

Recommendation

Speculative Buy

Target Price

\$0.50

Risk

High

Ave. Monthly Trading Vol.

9,702,458

Quick Facts

Recent Price \$0.28
 Symbol BZA:TSX Venture
 Shares O/S 93.0 million
 52 Wk. Range \$0.28-\$0.04
 Fiscal Year End Dec. 31

	<u>EPS</u>	<u>CFPS</u>
1999	n.a.	n.a.
2000	n.a.	n.a.
2001	n.a.	n.a.
2002	n.a.	n.a.

STRENGTHS

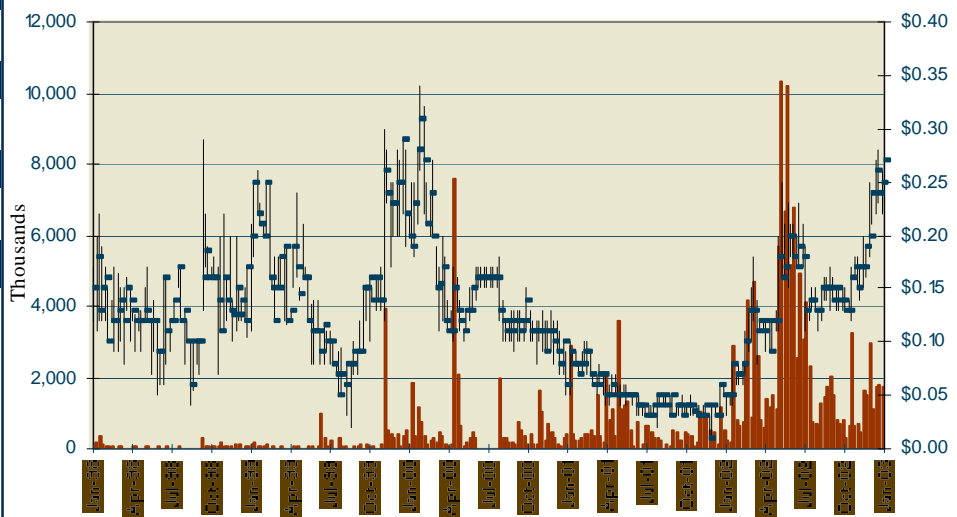
- A high-grade gold resource with imminent underground exploration results
- Highly experienced and committed professional management
- A comprehensive Nevada database using state of the art exploration technology that is utilized as a predictive tool and catalyst for future growth

RISKS

- Inherent risks of mineral exploration and a pure gold play

CONCLUSION

- High potential for near term production and exploration success

American Bonanza Gold Mining Corp.

Data Source: www.wallstreetcity.com

American Bonanza Gold Mining Corporation is a Canadian listed company involved in the acquisition, exploration and development of gold properties.

SUMMARY AND RECOMMENDATION

We are recommending American Bonanza as a Speculative Buy to investors who are seeking a near term gold development play, in addition to significant upside on exploration. Geologically the Company is focussed on gold deposit types that are known to be high grade. Over the past 7 years the predecessor company has spent approximately US\$4 million assembling a proprietary database on recent and past producing mines as well as regional geological, structural, geochemical, and chronological data. This contains information describing essentially every known gold deposit in Nevada. This will serve as a predictive tool for prospecting and evaluation of properties.

American Bonanza has recently secured 100% interest in their flagship Arizona property, Copperstone, extracting the 75% not already owned, from the bankruptcy of their former partner. With this behind them, as well as a public financing, and a private placement, they are now prepared to advance this high grade gold deposit to the pre-feasibility stage. Underground development had advanced to within 500 feet of the

primary zone of interest when work stopped because of funding constraints in 2000. The next stage, which is underway, will be to continue the underground development to the point that tightly spaced drilling can accurately evaluate the grade and lateral extent of the deposit. The Company will then undertake a Feasibility Study to select an option on how to proceed with the development of the deposit.

