), a California corporation formed on November 14, 1995, in consideration for 1,050,000 shares of the Company's common stock. Of the 1,050,000 shares, 900,000 were held in escrow pending the exercise of CEAC's option to purchase the assets and business of San Diego Electric Automobile Company ("SDEAC"). On October 17, 1996 the Company exercised its option to purchase the assets and business of SDEAC. The purchase price was the 900,000 shares of AEAC's common stock held in escrow from the previous acquisition of CEAC.

Chinese Electric Automobile Operations

On May 18, 1996, the Company entered into an agreement with China Electric Automobile Company of Hong Kong, Ltd. ("CEHK") in which each exchanged approximately 5% of their outstanding common stock for the other company's stock. The object of the relationship was the pursuit of business opportunities and product development using the company's combined resources. On February 12, 1997, the Company entered into an agreement with CEHK to form a joint venture named American Electric Automobile Company (Asia), Inc. ("AEAA"), a California corporation, to engage in various electric vehicle related businesses, including design, production and trading in electric vehicles and related parts. The Company received forty-five percent of the ownership of AEAA and CEHK received the remaining fifty-five percent ownership.

On January 31, 2001, the Company sold its interest in AEAA to Edward F. Myers for $100. Mr. Myers was the former Chairman of the Company. After careful consideration, the Board of Directors of the Company decided that it would be in the Company's best interest to discontinue its investment into Asia. The inherent risks involved in doing business in China, the difficulty in monitoring the situation, as well as the continued monetary investment into Asia that would have been required led the Board to the decision to discontinue its investment in Asia.

Investment by Bisell Investments, Inc.

Originally, the Company was unsuccessful in its electric automobile business. As a result, on August 23, 2000, the Company entered into a Letter Agreement under which it agreed to issue 3,250,000 shares of restricted common shares to Bisell Investments Inc. ("Bisell") for a total investment of $275,000. On September 13, 2000 pursuant to the August 23, 2000 Letter of Agreement, the Company accepted the resignations of Edward F. Myers, Betty N. Myers and Gary Degano as directors and officers. The Company then appointed Pierre Quilliam as a director, President and CEO; Stephen M. Cohen as director, Secretary and Treasurer; and Denise Quilliam as a director. Edward F. Myers, Betty N. Myers and Gary Degano remained as officers and directors of CEAC until they resigned on February 16, 2001. On that date Pierre Quilliam was appointed Chairman of CEAC, Stephen M. Cohen was appointed Secretary and Treasurer and Glenn Roach was appointed President and elected to the Board of Directors of CEAC.

On February 23, 2001, the Company moved from its facility in San Diego to a new facility in Temecula, California, which was managed by Glenn Roach. The facility was being used for conversion of Electric Vehicles and for prototype development of the Electric Boats. In late 2001, the Company ran out of funds to develop and operate its business, and efforts to raise capital to continue business were not successful. As a result, the Company terminated operations in January 2002.

Cyper Entertainment, Inc.

On February 28, 2002, the Company entered into an agreement to purchase 100% of the shares of Cyper Entertainment Inc. ("Cyper"), a Korean corporation (the "Acquisition Agreement") in consideration for 20,000,000 shares of restricted common stock of the Company. Cyper was in the business of manufacturing and distributing 3D digital animation, multi-media and entertainment related products. On April 17, 2002, the Company completed the acquisition of Cyper.

On May 31, 2002, the Company accepted the resignations of Pierre Quilliam, Stephen Cohen and Denise Quilliam as Directors and Officers of the Company. Simultaneously, the Company appointed Duk Jin Jang, Marc Hazout, Jason Chung and John Chung to the Board of Directors. Mr. Jang was named Chairman, Mr. Hazout was named President and CEO, and Jason Chung was named Chief Financial Officer and Treasurer. Messrs. Jang, Chung and Chung were appointed by the shareholders of Cyper. Mr. Hazout was appointed by the former controlling shareholders of the Company.

On July 16, 2002, the Company amended its Certificate of Incorporation to increase the number of shares of common stock that it is authorized to issue to 150,000,000, and to change its name to "American Entertainment and Animation Corporation."

The Acquisition Agreement provided that Cyper and its controlling shareholders were obligated to provide funds for the Company's administration, as well as auditing and legal fees, and further provided that the Company had a right to rescind the transaction in the event of a default by Cyper and its controlling shareholders. On September 4, 2002, Mr. Hazout, acting on behalf of the Company, notified Cyper that the Agreement was terminated and rescinded due to Cyper's defaults, as well as based on certain misrepresentations made by Cyper in connection with the Acquisition Agreement. As a result of the termination, Mr. Hazout requested that the Company's transfer agent cancel the 20,000,000 shares issued to Cyper's shareholders, and removed the directors appointed by Cyper under the authority granted in the Acquisition Agreement. Mr. Hazout then appointed Pierre Quilliam to the Board of Directors and named him Chairman of the Company. On September 21, 2002, Pierre Quilliam resigned as director and Chairman of the Company.

On March 7, 2003, the Company filed an action in the Court of Chancery in the State of Delaware for a declaration that the agreement to acquire the shares of Cyper was validly rescinded and that the 20,000,000 common shares issued pursuant to the transaction were validly cancelled. On April 28, 2003, the Company reached a settlement with the shareholders of Cyper, who agreed to accept $20,000 cash, marketable securities in an unrelated company with a fair market value of approximately $42,500, and 250,000 common shares of the Company in full settlement and satisfaction of any claim to the 20,000,000 shares originally issued to them under the Acquisition Agreement. The cash and marketable securities in the unrelated company were loaned to the Company by Marc Hazout.

Art and Film Business

On December 3, 2002, the Company purchased from Tempest Artwork Ltd. the exclusive option to acquire the rights to produce a feature film or television production based on the original portrait of William Shakespeare by John Sanders. The purchase price of the option was $30,000, and was for a period of one year. The option price was $30,000 plus royalties on various revenue streams that would be derived from the final production. The Company did not have funding to produce the final production, and accordingly did not exercise the option.

On May 28, 2003, the Company signed a letter of intent with Words and Pictures Productions, Inc. to co-produce a full-length 3D animated feature film based on the Uncle Mugsy animated character. To date, the Company has not signed a formal contract relating to the subject matter of the letter of intent, and has no intention of doing so.

Silver Mining Business

On February 21, 2005, the Company signed a letter of intent with Sino Silver Corp. ("Sino Silver"), whereby the Company would acquire 50% of Sino Silver's interest in the net proceeds from the sale of minerals or the sale of mining rights as a result of the exploration, evaluation and development of a property located in the Erbaohuo Silver District in Northern China. Sino Silver owns 60% of the equity in a Chinese company, Sino-Top Resources and Technology, Ltd., which holds the exploration and mining rights to several properties, including the one that is the subject of the Letter of Intent. To date, the Company has not signed a formal contract relating to the subject matter of the Letter of Intent.

