

Bonanza

**AMERICAN BONANZA GOLD CORP.
QUARTERLY REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009**

American Bonanza Gold Corp.
Management's Discussion and Analysis
(Nine months ended September 30, 2009, as of November 12, 2009)

General

The following discussion of performance, financial condition and analysis should be read in conjunction with American Bonanza Gold Corp. ("the Corporation") annual audited consolidated financial statements for the year ended December 31, 2008 and the unaudited consolidated financial statements of the Corporation for the nine months ended September 30, 2009 and 2008. All amounts are expressed in Canadian Dollars unless otherwise indicated.

Forward-Looking Statements

Certain statements contained in the following Management's Discussion and Analysis may be deemed forward-looking statements. All statements other than statements of historical facts, including the likelihood of commercial mining and possible future financings are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include unsuccessful exploration results, changes in metals prices, changes in the availability of funding for mineral exploration, unanticipated changes in key management personnel and general economic conditions. Mining is an inherently risky business. Accordingly the actual events may differ materially from those projected in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking statements while considering the risks set forth below.

Description of Business

The Corporation is an exploration stage company engaged in the acquisition, exploration and development of high-grade gold properties located in the United States and Canada. The Corporation is developing its advanced stage 100% owned Copperstone gold project in Arizona and continues its advanced exploration program on its 100% owned Fenelon gold project located in Quebec. An aggressive surface drilling program is ongoing to expand the known resource of both projects and to test several high priority exploration targets. In addition to these advanced properties, the Corporation continues to progress other projects, including the Martiniere and Northway in Quebec, Gold Bar in Nevada, and Northshore in Ontario.

Overview of Performance

The Corporation's working capital as at September 30, 2009 was \$4,131,488 compared with a working capital position of \$5,726,261 as at December 31, 2008. The change in working capital was the result of funds used for operating activities in the period totalling \$440,516 (2008 - \$363,855) and use of funding in the exploration expenditures at the Copperstone, Fenelon and other properties totalling \$808,310 (2008 - \$411,020 in expenditures, offset by proceeds from Taurus option payment of \$2,000,000). Cash provided by financing, net of issue costs, for the period was \$204,314 (2008 - nil). The loss for the nine months ended September 30, 2009 was \$1,134,665 or \$0.01 per share compared with a net loss of \$795,847 or \$0.01 per share for the nine months period ended September 30, 2008. Significant components of the current period's loss was stock-based compensation expense of \$356,887 (2008 audit adjusted - \$96,119).

Between 2001 and 2006, the Corporation completed substantial drilling campaigns (over 400 holes totalling over 150,000 feet) that defined the measured, indicated and inferred resources at Copperstone. Over the past years the Corporation has been studying the best way to put Copperstone into production while completing further exploration drilling to increase the size of the resource.

Currently the Corporation is working on a feasibility study to examine various methods for placing Copperstone into production. The last two years of drilling has identified two zones with significant potential to increase the size of the resources. The South Pit Zone, the Southwest Zone, and the D-Zone have the potential to significantly extend the mine life and improve the economic returns. The potential for these gold zones, which lie outside of the current resources, to extend the mine life at Copperstone will be evaluated subsequent to the current economic study.

The Corporation's main objective is to finish the feasibility study during 2009, make a production decision and commence permitting and construction.

The Corporation is also examining the merits of a possible small production development at the 100% owned Fenelon Project in northern Quebec, and is continuously looking to realize value on other, non-core assets as with the recent sale of the Taurus Project.

Selected Information

The following table sets forth selected consolidated annual financial information of the Corporation for, and as of the end of, each of the last three fiscal years. The selected consolidated financial information should be read in conjunction with the Consolidated Financial Statements of the Corporation.

	Nine months ended September 30,		Year Ended December 31,		
	2009	2008	2008	2007	2006
	\$	\$	\$	\$	\$
Net loss	(1,134,665)	(795,847)	(3,883,826)	(946,457)	(1,740,706)
Net loss per share	(0.01)	(0.01)	(0.03)	(0.01)	(0.02)
Total cash and cash equivalents	1,606,124	3,491,188	2,650,636	4,266,063	6,150,005
Working capital	4,131,488	4,750,587	5,726,261	5,963,158	6,980,811
Total liabilities	1,672,949	1,783,348	1,739,187	1,626,804	1,951,981
Total assets	56,694,469	59,842,151	57,167,469	60,963,361	59,751,226
Shareholders' equity	55,021,520	58,058,803	55,428,282	59,336,557	57,799,245

Results of Operations

For the nine months ended September 30, 2009, the Corporation had a net loss of \$1,134,665 or \$0.01 per share compared to a net loss of \$795,847 or \$0.01 per share with the corresponding period in 2008. Stock-based compensation expense for this period was \$356,887 (2008 audit adjusted - \$96,119). Interest income decreased to \$20,936 during the nine months ended September 30, 2009 compared to \$89,093 in 2008. General and administrative costs increased to \$591,237 from \$548,571 in 2008. Some significant components of the general and administration costs include management fees, consultant and salaries of \$339,934 (2008 - \$235,709), legal and accounting \$38,068 (2008 - \$38,271) and public company expenses \$107,217 (2008 - \$177,673).

Exploration office expenses increased to \$107,501 in the period from \$95,045 in 2008. Activities relating to property evaluations and investigations are ongoing. Exploration expenses in the period also include all costs associated with maintaining the Corporation's exploration offices in Reno, Nevada.

During 2006 the Corporation continued its surface and underground drilling program at the Copperstone project. This program phase was completed and the result of the preliminary assessment prepared by AMEC was filed on SEDAR on March 28, 2006. In August, 2006, the Corporation began a large drilling campaign designed to expand the gold resources at the 100% owned Copperstone gold project in Arizona. The drilling was completed ahead of schedule, consisting of 27 drill holes with a combined length of 7,695 meters (25,247 feet). In April of 2007, the Corporation began Phase II drilling. In September, 2007 Phase II drilling was completed consisting of 17 drill holes and a combined length of 5,482 meters (17,980 feet). This drilling phase was designed to test the continuity, geometry, and overall significance of the gold intercepted in several targets during Phase I drilling. Re-interpretation of previous geophysical data and a new ground magnetic survey also contributed to the targeting for the Phase II drilling.

During 2008, the Corporation commenced its Phase III exploration drilling campaign which targeted the South Pit and the Southwest gold zones with 15 drill holes of combined length of 4,313 meters (14,147 feet) completed. The South Pit zone as currently understood is at least 300 meters long and is open to expansion along strike and up and down dip. During 2007 and 2008, exploration follow-up drilling in the South Pit zone totaled 11 drill holes, all of which encountered the targeted fault zones and gold mineralization. The South Pit zone and the Southwest zone have the potential to extend the mine life at Copperstone beyond the current resources, and further drilling at both zones is planned.

Total development and exploration expenditures at the Copperstone project during the nine month period ended September 30, 2009 totalled \$928,319 or \$24,445,484 since the program began in 2003.

Summary of Quarterly Results

Selected consolidated financial information for each of the most recently completely quarters of fiscal 2009, 2008 and 2007 are as follows:

(In thousand of dollars except amounts per share)	2009				2008			2007
	Sep.	Jun.	Mar.	Dec.	Sep.	Jun.	Mar.	Dec.
	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	1,606	1,897	1,871	2,651	3,491	4,165	3,399	4,266
Working Capital	4,131	4,002	4,308	5,726	4,755	6,139	5,356	5,963
Total assets	56,694	56,212	55,870	57,167	59,842	60,039	60,662	60,963
Shareholder's equity	55,021	54,398	54,329	55,428	58,059	58,326	58,687	59,337
Net loss	184	274	677	3,088	208	172	416	63
Net loss per share	(0.00)	(0.00)	(0.01)	(0.03)	(0.00)	(0.00)	(0.00)	(0.00)

Liquidity and Capital Resources

The Corporation's working capital as at September 30, 2009 was \$4,131,488 compared with a working capital position of \$5,726,261 as at December 31, 2008. The decrease in working capital in the period was the result of the expenditures in the period at the Copperstone, Fenelon and other gold properties totalling \$1,198,194 (2008 – 2,405,233 in expenditures, offset by proceeds from Taurus option payment of \$2,000,000). Use of funds to support operating activities was \$440,516 (2008 – \$363,855). As of September 30, 2009, accrued receivable in the amount of \$397,523 from the Ministry of Natural Resources and the Government of Quebec related to exploration expenditures that occurred in that province during the current and previous years remained outstanding. The decrease in working capital and available funding for expenditures compared to previous year was the result of overall reduced business activities.