The Company's two other exploration projects are both located in Nevada. Both of these properties have been optioned to a third party, who may spend \$3.6 million over 3 years to earn a 50 % interest. American Bonanza retains 50% interest, the management of the projects and the ability to buy back to 70% interest. One property, Pamlico, is in the geologically productive Walker Lane, in western Nevada. This trend has been and continues to be a prolific gold producer. Pamlico itself has numerous old workings that have produced approximately 50,000 ounces from narrow high-grade quartz veins. While this style of mineralization

requires high cost selective underground mining, the Company has three dimensional indications that the known veins may coalesce at depth into either a thicker vein or a breccia body (a coarse grained rock composed of angular fragments; in this context this is important as there is often significant pore space in which mineralizing fluids may deposit their metals).

The second property, Gold Bar, is located in central Nevada at the intersection of the Battle Mountain-Eureka Mineral Belt and the Cortez Rift. Past open pit mining had resulted in about 500,000 ounces of production from medium-grade deposits. Utilizing its extensive data base, three dimensional software and painstaking compilation of the data the Company has identified intriguing high-grade targets. These targets are in the same rock types that elsewhere in Nevada host some of the great gold deposits discovered in the modern era. In our opinion this property may provide the real exploration excitement in holding this stock.

The Company has recently raised \$1.5 million in a private placement, in which management participated to 16 %. This follows a public offering in May that raised \$2.0 million. With these funds and the option agreement with the third party, the Company has sufficient funds to advance Copperstone to the next logical decision point and test the targets generated on the Nevada properties.

We are recommending the shares of the Company as a Speculative Buy with a 12-month target of C\$0.50.

THE COMPANY

American Bonanza Gold Mining Corporation is a Canadian listed company involved in the acquisition, exploration and development of gold properties. The Company has a specific geographic focus on Nevada and Arizona, and a specific geological focus on properties that have demonstrated potential for high-grade deposits. American Bonanza shares trade on the TSX-Venture exchange under the symbol BZA. The Company's near term focus is to become a small but very profitable gold producer with the development of the Copperstone project.

Located in southwest Arizona, Copperstone contains a drill indicated high grade resource that is down dip from the previously producing Copperstone open pit mine (approximately 500,000 ounces of gold production). The immediate objective on the Copperstone project is to continue the underground development project so that the tunnel is very near the high-grade D Zone. From this location, the lateral dimensions will be defined by close spaced drilling and cross cuts within part of the zone. This program will also significantly increase the number of samples from the D zone, and allow a much more statistically accurate evaluation of the grade, particularly the extremely high-grade areas within the deposit.

The Company's two other exploration properties are located in Nevada within historic mining camps. Both of these properties have been optioned to a third party who is sufficiently well funded to carry out the initial drilling programs. Under the Option Agreement, American Bonanza has retained the right to buy back to a 70% interest in the eventuality that a significant deposit is discovered. In both cases the Company is the project operator.

