

# **Bonanza**

**AMERICAN BONANZA GOLD MINING CORP.  
2004 First Quarter Report**

# Bonanza

## **American Bonanza Gold Mining Corp. Management's Discussion and Analysis**

### **General**

The following discussion of performance, financial condition and analysis should be read in conjunction with the Audited Consolidated Financial Statements of American Bonanza Gold Mining Corp. (the "Corporation") and the notes thereto for the years ended December 31, 2003 and 2002 and the Unaudited Consolidated Financial Statements for the three months ended March 31, 2004.

### **Forward-Looking Statements**

Certain statements contained in the following Management's Discussion and Analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from actual future results and achievements expressed or implied by such 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 a development stage mining company engaged in the identification, acquisition, exploration and development of high-grade precious metals properties primarily located in the Great Basin of the American Southwest. The Copperstone gold project in Arizona, USA is currently the subject of a significant development drilling program with the objective of identifying sufficient measured and indicated resources to justify an underground, high-grade gold mine.

The Corporation conducts its exploration and development activities independently as well as through option or earn-in arrangements.

### **Overview of Performance**

The Corporation's financial condition continues to improve with the Corporation's working capital increasing from \$13,089,684 to \$14,052,911 at March 31, 2004. This increase was primarily attributed to warrant exercises in the current period. The loss for the three months ended March 31, 2004 was \$141,737 or nil per share compared with a net loss of \$33,232 or nil per share for the comparable period in 2003.

The Corporation's current development program at Copperstone is estimated to require up to \$8 million (\$800,983 incurred in the current period) of the Corporation's current working capital to achieve a production decision on the Copperstone gold project during 2005. The current work programs at Copperstone fall into two main efforts. First, drilling programs are underway to convert resources into reserves and increase the confidence level of the resources to the measured and indicated resource category. Second, substantial drilling and other exploration programs are underway to expand the resources through the discovery of new gold zones.

The next stage of evaluation will be comprised of work programs required to complete a bankable feasibility study. This work will be based on reserves and measured and indicated resources, and will focus on metallurgical testing of a bulk ore sample, environmental and geo-technical studies and detailed estimates of the capital and operating costs. Current programs of underground and surface drilling, drifting, cross-cutting and sampling will provide detailed assay and geologic data describing the reserves and resources. Following completion of this work, if the results warrant, the Corporation will be obtaining an updated independent technical report in accordance with Canadian National Policy 43-101 and will make a production decision for Copperstone.

## Selected Information

The following table sets forth selected consolidated financial information of the Corporation for, and as of the end of, each of the last three fiscal years ended December 31, 2003 and the three month period ending March 31, 2004. The selected consolidated financial information should be read in conjunction with the Consolidated Financial Statements of the Corporation.

	<b>March 31, 2004</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>	<b>2001</b>
	(Unaudited)			
	\$	\$	\$	\$
Net loss	141,737	605,214	485,054	1,083,622
Net loss per share	0.00	0.01	0.01	0.02
Total cash and cash equivalents	14,115,881	13,406,295	1,616,691	12,968
Working capital (deficiency)	14,052,911	13,089,684	105,622	(1,222,858)
Total debt	Nil	Nil	1,722,131	Nil
Total assets	26,930,402	25,006,389	10,659,685	6,158,121
Shareholders' equity	26,316,477	24,202,178	7,696,078	4,593,641

## Results of Operations

For the three months ended March 31, 2004, the Corporation had a net loss of \$141,737 or nil per share compared with a net loss of \$33,232 or nil per share in 2003. The increase from the comparable period was primarily attributable to the increase in both general and administrative and exploration expenditures.

General and administrative expenditures increased to \$124,973 from \$92,621 in the comparable period which was the direct result of increased personnel costs and public company expenses. Increased activity also contributed to \$17,200 in business development related expenditures associated with the continual review of various corporate development opportunities. Public company expenses increased from \$17,602 to \$34,799 as a direct result the Corporation's investor relations initiatives in the period.

Exploration expenditures reflecting those amounts not directly capitalized to mineral properties increased from \$22,425 in 2002 to \$72,499 in the comparable period which continue to reflect increased activity relating to ongoing project evaluations, investigation and acquisition. The Corporation continues to conduct project evaluations using its exploration technology which represent state-of-the-art tools for modern exploration in the Great Basin of the American Southwest. Exploration expenditures in the period also includes all costs associated with maintaining the Corporation's exploration office in Reno, Nevada.

