

Bonanza

AMERICAN BONANZA GOLD CORP.
2005 Annual Report

Bonanza

American Bonanza Gold Corp. Management's Discussion and Analysis (Year ended December 31, 2005, as of March 28, 2006)

General

The following discussion of performance, financial condition and analysis should be read in conjunction with American Bonanza Gold Corp. ("the Corporation") and American Bonanza Gold Mining Corp. ("Bonanza") annual audited consolidated financial statements for the years ended December 31, 2005 and 2004. The comparative information as at December 31, 2004 is that of Bonanza under the continuity of interests accounting discussed below. 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 has commenced an advanced exploration program on its 100% owned Fenelon gold project in Quebec. Fenelon exploration to date suggests that there is excellent potential to substantially increase the known resource of this Casa Berardi greenstone deposit. An aggressive surface drilling program is currently underway to expand the known resource and test several of the project's exploration targets. In addition to these advanced properties, the Corporation continues to progress other projects, including the Martiniere in Quebec, Gold Bar in Nevada, Taurus in British Columbia and Northway in Ontario.

Acquisition of International Taurus Resources Inc. and Fairstar Explorations Inc.'s Mineral Interests

Pursuant to the terms of an Arrangement Agreement dated December 21, 2004, subsequently amended February 21, 2005 between the Corporation, Bonanza, International Taurus Resources Inc. ("Taurus"), Fairstar Explorations Inc. ("Fairstar") and 0710882 B.C. Ltd., the following transactions closed on March 30, 2005.

The Corporation, Bonanza and Taurus combined by way of a Plan of Arrangement (the "Arrangement") whereby, first, each Bonanza common share, option and warrant outstanding at the time of the Arrangement was exchanged for 0.25 of a common share, option and warrant, respectively, of the Corporation and, second, each Taurus common share, option and warrant, was exchanged for 0.20 of a common share, option and warrant, respectively of the Corporation. The expiry dates of options and warrants remained unchanged and the exercise prices were increased in accordance with the above exchange ratios. The exchange transaction between the Corporation and Bonanza was a common control transaction which is accounted for at Bonanza's historical cost by the continuity of interests method. On completion of the transaction, the Corporation owned 100% of the issued and outstanding shares of Bonanza and Taurus and the former shareholders of Bonanza and Taurus held approximately 69.4% and 30.6% of the common shares of the Corporation. Accordingly, Bonanza is the acquirer of Taurus' assets and liabilities for accounting purposes. Accordingly, the consolidated financial statements of the Corporation include the results of operations of Bonanza consolidated with those of the Corporation and Taurus from the date of acquisition. For legal purposes, Bonanza and Taurus became wholly owned subsidiaries of the Corporation.

Fairstar transferred its 38% interest in the Fenelon gold project and its interests in the Casa Berardi gold projects in Quebec to its wholly-owned newly incorporated subsidiary company, 0710882 B.C. Ltd. The Corporation acquired all outstanding shares of 0710882 B.C. Ltd. in exchange for 6,500,000 common shares of the Corporation and \$300,000 cash paid directly to certain creditors of Fairstar. This transaction has been accounted for as an asset acquisition by the Corporation.

After the transactions discussed above were completed the former shareholders of Bonanza, Taurus and Fairstar held approximately 63.3%, 27.9% and 8.8%, respectively, of the Corporation's common shares. The total number of issued and outstanding common shares of the Corporation after the transaction closed was 74,330,925.

The excess purchase price over the net book value of net assets acquired has been allocated to mineral properties and includes the effect of recording future income tax liabilities on the temporary differences arising on the transactions.

Incremental costs related to this acquisition of \$933,605 have been included as a cost of the acquisition.