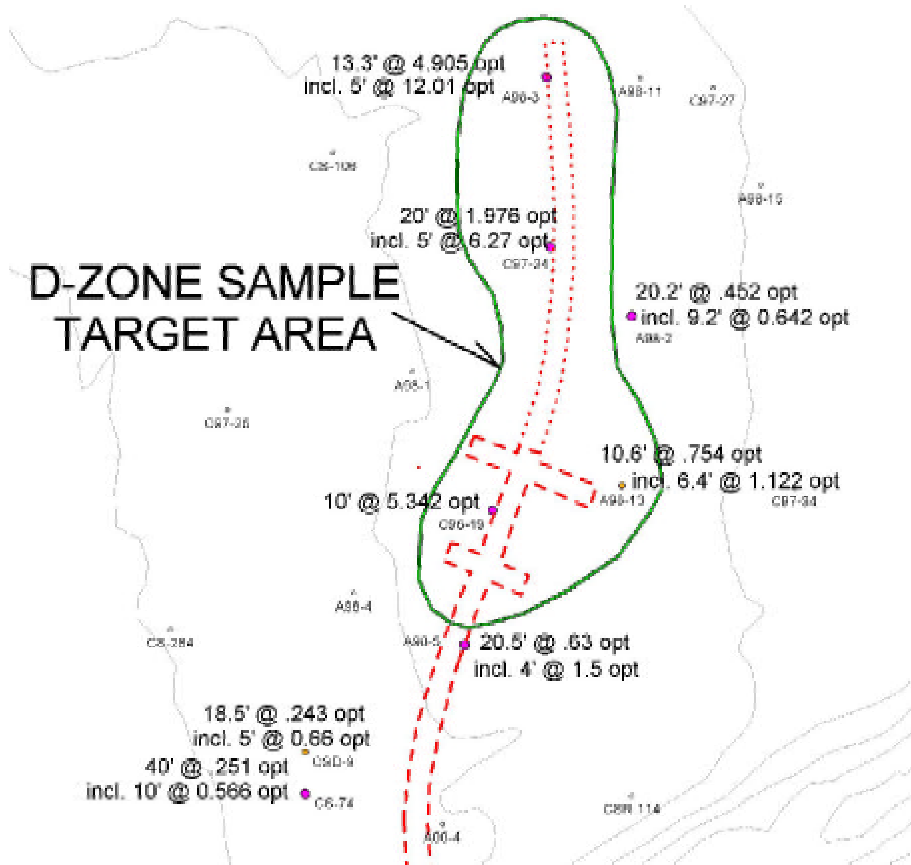
The program will allow a much more accurate evaluation of the extremely high grade areas within the deposit

The management of American Bonanza consists of professionals with significant experience in both the junior resource sector and the large multinational mining company sector. This experience encompasses all aspects of the business from early stage project development through to discovery, development, operations and environmental regulation. Unlike many companies in their peer group, this management has the experience and know how to undertake a development project and carry it through to production. Management is also tremendously committed to the Company as they have nursed it through the past few years, at a time when survival of the Company was dependent on their personal finances, and project advancement was dependent on time spent compiling data with no remuneration. Insiders currently own 20% of the shares.

PROJECTS

Copperstone, Arizona

Figure 1. D-Zone Sample Target Area



Source: Company Reports

Copperstone, located in La Paz county, southwest Arizona, is a 22 square kilometre (+8 sq. miles) property. American Bonanza's 100% interest is held through a lease with a 1% Net Smelter Return (at current gold prices; the NSR escalates with increasing gold prices). Five hundred thousand ounces of gold were mined by open pit between 1987 and 1993.

The underground drift is within 500 feet of the target high grade D-zone

The mine was closed when the economic limits of the pit were reached. The Company is fully indemnified against any liabilities relating to this mining activity. Subsequent to the mine closure the property was explored by Royal Oak Mines which discovered the high-grade mineralization down dip and plunge from the prior mining. American Bonanza's predecessor company Asia Minerals acquired an option on the property and commenced an underground exploration drift that advanced to within 500 feet of the target high-grade D Zone. At that time a combination of circumstances, including low gold prices, led to the halt of development work on the project and the property ownership became ensnared in the Royal Oak bankruptcy proceedings. Current management was eventually able to purchase Royal Oak's interest through the bankruptcy courts with the help of a \$1.1 million loan from Trilon Financial Corporation (now Brascan Financial Corporation).

Figure 2. D-Zone Drill Intercepts

A98-3	13.3 feet	4.90 opt Au including	5 feet	12.01 opt Au
C97-24	20 feet	1.98 opt Au including	5 feet	6.27 opt Au
C96-19	10 feet	5.34 opt Au		
A98-5	20.5 feet	0.63 opt Au including	4 feet	1.5 opt Au
A98-13	10.6 feet	0.75 opt Au including	6.4 feet	1.12 opt Au

Source: Company Reports

Prior to the start of the underground exploration drift, H.A. Simons (MRDI) were retained by the Company's predecessor to undertake a scoping level evaluation of an underground mine to develop the newly discovered zones. Scoping studies, by definition, estimate costs within a +/- 30 % cost range. In active mining environments such as southwest Arizona, these studies are inherently more accurate than this. As part of this evaluation MRDI calculated a resource estimate, and an estimate of what might be mineable given the operating costs that they forecast for the project. The overall resource is listed in Table 1. The "mineable" resource on a capped, diluted and recovered basis totalled 825,000 tons at 0.56 opt.