## Summary of Quarterly Results

Selected consolidated financial information for the most recently completely quarters of fiscal 2004, 2003 and 2002 are as follows:

Three months ended	2004		2003			2002			
	Mar.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	84,010	Nil	2,159	32,187	118,253	Nil	Nil	Nil	Nil
Net loss	141,737	33,232	240,939	156,506	174,537	55,478	67,131	194,123	168,322
Net loss per share	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.01

## Liquidity and Capital Resources

The Corporation's working capital as at March 31, 2004 was \$14,052,911 compared with a working capital position of \$13,089,684 as at December 31, 2003. The increase in working capital was primarily attributed to net proceeds of \$2,256,036 from warrant exercises in the period net of development expenditures at Copperstone totaling \$800,983 and exploration expenditures at the Gold Bar and the Corporation's other exploration projects totaling \$353,263.

During the period the Corporation continued its underground and surface exploration and development programs at the Copperstone project. A substantial detailed underground and surface drilling program is currently underway. It is anticipated that the extensive drilling from underground will locate and define the grade profile of the Copperstone Fault in the D-Zone, will provide reserve-level detailed data, and will assist in the design of future underground working and stopes. Total development and exploration expenditures during the period totaled \$800,983 or \$3,314,503 (December 31, 2003 -\$2,513,520) since the Copperstone development program began in 2002.

As at March 31, 2004, the Corporation had cash of \$14,115,881 compared to \$13,406,295 as at December 31, 2003. In management's opinion the Corporation's current cash and working capital position as at March 31, 2004 will provide adequate funding for purposes of accelerating the Copperstone project, if results warrant, towards a bankable feasibility and to conduct further exploration programs on Gold Bar, Pamlico and its other projects. The current work program at Copperstone falls into two main efforts. First, drilling programs are underway to convert resources into reserves and increase the confidence level of the resources to the measured and indicated resource categories. Second, substantial drilling and other exploration programs are underway to expand the resources through the discovery of new gold zones.

### **Critical Accounting Estimates and Risk Factors**

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

The Corporation's estimated recoverable value on its mineral projects is 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 assumptions 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.

### **Change in Accounting Policy**

Effective January 1, 2004, the Corporation adopted the Canadian Institute of Chartered Accountants standard on stock-based compensation. Under this standard the Corporation is required to expense over the vesting period the fair value of stock options at the date of grant. As permitted by this standard the Corporation applied this change retroactively, without restatement, for options granted on or after January 1, 2002. As a result, the opening deficit as at January 1, 2004 was adjusted to reflect an expense of \$2,874,967 relating to stock options granted since January 1, 2002 with a corresponding increase to contributed surplus. For the three months ended March 31, 2004, no stock-based compensation expense was recorded as there were no stock options granted in the period.

Prior to January 1, 2004, no stock-based compensation expense was recognized when stock options were issued to employees or directors but pro forma disclosure was provided as if these grants were accounted for using the fair value method for stock options granted after January 1, 2002.

### **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 Company's financial condition and results of operations is currently its cash and cash equivalents, a substantial portion of which relate to the Corporation's equity financings completed in 2003 and related warrant exercises during the current period. A significant portion of the Corporation's cash balance is invested in short-term investments.

**Outlook**

The Corporation will continue to focus the majority of its exploration and development efforts in the Great Basin and the American Southwest for purposes of the identifying, acquiring, exploring and developing high-grade precious metals properties. The Corporation will also continue to use its exploration technology which represents a sophisticated merger of comprehensive data, geological analysis, and software which represent state-of-the-art tools for modern exploration in the Great Basin of the American Southwest. In management's opinion this technology will be the catalyst for future corporate growth.

As a mining company in the development stage the future 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 will be sufficient for funding its planned exploration and development expenditures in 2004 on the Copperstone project, achieving its exploration initiatives on its other exploration projects and meeting its ongoing obligations as they become due.