On February 25, 2005, the Company amended its Certificate of Incorporation to change its name to "Silver Dragon Resources Inc." in order to better reflect its current business strategy focusing on global silver exploration and development.

The Company continues in its attempts to finalize a definitive agreement with Sino Silver, however, there is no assurance that such an agreement will be finalized.

Recent Equity Sales

On January 31, 2005 the Company sold 1,500,000 shares of common stock to accredited investors for a total of $30,000.

Between January 31, 2005 and April 5, 2005, the Company sold 180,000 shares of common stock in a private placement offering pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and/or Section 4(2) of the Securities Act, and/or Regulation D promulgated thereunder. Each share was sold for a price of $0.10 and the Company has received $18,000 in proceeds for the sale of the shares as of April 5, 2005.

The Company is currently holding an additional $244,500 in escrow pursuant to this offering, which is being held pending completion of a definitive agreement with Sino Silver Corp. If the transaction with Sino Silver is completed, the Company will issue 2,445,000 shares of common stock pursuant to these subscriptions. If the transaction is not completed, the proceeds will be returned at the option of the subscribers.

If the transaction with Sino Silver Corp. is completed, a substantial portion of the proceeds generated from the private placement will be used to fulfill the Company's obligations relating to a mining property in China. The remaining proceeds will be used for working capital and general corporate purposes.

No commissions or other fees were paid in connection with the sale of the shares. Each investor is an accredited investor under the Securities Act and the securities were sold without any general solicitation by the Company or its representatives.

Intellectual Property

The Company has no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts that management believes have any value.

Employees

The Company has no full or part-time employees, other than Marc Hazout, the Company's President, CEO and a director, and Donald J. Robinson, a director. Mr. Hazout is employed pursuant to an Employment Agreement. Because the Company is not in active operations at this time, Mr. Hazout only devotes part-time to the performance of services for the Company on an as-needed basis.

Risk Factors

You should consider each of the following risk factors and any other information set forth in this Form 10-KSB and the other Company's reports filed with the Securities and Exchange Commission ("SEC"), including the Company's financial statements and related notes, in evaluating the Company's business and prospects. The risks and uncertainties described below are not the only ones that impact on the Company's operations and business. Additional risks and uncertainties not presently known to the Company, or that the Company currently considers immaterial, may also impair its business or operations. If any of the following risks actually occur, the Company's business and financial condition, results or prospects could be harmed.

NO REVENUE AND MINIMAL ASSETS.

The Company presently does not have any revenues, nor does it anticipate operating income in the near future. Ultimately, the Company will be required to acquire revenue producing silver mines (or interests therein), obtain interests in mining properties that can be sold or licensed to strategic partners or third parties and/or develop producing mines on its own in order to generate revenues. These activities will be undertaken over a number of years. No assurances can be given that the Company will be able to obtain the necessary funding during this time to remain in operation. The inability to raise additional funds will have a material adverse affect on the Company's business, plan of operation and prospects.

SPECULATIVE NATURE OF COMPANY'S PROPOSED MINING OPERATIONS

. As this is the Company's first foray into the business of silver mining, the Company has a very limited experience upon which an evaluation of its future success or failure can be made. The Company's ability to achieve and maintain profitability and positive cash flow over time will be dependent upon, among other things, its ability to (i) identify and acquire silver mining properties or interests therein that ultimately have probable or proven silver reserves, (ii) sell such silver mining properties or interests to strategic partners or third parties or commence mining of silver, (iii) produce and sell silver at profitable margins and (iv) raise the necessary capital to operate during this period. At this stage in the Company's development, it cannot be predicted how much financing will be required to accomplish its objectives. Furthermore, the search for silver as a business is extremely risky. The Company cannot provide any assurances that the silver mining interests that it acquires will contain commercially exploitable reserves of silver. Exploration for minerals is a speculative venture necessarily involving substantial risk. The current price of an ounce of silver is approximately $7.03. The price of silver has increased over the past few years thereby contributed to the renewed interest in silver mining. However, the price of silver fluctuates, and in the event that the price of silver falls, the interest in the silver mining industry may decline and the value of the Company's business could be adversely affected.

COMPETITION IN THE SILVER EXPLORATION BUSINESS. The Company competes with other silver mining and exploration companies possessing far greater financial resources, technical facilities, personnel and experience in connection with the acquisition of silver exploration and mining properties, and is currently an insignificant participant in the business of silver exploration and development.

CONFLICTS OF INTEREST - GENERAL. The officers and directors are associated with other firms and are involved in a range of business activities that may have business dealings with the Company at some point in time. Due to these affiliations and the fact that some officers are expected to devote only a portion of their time to the business of the Company, there are potential inherent conflicts of interest in their acting as directors and as officers. Each of the officers and directors is or may become an officer, director, controlling shareholder, partner or participant in other entities engaged in a variety of businesses. These existing and potential conflicts of interest are irreconcilable and could involve the participating officers and directors in litigation brought by the Company's shareholders or by the shareholders of other entities with which the officers and directors are currently, or may become, affiliated. To help alleviate this position somewhat, management has adopted a policy of full disclosure with respect to business transactions with any entity in which any or all of the officers or directors are affiliated, either directly or indirectly. An officer or director may continue any business activity in which such officer or director engaged prior to joining the Company.

LACK OF MARKET RESEARCH OR MARKETING ORGANIZATION. The Company has neither conducted, nor have others made available to it, results of market research indicating that market demand exists for the transactions contemplated by the Company. Moreover, the Company does not have, and does not plan to establish, a marketing organization. Even in the event demand is identified for a merger or acquisition contemplated by the Company, there is no assurance the Company will be successful in completing any such business combination.

REGULATION.

In the event the Company acquires silver mining interests outside North America, it will have to deal with foreign regulatory and governmental agencies, and the rules and regulations of such agencies. No assurances can be given that it will be successful in its efforts. Furthermore, it is possible that the legal and regulatory environment pertaining to the exploration and development of silver mining properties in such jurisdictions will change. Uncertainty and new regulations and rules could increase the Company's cost of doing business or prevent it from conducting its business.

NO DIVIDENDS. The Company has never paid cash dividends on its common stock and has no plans to do so in the foreseeable future. The Company intends to retain earnings, if any, to develop and expand its business.