Overview of Performance

The Corporation's working capital as at December 31, 2005 was \$5,177,422 compared with a working capital position of \$8,750,640 as at December 31, 2004. The decrease in working capital was primarily attributable to increased expenditures levels primarily at the Copperstone and Fenelon gold properties totalling \$6,249,577 in the year; the cash repayment of a loan facility and interest aggregating \$657,382 and were partially offset by a private placement totalling \$4,267,786, net of share issue costs. The loss for the twelve months ended December 31, 2005 was \$4,215,960 or \$0.06 per share compared with a net loss of \$1,219,731 or \$0.03 per share for the comparable period in 2004.

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 and Bonanza.

	December 31,		
	2005	2004	2003
	\$	\$	\$
Net loss	(4,215,960)	(1,219,731)	(605,214)
Net loss per share	(0.06)	(0.03)	(0.02)
Total cash and cash equivalents	5,413,900	9,467,224	13,406,295
Working capital	5,177,422	8,750,640	13,089,684
Total debt	Nil	Nil	Nil
Total assets	54,428,595	28,688,663	25,006,389
Shareholders' equity	52,261,765	27,496,142	24,202,178

Results of Operations

For the twelve months ended December 31, 2005, the Corporation had a net loss of \$4,215,960 or \$0.06 per share compared with a net loss of \$1,219,731 or \$0.03 per share for the corresponding period in 2004. The increase from the comparable period was primarily attributable to write down of the mineral properties totalling \$1,742,720 and stock based compensation expense of \$733,248 and increased expenditures levels resulting from the Arrangement in both the general and administrative and business development expenditures categories due to increased activity and personnel.

Interest income decreased to \$128,185 from \$305,827 which was the direct result of decreased cash balances from the comparable period in 2004. General and administrative expenditures increased to \$1,228,724 from \$993,938 in the comparable period which was the direct result of severance costs totalling \$82,500; office costs increased from \$32,215 to \$93,546; Legal and accounting increased from \$102,276 to \$188,643 and insurance costs increased from \$41,580 to \$93,228 all of which were the direct result of the Arrangement. Public company expenses increased slightly to \$357,963 from \$343,100 for comparable period due primarily to investor relations initiatives in the year. Increased activity also contributed to increased business development expenses which increased from \$108,455 to \$262,589 in the year which resulted from the ongoing review of various corporate opportunities.

Exploration expenditures remain at consistent levels from the comparable period and include activity relating to ongoing property evaluations and investigations. Exploration expenditures in the period also include all costs associated with maintaining the Corporation's exploration offices in Reno, Nevada and Val d'Or, Quebec.

Summary of Quarterly Results

Selected consolidated financial information for each of the most recently completely quarters of fiscal 2005 and 2004 are as follows:

	2005				2004			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income and other	26,865	28,756	6,456	66,108	61,359	79,176	81,282	84,010
Net loss	(1,750,819)	(546,482)	(1,611,554)	(307,105)	(130,122)	(456,612)	(491,260)	(141,737)
Net loss per share	(0.02)	(0.01)	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)

Liquidity and Capital Resources

The Corporation's working capital as at December 31, 2005 was \$5,177,422 compared with a working capital position of \$8,750,640 as at December 31, 2004. Flow-through funds of \$3,230,385 are included in working capital and must be spent prior to December 31, 2006 and are restricted to expenditures that qualify as Canadian Exploration Expenditures, as defined in the Income Tax Act (Canada). The decrease in working capital in the period was primarily attributable to increased expenditure levels in the period at the Copperstone, Fenelon and other gold properties totalling \$6,249,577, the cash payment of a loan facility and interest aggregating \$657,382, and the acquisition related expenditures resulting from the Arrangement. The cash acquired on the Arrangement with Taurus totalled \$996,576. The Taurus cash offset a substantial portion of the incremental cash costs related to the Arrangement in the amount of \$1,233,605, including \$300,000 of cash paid directly to certain creditors of Fairstar. During the year the Corporation also received \$1,361,631 in government assistance in connection with the Arrangement as Taurus qualifies for various mineral exploration assistance programs associated with incurring exploration and development expenditures on mineral properties located in Quebec.