## American Bonanza Gold Mining Corp.

### CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2004	December 31, 2003
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	14,115,881	13,406,295
Accounts receivable	173,882	103,231
Prepaid expenses	33,419	33,215
Marketable securities (note 4)	15,000	22,500
	<u>14,338,182</u>	13,565,241
MINERAL PROPERTIES (note 5)	12,560,362	11,406,116
OFFICE EQUIPMENT, net	31,858	35,032
	<u>26,930,402</u>	<u>25,006,389</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (note 5 (a))	285,271	475,557
FUTURE INCOME TAXES	328,654	328,654
	<u>613,925</u>	804,211
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7)	40,464,790	38,208,754
Contributed surplus (note 3 and 7)	3,107,509	232,542
Cumulative currency translation adjustment	43,031	43,031
Deficit	(17,298,853)	(14,282,149)
	<u>26,316,477</u>	24,202,178
	<u>26,930,402</u>	<u>25,006,389</u>
SUBSEQUENT EVENT (note 7)		
CONTINGENT LIABILITY (note 5(a))		

### APPROVED ON BEHALF OF THE BOARD,

Signed: Brian P. Kirwin  
Director

Signed: Robert T. McKnight  
Director

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

## American Bonanza Gold Mining Corp.

### CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the three months ended March 31,

(Unaudited)	2004	2003
	\$	\$
<b>REVENUE</b>		
Interest income	<u>84,010</u>	-
<b>EXPENSES (INCOME)</b>		
General and administrative (note 8)	124,973	92,621
Exploration	72,499	22,425
Business development	17,200	13,565
Amortization	3,174	2,852
Foreign exchange	401	(98,231)
Marketable securities written down	<u>7,500</u>	-
	<u>225,747</u>	<u>33,232</u>
<b>NET LOSS</b>	<b>(141,737)</b>	<b>(33,232)</b>
<b>DEFICIT, beginning of period</b>	<b>(14,282,149)</b>	<b>(13,676,935)</b>
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY (note 3)</b>	<b><u>(2,874,967)</u></b>	<b>-</b>
<b>DEFICIT, end of period</b>	<b><u>(17,298,853)</u></b>	<b><u>(13,710,167)</u></b>
<b>LOSS PER COMMON SHARE</b>		
Basic and diluted	<u>(0.00)</u>	<u>(0.00)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES</b>	<b><u>173,026,314</u></b>	<b><u>96,591,420</u></b>

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

## American Bonanza Gold Mining Corp.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31,

(Unaudited)

	2004	2003
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(141,737)	(33,232)
Items not affecting cash		
Amortization	3,174	2,852
Marketable securities written down	7,500	-
Foreign exchange gain on foreign denominated debt	-	(60,390)
	<u>(131,063)</u>	<u>(90,770)</u>
Changes in non-cash operating accounts		
Accounts receivable	(70,855)	(13,280)
Accounts payable	<u>(190,286)</u>	<u>(233,606)</u>
	<u>(392,204)</u>	<u>(337,656)</u>
<b>INVESTING ACTIVITIES</b>		
Copperstone property	(800,983)	(491,345)
Other mineral properties	(353,263)	-
Office equipment	-	(10,183)
	<u>(1,154,246)</u>	<u>(501,528)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares, net of issue costs	2,256,036	4,172,265
Repayment of long-term debt (note 6)	-	(854,451)
	<u>2,256,036</u>	<u>3,317,814</u>
<b>INCREASE IN CASH</b>	<b>709,586</b>	<b>2,478,630</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b><u>13,406,295</u></b>	<b><u>1,616,691</u></b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b><u>14,115,881</u></b>	<b><u>4,095,321</u></b>
<b>SUPPLEMENTARY INFORMATION:</b>		
<u>Cash flows include the following elements:</u>		
Interest paid	-	16,846
Income taxes paid	-	-

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



# American Bonanza Gold Mining Corp.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2004 (Unaudited)

### 1. NATURE OF OPERATIONS

American Bonanza Gold Mining Corp. (the "Corporation") is a development stage mining company engaged in the identification, acquisition, exploration and development of high-grade precious metals properties located in the Great Basin of the American Southwest. The Corporation's properties contain defined mineral resources but the Corporation has not determined whether these 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 deferred expenditures and property acquisition costs represent costs to date, and do not necessarily represent present or future values.

### 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial reporting, and the accounting policies used are consistent with the most recent annual audited financial statements. While these financial statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and notes required by Canadian generally accepted accounting principles for financial statements. The unaudited consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the year ended December 31, 2003.