PENNY STOCK RULES LIMIT MARKET AND LIQUIDITY. Trading in the Company's common stock is subject to certain regulations adopted by the SEC commonly known as the "Penny Stock Rules". The Company's common stock qualifies as penny stock and is covered by Section 15(g) of the Securities and Exchange Act of 1934, as amended (the "1934 Act"), which imposes additional sales practice requirements on broker/dealers who sell the Company's common stock in the market. The "Penny Stock" rules govern how broker/dealers can deal with their clients and "penny stock". For sales of the Company's common stock, the broker/dealer must make a special suitability determination and receive from clients a written agreement prior to making a sale. The additional burdens imposed upon broker/dealers by the "penny stock" rules may discourage broker/dealers from effecting transactions in the Company's common stock, which could severely limit its market price and liquidity. This could prevent investors from reselling Sino Silver common stock and may cause the price of the common stock to decline.

LOW LIQUIDITY. Although the Company's common stock is listed for trading on the Over-the-Counter Electronic Bulletin Board, the trading market in the common stock has substantially less liquidity than the average trading market for companies quoted on other national stock exchanges. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Due to limited trading volume, the market price of the Company's common stock may fluctuate significantly in the future, and these fluctuations may be unrelated to the Company's performance. General market price declines or overall market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

Item 2. Description of Property

Up until March 1, 2004, the Company subleased space at 8500 Leslie Street, Suite 500, Markham, Ontario, Canada, for its corporate offices. The Company paid $2,800 per month plus applicable taxes. Since March 1, 2004, the Company has been maintaining its offices at 1121 Steeles Avenue West, Suite 803, Toronto, Ontario, Canada.

Item 3. Legal Proceedings

The Company was not the subject of any pending or threatened legal proceedings as of April 1, 2005.

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

No matters were voted upon by the stockholders during the fourth quarter of the fiscal year, as required to be reported upon by the Company in response to this Item 4.

PART II

Item 5. Market for Common Equity and Other Shareholder Matters

The Company's common stock is registered with the United States Securities and Exchange Commission under section 12(g) of the Securities Exchange Act of 1934. The Company's stock is traded on the Over the Counter Bulletin Board under the symbol "SDRG." From January 1, 2001 to July 16, 2002, the Company's common stock traded under the symbol "AEAC." On or about July 16, 2002, the Company's trading symbol changed to "AEAN" as a result of the change in the Company's name its previous name. On March 9, 2005, following the change of the Company's name, the Company's trading symbol changed to "SDRG".

The following table summarizes the low and high prices for the company's common stock for each of the calendar quarters for the fiscal years ended December 31, 2003 and 2004.

| | 2003 | | 2004 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | 0.14 | 0.03 | 0.12 | 0.025 |
| Second Quarter | 0.16 | 0.05 | 0.07 | 0.015 |
| Third Quarter | 0.09 | 0.01 | 0.06 | 0.016 |
| Fourth Quarter | 0.14 | 0.02 | 0.075 | 0.021 |

The high and low quotes on the Company's common stock reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. There were 70 shareholders of record of the common stock as of December 31, 2004. This number does not include an indeterminate number of shareholders whose shares are held by brokers in "street name." The Company has not declared any cash dividends on its Common Stock during its fiscal years ended on December 31, 2003 or 2004.

During 2004 the Company issued 575,000 shares of common stock to its sole officer and director in consideration for $25,000. The shares were issued in reliance on the exemption provided by Section 4(2) of the Securities Act of 1933. Of the shares issued in 2004, 200,000 shares were issued in the fourth quarter of 2004 in settlement of payables of $10,000 due to Mr. Hazout.

## ITEM 6. MANAGEMENTS' DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### Certain Forward-Looking Information

This Form 10KSB contains certain "forward-looking statements" as such term is defined in the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission in its rules, regulations and releases. Without limiting the generality of the foregoing, words such as "may", "will", "expect", "believe", "anticipate", "intend", "could", "estimate" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements.

### Results of Operation

During the years ended December 31, 2004 and 2003, the Company did not have any revenues.

During the years ended December 31, 2004 and 2003, the Company incurred operating expenses of $387,922 and $405,822 respectively. The Company's operating expenses were relatively consistent with those of 2003 as a result of a similar level of corporate activity during both fiscal years.

During the years ended December 31, 2004 and 2003, the Company incurred net other income (expense) of ($11,106) and ($8,779), respectively which relates to losses on foreign exchange.

During the years ended December 31, 2004 and 2003, the Company reported a net loss of ($399,028) and ($414,601), respectively. Again the similarity in corporate activity during both fiscal years resulted in only a minor decrease in the net loss in 2004 as compared to 2003.

Liquidity and Capital Resources

As of December 31, 2004 the Company had nil cash, current assets of nil and current liabilities of $890,155, for a working capital deficit of ($890,155). Included in current liabilities are accounts payable and accrued expenses of $146,427 and accrued compensation to the Company's sole director and officer of $659,005. During 2004, the Company has been dependent on loans from its sole director and officer to pay routine expenses, and the issuance of its common stock to satisfy expenses. The balance due to related parties for advances was $84,714 as at December 31, 2004.

Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company incurred a large net operating loss in the year ended December 31, 2004, and had significant unpaid accounts payable and accrued liabilities. These factors create an uncertainty about the Company's ability to continue as a going concern. The Company's management has provided operating capital to the Company and has developed a plan to raise additional capital. The ability of the Company to continue as a going concern is dependent on the success of this plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are attached hereto as Exhibit A.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

On October 31, 2003, the Board of Directors of the Company elected to terminate Moore Stephens, P.C. ("Moore") as its independent auditors, and to retain Moore Stephens Cooper Molyneux LLP ("MSCM") as its independent auditors. The Company terminated Moore because its application for approval by the Public Company Accounting Oversight Board had not been approved, and therefore it was unable to sign the Company's audit reports. Moore's report for the year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, and was not modified as to uncertainty, audit scope, or accounting principles, other than the qualification of the financial statements as having been prepared on a going concern basis. For the fiscal year ended December 31, 2001, and the subsequent periods preceding December 31, 2002, there were no disagreements with Moore on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the former accountant's satisfaction, would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report. The Company has authorized Moore to respond fully to the inquiries of the successor accountant concerning its dismissal. Prior to retaining MSCM, the Company did not consult with MSCM regarding the application of accounting principles as to a specified or contemplated transaction, or the type of audit opinion that might be rendered on the Company's financial statements.