During the twelve months ended December 31, 2005, the Corporation continued its underground and surface drilling program at the Copperstone project. This program phase has been completed and the result of the preliminary assessment prepared by AMEC has been filed on SEDAR on March 28, 2005. Total development and exploration expenditures during the period totalled \$5,668,826 or \$14,934,283 since the program began in 2003.

In connection with the Arrangement, as summarized above, the Corporation, through Taurus, assumed a loan with Stonegate Management Limited ("Stonegate") for US\$1,000,000. On June 1, 2005 the Corporation agreed with Stonegate to revise the terms of the loan agreement whereby the net profits interest would be reduced to 2% on the Fenelon project rather than 6% of 62% of the Fenelon project, repay \$US400,000 of principal, pay accrued interest to May 31, 2005 and extend the common share purchase warrants to December 1, 2007. Under the amended terms, the Corporation repaid US\$400,000 of principal and accrued interest to May 31, 2005 totalling US\$231,813 through the issuance of 1,224,551 common shares of the Corporation at a deemed price of Cdn.\$0.65 per common share resulting in a gain on debt settlement of \$306,392 as a result of the closing price on the date of settlement. The Corporation also agreed to repay the remaining balance of the loan upon the earlier of its next equity financing or December 1, 2005. As a result of the private placement completed on August 5, 2005, described below, the Corporation completely repaid on August 12, 2005, the remaining balance of the Stonegate loan totalling US\$600,000 of principal and accrued interest of US\$17,942.

On August 5, 2005, the Corporation completed a private placement consisting of 8,174,000 common shares which were designated as flow through shares at a price of \$0.45 per flow through share totalling \$3,678,300 and 1,588,000 units at a price of \$0.45 per unit totalling \$714,600. Each unit consisted of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant may be exercised to acquire a further common share at \$0.56 per share until February 5, 2008.

On December 29, 2005, the Corporation entered into a non-brokered private placement with Northern Precious Metals 2005 Limited Partnership pursuant to which it agreed to issue 500,000 flow-through common shares at \$0.60 per share for total proceeds of \$300,000. The securities issued in connection with the private placement were issued on January 18, 2006 and are subject to a hold period until May 18, 2006. The proceeds are held in escrow for the Corporation and were fully collected in January 2006 and will be used for exploration on the Corporation's Martiniere gold project.

As at December 31, 2005, the Corporation had cash of \$5,413,900 compared to \$9,467,224 as at December 31, 2004. The Corporation currently has no debt and has adequate working capital to continue its surface drilling program at the Fenelon gold project designed to expand the known gold resources for purposes of advancing the Fenelon project to the development stage.

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 expenditures in 2006 at the Fenelon and Martiniere projects with additional funding required for purposes of the contemplated drilling at the Copperstone project.

The Pamlico property is located in Mineral County, 15 kilometres from Hawthorne, Nevada. The Pamlico property was subject to a cash payment of US\$425,000 on November 10, 2005 and after review the Corporation made the decision to return the Pamlico project to the property vendor and recognize a write-down of \$1,742,720 for the year ended December 31, 2005.

Ross-Finlay 2000 Inc ("Ross-Finlay"), the mining contractor for the Fenelon test-mining program conducted in 2004, filed before the Superior Court of Quebec, an action for recovery of an account stating that Ross-Finlay was owed an amount of \$401,900 for services rendered. The Corporation disputed Ross-Finlay's claim and filed a defence and counterclaim in the amount of \$390,000. On November 10, 2005 the Corporation negotiated a settlement with Ross-Finlay whereby for the transfer of certain assets held by Ross-Finlay the Corporation agreed to pay \$75,000 as final payment for all past services rendered.

Subsequent Events

Subsequent to December 31, 2005 the Corporation granted 1,355,000 stock options at a weighted average exercise price of \$0.69.