On June 22, 2007 the Corporation entered into an option agreement with Cusac for Cusac to acquire the Taurus Project from the Corporation for total cash consideration of up to \$11,000,000 plus up to 3,000,000 common shares of Cusac. On December 19, 2007 Cusac and Hawthorne Gold Corp. ("Hawthorne") entered into a definitive merger agreement entitling holders of Cusac common shares to receive one common share of Hawthorne in exchange for each 19 common shares of Cusac. The Corporation, Cusac and Hawthorne also entered into an option assignment and amending agreement (the "Agreement") whereby Cusac assigned to Hawthorne all its rights to the option to acquire the 46 mineral claims of the Taurus Project from the Corporation. The assignment agreement amended the terms of the original option agreement and required Hawthorne to pay \$6 million over two years, consisting of \$1 million by December 22, 2007 (paid), \$2 million by June 22, 2008 (paid), \$1.5 million by June 22, 2009 and \$1.5 million by December 22, 2009. On June 22, 2007, the Corporation received its first instalment of 1,500,000 common shares of Cusac and on December 22, 2007 and June 22, 2008 the Corporation received the \$1,000,000 and \$2,000,000 option payments respectively.

In December 2008, the agreement was further amended to delete the 2009 payments and all subsequent royalty payments in favour of issuance of 6,750,000 Hawthorne common shares to the Corporation. The Corporation received the Hawthorne shares in full on December 30, 2008, which were valued at \$2,362,500 based on the quoted market price and the Corporation recognised a loss on property disposal of \$977,782.

On November 15, 2007, the Corporation entered into an agreement with Agnico-Eagle Mines Limited ("Agnico-Eagle") for the joint exploration and development of the Corporation's Northway property and Agnico-Eagle's Vezza property.

During the third quarter of 2009, the Corporation and Agnico-Eagle agreed to terminate the agreement.

On December 19, 2007 the Corporation completed a private placement of selling 3,267,000 units through Dundee Securities Corporation (the "Agent"), and 1,750,000 units on a non-brokered basis, at a price of \$0.40 per unit for gross proceeds of \$2,006,800. Each unit consisted of two common shares, of which one was designated as a "flow-through share" for the purposes of the Income Tax Act (Canada) and one common share which was not designated as a flow through share, and one half of one transferable common share purchase warrant with each full warrant entitling the holder to acquire one common share at a price of \$0.30 until June 19, 2009.

The Agent was paid a cash fee of equal to 8% of the proceeds raised pursuant to the brokered portion of the financing. In addition, the Agent received warrants exercisable to purchase 522,720 common shares of the Corporation at a price of \$0.30 per share until June 19, 2009. Using the Black-Scholes valuation model, a value of \$33,100 was assigned to the 522,720 share purchase warrants with a weighted average price of \$0.06 per warrant, 1.5 year expected life, 63% volatility and 3.87% risk free rate. No commission was paid on the non-brokered portion of the financing.

All securities issued in connection with the private placement were subject to four month hold period that expired April 19, 2008. The proceeds from this financing was used primarily to fund ongoing exploration at the Corporation's Copperstone project in Arizona, USA and at its projects in Quebec and Ontario, and for general working capital.

On December 31, 2007 the Corporation entered into a non-brokered private placement to issue 2,500,000 units with the same terms as the December 19, 2007 financing for total proceeds of \$1,000,000.

On April 2, 2009, the Corporation completed a non-brokered private placement of 2,582,913 flow-through shares, at a price of \$0.08 per share for gross proceeds of approximately \$206,600. No commission was paid on the financing.

As at September 30, 2009, the Corporation had cash of \$1,606,124 compared to \$2,650,636 as at December 31, 2008.

As a mining company in the exploration stage, the future liquidity of the Corporation will be affected principally by the level of exploration expenditures and by its ability to raise an adequate level of capital through the equity markets. In management's opinion, the Corporation's current working capital will be sufficient for funding its planned exploration programs in 2009.

Transactions with Related Parties

- (a) The Corporation shares certain premises and facilities with companies which have certain directors in common, under cost-sharing arrangements. During the nine months ended September 30, 2009 the Corporation recovered management and consulting fees of \$73,875 (2008 – \$107,900) and general and administration expenses of \$29,625 (2008 – \$52,500) from these companies.
- (b) As at September 30, 2009, there were \$4,021 (December 31, 2008 - \$29,061) accounts receivable due from companies with certain directors in common.

Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangement.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have instituted a system of controls for the Corporation to provide reasonable assurance as to the reliability of the financial information and that the financial statements are prepared, for external purpose, in accordance with GAAP. The limited number of employees within the Corporation facilitates access to real time information about developments in the business for the person responsible for drafting disclosure documents. All documents are circulated to responsible members of management and the board of directors according to the disclosure time-lines contained within the disclosure policy. The disclosure controls conform with the Corporation's Corporate Governance policies.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures have concluded that, as of such date, the Corporation's disclosure controls and procedures were effective to ensure that material information relating to the Corporation was made known to them by others within the Corporation during the period.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by our Corporation is recorded, processed, summarized and reported within the time periods specified. The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Corporation.

The Chief Executive Officer and the Chief Financial Officer have concluded, based on an evaluation as of September 30, 2009, that the disclosure controls and procedures for the Corporation was effective to provide reasonable assurance that material information related to the Corporation is made known. It should be noted that while the Corporation's Chief Executive Officer and the Chief Financial Officer believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that the system of internal control are effective, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include estimates used in the Corporation's evaluation of recoverability of the carrying value of these mineral properties. The business of mineral exploration and extraction involves a high degree of risk since very few properties that are explored and developed ultimately achieve commercial production. At present, none of the Corporation's properties have a known body of commercial ore.

The Corporation's impairment determination and resulting estimated net recoverable value on its mineral projects are based on estimated underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Corporation is in an industry that is exposed to a number of risks and uncertainties, including exploration, development, commodity, operating, ownership, political, funding, currency and environmental risk. While factoring these risks the Corporation has relied on very preliminary resource estimates on its properties, however, these estimates include assumptions that are potentially subject to significant changes that are not yet determinable. Accordingly, there is always the potential for a material change to the presentation in the financial statements relating to the carrying value of the Corporation's mineral properties.

Other significant areas requiring the use of management estimates and assumptions relate to the valuation of amounts receivable, future income tax assets and liabilities and assumptions used in valuing options and warrants in stock-based compensation calculations. Actual results could differ from those estimates.

Risk Factors

General

Precious metals exploration is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Corporation may be affected by numerous factors which are beyond the control of the Corporation and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of mining facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection, any of which could result in the Corporation not receiving an adequate return on invested capital.

Exploration and Development Risks

There is no certainty that the expenditures made or to be made by the Corporation in the exploration of its properties will result in discoveries of mineralized material in commercially viable quantities. Most exploration projects do not result in the discovery of commercially mineable ore deposits. Mining operations generally involve a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The business of gold mining is subject to a variety of risks such as industrial accidents, flooding, environmental hazards such as fires, technical failures, labour disputes and other accidents at the mine facilities. Such occurrences, against which the Corporation cannot or may elect not to insure, may delay production, increase production costs or result in liability. The payment of such liabilities may have a material adverse effect on the Corporation's financial position.