There is a dramatic difference between the "Capped" and "Uncapped" total resource ounces. The practice of "Capping assays" limits the risk associated with erratic extreme high-grade gold values, as very few if any gold deposits are mined out to the "uncapped" gold grade. Nevertheless it is necessary to quote the "uncapped" resource to illustrate the magnitude of the extremely high-grade samples. In this case certain statistical methods were chosen to limit the risk, however there is no assurance that these were the "correct methods". Experience has shown that the "correct methodology" cannot be determined at this stage of development. The contained mineable ounces will almost certainly change as the deposit is more tightly constrained and additional sampling is undertaken. MRDI noted that the "ounces at risk" in this case are a much larger percentage of the overall gold content than a deposit at a later stage of development. At the feasibility stage the "ounces at risk" would typically be less than 10 % of the uncapped resource.

Figure 3. Resource Estimate by MRDI

C and D Zones		Tons	Au opt	Au ounces
Capped		2,085,900	0.340	708,700
Uncapped		2,085,900	0.580	1,209,800
Capped				
C Zone	Indicated	478,400	0.194	92,700
	Inferred	696,700	0.323	225,000
	Total	1,175,100	0.270	317,700
D Zone	Indicated	413,800	0.466	193,000
	Inferred	497,000	0.398	198,000
	Total	910,800	0.430	391,000
Total	Indicated	892,200	0.320	285,700
	Inferred	1,193,700	0.354	423,000

Source: Company Reports

The Company's ability to utilize its 3D software modelling has already led to the observation that the higher grade areas have a distinct orientation that previous operators were not cognizant of. This in itself should lead to more exploration success. There are also several other areas in which exploration may increase the resources, such as the B, C and D zones, the northern strike extension of the Copperstone Fault and in the footwall of the Copperstone Fault. Examples of intersections for follow up are hole DCU-8, 15 ft of 0.65 opt., CSR-143, 40 ft of 0.268 opt and CSD-67, 30 ft of 0.139 opt.

The company's 3D software shows a distinct trend to the higher grade areas

Once the exploration drift and definition drilling is completed the Company will have several options that will be evaluated by a Feasibility Study. In order of increasing risk and greater return these will be as follows:

- Bulk sample as high grade zone and process this at a nearby mill
- Mine the deposit and ship the material to a custom mill for processing
- Mine the deposit and upgrade the material on site to a rough concentrate. Ship this to a smelter or custom mill for gold extraction
- Build a stand alone mill and process on site with gold extraction similar to the previous mine operator.

From an operational perspective, each of these is relatively risk free as the deposit has a prior mining and metallurgical operating history that is well known. The main risk from a permitting perspective is that mining is at the top of the water table and the effect on the aquifer will have to be carefully monitored. In the near term the biggest risk is that associated with the definition drilling. Will the resource hold up? Will the overall gold content increase or decrease, relative to the MRDI study and by how much?

Nevada Projects

The Company has an Option / Joint Venture agreement with American Nevada Gold Corporation that covers both the Gold Bar and Pamlico properties. ANGC may earn 50% over a three year period by spending \$3.6 million on both properties. American Bonanza has a buy back right to increase its interest to 70% by reimbursing American Nevada for 200% of its cumulative exploration expenditures. American Bonanza is the operator.

This is an excellent agreement for American Bonanza as they retain majority interest in the properties, with the other party taking the higher risk exploration dollars. By retaining management of the projects the Company ensures that the work is carried out to the level of expertise that it expects. From a shareholder perspective this Option agreement also sends the signal that management will not be diverted from its primary focus of moving ahead with the Copperstone project

Gold Bar Property, Nevada

The Gold Bar property is located in north central Nevada, 50 km northwest of Eureka at the structural intersection of the Battle Mountain - Eureka Mineral Belt and Cortez Rifts. The property covers five square kilometres (two square miles) and consists of 70 patented and unpatented claims that are held outright by the Company subject to capped royalties on specific claims. Previous operators have mined half a million ounces from a low-grade open pit operation at an average grade of 2.7 g/t (0.08 opt). The Company is fully indemnified against any liabilities relating to this mining activity. Un-mined and currently uneconomic resources on the property total approximately 500,000 ounces.