Controls and Procedures

The Chief Executive Officer and Chief Financial Officer have instituted a system of disclosure controls for the Corporation to ensure proper and complete disclosure of material information. 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.

Critical Accounting Estimates and Risk Factors

Critical accounting estimates used in the preparation of the financial statements include the Corporation's estimated net recoverable 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.

Change in Accounting Policy

Prior to January 1, 2004, the Corporation applied the settlement method of accounting for employees and directors stock options. Under the settlement method, any consideration paid by employees and directors on the exercise of stock options and purchase of stock is credited to share capital and no compensation expense was recognized.

The CICA Accounting Standards Board amended CICA Handbook Section 3870-Stock-Based Compensation and Other Stock-Based Payments - to require corporations to account for employees and directors stock options using the fair value based method, beginning January 1, 2004. Under the fair value based method, stock based compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Corporation retroactively applied the fair value based method to all employees and directors stock options granted on or after January 1, 2002, without restatement. The effect of retroactively adopting the fair value based method, without restatement, was to increase the deficit and contributed surplus by \$2,874,967 as at January 1, 2004.

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.

As an Exploration Stage Company 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 position will be sufficient for purposes of completing the exploration expenditures at the Fenelon and Martiniere gold projects.

The Corporation is currently reviewing the proposed expenditures and drilling program planned for Copperstone in 2006 and the resulting impact on the Corporation's working capital and funding requirements thereof.

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

AMERICAN BONANZA GOLD CORP.

Consolidated Financial Statements
Years ended December 31, 2005, 2004 and 2003

Together with Auditors' Report



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated balance sheets of American Bonanza Gold Corp. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of American Bonanza Gold Corp. as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such measurement differences is presented in note 13 to the consolidated financial statements.

The comparative figures as at December 31, 2003 and for the year then ended were reported on by another firm of chartered accountants.

KPMG LLP (signed)

Chartered Accountants

Vancouver, Canada

March 3, 2006

American Bonanza Gold Corp.

CONSOLIDATED BALANCE SHEETS

(In Canadian Dollars)

December 31

2005

2004

	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	5,413,900	9,467,224
Amounts receivable (note 5)	947,649	55,454
Prepaid expenses	83,814	81,629
Marketable securities (note 6)	10,200	10,200
	<u>6,455,563</u>	9,614,507
MINERAL PROPERTIES (note 7)	47,947,666	18,826,688
DEFERRED ACQUISITION COSTS (note 2)	-	216,958
OFFICE EQUIPMENT, net	25,366	30,510
	<u>54,428,595</u>	28,688,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	1,278,141	863,867
ASSET RETIREMENT OBLIGATION	29,624	-
FUTURE INCOME TAXES (note 12)	859,065	328,654
	<u>2,166,830</u>	1,192,521
SHAREHOLDERS' EQUITY		
Share capital (note 9)	51,124,817	42,501,881
Flow-through common share subscription (note 9)	300,000	-
Contributed surplus (notes 3 and 9)	4,702,772	3,328,077
Cumulative currency translation adjustment	43,031	43,031
Deficit	(3,908,855)	(18,376,847)
	<u>52,261,765</u>	27,496,142
	<u>54,428,595</u>	28,688,663

NATURE OF OPERATIONS (note 1)

SUBSEQUENT EVENT (note 9)

CONTINGENT LIABILITY (note 7(a))

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)