Mineral Prices

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral Resources are discovered, a profitable market will exist for the sale of same. Factors beyond the control of the Corporation may affect the marketability of any mineral occurrences discovered. The price of gold has experienced volatile and significant price movements over short periods of time, and is affected by numerous factors beyond the control of the Corporation, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the United States dollar relative to the Canadian dollar and other currencies), interest rates and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods.

Currency Exposure

Currency fluctuations may affect the costs the Corporation incurs at its operations and may affect the Corporation's operating results and cash flows. The principal source of funds for the Corporation has traditionally been through the sale of its common shares, which are sold in Canadian dollars, while a significant portion of the Corporation's expenditures are incurred in United States dollars. Additionally, gold is sold throughout the world principally based upon the United States dollar price. Fluctuations in the exchange rate of the Canadian dollar to the United States dollar could have a material adverse effect on the Corporation's results of operations, may delay the development of its mineral projects, and reduce the funds available for further mineral exploration.

Operating History

The Corporation and its predecessor companies have no history of earnings. The Corporation has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Corporation is through the sale of its equity shares or by way of debt facilities. While the Corporation may generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that any such funds will be generated.

Environmental Regulation

All phases of the Corporation's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's operations, or its ability to develop its properties economically. Before production may commence on any property, the Corporation must obtain regulatory and environmental approvals and permits. There is no assurance such approvals and permits will be obtained on a timely basis, if at all. Compliance with environmental and other regulations may reduce profitability, or preclude economic development of a property entirely.

Competition

The resource industry is intensely competitive in all of its phases, and the Corporation competes with many companies possessing greater financial resources and technical facilities than it. Competition could adversely affect the Corporation's ability to acquire suitable producing properties or prospects for exploration in the future.

Joint Venture Interests

The Corporation may enter into joint ventures with one or more mining companies in respect of its other mineral properties. The Corporation may require additional funding to meet obligations under any joint venture agreement, and there is no guarantee such funding will be available. The inability of the Corporation to meet its funding commitments under any joint venture agreement could result in the dilution of the Corporation's interest in the property subject to the joint venture agreement. In addition, should any of the Corporation's joint venture partners determine not to fund their commitments under such joint venture agreement, the development of that project may be materially delayed or stopped, and the operations or financial results of the Corporation materially affected.

Title Matters

In those jurisdictions where the Corporation has property interests, the Corporation makes a search of mining records in accordance with mining industry practices to confirm satisfactory title to properties in which it holds or intends to acquire an interest, but does not obtain title insurance with respect to such properties. The possibility exists that title to one or more of its properties, particularly title to undeveloped properties, might be defective because of errors or omissions in the chain of title, including defects in conveyances and defects in locating or maintaining such claims, or concessions. The ownership and validity of mining claims and concessions are often uncertain and may be contested. In particular, in Canada mineral title is increasingly subject to challenges and claims of aboriginal title to land subject to mining claims. The Corporation is not aware of any challenges to the location or area of its mineral claims. There is, however, no guarantee that title to the Corporation's properties and concessions will not be challenged or impugned in the future. The properties may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects.

Dependence on Key Personnel

The success of the Corporation and its ability to continue to carry on operations is dependent upon its ability to retain the services of certain key personnel. The loss of their services to the Corporation may have a material adverse effect on the Corporation. The Corporation does not presently have "key person" life insurance for any of its officers.

Conflicts of Interest

Certain of the directors of the Corporation are directors of other mineral resource companies and, to the extent that such other companies may be interested in a project also of interest to the Corporation, or may in the future participate in one or more ventures in which the Corporation participates, such directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a

conflict of interest arises, at a meeting of the directors of the Corporation, a director who has such a conflict will abstain from voting for or against the approval of such acquisition or participation. In the appropriate cases, the Corporation will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing for their participating in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program.

Legal Proceedings Against Foreign Directors

The Corporation is incorporated under the laws of British Columbia, Canada, and some of the Corporation's directors and officers are residents of Canada. Consequently, it may be difficult for United States investors to effect service of process within the United States upon the Corporation or upon its directors or officers, or to realize in the United States upon judgments of United States courts predicated upon civil liabilities under the United States Securities Exchange Act of 1934, as amended. Furthermore, it may be difficult for investors to enforce judgments of U.S. courts based on civil liability provisions of the U.S. federal securities laws in a foreign court against the Corporation or any of the Corporation's non-U.S. resident officers or directors.

Additional Funding Requirements

The business of mineral exploration and extraction involves a high degree of risk with very few properties that are explored ultimately achieving commercial production. At present, none of the Corporation's properties have a known body of commercial ore. As a mining company in the exploration stage, the future ability of the Corporation to conduct exploration and development will be affected principally by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means. In turn, the Corporation's ability to raise such funding depends in part upon the market's perception of its management and properties, but to a great degree upon the price of gold and the marketability of securities of speculative exploration and development mining companies.

The development of any ore deposits found on the Corporation's exploration properties depends upon the Corporation's ability to obtain financing through any or all of equity financing, debt financing, the joint venturing of projects, or other means. There is no assurance that the Corporation will be successful in obtaining the required financing.

Shareholder Dilution

It is likely that additional capital required by the Corporation will be raised through the issuance of additional equity securities, resulting in dilution to the Corporation's shareholders.

Exploration Stage Corporation

The Corporation has no production revenue. Moreover, the Corporation has no commercially viable properties. The Corporation has completed a preliminary assessment on its Copperstone project located in Arizona. At this stage and prior to a positive production decision being made on the Copperstone project or any other project the Corporation holds, the Corporation is deemed an "Exploration Stage Corporation".

Adoption of New Accounting Standards

Effective January 1, 2009, the Company adopted a new accounting standard related to goodwill and intangible assets that was issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standard is as follows:

Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*. This new Section provides guidance on the recognition, measurement,

presentation and disclosure of goodwill and intangible assets. The new Section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development from being considered as intangible assets, as existing Section 3061, *Property, Plant and Equipment*, contains standards for measurement, presentation and disclosure of mining properties. Adoption of this standard did not have any effect on financial statements.

EIC-173, Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173, *Credit risk and the fair value of financial assets and financial liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2009. Adoption of this EIC did not have any effect on financial statements.

EIC-174, Mining exploration costs

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*. The EIC provides guidance on the accounting and the impairment review of exploration costs. This EIC applies to interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2009. Adoption of this EIC did not have any effect on the Corporation's financial statements.

Financial Instruments and Other Instruments

The Corporation's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. It is management's opinion that we are not exposed to significant interest, currency or credit risks arising from our cash and cash equivalents, accounts receivable and accounts payable.

Marketable securities are subject to market price fluctuations. The effect of adopting the new accounting standards on the marketable securities as at January 1, 2007 is summarized below. As prescribed by these standards, prior periods have not been restated.

	September 30, 2009		
	Fair Value	Cost	Accumulated unrealized gains (losses)
	\$	\$	\$
- Bayswater Uranium Corporation	4,875	10,200	(5,325)
- Hawthorne Gold Corp.	2,506,447	2,282,165	224,282
	2,511,322	2,292,365	218,957

The Corporation has designated its marketable securities as available-for-sale and recorded the unrealized losses in other comprehensive income.

The Corporation is exposed to currency risk on the acquisition and exploration expenditures on its properties since it has to settle expenditures either in local currency or U.S. dollars. The Corporation's expenditures are negatively impacted by increases in value of either the U.S. dollar or local currencies versus the Canadian dollar.

Use of Financial and Other Instruments

The Corporation has not entered into any specialized financial agreements to minimize its investment, currency or commodity risk. There are no off-balance sheet arrangements. The principal financial instruments affecting the Corporation's financial condition and results of operations is currently its cash and cash equivalents.