### 3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2004, the Corporation adopted the Canadian Institute of Chartered Accountants standard on stock-based compensation. Under this standard the Corporation is required to expense over the vesting period the fair value of stock options at the date of grant. As permitted by this standard the Corporation applied this change retroactively, without restatement, for stock options granted on or after January 1, 2002. As a result, the opening deficit as at January 1, 2004 was adjusted to reflect an expense of \$2,874,967 relating to stock options granted since January 1, 2002 with a corresponding increase to contributed surplus. For the three months ended March 31, 2004, no stock-based compensation expense was recorded as there were no stock options granted in the period.

Prior to January 1, 2004, no stock-based compensation expense was recognized when stock options were issued to employees or directors but pro forma disclosure was provided as if these grants were accounted for using the fair value method for stock options granted after January 1, 2002.

### 4. MARKETABLE SECURITIES

As at March 31, 2004, the Corporation held the following marketable securities:

	Number of Shares	March 31, 2004	December 31, 2003
		(Unaudited)	
		\$	\$
American Nevada Gold Corp.	<u>300,000</u>	<u>15,000</u>	<u>22,500</u>

Pursuant to the terms of the Option Agreement entered into with American Nevada Gold Corp. (note 5(b)) the Corporation received 300,000 common shares and other consideration for entering into this Agreement. The quoted market value of these securities was \$22,500 at December 31, 2003 and \$15,000 at March 31, 2004.

## American Bonanza Gold Mining Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2004 (Unaudited)

#### 5. MINERAL PROPERTIES

Project	March 31, 2004	December 31, 2003
	(Unaudited)	
	\$	\$
Copperstone (a)	10,113,056	9,312,073
Pamlico (b)	1,595,078	1,595,078
Gold Bar (b)	796,421	477,407
Other (c)	55,807	21,558
	12,560,362	11,406,116

Schedule of mineral property expenditures during the three months ended March 31, 2004:

	Copperstone	Pamlico	Gold Bar	Other	Total
	\$	\$	\$	\$	\$
<b>Balance, December 31, 2003</b>	<b>9,312,073</b>	<b>1,595,078</b>	<b>477,407</b>	<b>21,558</b>	<b>11,406,116</b>
<b>Additions during the three months ended March 31, 2004</b>					
Drilling and underground support	349,486				349,486
Geological consulting & related	133,775				133,775
Drilling, net of joint venture costs			299,245		299,245
Assaying	101,543				101,543
Geophysics	28,994		19,769		48,763
Property acquisition costs				34,249	34,249
Site maintenance & camp					
Utilities and power	19,560				19,560
Property caretakers	15,815				15,815
Equipment purchase & rentals	143,565				143,565
Telephone	3,414				3,414
Maintenance, Supplies, Other	4,831				4,831
	<b>800,983</b>	<b>-</b>	<b>319,014</b>	<b>34,249</b>	<b>1,154,246</b>
<b>Balance, March 31, 2004 (Unaudited)</b>	<b>10,113,056</b>	<b>1,595,078</b>	<b>796,421</b>	<b>55,807</b>	<b>12,560,362</b>

#### (a) Copperstone

The Corporation is currently engaged in exploring and developing the Copperstone gold property in La Paz County, Arizona, United States. The Corporation holds a 100 per cent leasehold interest in the Copperstone Project. The landlord is The Patch Living Trust and the lease is for a 10 year term starting June 12, 1995, renewable by the Corporation 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 per cent production gross royalty so long as the price of gold in US dollars is less than US\$350 per ounce (royalty increases to 6 per cent as price of gold increases to over US\$551 per ounce), with a minimum advance royalty per year of US\$30,000.

## **American Bonanza Gold Mining Corp.**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended March 31, 2004 (Unaudited)

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#### **5. MINERAL PROPERTIES (Continued)**

In August 1998, the Corporation entered into an agreement (the "Arctic Joint Venture") with Arctic Precious Metals Inc. ("Arctic"), a subsidiary of Royal Oak Mines Inc., to explore and develop the Copperstone gold property. Pursuant to the Arctic Joint Venture, the Corporation acquired a 25 percent interest in the Copperstone Project for a cash payment of US\$500,000 with an option to increase its interest in the property to 80 percent by incurring US\$4,000,000 of exploration expenditures and other payments. Additionally the Corporation has agreed to make a US\$30,000 annual advance royalty payment to the property owner.

In November 1999, the Corporation entered into a purchase and sale agreement with Arctic whereby the Corporation agreed to purchase for US\$1,000,000 all of Arctic's rights, title and interest in the Copperstone Project owned by Arctic who was undergoing U.S. Bankruptcy Code Chapter 11 financial restructuring.