For the years ended December 31

	2005	2004	2003
	\$	\$	\$
EXPENSES (INCOME)			
General and administrative (note 10)	1,288,724	993,938	403,222
Stock-based compensation (note 9)	733,248	-	-
Exploration	384,020	343,056	304,212
Business development	262,589	108,455	93,100
Foreign exchange	67,806	55,112	(56,152)
Interest	60,450	-	-
Amortization	26,015	12,697	11,931
Write-down of mineral properties (note 7)	1,742,720	-	-
Write-down of marketable securities	-	12,300	1,500
Gain on debt settlement (note 8)	(306,392)	-	-
Interest income and other	(128,185)	(305,827)	(152,599)
	4,130,995	1,219,731	605,214
LOSS FOR THE YEAR BEFORE INCOME TAXES	(4,130,995)	(1,219,731)	(605,214)
INCOME TAXES (note 12)	84,965	-	-
LOSS FOR THE YEAR	(4,215,960)	(1,219,731)	(605,214)
DEFICIT, beginning of year	(18,376,847)	(14,282,149)	(13,676,935)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY (notes 3 and 9)	-	(2,874,967)	-
ELIMINATION OF ACCUMULATED DEFICIT (note 9)	18,683,952	-	-
DEFICIT, end of year	(3,908,855)	(18,376,847)	(14,282,149)
LOSS PER COMMON SHARE			
Basic and diluted	(0.06)	(0.03)	(0.02)
WEIGHTED AVERAGE NUMBER OF SHARES (note 4)	72,356,898	45,528,057	30,773,747

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

American Bonanza Gold Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian Dollars)

For the years ended December 31

	2005	2004	2003
	\$	\$	\$
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year	(4,215,960)	(1,219,731)	(605,214)
Items not affecting cash			
Amortization	26,015	12,697	11,931
Foreign exchange gain on foreign denominated debt	-	-	(195,337)
Gain on debt settlement	(306,392)	-	-
Stock-based compensation	733,248	-	-
Write-down of mineral properties	1,742,720	-	-
Write-down of marketable securities	-	12,300	1,500
Future income taxes	84,965	-	-
Accretion of asset retirement obligation	7,252	-	-
	<u>(1,928,152)</u>	<u>(1,194,734)</u>	<u>(787,120)</u>
Changes in non-cash operating accounts			
Amounts receivable	276,903	47,777	(81,998)
Prepaid expenses	8,825	(48,414)	(33,215)
Accounts payable and accrued liabilities	269,215	388,310	(227,140)
	<u>(1,373,209)</u>	<u>(807,061)</u>	<u>(1,129,473)</u>
INVESTING ACTIVITIES			
Mineral properties	(6,249,577)	(7,200,004)	(2,423,695)
Acquisition of International Taurus Resources Inc. and Fairstar Explorations Inc.'s mineral interests, net of cash acquired (note 2)	(20,071)	-	-
Deferred acquisition costs	-	(216,958)	-
Office equipment	(20,871)	(8,175)	(10,052)
	<u>(6,290,519)</u>	<u>(7,425,137)</u>	<u>(2,433,747)</u>
FINANCING ACTIVITIES			
Issue of common shares, net of issue costs	3,967,786	4,293,127	16,878,772
Proceeds received on flow-through common share subscription	300,000	-	-
Repayment of long-term debt (note 8)	(657,382)	-	(1,519,948)
Due to related parties	-	-	(6,000)
	<u>3,610,404</u>	<u>4,293,127</u>	<u>15,352,824</u>
INCREASE (DECREASE) IN CASH	(4,053,324)	(3,939,071)	11,789,604
CASH AND CASH EQUIVALENTS, beginning of year	9,467,224	13,406,295	1,616,691
CASH AND CASH EQUIVALENTS, end of year	5,413,900	9,467,224	13,406,295
SUPPLEMENTARY INFORMATION:			
<u>Cash flows include the following elements:</u>			
Interest paid	60,499	-	36,907
Interest received	128,185	305,527	152,599
Income taxes paid	-	-	-
<u>Non-cash financing and investing transactions:</u>			
Fair value of common shares issued on acquisition (note 2)	22,898,264	-	-
Fair value of options and warrants issued on acquisition (note 2)	592,719	-	-
Fair value of common shares and warrant modification on debt settlement (notes 8 and 9)	489,566	-	-
Fair value of options recorded as mineral properties	-	220,568	232,542

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

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 Company was formed in anticipation of the transaction discussed in note 2. The Corporation is an exploration stage mining company engaged in the identification, acquisition, exploration and development of high-grade 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 Company will be required to raise additional funding to complete its long-term business objectives. Failure to raise additional funding may require the Company to reduce operations.