Outlook

The Corporation will continue to focus the majority of its exploration and development efforts in the United States and Canada for purposes of the acquiring, exploring and developing high-grade gold projects.

The Corporation's current objective is to advance the Copperstone project towards gold production. The 2009 projects underway at Copperstone include underground mine planning, negotiation of plant construction contracts, drilling to expand the gold resources in two recent discovery areas, and other preparations to commence mine permitting during 2009.

As an Exploration Stage Company the liquidity of the Corporation will be affected principally by the level of its development and exploration expenditures and by its ability to raise an adequate level of capital through the capital markets. In management's opinion the Corporation's current working capital position will be sufficient for purposes of completing its planned exploration programs at the Copperstone, Fenelon and other Canadian exploration assets.

The Corporation will continue to evaluate its funding requirements on a going forward basis in its efforts to meet its future development and growth initiatives.

AMERICAN BONANZA GOLD CORP.

Consolidated Financial Statements
For the nine months ended September 30, 2009

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, “Continuous Disclosure Obligations”, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Corporation have been prepared by management and approved by the Audit Committee and Board of Directors of the Corporation.

The Corporation’s independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditors.

AMERICAN BONANZA GOLD CORP.

CONSOLIDATED BALANCE SHEETS

(In Canadian Dollars)

(Unaudited – Prepared by Management)

	September 30, 2009	December 31, 2008
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,606,124	2,650,636
Amounts receivable (note 4)	417,100	756,200
Prepaid expenses	47,181	102,758
Marketable securities (note 5)	2,511,322	2,734,504
	<u>4,581,727</u>	6,244,098
RECLAMATION BOND	20,000	20,000
MINERAL PROPERTIES (note 6)	52,075,265	50,877,071
OFFICE EQUIPMENT, net	17,477	26,300
	<u>56,694,469</u>	57,167,469
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	450,239	517,837
ASSET RETIREMENT OBLIGATION (note 12)	35,899	34,539
FUTURE INCOME TAXES	1,186,811	1,186,811
	<u>1,672,949</u>	1,739,187
SHAREHOLDERS' EQUITY		
Share capital (note 7)	59,977,063	59,772,749
Contributed surplus (note 7)	6,396,978	6,040,091
Accumulative other comprehensive income (note 8)	261,988	95,286
Deficit	(11,614,509)	(10,479,844)
	<u>55,021,520</u>	55,428,282
	<u>56,694,469</u>	57,167,469

NATURE OF OPERATIONS (note 1)

COMMITMENTS (notes 6 and 10)

APPROVED ON BEHALF OF THE BOARD,

Signed: Brian Kirwin

Director

Signed: Robert T. McKnight

Director

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

AMERICAN BONANZA GOLD CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(In Canadian Dollars)

(Unaudited – Prepared by Management)

	Three Months		Nine Months	
	Ended September 30, 2009	2008	Ended September 30, 2009	2008
	\$	\$	\$	\$
EXPENSES (INCOME)				
Amortization	2,922	2,996	8,823	8,857
Accretion of asset retirement obligation	453	431	1,360	1,292
Business development	20,434	44,886	148,013	104,894
Exploration	40,146	50,037	107,501	95,045
Foreign exchange	8,661	9,827	22,999	17,631
General and administrative (note 9)	165,017	137,342	591,237	548,571
Stock-based compensation	28,932	-	356,887	108,650
Gain on disposal of marketable securities	(81,219)	-	(81,219)	-
Interest income	(1,557)	(37,358)	(20,936)	(89,093)
NET LOSS	(183,789)	(208,161)	(1,134,665)	(795,847)
DEFICIT, beginning of period	(11,430,720)	(7,183,704)	(10,479,844)	(6,596,018)
DEFICIT, end of period	(11,614,509)	(7,391,865)	(11,614,509)	(7,391,865)
LOSS PER COMMON SHARE				
Basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
WEIGHTED AVERAGE NUMBER OF SHARES	118,189,122	115,662,976	117,375,457	115,662,976

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In Canadian Dollars)

(Unaudited – Prepared by Management)

	Three Months		Nine Months	
	Ended September 30, 2009	2008	Ended September 30, 2009	2008
	\$	\$	\$	\$
LOSS FOR THE PERIOD	(183,789)	(208,161)	(1,134,665)	(795,847)
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gain/(loss) on available-for-sale marketable securities (notes 5, 8)	864,551	(59,097)	253,261	(124,503)
COMPREHENSIVE GAIN/(LOSS) FOR THE PERIOD (note 5)	680,762	(267,258)	(881,404)	(920,350)

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

AMERICAN BONANZA GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian Dollars)

(Unaudited – Prepared by Management)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Loss for the period	(183,789)	(208,161)	(1,134,665)	(795,847)
Items not affecting cash				
Amortization	2,922	2,996	8,823	8,857
Accretion of asset retirement	453	431	1,360	1,292
Stock-based compensation	28,932	-	356,887	108,650
	(151,482)	(204,734)	(767,595)	(677,048)
Changes in non-cash operating accounts				
Amounts receivable	134,613	616,446	339,100	702,425
Prepaid expenses	(26,508)	(31,879)	55,577	(78,430)
Accounts payable and accrued liabilities	(141,156)	70,298	(67,598)	(310,802)
	(184,533)	450,131	(440,516)	(363,855)
INVESTING ACTIVITIES				
Mineral properties (note 6)	(496,572)	(1,126,183)	(1,198,194)	(2,405,233)
Taurus option payment received, net of cost (note 6)	-	-	-	2,000,000
Refund of environmental bond	-	2,000	-	2,000
Proceeds from sale of marketable securities (note 5)	476,443	-	476,443	-
Recognition of unrealised gains (note 5)	(86,559)	-	(86,559)	-
Office equipment	-	-	-	(7,787)
	(106,688)	(1,124,183)	(808,310)	(411,020)
FINANCING ACTIVITIES				
Issue of common share, net of issue costs	-	-	204,314	-
INCREASE (DECREASE) IN CASH	(291,221)	(674,052)	(1,044,512)	(774,875)
CASH AND CASH EQUIVALENTS, beginning of period	1,897,345	4,165,240	2,650,636	4,266,063
CASH AND CASH EQUIVALENTS, end of period	1,606,124	3,491,188	1,606,124	3,491,188

SUPPLEMENTARY INFORMATION:

Cash flows include the following elements:

Interest paid	-	-	-	-
Interest received	1,557	37,358	20,936	89,093
Taurus property option payments received	-	-	-	2,000,000
Income taxes paid	-	-	-	-

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS

American Bonanza Gold Corp. (the “Corporation” or “Company”) was incorporated in British Columbia on December 10, 2004, as a wholly owned subsidiary of American Bonanza Gold Mining Corp. (“Bonanza”), under the name of 0710887 B.C. Ltd. Its name was changed to American Bonanza Gold Corp. on February 10, 2005. The Corporation is an exploration stage mining company engaged in the identification, acquisition, exploration and development of precious metals properties located in the United States and Canada. The Corporation has not yet determined whether its mineral properties contain mineral reserves which are economically recoverable. The recoverability of amounts capitalized is dependent upon the discovery of economically recoverable reserves, securing and maintaining title in the properties and obtaining the necessary financing to complete the exploration and development of these projects and upon the attainment of future profitable production. The amounts capitalized as mineral properties represent costs to date, and do not necessarily represent present or future values.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The Corporation will be required to raise additional funding to complete its long-term business objectives. Failure to raise additional funding may require the Corporation to reduce operations.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) using standards for interim financial statements and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Corporation. In the opinion of management, all of the adjustments necessary to fairly present the interim consolidated financial statement have been made.

3. NEW ACCOUNTING STANDARDS

Accounting standards newly adopted

Effective January 1, 2009, the Company adopted a new accounting standard related to goodwill and intangible assets that was issued by the Canadian Institute of Chartered Accountants (“CICA”). The new CICA standard is as follows:

Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*. This new Section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new Section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development from being considered as intangible assets, as existing Section 3061, *Property, Plant and Equipment*, contains standards for measurement, presentation and disclosure of mining properties. Adoption of this standard did not have any effect on financial statements.