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth certain information concerning directors, executive officers and key employees of the Company:

| Name | Age | Position |
|---|---|---|
| Marc M. Hazout | 40 | President, Chief Executive Officer and Director |
| Donald J. Robinson | 51 | Director |

The term of office of each director of the Company ends at the next annual meeting of the Company's stockholders or when such director's successor is elected and qualifies. No date for the annual meeting of stockholders is specified in the Company's bylaws or has been fixed by the Board of Directors. Pursuant to the Company's bylaws, the date of the annual meeting is to be determined by the current Board of Directors. Except as otherwise indicated below, no organization by which any officer or director previously has been employed is an affiliate, parent, or subsidiary of the Company.

During 2004, the Board of Directors held 2 meetings.

The following information sets forth the backgrounds and business experience of the directors and executive officers:

Marc M. Hazout has been President, Chief Executive Officer and a director of the Company since June 1, 2002. From 1985 to 1987, Mr. Hazout was the Canadian licensee and franchisee for a multinational clothing manufacturer and retailer. From 1987 to 1991, Mr. Hazout established a private label apparel manufacturing and retailing company. From 1991 to 1998, Mr. Hazout developed, owned and operated entertainment complexes in Toronto. Mr. Hazout attended The Canadian Securities Institute from 1998-2000 and in 1999 worked as an equity trader for Swift Trade Securities Inc. in Toronto. Since 1998, Mr. Hazout has been President and C.E.O. of Travellers International Inc., an investment and merchant banking firm headquartered in Toronto. Mr. Hazout studied International Relations and Economics at York University in Toronto from 1983 to 1985. Mr. Hazout completed the Real Estate Licensing Course at Humber College in Toronto in 1984.

Donald J. Robinson, Ph.D has been a director of the Company since March 28, 2005. Dr. Robinson has been President and director of Eastmain Resources (TSX:ER) since 1994. Dr. Robinson formerly operated a private consulting firm, Robinson Exploration Services Limited ("RESL"), which specialized in the exploration of base and precious metals within Canada, the United States and Australia. For two years he managed the exploration of a gold-rich VMS discovery at Lewis Ponds, Australia for Tri Origin Exploration Ltd. Prior to forming RESL, Dr. Robinson initiated an integrated base and precious metal program, on behalf of Westmin Resources Ltd., which led to the discovery of the Eau Claire gold deposit at Clearwater. Dr. Robinson earned a Ph.D. degree from the University of Western Ontario in 1982. His thesis, based on the Redstone nickel-copper deposit located near Timmins, Ontario, was sponsored by BHP Minerals Canada Ltd. (formerly Utah Mines Ltd.).

Compliance with Section 16

Based on the Company's review of filings received by it, the Company believes that Mr. Hazout filed all forms that he was required to file under Section 16 in 2004, although some forms may not have been filed on a timely basis.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation earned by the Company's Chief Executive Officers during the last three fiscal years and other officers who received compensation in excess of $100,000 during any of the last three fiscal years. In accordance with Item 402(a)(5), the Company has omitted certain columns from the table required by Item 402(b).

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation: Salary ($) | Annual Compensation: Other annual compensation ($) | Long-Term Compensation: Restricted Stock Awards ($) | Long-Term Compensation: Securities Underlying Options/SARs (#) (1) |
|---|---|---|---|---|---|
| Marc Hazout, CEO, Director | 2004<br>2003<br>2002 | 252,000<br>252,000<br>115,500 | -- -- 17,010 | -- -- -- | -- -- -- |
| Pierre Quilliam, CEO, Director | 2004<br>2003<br>2002 | -- -- -- | -- -- -- | -- -- 39,150 | --<br><br>-- 750,000 |
| Stephen Cohen, Secretary, Director | 2004<br>2003<br>2002 | -- -- -- | -- -- -- | -- -- 6,000 | -- -- 750,000 |

1. The securities underlying these options are the shares of the Company's Common Stock, $0.0001 par value.

The Company did not grant any options or stock appreciation rights or make an award under any long-term incentive plan to any of its named executive officers during the last fiscal year. The Company did not reprice any options or stock appreciation rights during the last fiscal year. None of the Company's named executive officers exercised any options or stock appreciation rights during the last fiscal year.

Employment Agreements

On July 10, 2002, the Company entered into an Employment Agreement with Marc Hazout. The Employment Agreement provides that Mr. Hazout shall be employed by the Company for a term of three years, and is entitled to a base salary of $252,000 per year. Mr. Hazout is also entitled to a commission on sales generated by him consistent with the Company's commission policy for all sales personnel. Further, he is entitled to 8 weeks paid holiday and 14 personal days, sick leave, medical and group insurance, participation in pension or profit sharing plans of the Company, and a car allowance of up to $3,000 per month. In the event of a termination of the Employment Agreement without cause by the Company, he will be entitled to severance equal to 100% of his remaining base salary under the Employment Agreement, plus an amount equal to 100% of the base salary plus full medical coverage for 12 months following the termination date. The Employment Agreement contains provisions prohibiting him from competing with the Company or soliciting customers or employees from the Company for a period of one year following the termination of his employment.

On March 31, 2005, the Company issued 3,254,018 restricted shares to Travellers International, Inc., a company owned by Mr. Hazout, in consideration for accrued salary and expenses owing to Mr. Hazout pursuant to the Employment Agreement.

Compensation of Directors

The Company's past policy has been to pay its non-management directors $500 in restricted common stock for each board meeting attended. In addition, directors are reimbursed for any reasonable expenses incurred in the connection with attendance at board or committee meetings or any expenses generated in connection with the performance of services on the behalf of the Company. The Company currently has two directors, one of whom is also the chief executive officer of the Company. The Company is currently exploring acquisition possibilities. The Company anticipates that its policy on director compensation will change when and if it makes a material acquisition.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of April 1, 2005, with respect to the beneficial ownership of the Company's Common Stock by (i) each executive officer and director of the Company, (ii) all directors and executive officers of the Company as a group, and (iii) any person who is known by the Company to be the beneficial owner of more than 5% of the outstanding shares of the Company's common stock.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (1) |
|---|---|---|
| Marc Hazout (2) 1121 Steeles Avenue West, Suite 803 Toronto, Ontario M2R 3W7 | 15,203,351 | 53.5% |
| Donald J. Robinson | -- | 0.0% |
| RR#1 834572, 4th Line, Mono Orangeville, Ontario Canada L9W 2Y8 | | |
| Officers and Directors | 15,203,351 | 53.5% |

(1) Based on 28,375,533 shares issued and outstanding as of April 6, 2005.

(2) Based on 15,203,351 shares owned by Travellers International, Inc., a company owned by Mr. Hazout.