These deposits are sediment hosted, structural and/or stratigraphically controlled type gold deposits that have made the Nevada gold mining industry so prolific in recent times. This district has higher than average gold grades and feeder structure grades than the Nevada average. It is this feature in combination with the detailed compilation work described below that makes this property so attractive.

The main exploration target identified to date is the down plunge extension of the main Gold Bar pit in which the Millsite deposit is located. By painstakingly entering all of the production data into the three dimensional Vulcan software the Company has been able to identify a continuous zone of plunging mineralized material of higher grade gold (6.8 gpt / 0.2opt) that may be a vector to the higher grade feeder system. Rock types at depth include the Lower Plate carbonate windows through the Roberts Mountain Thrust Fault. Elsewhere in Nevada these rocks host higher grade structurally and stratigraphically controlled gold deposits, such as Meikle, Deep Star, and Rain. These targets have yet to be tested on the Gold Bar property. This is a high quality target and its identification is a testament to the patience, detailed work and persistence of the American Bonanza staff. Several other targets have been identified on the property by this compilation and will be tested in future drilling programs.

The high grade plunging mineralized material may be a vector to a high grade feeder system

Pamlico Property

Pamlico is located 15 km from Hawthorne south central Nevada within the prolific Walker Lane Structural Zone. The Walker Lane is host to several million ounce plus deposits, such as Comstock, Rawhide and Tonopah. Walker Lane is currently the focus of renewed exploration activity and a staking rush based on Newmont's option/joint venture agreement with Midway Gold Corporation.

Pamlico itself is a past producer (+/- 50,000 ounces) with numerous historic mine workings for which American Bonanza has no material liabilities. The current property covers five square kilometres, consisting of 63 patented and unpatented claims. The property is subject to a 1% NPI and a final property payment of \$675,000 in 2003. The results of current drilling will have to be significant to justify this payment.

American Bonanza's targets are high-grade epithermal volcanic hosted deposits. A compilation of all of the available three dimensional data has indicated that some high grade veins may coalesce at depth into either a root zone or a significant sized breccia body.

The drilling program that commenced November 14, 2002 will focus on two areas, the Central Mine Area and the Northwest end of the Main zone. Both of these areas have narrow high-grade veins and it is reasonable to expect that there will be some similar high grade intersections. The real question concerns the possibility of thicker high-grade intersections that will move this property up the priority list. Optioning this property to American Nevada also frees up about \$100,000 of Bonanza's money that had been designated for work on the Pamlico property.

Figure 4. Pamlico



Source: Company Reports

DIRECTORS AND MANAGEMENT

Directors and management of the Company have a diversity of experience in both the junior and senior sector of the mining industry. This includes exploration, evaluation, financing, permitting, and operational experience in a number of jurisdictions, particularly in the southwest United States. They have the experience and expertise to manage an advanced exploration and development program such as Copperstone.

Brian Kirwin, President and CEO

Brian is a M. Sc. Geologist with over 19 years of world-wide experience. Most recently he was VP of Exploration of Vengold, and held senior roles at Placer Dome evaluating projects and operating mines. He is credited with three satellite deposit discoveries on advanced projects in Nevada.

Giulio Bonifacio, Vice President and CFO

Giulio is a professional accountant with over 20 years experience, most of which is in the mining industry where he has gained an in depth knowledge of financial regulatory and acquisition related matters. Most recently Giulio was VP Finance and Secretary of Vengold Inc. 1994-2000. From 1986-1993 he held various senior roles with TOTAL Energold Corporation and Getty Resources Limited.

Donald Foster, Vice President Exploration

Donald is a Ph.D. geologist with 23 years of world-wide experience at the exploration and operational level. Most recently he was Director of Geology and Environmental Affairs at Placer's Golden Sunlight mine.