EIC-173, Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA issued EIC-173, *Credit risk and the fair value of financial assets and financial liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC applies to interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2009. Adoption of this EIC did not have any effect on financial statements.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

3. NEW ACCOUNTING STANDARDS (continued)

EIC-174, *Mining exploration costs*

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*. The EIC provides guidance on the accounting and the impairment review of exploration costs. This EIC applies to interim and annual financial statements relating to fiscal years beginning on or after January 1st, 2009. Adoption of this EIC did not have any effect on the Corporation's financial statements.

4. AMOUNTS RECEIVABLE

Amounts receivable consist of the following:

	2009	2008
	\$	\$
Goods and services tax	7,827	8,956
Quebec sales tax	3,909	28,238
Interest receivable	1,805	2,991
Mining duties and refundable tax credits receivable	397,523	686,954
Other	6,036	29,061
	417,100	756,200

Government Assistance

The Corporation qualifies for mineral exploration assistance programs associated with incurring exploration and development expenditures on mineral properties located in Quebec. The assistance programs are comprised of a Refundable Tax Credit of 35% of eligible exploration expenses pursuant to Quebec's Taxation Act and a further 12% refundable credit on eligible expenditures pursuant to Quebec's Mining Duties Act.

5. MARKETABLE SECURITIES

	September 30, 2009		
	Current Fair Value	Opening Fair Value	Current Period unrealized gains (losses)
	\$	\$	\$
- Bayswater Uranium	4,875	2,925	1,950
- Hawthorne Gold Corp.		2,731,579	
Disposal of shares at cost		(389,884)	
Recognition of realised gain		(86,559)	
Fair value of Hawthorne share	2,506,447	2,255,136	251,311
	2,511,322	2,258,061	253,261

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

5. MARKETABLE SECURITIES (continued)

	December 31, 2008		
	Fair Value	Cost	Accumulated unrealized gains (losses)
	\$	\$	\$
- Bayswater Uranium	2,925	10,200	(7,275)
- Hawthorne Gold Corp.	2,731,579	2,662,500	69,079
	2,734,504	2,672,700	61,804

During the nine months ended September 30, 2009, the Corporation recorded an unrealized gain of \$253,261 (2008 – loss \$124,503) on marketable securities in other comprehensive loss.

On June 21, 2007, the Corporation received 1,500,000 common shares of Cusac Gold Mines Ltd. (“Cusac”) upon the execution of the option agreement as described in Note 6(b)(ii). The shares were valued as \$300,000 based on quoted market value of the shares. In April, 2008 Cusac and Hawthorne Gold Corp. (“Hawthorne”) merged whereby holders of Cusac common shares received one Hawthorne common share in exchange for 19 common shares of Cusac. Subsequent to the merger, the Corporation therefore held 78,947 shares of Hawthorne. On December 30, 2008 the Corporation received an additional 6,750,000 common shares from Hawthorne which was valued at \$2,362,500 based on the quoted market price on that date. At September 30, 2009, the Hawthorne common shares fair value was \$2,506,447.

During the third quarter of 2009, the Corporation sold 1,000,000 Hawthorne Gold Corp. shares at an average price of \$0.476 per share realizing net proceeds of \$471,103 and a gain of \$86,559 was realized from Other Comprehensive Income.

6. MINERAL PROPERTIES

Project	2009	2008
	\$	\$
Copperstone (a)	28,244,036	27,315,717
Fenelon (b(i))	15,698,505	15,509,685
Gold Bar (c)	217,187	200,000
Northway (b(iii))	4,642,065	4,626,469
Martiniere (b(iii))	3,240,801	3,225,200
Others	32,671	-
	52,075,265	50,877,071

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

6. MINERAL PROPERTIES (continued)

Schedule of mineral property expenditures during 2009:

	Copperstone	Fenelon	Gold Bar	Northway	Martiniere	Others	Total 2009	Total 2008
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of period	27,315,717	15,509,685	200,000	4,626,469	3,225,200	-	50,877,071	54,551,224
Decline, drilling and underground support	1,890	-	-	-	-	-	1,890	1,374,534
Geological consulting and related	413,142	198,190	-	25,232	19,298	2,017	657,879	1,011,300
Assaying	(391)	9,264	-	-	-	-	8,873	79,358
Feasibility	313,453	-	-	-	-	-	313,453	-
Engineering/environmental	4,399	-	-	-	-	-	4,399	72,520
Advance royalty payment	33,000	-	-	-	-	-	33,000	30,600
BLM land payments/permit, licenses	52,637	14,073	17,187	-	4,391	30,575	118,863	159,374
Property acquisition and related	-	-	-	-	-	-	-	27,550
Computer and related	1,254	-	-	-	-	-	1,254	40,996
Site maintenance and camp:								
Utilities and power	23,072	-	-	-	-	-	23,072	25,029
Property caretakers	67,932	34,263	-	1,120	-	-	103,315	186,948
Equipment and truck rental	7,810	-	-	-	-	-	7,810	120,138
Telephone	908	7,535	-	-	-	-	8,443	14,528
Maintenance, supplies, other	9,213	73,453	-	-	1,120	79	83,865	205,606
Cost recovery - facility rental	-	(32,102)	-	-	-	-	(32,102)	-
Joint venture payment	-	-	-	-	-	-	-	357,525
Accrued government subsidies/repayments	-	(115,856)	-	(10,756)	(9,208)	-	(135,820)	19,258
Write-down of mineral properties	-	-	-	-	-	-	-	(2,075,404)
Loss on sale of Taurus property (note 6(b)(ii))	-	-	-	-	-	-	-	(977,782)
Option agreement (note 6(b)(ii))	-	-	-	-	-	-	-	(4,346,231)
	928,319	188,820	17,187	15,596	15,601	32,671	1,198,194	(3,674,153)
Balance, end of period	28,244,036	15,698,505	217,187	4,642,065	3,240,801	32,671	52,075,265	50,877,071

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

6. MINERAL PROPERTIES (continued)

(a) Copperstone

The Corporation is engaged in exploring and developing the Copperstone gold property in La Paz County, Arizona, United States. The Corporation holds a 100% leasehold interest in the Copperstone Project. The landlord is The Patch Living Trust and the lease was for a 10 year term starting June 12, 1995 and was renewed for a further ten years on and from June 12, 2005. The lease is renewable for one or more ten-year terms at the Corporation's option under the same terms and conditions. The Corporation is obligated to pay for all permitting and state lease bonding, insurance, taxes, and to pay a 1% production gross royalty with the royalty increasing to 6% if the price of gold is to over US\$551 per ounce. The Corporation pays a minimum advance royalty per year of US\$30,000.

The Corporation is required to pay to a third party \$70,000 from initial proceeds from mineral extracted from the D-Zone of the Copperstone property and a Net Smelter royalty of 3% from the first 50,000 tonnes of mineralized material extracted from the D-Zone.

During 2002, the Corporation entered into a mining services agreement with an Underground Mining Contractor ("Mining Contractor") for purposes of the development and extension of an existing underground decline in the D-Zone to establish underground infrastructure for subsequent exploration and development programs. On the basis of meeting certain pre-determined performance criteria the Mining Contractor can earn up to a 5% net profits royalty from the D-Zone bulk sample of up to 50,000 tons of mineralized material that may be completed.

All required property payments were made with respect to the Copperstone project as of September 30, 2009. Subsequent to September 30, 2009 payments were made to hold the claims in good standing until August 2010.