Equity Compensation Plan Information

The following table provides information as of December 31, 2004 about our compensation plans under which shares of stock have been authorized:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, | Weighted-average exercise price of outstanding options, warrants | Number of securities remaining available for |
|---|---|---|---|

| | warrants and rights (a) | and rights (b) | future issuance (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders: | | | |
| None | -- | -- | -- |
| Equity compensation plans not approved by security holders: | | | |
| 2002 Employee, Consultant and Advisor Stock Compensation Plan | 4,000,000 | 0.043 | 440,420 |
| 2002 Stock Option Plan | 4,000,000 | 0 | 4,000,000 |
| Total | 8,000,000 | 0.043 | 4,440,420 |

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

On April 28, 2003, the Company entered into a settlement agreement to settle disputes regarding the Company's acquisition of Cyper Entertainment, Ltd., and subsequent rescission, in 2002. The Company agreed to pay the shareholders $20,000 cash, transfer shares in an unrelated company with a value of $42,500, and issue the shareholders 250,000 shares of the common stock. Mr. Hazout provided the funds for the settlement, as well as the shares in the unrelated company. The Company issued 1,388,889 shares of common stock of the Company in settlement of the $62,500 provided by Mr. Hazout that have been reflected in the financial statements as at December 31, 2002.

On May 28, 2003, the Company issued Travellers International, Inc. 3,500,000 shares of the common stock in settlement of payables of $157,500 due to Mr. Hazout, which included $62,500 of the Cyper settlement.

On October 21, 2003, the Company issued Travellers International, Inc. 2,000,000 shares of the common stock in settlement of payables of $40,000 due to Mr. Hazout.

On November 14, 2003, the Company issued Travellers International, Inc. 750,000 shares of the common stock in settlement of payables of $15,000 due to Mr. Hazout.

On April 8, 2004, the Company issued Travellers International, Inc. 375,000 shares of the common stock in settlement of payables of $15,000 due to Mr. Hazout.

On November 5, 2004, the Company issued Travellers International, Inc. 200,000 shares of the common stock in settlement of payables of $10,000 due to Mr. Hazout.

On March 31, 2005, the Company issued Travellers International Inc. 3,254,018 shares of the common stock in settlement of accrued and outstanding salary and expenses of $813,504.54 ($864,000 minus short swing profits owing to the Company in the sum of $50,495.46) due to Mr. Hazout pursuant to his Employment Agreement dated July 10, 2002.

Item 13. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

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

| Regulation S-B No. | Description |
|---|---|
| 3.1(i) | Articles of Incorporation (1) |
| 3.1(ii) | Amendment to Articles of Incorporation (2) |
| 3.1(iii) | By-Laws (1) |
| 4.1 | Instruments defining the rights of holders (1) |
| 11 | Statement re: computation of per share earnings (3) |
| 16.1 | Letter on change in certifying accountants (4) |
| 16.2 | Letter on change in certifying accountants (5) |
| 22 | Subsidiaries of the registrant |
| 24 | Consent of Moore Stephens Cooper Molyneux, LLP |
| 31 | Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer |
| 32 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(1) Incorporated by reference from the Form 10-SB filed on February 23, 2000.

(2) Incorporated by reference from the Form 10-SB/A filed on July 17, 2003.

(3) Included within financial statements attached hereto as Exhibit A.

(4) Incorporated by reference from the Form 8-K/A filed on August 31, 2001.

(5) Incorporated by reference from the Form 8-K filed on November 7, 2001.

(b) Reports on Form 8-K: None

ITEM 14. CONTROLS AND PROCEDURES

The Company believes that it has sufficient internal controls and procedures for a company that is not engaged in active operations. When and if the Company acquires or commences active operations, the Company anticipates instituting internal controls and procedures sufficient for the nature and scale of operations at that time.

SIGNATURES

In accordance with Section 13 of 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SILVER DRAGON RESOURCES INC.

Dated: April 13, 2005 /s/ Marc Hazout

Marc Hazout, President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: April 13, 2005 /s/ Marc Hazout

Marc Hazout, Director

Dated: April 13, 2005 /s/

Donald J. Robinson

Donald J. Robinson, Director

EXHIBIT A

-

SILVER DRAGON RESOURCES, INC.

(formerly American Entertainment and Animation Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

## Report of Independent Auditors

To the Board of Directors and Stockholders of

Silver Dragon Resources, Inc. (formerly American Entertainment and Animation Corporation)

We have audited the accompanying consolidated balance sheet Silver Dragon Resources, Inc. and subsidiary [a development stage company] as at December 31, 2004 and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years ended December 31, 2004 and 2003 and for the period from June 15, 1996 [inception] to December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the cumulative data from June 15, 1996 to December 31, 2001. The cumulative data was audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts in the cumulative data through December 31, 2001, is based solely on the report of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silver Dragon Resources, Inc. (formerly American Entertainment and Animation Corporation) and subsidiary [a development stage company] as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended and for the period from June 15, 1996 (inception) to December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has recurring losses from operations and has a net capital deficiency. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Managements' plans are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/ s /*
*'Moore Stephens Cooper Molyneux LLP"*

Moore Stephens Cooper Molyneux LLP
Chartered Accountants

Toronto, Ontario

April 7, 2005

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

[A Development Stage Company]

BALANCE SHEET

DECEMBER 31, 2004

| | |
|---|---|
| LIABILITIES AND STOCKHOLDERS' DEFICIT | |
| CURRENT LIABILITIES | |
| Bank overdraft | $ 9 |
| Accounts payable and accrued expenses | 146,427 |
| Accrued officer compensation (*note 11*) | 659,005 |
| Advances payable - related parties *(note 4)* | 84,714 |
| Total Current Liabilities | 890,155 |
| COMMITMENTS AND CONTINGENCIES [Note 11] | - |
| STOCKHOLDERS' DEFICIT | |
| Preferred stock, $0.0001 par value, 20,000,000 shares authorized, none issued and outstanding. | - |
| Common stock, $0.0001 par value, 150,000,000 shares | 2,345 |

| | |
|---|---|
| authorized 23,441,515 shares issued and outstanding | |
| Additional paid-in capital | 1,645,026 |
| Deficit accumulated during development stage | (2,537,526) |
| TOTAL STOCKHOLDERS' DEFICIT | (890,155) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ - |

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

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

[A Development Stage Company]