2. ACQUISITION OF INTERNATIONAL TAURUS RESOURCES INC. AND FAIRSTAR EXPLORATIONS INC.’S MINERAL INTERESTS

Pursuant to the terms of an Arrangement Agreement dated December 21, 2004 and amended February 21, 2005 between the Corporation, Bonanza, International Taurus Resources Inc. (“Taurus”), Fairstar Explorations Inc. (“Fairstar”) and 0710882 B.C. Ltd., the following transactions were approved and closed on March 30, 2005.

Part A:

The Corporation, Bonanza and Taurus combined by way of a Plan of Arrangement (the “Arrangement”) whereby, first, each Bonanza common share, option and warrant outstanding at the time of the Arrangement was exchanged for 0.25 common shares, options and warrants, respectively, of the Corporation and, second, each Taurus common share, option and warrant, was exchanged for 0.20 common shares, options and warrants, respectively of the Corporation. The expiry dates of options and warrants remained unchanged and the exercise prices were increased in accordance with the above exchange ratios. The exchange transaction between the Corporation and Bonanza was a common control transaction which is accounted for at Bonanza’s historical cost by the continuity of interests method. Following the above transactions, the Corporation owned 100% of the issued and outstanding shares of Bonanza and Taurus and the former shareholders of Bonanza and Taurus held approximately 69.4% and 30.6% of the common shares of the Corporation. Accordingly, Bonanza is the acquirer of Taurus’ assets and liabilities for accounting purposes. Accordingly, these consolidated financial statements reflect a continuity of Bonanza for accounting purposes and the comparative financial information is that of Bonanza at its historical amounts, consolidated with those of the Corporation and Taurus from the date of acquisition. For legal purposes, Bonanza and Taurus became wholly owned subsidiaries of the Corporation.

Part B:

Fairstar transferred its 38% interest in the Fenelon gold project and its option to acquire interests in the Casa Berardi gold projects in Quebec to its wholly-owned newly incorporated shell subsidiary company, 0710882 B.C. Ltd. The Corporation then acquired all of the outstanding shares of 0710882 B.C. Ltd. in exchange for 6,500,000 common shares of the Corporation and \$300,000 cash paid directly to certain creditors of Fairstar. This transaction has been accounted for as an acquisition of assets by the Corporation.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

2. ACQUISITION OF INTERNATIONAL TAURUS RESOURCES INC. AND FAIRSTAR EXPLORATIONS INC.'S MINERAL INTERESTS (continued)

Combined:

After the transactions under Part A and Part B, the former shareholders of Bonanza, Taurus and Fairstar held approximately 63.3%, 27.9% and 8.8%, respectively, of the Corporation's common shares. The total number of issued and outstanding common shares of the Corporation immediately after the transaction was 74,330,925. The Corporation determines if any impairment exists when events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. An impairment loss is then required, if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value.

The cost of the purchase of Taurus and 0710882 B.C. Ltd. has been allocated to the assets and liabilities of these companies as at March 30, 2005 on the basis of their fair values.

The allocation of the purchase cost based upon management's valuation process is as follows:

	Taurus (A)	Fairstar (B)
	\$	\$
Net assets acquired:		
Current assets	2,176,684	-
Mineral properties	18,408,675	6,205,446
	20,585,359	6,205,446
Liabilities assumed:		
Current liabilities	(145,059)	-
Current loan and interest payable	(1,453,340)	-
Non-current liabilities	(22,372)	-
Future income tax liabilities	-	(445,446)
	(1,620,771)	(445,446)
	18,964,588	5,760,000
Consideration given:		
Share consideration	17,438,264	5,460,000
Option and warrant consideration	592,719	-
Cash and costs of acquisition	933,605	300,000
Total consideration	18,964,588	5,760,000

American Bonanza Gold Corp.