(b) Taurus and Fairstar mineral interests

Taurus and Fairstar were engaged in the acquisition, exploration and development of precious metals properties located in Canada. Taurus' principal projects interests are located in Quebec, Ontario and British Columbia and are summarized as follows:

(i) Fenelon Project, Quebec

The Fenelon property, located in the Province of Quebec, approximately 30 kilometers east of the Corporation's Martiniere gold property, consists of 454 mining claims totaling 17,830 acres. The Corporation acquired its 38% interest in the Fenelon project and an option to acquire the remaining 62% interest as a result of the Arrangement in 2005. Pursuant to a 1998 agreement between Cyprus Canada Inc. ("Cyprus") and International Taurus Resources Inc. ("Taurus") and amended in 2000, Taurus was required to pay certain consideration to exercise its option to acquire Cyprus's 62% ownership interests in the Fenelon Property and the Casa Berardi portfolio of properties (Martiniere, Northway and La Peltrie properties), which are described below in note 6(b)(iii). The remaining consideration included 2,027,579 common shares of Taurus, which were issued in previous periods, and three installments of US\$150,000 (total US\$450,000), with the first installment to be paid upon commencement of commercial production on any one of the properties and the remaining installments to be made six and twelve months thereafter.

As at September 30, 2009, the remaining installments totaling US\$450,000 are required to be paid in order to exercise the Corporation's option to acquire Cyprus' 62% ownership in the Fenelon property and Cyprus' interest in the Casa Berardi portfolio of properties. Cyprus will maintain a net smelter return royalty to a maximum of 2% and minimum of 1% in certain conditions on commercial production attributable to Taurus.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

6. MINERAL PROPERTIES (continued)

(b)(i) Fenelon Project, Quebec (continued)

Upon making the final US\$150,000 installment, the Corporation would own a 100% interest in the Fenelon property and Casa Berardi portfolio of properties subject only to the right of Cyprus to receive the net smelter return royalty.

A NSR royalty of 2% is also payable from production on the Fenelon property to Morrison Petroleum Limited. In addition, a 2% net profit royalty interest in the Fenelon project is payable to Stonegate Management Limited.

(b)(ii) Taurus Gold Project, British Columbia

The Corporation held a 100% interest in the Taurus gold property which covers 800 hectares and is located near the town of Cassiar, in northwestern British Columbia. The Taurus Project consists of 46 mining claims.

On June 27, 2007 the Corporation entered into an option agreement with Cusac for Cusac to acquire the Taurus Project from the Corporation for total cash consideration of up to \$11,000,000 plus up to 3,000,000 common shares of Cusac.

On December 19, 2007 Cusac and Hawthorne Gold Corp. (“Hawthorne”) entered into a definitive merger agreement entitling holders of Cusac common shares to receive one common share of Hawthorne in exchange for each 19 common shares of Cusac. The Corporation, Cusac and Hawthorne also entered into an option assignment and amending agreement (the “Agreement”) whereby Cusac assigned to Hawthorne all its rights to the option to acquire the 46 mineral claims of the Taurus Project from the Corporation. The assignment agreement amended the terms of the original option agreement and required Hawthorne to pay \$6 million over two years, consisting of \$1 million by December 22, 2007 (paid), \$2 million by June 22, 2008 (paid), \$1.5 million by June 22, 2009 and \$1.5 million by December 22, 2009. On June 22, 2007, the Corporation received its first instalment of 1,500,000 common shares of Cusac and on December 22, 2007 and June 22, 2008 the Corporation received the \$1,000,000 and \$2,000,000 cash option payments, respectively and incurred related legal costs of \$16,269 in 2008.

In December 2008, the agreement was further amended to delete the 2009 payments and all subsequent royalty payments in favour of issuance of 6,750,000 Hawthorne common shares to the Corporation. The Corporation received the Hawthorne shares in full on December 30, 2008, which were valued at \$2,362,500 based on the quoted market price, and the Corporation recognized a loss on property disposal of \$977,782.

(b)(iii) Casa Berardi Exploration Portfolio, Quebec

Pursuant to the Option Agreement, as amended by an agreement dated May 1, 2000, between Taurus and Cyprus (note 6(b)(i)), Cyprus granted to Taurus the right to explore certain mineral properties and granted to Taurus an option to purchase all of Cyprus’ interest in Cyprus’ entire Casa Berardi exploration portfolio in the province of Quebec, Canada (the Cyprus Properties). The Taurus exploration portfolio comprises four properties: the Fenelon Project, Martiniere “D”, Northway and La Peltrie located within the Casa Berardi sector of the Abitibi Greenstone belt.

To earn all of Cyprus’ 100% interest in all of the Cyprus Properties, the Corporation must make the cumulative combined payments of US\$450,000, commencing on commercial production, which are described above under note 6(b)(i). Once these payments are made, Cyprus is to relinquish all of its rights in respect of all of the properties in exchange for a minimum 1% NSR royalty from certain properties having an underlying royalty and a maximum 2% NSR royalty on those properties not subject to other royalty burdens.

The Martiniere property is located 600 kilometers northwest of Montreal and consists of 226 unpatented crown mining claims covering approximately 3,000 hectares, which are subject to a 2% Net Smelter Return royalty. The Corporation’s Fenelon project is 30 kilometers to the east. The Corporation’s option with Cyprus is for a 100% interest in this property.

The Northway project is located in Quebec, 25 kilometers south of Matagami and 530 kilometers northwest of Montreal. The property consists of two contiguous claim blocks: the 113-claim, 1,600 hectare block and the contiguous 114 claim, 2,000 hectare Noyon block. The Corporation’s option with Cyprus is for a 75% interest in this property with a 25% interest remaining in the hands of Caspian Energy Inc. On the Northway block, there is a 2% Net Smelter Return royalty,

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

6. MINERAL PROPERTIES (continued)

which may be bought out entirely.

During 2006, the Corporation entered into an agreement to acquire the remaining 25% interest of the Northway property from Caspian Energy Inc. in exchange for cash totalling \$150,000. As of December 31, 2007 the Corporation had paid the final \$75,000 instalment and received the 25% interest.

Effective November 15, 2007, the Corporation entered into an agreement with Agnico-Eagle Mines Limited (“Agnico-Eagle”) for the joint exploration and development of the Corporation’s Northway property and Agnico-Eagle’s Vezza property.

The agreement provides that the Corporation will grant Agnico-Eagle the option to acquire a 70% interest in the Northway property. To exercise the option, Agnico-Eagle must incur \$1,699,500 in exploration expenditures on the Northway property over a three year period ending November 15, 2010 and must assign a 30% interest in the Vezza property to the Corporation. After exercise of the option, the combined Northway and Vezza properties will be operated on a joint venture basis with the Corporation initially holding a 30% interest in the joint venture. Agnico-Eagle will be the operator during the initial option period and under the joint venture for an operator’s fee.

During the third quarter of 2009, the Corporation and Agnico-Eagle agreed to terminate the agreement.

(b)(iv) Northshore Project, Ontario

The Northshore gold property is 100% owned by the Corporation and comprises 550 acres of patented mining claims, situated in Priske Township, Ontario. A NSR royalty ranging from 2% to a maximum of 5% is payable, increasing with gold production in excess of one million ounces. No expenditures, other than the payment of taxes, are required to maintain the property.

During the year ended December 31, 2008, the Corporation wrote-off the carrying value of this property of \$979,655.

(c) Gold Bar

The Gold Bar property is located in Eureka County, 50 kilometers northwest of Eureka, Nevada. Gold Bar is subject to a 2% net smelter royalty capped at US\$1,000,000 on future production. All required payments were made with respect to the Gold Bar project as of September 30, 2009. Subsequent to September 30, 2009 payments were made to hold the claims in good standing until August 2010. Northern Canadian Minerals Inc. holds a 5% interest in the Gold Bar property subject to certain dilution provisions.

During the year ended December 31, 2008, the Corporation wrote-down the carrying amount of the Gold Bar property by \$880,785 to \$200,000 due to limited exploration activity in the last three years and based upon management’s current plans with respect to the property.