Ian Telfer, Director

Mr. Telfer, Chairman and CEO of Wheaton River Minerals, has over 30 years experience in the precious metals business. As a founding director of TVX he served as its President and CEO during the first ten years. Ian has also held positions as a Director of Lihir Gold, President and CEO of Vengold Inc. In these capacities he has raised over \$500 million for mining exploration and development around the world.

David Beling, Director

David is a Professional Engineer with over 38 years of mining experience at the operational and executive level with companies operating multiple projects in multiple jurisdictions.

FINANCIAL FORECAST AND VALUATION

The Company is dependent on its ability to raise additional capital to continue the exploration and development of its mineral properties. Additionally there is an outstanding secured loan to Brascan Financial, of US\$1.1 million repayable in equal instalments in 2003 and 2004.

The Company currently has a positive Working Capital position of approximately \$1.0 million (net of the current portion of the Brascan loan due in March 2003).

There will be a need for additional equity issues as the Copperstone property is developed further. This should not be a significant problem in a rising gold market with an attractive near term development property. The number of shares to be issued will be offset to some degree by net revenues from any bulk samples extracted for metallurgical and test mining purposes.

VALUATION

We have based our evaluation on the "mineable ounces" that MRDI have indicated, with the expectation that there will be additional ounces added as tighter drill spacing better defines the deposit. For example, MRDI excluded over 100,000 ounces in one zone because of a lack of sufficiently detailed information. We also expect that some of the "ounces at risk" will be brought into the measured and indicated categories with the tighter spaced drilling. The converse of this is possible and is one of the inherent risks in any resource definition program. As there are already solid indications of additional gold mineralization in at least four separate areas, the A, B, hangingwall and footwall zones, we anticipate that exploration will add significant resources that are high enough grade for the underground mining.

On a NPV basis calculated by MRDI updated to US\$330 / ounce Au we estimate an NPV of C\$42.3 million, (US\$27.5). As an indication of sensitivity to gold price it is noted that a further \$25 increase in the gold price increases the NPV by \$US7 million.

On a fully diluted basis of 133 million shares C\$42.3 million equates to \$0.33 per share. The issue of the additional shares by exercise of options and warrants would raise \$6 million or \$0.05 per share. We have added \$0.12 per share to account for the addition of mineable ounces within the currently known resource, exploration success at Copperstone, and the quality of exploration targets, particularly at Gold Bar.

An alternative valuation with respect to American Bonanza's peer group of exploration companies suggests that the Company should be valued at \$20-\$40 per resource ounce of gold. Using the upper end of this range the stock should be valued at \$0.42 per share (\$0.37 for the current resource, \$0.05 for the cash on share issue). This approach does not account for the "quality of the ounces", the projected mining costs, the lack of political and permitting risk operating within a former open pit producer, and the relatively short time frame to production relative to its peer group.

CONCLUSIONS

American Bonanza is a Speculative Buy for anyone seeking a near term gold development play with significant exploration upside. Naturally there are the inherent risks associated with mining and mineral exploration as well as the gold commodity risk. These risks are mitigated to some degree by:

- The high-grade nature of parts of the Copperstone project that gives the Company several processing options.
- The quality of the exploration targets, particularly on the Gold Bar property
- The depth of exploration, development, permitting, and operational experience within the management team.

NOTES

NOTES

eResearch Recommendation System

- Buy:** Expected total return within the next 12 months is at least 20%
- Speculative Buy:** Expected total return within the next 12 months is at least 40%. Risk is High (see below)
- Hold:** Expected total return within the next 12 months is between 20% and the T-Bill rate
- Sell:** Expected total return within the next 12 months is less than the T-Bill rate

eResearch Risk Rating System

A company may have some but not necessarily all of the following characteristics of a specific risk rating to qualify for that rating:

- High Risk:** Financial - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.
Operational - Weak competitive market position, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
- Medium Risk:** Financial - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.
Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
- Low Risk:** Financial - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.
Operational - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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