During 2002, court approval was received in Arctic's U.S. bankruptcy proceedings and on March 4, 2002 the Corporation completed the acquisition of the remaining 75 percent not already owned in the Copperstone property at a cost of US\$1,000,000, having received the necessary approvals from the U.S. Bankruptcy Court. Funding for this acquisition was by way of a loan of US\$1,100,000 from Brascan Financial Corporation ("Brascan") (note 6).

In June 2000, the Corporation entered into an agreement (the Copperstone D-Zone Joint Venture) with Centennial Development Corporation ("CDC") for the underground exploration and extraction of mineralized materials from the D-Zone of up to 50,000 tons of mineralized material from the Copperstone property. Pursuant to the Copperstone D-Zone Joint Venture, as amended, the Corporation assumed a 55 percent interest in the Copperstone D-Zone Joint Venture for a cash payment of US\$375,000 with an option to increase its interest in the property as follows:

- (a) additional 5 percent interest if the Corporation provides all funding necessary to complete Phase One as documented in the agreement; and,
- (b) further 15 percent interest for a cash payment of US\$500,000.

During 2001, Phase One was completed and the Corporation earned the additional 5 percent interest in the Copperstone D-Zone Joint Venture for a total earned interest of 60 percent.

On February 14, 2002, the Corporation entered into an agreement with CDC whereby it would acquire the remaining 40 percent interest of the D-Zone Joint Venture not already owned for the following consideration:

- (a) assumption of a total of US\$325,000 of Copperstone related liabilities and if these liabilities exceed the estimated amount then the additional amounts will be paid equally by CDC and the Corporation. These liabilities were previously recorded by the Corporation as at December 31, 2000 and as at December 31, 2003 all of these liabilities have either been paid or settled;
- (b) assumption of an estimated CDC payroll tax liability of up to US\$180,000 that may arise. If these liabilities exceed the estimated amount, then the additional amounts will be paid equally by CDC and the Corporation;
- (c) US\$345,000 payable to CDC and or its principal on or before July 31, 2002;
- (d) A net smelter royalty of three percent paid to CDC from the first 50,000 tons of mineralized material extracted from the D-Zone, subsequent to repayment of the Brascan loan agreement (note 6); and,

## **American Bonanza Gold Mining Corp.**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended March 31, 2004 (Unaudited)

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#### **5. MINERAL PROPERTIES (Continued)**

- (e) US\$70,000 from initial proceeds from extraction of mineralized materials from the D-Zone, following repayment of the Brascan loan agreement (note 6).

During 2002, the Corporation paid US\$345,000 to CDC in accordance with the above agreement and recorded a further US\$180,000 in accounts payable to reflect the estimated CDC payroll tax liability that may arise.

During 2002, the Corporation entered into 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 percent net profits royalty from the D-Zone bulk sample of up to 50,000 tons of mineralized material. The bulk sample program has been deferred indefinitely as a result of the Corporation's current exploration and development programs.

All required payments were made with respect to the Copperstone project during 2003 therefore, the claims held are in good standing until August 2004.

#### **(b) Pamlico and Gold Bar**

Through the acquisition of Bonanza Gold Inc. and its wholly-owned subsidiary, Bonanza Explorations Inc., in 2000 the Corporation owned, or controlled by option, a number of exploration projects in the State of Nevada, U.S.A. The primary projects consisted of Pamlico, Golden Arrow, Gilbert, Gold Bar and Snowstorm properties. During 2001 the Corporation returned the Golden Arrow project to the property vendor and released the Snowstorm, Gilbert and other mineral claims recognizing a write-down of \$893,558 during the year ended December 31, 2001.

The Pamlico and Gold Bar projects currently comprise 133 patented and unpatented mining claims covering approximately 10 square kilometers which are prospective for gold. An annual cash filing of US\$110 per unpatented claim is required to be paid to the Bureau of Land Management and the local counties. Annual taxes on patented claims are payable to the local authorities. All required payments were made with respect to the Pamlico and Gold Bar projects during 2003; therefore, the claims held are in good standing until August 2004.

The Pamlico property is located in Mineral County, 15 kilometres from Hawthorne, Nevada. Pamlico was subject to a cash payment of US\$25,000 due November 2001 which was deferred and paid in 2002. In 2002, a cash payment of US\$150,000 was made. On November 13, 2003 the Corporation made a cash payment of US\$150,000 and deferred the final remaining cash payment of US\$525,000 until November 2004. The property is subject to a 1 percent net profits interest royalty after the final cash payment. Pamlico has no associated work commitments.