(d) Other

The Oatman property is located in Mohave County in Northwest Arizona and covers 600 hectares acquired through the staking of 67 unpatented mining claims in November, 2003.

The Belmont property is located in the Belmont Mining District of Nevada in Nye County, about 40 miles north of Tonopah, in the Walker Lane Mineral Belt. The Corporation acquired the property covering 200 hectares through the staking of 23 unpatented mining claims in February 2004.

The Hassayampa property is located in Yavapai County, central Arizona. The Corporation acquired the property covering 600 hectares through the staking of 73 unpatented mining claims in February, 2004. The Hassayampa project lies within the Black Rock Mining District.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

6. MINERAL PROPERTIES (continued)

The Vulture Property is located in Maricopa County, central Arizona. The Corporation acquired the property covering 500 hectares through the staking of 61 claims in July, 2004.

During the year ended December 31, 2008, the Corporation wrote-off the carrying value of the Oatman, Belmont, Hassayampa and Vulture properties totalling \$214,964 as no exploration activity has occurred on these properties in recent years. This write-down is required to comply with existing accounting guidelines. During the year ended December 31, 2006, the Corporation wrote-off the carrying value of the Oatman property and its Socorro property totalling \$79,283 as no exploration activity had occurred in over three years.

7. SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of Class A Preferred Shares without par value. No Class A Preferred Shares have been issued.

Issued

	Number of Common Shares	Amount
		\$
Balance, December 31, 2006	100,628,976	57,954,703
Shares issued for:		
Share issue costs on flow-through renunciation (see below)	-	(681,978)
Private placement	15,034,000	3,006,800
Share issue cost	-	(191,611)
Balance, December 31, 2007	115,662,976	60,087,914
Share issue cost on flow-through renunciation (see below)	-	(315,165)
Balance, December 31, 2008	115,662,976	59,772,749
Private placement – net of share issue costs	2,582,913	204,314
Balance, September 30, 2009	118,245,889	59,977,063

During the first quarter of 2006, exploration expenditures relating to flow-through shares totalling \$3,978,300 were renounced and as a result the Corporation no longer has the ability to deduct these expenditures for tax purposes. The Corporation recorded a future income tax liability of \$943,803 which is equal to the amount renounced times the corporate tax rate when the expenditures were renounced, with the offset charged to share issue costs.

On May 31, 2006 the Corporation completed a private placement of flow-through shares and units with Dundee Securities Corporation and Haywood Securities Inc. (the “Agents”) in the amount of \$8,140,000. The private placement consisted of 7,400,000 flow-through shares at a price of \$0.55 per share, for gross proceeds of \$4,070,000, and 7,400,000 units at a price of \$0.55 per unit, for gross proceeds of \$4,070,000. Each unit was comprised of one common share and one half of one common share purchase warrant with each full warrant entitling the holder to acquire one common share at a price of \$0.65 up to November 30, 2007.

The Agents were paid a cash fee equal to 7.0% of the total gross proceeds raised in the private placement. In addition, the Agents received compensation warrants exercisable for 1,036,000 non-flow-through common shares of the Corporation equal in number to 7.0% of the number of flow-through shares and units sold under the private placement. The compensation warrants were exercisable at a price of \$0.65 per share up to November 30, 2007.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

7. SHARE CAPITAL (continued)

During the first quarter of 2007, exploration expenditures relating to flow-through shares totalling \$4,070,000 were renounced and as a result the Corporation no longer has the ability to use these expenditures for tax purposes. The Corporation recorded a future income tax liability of \$681,978 which is equal to the amount renounced times the corporate tax rate when the expenditures were renounced, with the offset charged to share issue costs.

On December 19, 2007 the Corporation completed a private placement of 3,267,000 units through Dundee Securities Corporation (the “Agent”), and 1,750,000 units on a non-brokered basis, at a price of \$0.40 per unit for gross proceeds of \$2,006,800. Each unit consisted of two common shares, one which was designated as a “flow-through share” for the purposes of the Income Tax Act (Canada) and one which was not designated as a flow through share, and one half of one transferable common share purchase warrant, with each full warrant entitling the holder to acquire one common share at a price of \$0.30 per share until June 19, 2009.

The Agent was paid a cash fee of equal to 8% of the proceeds raised pursuant to the brokered portion of the financing. In addition, the Agent received warrants exercisable to purchase 522,720 common shares of the Corporation at a price of \$0.30 per share until June 19, 2009. Using the Black-Scholes valuation model, a value of \$33,100 was assigned to the 522,720 share purchase warrants with a weighted average price of \$0.06 per warrant, 1.5 year expected life, 63% volatility and 3.87% risk free rate. No commission was paid on the non-brokered portion of the financing.

All securities issued in connection with the private placement were subject to four month hold period which expired on April 19, 2008. The proceeds from this financing were used primarily to fund ongoing exploration at the Corporation’s Copperstone project in Arizona, USA and at its projects in Quebec and Ontario, and for general working capital.

On December 31, 2007, the Corporation entered into a non-brokered private placement and received total proceeds of \$1,000,000 to which it agreed to issue 2,500,000 units with the same term as the December 19, 2007 financing.

During 2008, exploration expenditures relating to flow-through shares totalling \$1,503,400 were renounced resulting in the Corporation recording a future tax liability of \$315,165 with the offset charged to share issue costs.

On April 2, 2009, the Corporation completed a non-brokered private placement of 2,582,913 flow-through shares, at a price of \$0.08 per share for gross proceeds of approximately \$206,600. No commission was paid on the financing.

Options

The Corporation grants incentive stock options as permitted pursuant to the Corporation’s Stock Option Plan (the “Plan”) approved by the shareholders. The Plan has been structured to comply with the rules of the Toronto Stock Exchange (“TSX”). The aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Corporation as of that date – including options granted prior to the adoption of the Plan. All options may not be granted for a term exceeding 5 years, and the term will be reduced to one year following the date of death. If the Optionee ceases to be qualified to receive options from the Corporation those options shall immediately terminate.

As at September 30, 2009, the Corporation has stock options outstanding to acquire an aggregate of 11,660,000 common shares to directors, officers, employees and consultants exercisable at between \$0.06 and \$0.22 per share exercisable at varying times up until July 28, 2014.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

7. SHARE CAPITAL (continued)

	Number of Options	Weighted average exercise price
Balance, December 31, 2006	9,330,000	\$0.78
Expired	(1,165,000)	\$0.56
Cancelled	(2,312,500)	\$0.71
Granted	3,350,000	\$0.24
Balance, December 31, 2007	9,202,500	\$0.61
Expired	(390,000)	\$1.21
Cancelled	(6,862,500)	\$0.68
Granted	2,385,000	\$0.07
Balance, December 31, 2008	4,335,000	\$0.14
Granted	7,325,000	\$0.08
Balance, September 30, 2009	11,660,000	\$0.10

On May 26, 2008 and December 17, 2008, the Corporation cancelled a total of 5,752,500 options held by certain officers and directors with exercise prices significantly above market prices for nominal consideration.

The following table summarizes stock options outstanding and exercisable at September 30, 2009:

Number of Options	Exercise Price	Expiry Date
2,150,000	\$0.22	November 6, 2012
2,185,000	\$0.07	August 6, 2013
2,830,000	\$0.06	January 26, 2014
3,995,000	\$0.085	March 19, 2014
500,000	\$0.09	July 28, 2014
11,660,000		

During the nine months ended September 30, 2009, under the fair value based method, \$356,887 (2008, audit adjusted – \$96,119) in compensation expense was recorded for options granted to employees and non-employees and charged to operations.

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2009	2008
Risk free interest rate	1.84%	3.06%
Expected dividend yield	0%	0%
Stock price volatility	80%	78%
Expected life of options	5.0 years	5.0 years

The weighted average fair value of options granted during the nine months ended September 30, 2009 was \$0.05 (2008 - \$0.04).