CONSOLIDATED STATEMENT OF OPERATIONS

| | For the years ended December 31, | | For the period from June 15, 1996 [Inception] to |
|---|---|---|---|
| | 2004 | 2003 | 12/31/04 |
| NET REVENUES | $ - | $ - | $ 64,888 |
| COST OF REVENUES | - | - | 74,482 |
| Development expense | - | - | 60,000 |
| GROSS MARGIN | - | - | (69,594) |
| OPERATING EXPENSES | | | |
| Legal and professional fees | 38,565 | 117,580 | 489,581 |
| Management and directors' fees - related party | 342,000 | 252,000 | 1,202,588 |
| Consulting expense | - | - | 168,738 |
| Advertising expense | 1,624 | 2,440 | 50,386 |
| | 5,733 | 33,802 | 375,558 |

| | | | |
|---|---|---|---|
| General and administrative | | | |
| TOTAL OPERATING EXPENSES | 387,922 | 405,822 | 2,286,851 |
| LOSS FROM OPERATIONS | (387,922) | (405,822) | (2,356,445) |
| OTHER INCOME (EXPENSES) | | | |
| Interest income - related parties | - | - | 15,905 |
| Interest expense - related parties | - | - | (8,422) |
| Settlement with Cyper Entertainment, Inc. | - | - | (80,000) |
| Loss on disposal of asset | - | - | (15,371) |
| Loss on investment | - | - | (61,240) |
| Other (expense) income | (11,106) | (8,779) | (31,953) |
| TOTAL OTHER EXPENSES | (11,106) | (8,779) | (181,081) |
| NET LOSS | $ (399,028) | $ (414,601) | $ (2,537,526) |
| Net loss per common share - basic and diluted | $ (0.02) | $ (0.02) | |
| Weighted average number of common shares outstanding | 23,164,940 | 19,746,119 | |

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

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

[A DEVELOPMENT STAGE COMPANY]

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

FOR THE PERIOD JUNE 15, 1996 TO DECEMBER 31, 2004

| Common stock | | Common stock to be issued | |
|---|---|---|---|
| Shares | Amount | Shares | Amount |

| | | | | | Accumulated Paid-in Capital | Accumulated Deficit | Subscription Receivable | Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|
| Issuance of common stock for founders for services | 55,000 | $ 6 | - | $ - | $ 159 | $ - | $ - | $ 165 |
| Issuance of stock to founder for cash | 333,334 | 33 | - | - | 967 | - | - | 1,000 |
| Issuance of stock for investment in CEHK | 50,000 | 5 | - | - | 37,495 | - | - | 37,500 |
| Issuance of stock to purchase subsidiary | 350,000 | 35 | - | - | 70 | (1,060) | - | (955) |
| Issuance of stock for cash | 13,333 | 1 | - | - | 9,999 | - | - | 10,000 |
| Net loss, 1996 | - | - | - | - | - | (14,198) | - | (14,198) |
| Balance, December 31, 1996 | 801,667 | 80 | - | - | 48,690 | (15,258) | - | 33,512 |
| Issuance of stock for vehicle | 33,333 | 3 | - | - | 24,997 | - | - | 25,000 |
| Issuance of stock for cash | 37,333 | 4 | - | - | 28,896 | - | - | 28,900 |
| Issuance of stock for services | 46,333 | 5 | - | - | 34,745 | - | - | 34,750 |
| Net loss, 1997 | - | - | -- | - | - | (142,622) | - | (142,622) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 1997 | 918,666 | 92 | - | - | 137,328 | (157,880) | - | (20,460) |
| Issuance of stock for vehicle | 10,667 | 1 | - | - | 7,999 | - | - | 8,000 |
| Issuance of stock for cash | 58,667 | 6 | - | - | 49,995 | | - | 50,001 |
| Net loss, 1998 | - | - | - | - | - | (54,404) | - | (54,404) |
| Balance, December 31, 1998 | 988,000 | 99 | - | - | 195,322 | (212,284) | - | (16,863) |
| Issuance of stock for cash | 151,918 | 15 | - | - | 56,759 | - | (4,000) | 52,774 |
| Issuance of stock for debt | 16,000 | 2 | - | - | 8,773 | - | - | 8,775 |
| Issuance of stock for services | 36,000 | 3 | 298,667 | 30 | 126,467 | - | - | 126,500 |
| Forgiveness of debt of related party | - | - | - | - | 23,000 | - | - | 23,000 |
| Net loss, 1999 | - | - | - | - | - | (181,898) | - | (181,898) |
| Balance, December 31, 1999 | 1,191,918 | 119 | 298,667 | 30 | 410,321 | (394,182) | (4,000) | 12,288 |
| Cancel stock returned to company | (10,667) | (1) | - | - | (3,999) | - | 4,000 | 0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Issuance of stock for cash | 4,296,666 | 430 | - | - | 667,070 | - | (278,539) | 388,961 |
| Cancel shares for non-payment | (442,433) | (44) | - | - | (165,868) | - | 153,791 | (12,121) |
| Issuance of stock for services | 653,667 | 65 | (298,667) | (30) | 28,365 | - | - | 28,400 |
| Forgiveness of debt reclassification | - | - | - | - | (23,000) | - | - | (23,000) |
| Net loss, 2000 | - | - | - | - | - | (419,296) | - | 419,296) |
| Balance, December 31, 2000 | 5,689,151 | 569 | - | - | 912,889 | (813,478) | (124,748) | (24,768) |
| Shares issued for services | 879,415 | 88 | - | - | 59,814 | - | - | 59,902 |
| Cash received for subscription receivable | - | - | - | - | - | - | 124,748 | 124,748 |
| Shares issued for Consulting Agreement | 300,000 | 30 | - | - | 29,970 | - | - | 30,000 |
| Other adjustment | - | - | - | - | - | 1 | - | 1 |
| Net loss, 2001 | - | - | - | - | - | (339,546) | - | (339,546) |
| Balance, December 31, 2001 | 6,868,566 | 687 | - | - | 1,002,673 | (1,153,023) | - | (149,663) |

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

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

[A DEVELOPMENT STAGE COMPANY]