The Gold Bar property is located in Eureka County, 50 kilometres northwest of Eureka, Nevada. Gold Bar is subject to a 2 percent net smelter royalty capped at US\$1,000,000 on future production.

On September 27, 2002 the Corporation entered into an Option Agreement with American Nevada Gold Corp. ("American Nevada"). Under the terms of the Option Agreement, American Nevada was granted an option to earn a 50 percent interest in both the Pamlico and Gold Bar properties by way of providing cash and securities with a value of \$131,500 and funding exploration expenditures over a three year period totalling \$3,600,000. Joint venture funding of approximately \$540,000 has been received or accrued as at March 31, 2004 (December 31, 2003 - \$525,000). On September 9, 2003 American Nevada elected not to proceed with Year 2 and 3 of this option agreement and retained a 5 percent interest in both the Pamlico and Gold Bar properties subject to standard dilution provisions.

# **American Bonanza Gold Mining Corp.**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended March 31, 2004 (Unaudited)

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### **5. MINERAL PROPERTIES (Continued)**

#### **(c) Other**

The Oatman property is located in Mohave County in Northwest Arizona. The Corporation acquired 600 hectares through the staking of 67 unpatented mining claims in November, 2003. The Oatman gold district was discovered in 1864 and was mined continuously through the 1930's.

The Belmont property is located in the Belmont Mining District of Nevada in Nye County, about 40 miles north of Tonopah and 14 miles east of the 10 million ounce Round Mountain Gold Mine, in the Walker Lane Mineral Belt. The Corporation acquired 200 hectares through the staking of 23 unpatented mining claims in February 2004. Silver was discovered at Belmont in 1865 and was mined continuously to 1891, with intermittent production from 1920 to 1951.

### **6. LONG-TERM DEBT**

In connection with the acquisition of the remaining 75 percent interest in the Copperstone project not already owned (note 5), the Corporation received a loan of US\$1,100,000 from Brascan Financial Corporation ("Brascan"), fully secured against the assets of the Corporation (the "Brascan Loan") with interest accruing at the U.S. Base Rate and to be paid monthly. The Corporation granted Brascan non-transferable warrants, which were exercised on March 4, 2004, to purchase up to 1,500,000 common shares of the Corporation at \$0.13 per share (note 7).

Under the terms of the agreement with Brascan, the Brascan Loan was repayable in two equal installments of US\$550,000 on March 4, 2003 and March 4, 2004, and in addition the Corporation agreed to cause all proceeds, net of reasonable commissions, legal and other expenses related to such transaction, of any issuance of securities of the Corporation in excess of the aggregate sum of US\$1,000,000 received by the Corporation at any time during which the loan was outstanding, to be immediately paid to Brascan in accordance with the following formula:

- (a) 10% of cumulative proceeds greater than US\$1,000,000 but less than US\$2,000,000;
- (b) 20% of cumulative proceeds equal to or greater than US\$2,000,000 but less than US\$4,000,000; and
- (c) 30% of cumulative proceeds equal to or greater than US\$4,000,000 but less than US\$6,000,000.

As a result of the Corporation's public offering completed on June 10, 2002 (note 7) the Corporation paid Brascan US\$12,800 on July 2, 2002 as a partial principal repayment of the loan outstanding. On March 4, 2003 the Corporation repaid US\$537,200 to satisfy its repayment obligation in 2003. On October 29, 2003 the Corporation paid out its remaining loan facility with Brascan with a final payment of US\$550,000 on the basis of the preferential repayment terms, described above, that resulted from the Corporation's private placement and public offering completed on October 23, 2003 (note 7).

### **7. SHARE CAPITAL**

#### **Authorized**

The authorized share capital of the Corporation consists of 400,000,000 (2003 - 400,000,000) Class "A" common voting shares without par value, and 100,000,000 Class "B" preferred shares without par value, issuable in series.