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

7. SHARE CAPITAL (continued)

Warrants

At September 30, 2009, the Corporation had no outstanding common share purchase warrants.

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance, December 31, 2006	6,857,420	0.69
Expired	(1,283,340)	0.94
Warrants issued on financing	4,281,220	0.30
Balance, December 31, 2007	9,855,300	0.32
Expired	(5,574,080)	0.34
Balance, December 31, 2008	4,281,220	0.30
Expired	(4,281,220)	
Balance, September 30, 2009	-	-

Contributed Surplus

The following summarizes contributed surplus activity:

	Amount
	\$
Balance, December 31, 2005	4,702,772
Stock-based compensation	748,300
Balance, December 31, 2006	5,451,072
Valuation of agent compensation warrants	33,100
Stock-based compensation	459,800
Balance, December 31, 2007	5,943,972
Stock-based compensation	96,119
Balance, December 31, 2008	6,040,091
Stock-based compensation	356,887
Balance, September 30, 2009	6,396,978

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	<u>Amount</u>
	\$
Opening balance on adoption of new accounting standard on January 1, 2007:	
- Unrealized gain on available-for-sale marketable securities (note 5)	12,300
- Foreign currency translation adjustment	43,031
Other comprehensive loss for the year - unrealized loss on available-for-sale securities	<u>(154,642)</u>
Accumulated other comprehensive loss at December 31, 2007	(99,311)
Other comprehensive income for the year - unrealized gains on available-for-sale securities, net of tax of \$9,549	<u>194,597</u>
Accumulated other comprehensive income at December 31, 2008	95,286
Other comprehensive income for the period - unrealized gains on available-for-sale	253,261
Realised gain on disposal of available-for-sale securities	<u>(86,559)</u>
Accumulated other comprehensive income at September 30, 2009	<u>261,988</u>

The components of other accumulated comprehensive income are:

	<u>September 30,</u>	<u>December 31,</u>	<u>On adoption</u>
	<u>2009</u>	<u>2008</u>	<u>January 1,</u>
	\$	\$	2007
			\$
Currency translation gain	43,031	43,031	43,031
Unrealized gain/(loss) on Bayswater Uranium	(5,325)	(7,275)	12,300
Unrealized gain on Hawthorne Gold Corp., net of tax	<u>224,282</u>	<u>59,530</u>	-
	261,988	95,286	55,331

9. GENERAL AND ADMINISTRATIVE EXPENSES

Nine months ended September 30,	<u>2009</u>	<u>2008</u>
	\$	\$
Management fees, consulting and salaries	339,934	235,709
Office and administration	49,247	25,960
Legal and accounting	38,068	38,271
Insurance	56,771	70,958
Public company expenses	<u>107,217</u>	<u>177,673</u>
	591,237	548,571

10. LEASE OBLIGATION

The Corporation is committed under lease agreements expiring May 31, 2010 for office premises in Vancouver in the amount of \$47,220 per year and for office premises in Reno in the amount of \$26,900 per year.

The Corporation's lease obligation to The Patch Living Trust on the Copperstone mineral property is disclosed in note 6(a).

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

11. RELATED PARTY TRANSACTIONS

- (a) The Corporation shares certain premises and facilities with companies which have certain directors in common, under cost-sharing arrangements. During the nine months ended September 30, 2009 the Corporation recovered management and consulting fees of \$73,875 (2008 – \$107,900) and general and administration expenses of \$29,625 (2008 – \$52,500) from these companies.
- (b) As at September 30, 2009, there were \$4,021 (December 31, 2008 - \$29,061) accounts receivable due from companies with certain directors in common.

12. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligations consists of reclamation and closure costs for the Fenelon project based on the present value of obligations estimated to incur in the next eight (8) years. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and ongoing care and maintenance and other costs.

The liability for reclamation and closure cost obligations at September 30, 2009 is \$35,899 (December 31, 2008 - \$34,539). The undiscounted value of this liability is \$45,000 (2008 - \$45,000). An accretion expense component of \$1,360 (2008 - \$1,292) has been charged to operations in the nine months ended September 30, 2009 to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using a discount rate of 5.25%.

13. FINANCIAL INSTRUMENTS AND MANAGEMENT OF CAPITAL

Financial risk factors

The Corporation manages its exposure to financial risks, including foreign exchange risk and interest rate risk, based on a framework to protect itself against adverse rate movements. All transactions undertaken are to support the Corporation's ongoing business and the Corporation does not acquire or issue derivative financial instruments for trading or speculative purposes. The Corporation's Board of Directors oversees management's risk management practices.

The Corporation's activities are exposed to financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

a) Market risks

i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. Other current financial assets and liabilities are not exposed to interest rate risk because of their short-term nature or being non-interest bearing.

ii) Currency risk

The Corporation is exposed to currency fluctuations in the acquisition of foreign currencies. The Corporation holds balances in cash and cash equivalents, and accounts payable and accrued liabilities in foreign currencies (US dollars) and is therefore exposed to gain or losses on foreign exchange. Based on the balance in foreign currencies as at September 30, 2009, a variance in foreign currency exchange rate of 1% would not have a significant impact on the Corporation's financial statements.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the nine months ended September 30, 2009 and 2008 (Unaudited – Prepared by Management)

13. FINANCIAL INSTRUMENT AND MANAGEMENT OF CAPITAL (Continued)

As of September 30, 2009, the Corporation held the following US\$ financial instruments:

	<u>US\$</u>
Cash and cash equivalents	<u>69,575</u>
Effect of 1% variation on US exchange:	<u>695</u>

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Corporation to credit risk consist of cash and cash equivalent and amounts receivable. The Corporation has reduced its credit risk by investing its cash equivalents in guaranteed investment certificates with a Schedule 1 Canadian chartered bank. Also, as the majority of its receivables are with the governments of Quebec and Canada in the form of sales tax receivables and government's incentives, the credit risk is considered minimal.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet the obligations associated with its financial liabilities. At of September 30, 2009, the Corporation had enough funds available to meet its financial liabilities and future financial liabilities from its commitments in the next fiscal year. The Corporation handles liquidity risk through the management of its capital structure.

The Corporation's objectives of capital management are intended to safeguard the entity's ability to support the Corporation's exploration and development of its mineral properties and support any expansion plans.

The capital of the Corporation consists of the items included in shareholders' equity and debt obligations net of cash and cash equivalents. The Corporation manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Corporation's underlying assets.

To effectively manage the entity's capital requirements, the Corporation has in place a planning and budgeting process to help determine the funds required to ensure the Corporation has the appropriate liquidity to meet its objectives. The Corporation may issue new shares or seek debt financing to ensure that there is sufficient working capital to meet its short-term business requirements. The Corporation is not subject to externally imposed capital requirements.

CORPORATE INFORMATION

DIRECTORS

James Bagwell
Tampa Bay, United States

Robert T. McKnight
North Vancouver, Canada

Ronald K. Netolitzky
Victoria, Canada

Brian P. Kirwin
Reno, United States

Giulio T. Bonifacio
Vancouver, Canada

OFFICES

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Mine Office
Copperstone Mine Site
Route 95
Quartzite, Arizona
United States 85346

OFFICERS

Brian P. Kirwin
President & Chief Executive Officer

Joe Chan
Vice President, Chief Financial Officer

Catherine Tanaka
Corporate Secretary

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, Canada

SHARES LISTED

Toronto Stock Exchange: BZA

CAPITALIZATION

(As at November 16, 2009)
Shares Issued and Outstanding: 118,245,889

AUDITOR

KPMG LLP, Chartered Accountant
Vancouver, Canada

LEGAL COUNSEL

Lang Michener
Vancouver, Canada

Woodburn & Wedge
Reno, United States

WEBSITE

Additional information about the Corporation can be found at our website www.americanbonanza.com

CORPORATE COMMUNICATIONS CONTACT

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