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT - CONTINUED

FOR THE PERIOD JUNE 15, 1996 TO DECEMBER 31, 2004

| | Common stock | | Common stock to be issued | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Accumulated Paid-in Capital | Accumulated Deficit | Subscription Receivable | Stockholders' Deficit |
| Shares issued for private placement | 400,000 | 40 | - | - | 17,960 | - | - | 18,000 |
| Shares issued for services - related party | 1,100,833 | 110 | - | - | 32,390 | - | - | 32,500 |
| Shares issued for the reverse acquisition of Cyper | 20,000,000 | 2,000 | - | - | - | - | - | 2,000 |
| Shares issued in relation to the reverse acquisition of Cyper | 4,000,000 | 400 | - | - | 119,600 | - | - | 120,000 |
| Shares cancelled in lieu of issuance of warrants for past services rendered | (1,912,748) | (191) | - | - | - | - | - | (191) |
| Stock warrants issued for services - | - | - | - | - | 31,000 | - | - | 31,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| related party | | | | | | | | |
| Stock warrants exercised by management | 3,255,880 | 326 | - | - | - | - | - | 326 |
| Shares issued for the settlement of related party advances | 116,118 | 12 | - | - | 23,212 | - | - | 23,224 |
| Cancellation of shares issued in prior years | (65,467) | (7) | - | - | 7 | - | - | - |
| Shares issued for the settlement of accounts payable for services performed | 370,000 | 37 | - | - | 66,619 | - | - | 66,656 |
| Shares issued for the settlement of related party advances | 2,233,333 | 223 | - | - | 46,777 | - | - | 47,000 |
| Shares rescinded for the cancellation of the reverse acquisition of Cyper | (20,000,000) | (2,000) | - | - | - | - | - | (2000) |
| Issuance of stock for settlement of Cyper reverse acquisition | 250,000 | 25 | - | - | 17,475 | - | - | 17,500 |
| Shares issued for the settlement of | 1,388,889 | 139 | - | - | 62,361 | - | - | 62,500 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| advances made to the Company for the Cyper settlement | | | | | | | | |
| Net loss, 2002 | - | - | - | - | - | (570,874) | - | (570,874) |
| Balance, December 31, 2002 | 18,005,404 | 1,801 | - | - | 1,420,074 | (1,723,897) | - | (302,022) |
| Shares issued for the settlement of related party advances | 4,861,111 | 486 | - | - | 149,514 | - | - | 150,000 |
| Shares issued for the settlement of accounts payable for services performed | 66,300 | 7 | - | - | 1,319 | - | - | 1,326 |
| Shares returned as a result of clerical error in a prior year | (66,300) | (7) | - | - | (1,319) | - | - | (1,326) |
| Net loss, 2003 | - | - | - | - | - | (414,601) | - | (414,601) |
| Balance, December 31, 2003 | 22,866,515 | 2,287 | - | - | 1,569,588 | (2,138,498) | - | (566,623) |
| Shares issued for the | 575,000 | 58 | - | - | 24,942 | - | | 25,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| settlement of related party advances | | | | | | | | |
| Short swing profits of shareholder | - | - | - | - | 50,496 | - | | 50,496 |
| Net loss, 2004 | - | - | - | - | - | (399,028) | - | (399,028) |
| Balance, December 31, 2004 | 23,441,515 | $ 2,345 | - | $ - | $ 1,645,026 | $ (2,537,526) | $ - | $ (890,155) |

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

SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

[A Development Stage Company]

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the years ended December 31, | | For the period from June 15, 1996 [Inception] to |
|---|---|---|---|
| | 2004 | 2003 | 12/31/02 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | $ (399,028) | $ (414,601) | $ (2,537,526) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | - | - | 41,487 |
| Impairment of investment | - | - | 61,240 |
| Writedown of assets | - | - | 42,253 |
| Writedown of inventory | - | - | 19,169 |
| | - | - | 80,000 |

| | | | |
|---|---|---|---|
| Settlement of Cyper reverse acquisition | | | |
| Settlement of debt, net | - | - | (19,052) |
| Stock based on compensation, management fees - related party | - | 151,326 | 615,603 |
| (Increase) decrease in: | | | |
| Advances receivable - related parties | - | 3,120 | (45,177) |
| Inventories | - | - | (28,510) |
| Prepaid expenses | - | 5,977 | 5,257 |
| Other | - | - | 135 |
| Increase (decrease) in: | | | |
| Accounts payable and accrued expenses | 17,484 | (50,652) | 231,616 |
| Accrued officer compensation | 342,000 | 252,000 | 709,500 |
| Advances payable - related parties | 38,647 | 54,322 | 245,649 |
| Net Cash Used in Operating Activities | (897) | 1,492 | (578,356) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Investment in subsidiaries | - | - | (21,221) |
| Proceeds from sale of equipment | - | - | 500 |
| Acquisition of property and equipment | - | - | (45,730) |
| Net Cash Used in Investing Activities | - | - | (66,451) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payment of notes payable | - | - | 3,581 |
| Proceeds from issuance of notes payable | - | - | (21,507) |
| Cash overdraft | 9 | (604) | 469 |

| | | | | |
|---|---|---|---|---|
| Proceeds from subscription receivables - net | | - | - | 124,748 |
| Proceeds from issuance of common stock - net | | - | - | 537,516 |
| Net Cash Provided by Financing Activities | | 9 | (604) | 644,807 |
| Net (decrease) in cash | | (888) | 888 | - |
| Cash - beginning of period | $ 888 | | - | - |
| Cash - end of period | | $ - | $ 888 | $ - |

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

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SILVER DRAGON RESOURCES, INC. AND SUBSIDIARY

(formerly American Entertainment and Animation Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

1. The Company

Silver Dragon Resources, Inc. (formerly American Entertainment and Animation Corporation) ("the Company") (a development stage company), a Delaware corporation, was incorporated on May 9, 1996. The Company is headquartered in Ontario, Canada and operates primarily in the United States and Canada. On June 15, 1996, AEAC acquired all of the outstanding stock of California Electric Automobile Co., Inc. ("CEAC"), a California corporation incorporated on November 14, 1995.

The Company is in the development stage as defined in Financial Accounting Standards Board Statement No.7. "Accounting and Reporting For Development Stage Companies." To date, the Company has generated minimal sales and has devoted its efforts primarily to developing its products, implementing its business strategy and raising working capital through equity financing or short-term borrowings.

The Company's mission is to acquire and develop a portfolio if silver properties in proven silver districts globally.

- Going Concern

The Company's financial statements as of and for the year ended December 31, 2004 have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of approximately $399,000 for the year and has accumulated losses since inception of approximately $2,537,000. In addition, the Company has a working capital deficiency of approximately $890,000 at December 31, 2004. These factors create an uncertainty about the Company's ability to continue as a going concern. Management's plans to alleviate these factors and allow the Company to continue as a going concern primarily consisting of seeking additional equity investments. The ability of the Company to continue as a going concern is dependent on the success of its plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

- Summary of Significant Accounting Policies

- Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

- Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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 revenues and expenses during the reported periods. Actual results could differ from those estimates.

- Cash and Cash Equivalents

For purposes of the cash flows statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. There were no cash equivalents at December 31, 2004.

- Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes". Under SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

- Advertising Expense

Advertising costs are expensed as incurred.

- Loss per share of Common Stock

Loss per share and common equivalent share are calculated on the basis of weighted average number of common shares outstanding. As of December 31, 2004 and 2003, the Company had no common stock equivalents outstanding.

- Impairment

The Company evaluates its long-lived assets to determine whether later events and circumstances warrant revised estimates of useful lives or a reduction in carrying value due to impairment.