## American Bonanza Gold Mining Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2004 (Unaudited)

#### 7. SHARE CAPITAL (Continued)

	<u>Number of</u> <u>Common Shares</u>	<u>Amount</u>
<b>Issued – Class A Common</b>		\$
<b>Balance, December 31, 2002</b>	<b>93,266,394</b>	<b>21,329,982</b>
<b>Shares issued for:</b>		
Private placements	50,438,311	13,025,000
Corporate finance fee on private placements	1,425,000	-
Public offering	7,142,858	2,000,000
Corporate finance fee on public offering	220,000	-
Warrant exercise	14,316,171	2,991,744
Stock option exercise	600,000	94,500
Share issue costs	-	(1,232,472)
<b>Balance, December 31, 2003</b>	<b>167,408,734</b>	<b>38,208,754</b>
<b>Shares issued for:</b>		
Warrant exercise	8,892,727	2,256,036
<b>Balance, March 31, 2004 (Unaudited)</b>	<b>176,301,461</b>	<b>40,464,790</b>

On January 31, 2003 the Corporation completed a brokered private placement of 18,295,454 units at a price of \$0.22 per unit totaling \$4,025,000. Each unit is comprised of one common share and one half of a non-transferable common share purchase warrant. Each whole non-transferable common share purchase warrant entitles the holder to acquire one additional common share for a period of one year until January 31, 2004 at a price of \$0.28.

Canaccord as agent for this offering was paid an agent fee of 7 percent on the aggregate gross proceeds, agent warrants totaling 1,829,545 representing 10 percent of the number of units sold, exercisable under the same terms as the private placement, and a corporate finance fee payable through the issuance of 450,000 units. Each unit is comprised of one common share and one non-transferable warrant exercisable under the same terms as the private placement.

On October 23, 2003, the Corporation completed a public offering of 7,142,858 units at a price of \$0.28 per unit totaling \$2,000,000. Each unit is comprised of one common share and one-half of a non-transferable common share purchase warrant. Each whole non-transferable common share purchase warrant will entitle the holder to acquire one additional common share for a period of two years until October 23, 2005 at a price of \$0.35.

Canaccord as agent for this offering was paid an agent fee of 7 percent on the aggregate gross proceeds, agent warrants totaling 714,286 representing 10 percent of the number of units sold, exercisable under the same terms as the public offering, and a corporate finance fee payable through the issuance of 220,000 units. Each unit is comprised of one common share and one non-transferable common share purchase warrant exercisable under the same terms as the public offering.

Additionally on October 23, 2003, the Corporation also completed a brokered private placement of 32,142,857 units at a price of \$0.28 per unit totaling \$9,000,000. Each unit is comprised of one common share and one-half of a transferable common share purchase warrant. Each whole transferable common share purchase warrant entitles the holder to acquire one additional common share for a period of three years until October 23, 2006 at a price of \$0.35.

## American Bonanza Gold Mining Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2004 (Unaudited)

#### 7. SHARE CAPITAL (Continued)

Canaccord as agent for this offering was paid an agent fee of 7 percent on the aggregate gross proceeds, agent warrants totaling 3,214,286 representing 10 percent of the number of units sold and a corporate finance fee payable through the issuance of 975,000 units. Each unit is comprised of one common share and one transferable common share purchase warrant exercisable under the same terms as the private placement.

#### Options

The Corporation grants incentive stock options as permitted pursuant to the Corporation's Stock Option Plan (the "Plan") approved by the shareholders on June 13, 2003. The Plan has been structured to comply with the rules of the TSX Venture Exchange. 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. Options may not be granted for a term exceeding 5 years, and the term will be reduced if the Optionee dies to a term of one year following the date of death, and if the Optionee ceases to be qualified to receive options from the Corporation 30 days after the date of such cessation. All options vest when granted unless otherwise specified by the Board of Directors.

The Corporation has granted stock options to acquire an aggregate of 15,160,000 common shares to directors, officers, employees and consultants exercisable at between \$0.10 and \$0.42 per share at varying times up until October 27, 2008 as follows:

	Number of Shares	Weighted average exercise price
<b>Balance, December 31, 2001</b>	<b>3,040,000</b>	\$0.16
Granted	6,710,000	\$0.14
Exercised	(50,000)	\$0.10
Cancelled	(690,000)	\$0.17
<b>Balance, December 31, 2002</b>	<b>9,010,000</b>	\$0.15
Granted	7,850,000	\$0.40
Exercised	(600,000)	\$0.16
Cancelled	(1,100,000)	\$0.15
<b>Balance, December 31, 2003 and March 31, 2004</b>	<b>15,160,000</b>	\$0.28

The fair value of 650,000 options granted to geological consultants has been estimated at \$232,542 and has been allocated to the Copperstone gold property. Subsequent to March 31, 2004, 1,550,000 options were granted at \$0.30 with an expiry of May 17, 2009.