In September 2001, the Financial Accounting Standard Board ("FASB") issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets". SFAS No. 144 supersedes SFAS No. 121, "Accounting for

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of", but retains the basic requirements regarding when and how to measure an impairment loss. SFAS No. 144 applies to long-lived assets to be held or disposed of but specifically excludes certain classes of assets such as goodwill and intangibles not being amortized. The Company does not believe that the adoption of this standard will have a material impact on the Company's financial position or results of operations.

- Stock-based Compensation

The Company applies the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation" for stock options and similar equity instruments (collectively, "options") issued to employees; however, the Company applies the intrinsic value based method of accounting for options issued to employees prescribed by Account Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issues to Employees" rather than the fair value based method of accounting prescribed by SFAS No. 123. SFAS No. 123 also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the fair value of the equity instruments issued, whichever is more reliably measurable.

- Foreign Currency Transactions

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the US dollar are included in the results of operations as incurred. Foreign transaction gains and losses are immaterial.

**1. Related Parties**

Advances payable - related parties consists of an advance received from a company controlled by an officer and shareholder of the Company. The advance does not have a stated maturity date or interest rate.

During the year, the following transactions involving related parties occurred:

- In 2004, the Company issued 575,000 common shares, valued at approximately $25,000, for advances of $25,000 from a related party company whose officer and shareholder is a shareholder of the Company.

- In 2003, the Company issued 4,861,111 common shares, valued at $150,000, for advances of $150,000 from a related party company whose officer and shareholder is an officer and shareholder of the Company.

- During the year ended December 31, 2003 the Company issued approximately 66,300 shares of its common stock, valued at approximately $1,326, for services provided by a former officer and shareholder of the Company. The shares were returned to the Company as the result of an over issuance of shares in a prior year as a result of a clerical error.

- The Company is party to a month-to-month lease for office space for approximately $2,800 per month with a company owned by an officer and shareholder of the Company. Rental expense under this lease for the year ended December 31, 2004 was Nil (2003 - $31,092).

**1. Concentration of Credit Risk**

The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. The Company does not believe it is exposed to any credit risk from advances receivable because these are all from related parties. The Company does not require collateral or other securities to support financial instruments that are subject to credit risk.

**2. Income Taxes**

At December 31, 2004 the Company has recorded a net deferred tax asset of approximately $742,000. This deferred tax asset is due primarily to the accumulated net operating losses. A valuation allowance of an equal amount has been recorded because the Company believes it is more likely than not that the losses will not be utilized. The valuation allowance increased approximately $104,000 and $96,700 for the years ended December 31, 2004 and 2003, respectively.

The Company has accumulated approximately $2,275,000 of taxable losses, which can be used to offset future federal taxable income. The utilization of the losses expires as follows:

| Year | Amounts |
|---|---|
| 2015 | $ 800 |
| 2016 | 10,600 |
| 2017 | 49,600 |
| 2018 | 26,800 |
| 2019 | 87,200 |
| 2020 | 417,000 |
| 2021 | 338,000 |
| 2022 | 531,000 |
| 2023 | 415,000 |
| 2024 | 399,000 |
| Total | $2,275,000 |

**3. Fair Value of Financial Instruments**

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments", requires disclosing fair value to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

For certain financial instruments, including cash, current receivables and current payables, it was assumed that the carrying amount approximated fair value because of the near term maturities of such obligations.

**4. Statement of Cash Flows Supplemental Disclosures**

- During the year ended December 31, 2004, the Company issued 575,000 shares of its common stock in lieu of $25,000 cash in settlement of related party advances.

- During the year ended December 31, 2003, the Company issued 4,861,111 shares of its common stock in lieu of approximately $150,000 cash in settlement of related party advances.

- During the year ended December 31, 2003, the Company issued 66,300 shares of its common stock for the settlement of approximately $1,326 of payables due to a former director and current shareholder for services performed.

- For the year ended December 31, 2004 and 2003, there were no cash payments for income taxes and no cash was paid for accrued interest.

**1. Litigation**

In the normal course of its operations, the Company has been or, from time to time, may be named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, management does not expect, based upon consultation with legal counsel, that they will have a material effect on the Company's business or financial condition or results of operations.

10. New Authoritative Pronouncements

In December 2004, the FASB, issued a revision to SFAS 123, also known as SFAS 123R, that amends existing accounting pronouncements for share-based payment transactions in which an enterprise receives employee and certain non-employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB 25 and generally requires such transactions be accounted for using a fair-value-based method. SFAS123R's effective date would be applicable for awards that are granted, modified, become vested, or settled in cash in interim or annual periods beginning after June 15, 2005. The modified prospective method requires companies to record compensation expense for the unvested portion of previously issued awards that remain outstanding at the initial date of adoption, and to record compensation expense for any awards issued, modified, or settled after the effective date of this standard. The Company intends to adopt SFAS 123R using the modified prospective method commencing in the third quarter of the fiscal year ending December 31, 2005. It is expected that the adoption of SFAS 123R will cause the Company to record, as expense each quarter, a non-cash accounting charge approximating the fair value of such share based compensation meeting the criteria outlined in the provisions of SFAS 123R.

**11. Commitments and Contingencies**

In July 2002, the Company entered into an employment agreement with an officer of the Company. During the years ended December 31, 2004 and 2003, $342,000 and $252,000 respectively is included in the statement of operations in management and director fees. The term of the employment agreement is for three years and carries an option for renewal upon mutual agreement between the officer and the Company *(note 12).*

**12. Subsequent Events**

- On February 1, 2005, the Company issued 1,500,000 restricted common shares, valued at $30,000 under a private placement.

- On February 21, 2005, the Company signed a letter of intent with Sino Silver Corp. whereby the Company would acquire 50% of Sino Silver's interest in the net proceeds from the sale of minerals or the sale of mining rights as a result of the exploration, evaluation and development of a property located in the Erbaohuo Silver District in Northern China. Sino Silver owns 60% of the equity in a Chinese company, Sanhe Sino - Top Resources and Technology, Ltd., which holds the exploration and mining rights to several properties, including the one that is the subject of the Letter of Intent. To date, the Company has not signed a formal contract relating to the subject matter of the Letter of Intent.

- On March 31, 2005, the Company issued 3,254,018 restricted common shares, valued to $813,505 in settlement of all amounts owing to the officer of the Company in accordance with the terms of his employment agreement.

- On April 5, 2005, the Company issued 180,000 restricted common shares, valued at $18,000 under a private placement. The Company is also holding an additional $244,500 in escrow which is being held pending completion of a definitive agreement with Sino Silver Corp. If the transaction is completed, the Company will issue 2,445,000 shares of common stock pursuant to these subscriptions. If the transaction is not completed, the proceeds will be returned at the option of the subscribers.