The following table summarizes stock options outstanding and exercisable at March 31, 2004:

Number of Options	Exercise Price	Expiry Date
1,600,000	\$0.15	December 22, 2005
2,210,000	\$0.10	March 4, 2007
3,500,000	\$0.17	December 6, 2007
1,250,000	\$0.31	February 24, 2008
250,000	\$0.29	May 9, 2008
6,350,000	\$0.42	October 27, 2008
<b>15,160,000</b>		

## American Bonanza Gold Mining Corp.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2004 (Unaudited)

#### 7. SHARE CAPITAL (Continued)

##### Warrants

The Corporation has granted common share purchase warrants (“warrants”) to acquire an aggregate of 43,740,583 common shares as follows:

<b>Number of warrants</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
13,063,919	\$0.17	June 10, 2004
6,648,333	\$0.17	October 18, 2004
3,828,867	\$0.35	October 23, 2005
20,199,464	\$0.35	October 23, 2006
<b>43,740,583</b>		

The weighted average exercise price of these warrants is \$0.27 per share. Subsequent to March 31, 2004 355,562 warrants were exercised at \$0.17.

##### Shares held in escrow

At December 31, 2002, 9,000,000 common shares of the 20,000,000 common shares of the Corporation issued to acquire Bonanza Gold Inc. remained in escrow. On March 14, 2003 the Corporation qualified and met the requirements for a TIER 1 issuer on the TSX Venture Exchange and as result of the change in classification all remaining common shares held in escrow were released.

#### 8. GENERAL AND ADMINISTRATIVE EXPENSES

	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>
Management fees, consulting and salaries	<b>65,413</b>	56,345
Office and administration	<b>13,813</b>	4,080
Legal and accounting	<b>10,948</b>	14,594
Public company expenses	<b>34,799</b>	17,602
	<b>124,973</b>	92,621



## **CORPORATE INFORMATION**

### **DIRECTORS**

Ian W. Telfer  
*West Vancouver, Canada*

Ronald K. Netolitzky  
*Victoria, Canada*

Robert T. McKnight  
*North Vancouver, Canada*

Brian P. Kirwin  
*Reno, United States*  
*President & Chief Executive Officer*

Giulio T. Bonifacio  
*Vancouver, Canada*  
*Executive Vice President & Chief Financial Officer*

### **OFFICES**

Corporate Office  
*Suite 1606 – 675 West Hastings St.*  
*Vancouver, British Columbia*  
*Canada, V6B 1N2*  
*Telephone (604) 688-7523*  
*Fax (604) 676-2461*

Exploration Office  
*Suite 6, 290 Gentry Way*  
*Reno, Nevada*  
*United States, 89502*  
*Telephone (775) 824-0707*  
*Fax (775) 824-0898*

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

### **INVESTOR RELATIONS CONTACT**

Catherine Tanaka  
*Assistant Corporate Secretary*  
*Telephone (604) 688-7523*  
*Email [info@americanbonanza.com](mailto:info@americanbonanza.com)*

### **WEBSITE**

Additional information about the Corporation can be found at our website [www.americanbonanza.com](http://www.americanbonanza.com)

### **OFFICERS**

Brian P. Kirwin  
*President & Chief Executive Officer*

Giulio T. Bonifacio  
*Executive Vice President & Chief Financial Officer*

Foster V. Wilson  
*Vice President, Corporate Development*

Joe G. Kircher  
*Vice President, Operations*

Catherine A. Tanaka  
*Assistant Corporate Secretary*

### **REGISTRAR AND TRANSFER AGENT**

Computershare Trust Company of Canada  
*Vancouver, Canada*

### **SHARES LISTED**

The TSX Venture Exchange (BZA)

### **CAPITALIZATION**

(As at April 30, 2004)

Shares Issued and Outstanding: 176,301,461

### **AUDITOR**

Tony M. Ricci, Inc. Chartered Accountant  
*Vancouver, Canada*

### **LEGAL COUNSEL**

Lang Michener  
*Vancouver, Canada*

Davis & Company  
*Vancouver, Canada*

Woodburn & Wedge  
*Reno, United States*

Erwin & Thomas LLP  
*Reno, United States*