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2. ACQUISITION OF INTERNATIONAL TAURUS RESOURCES INC. AND FAIRSTAR EXPLORATIONS INC.'S MINERAL INTERESTS (continued)

The Corporation will undertake tax planning initiatives which will result in the reduction in the Corporation's future income tax valuation allowance and this amount has been included in the above purchase price allocation.

Incremental costs related to this acquisition of \$933,605 have been included as a cost of the acquisition. The fair value of options and warrants exchanged on acquisition of \$592,719 are included as a cost of the acquisition and were determined using the Black-Scholes option pricing model using following weighted average assumptions:

Risk free interest rate	3.57%
Expected dividend yield	0%
Stock price volatility	66%
Expected life of options	1.3 years

Acquisition costs incurred and deferred as at December 31, 2004, and included in the transaction costs above, totalled \$216,958.

3. CHANGE IN ACCOUNTING POLICIES

The Corporation has a stock-based compensation plan, which is described in note 9. Prior to January 1, 2004, the Corporation had adopted the standard prescribed by the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. Any consideration paid by employees and directors on the exercise of stock options and purchase of stock was credited to share capital and no compensation expense was recognized. Effective January 1, 2002, the Corporation has applied the fair value method for stock-based compensation awards to non-employees.

The CICA Accounting Standards Board amended CICA Handbook Section 3870 - Stock-based Compensation and Other Stock-based Payments - to require corporations to account for employees and directors stock options using the fair value based method, of the stock-based compensation effective January 1, 2004. Under the fair value based method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Corporation has retroactively applied the fair value based method to all employees and directors stock options granted on or after January 1, 2002, without restatement. The effect of retroactively adopting the fair value based method, without restatement, is to increase the deficit and contributed surplus by \$2,874,967 as at January 1, 2004.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, the measurement principles of which materially conform with those established in the United States of America, except as explained in note 13.

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned Canadian subsidiaries:

- International Taurus Resources Inc.;
- American Bonanza Gold Mining Corp;
- Bonanza Gold Inc., which in turn has a wholly-owned subsidiary, Bonanza Explorations Inc. (a United States, Nevada corporation).
- 0710882 B.C. Ltd.

All inter-company transactions and balances have been eliminated.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The reporting and functional currency of the Corporation is the Canadian dollar. The functional currency of its Canadian subsidiaries is also the Canadian dollar.

As the Corporation's foreign subsidiary has been dependent on funding from its parent, the Corporation, in 2002, redefined the operations of its foreign subsidiary from self-sustaining to integrated. As a result, the temporal method of translating the accounts of the foreign subsidiaries has been adopted in place of the current rate method. Under this method, monetary assets and liabilities are translated to Canadian dollars at the prevailing year end exchange rate. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the average of exchange for the year. Translation gains and losses are included in the statement of operations and deficit.

Financial instruments

For certain of the Corporation's financial instruments, including cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities, carrying amounts approximate fair value due to their short-term to maturity.

Income taxes

The Corporation accounts for income taxes under the asset liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are measured using tax rates anticipated to be in effect in the periods that the temporary differences are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Share issuance costs

Costs incurred in connection with share issuances are accounted for as a reduction to share capital.

Loss per share

Basic loss per share is calculated by dividing net loss available to the shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options and warrants by application of the treasury stock method. Outstanding stock options and share purchase warrants that would potentially dilute basic loss per share have not been included in the computation of diluted loss per share because to do so would be anti-dilutive. The weighted average number of issued and outstanding common shares for the periods prior to the Arrangement reflect those of Bonanza, retroactively adjusted to reflect the exchange ratio in the Arrangement agreement (note 2).

Asset Retirement Obligations

The present value of future asset retirement obligations is recorded as a liability when that liability is incurred with a corresponding increase in the carrying value of the related assets. The liability is accrued to the amount ultimately payable over the period to the date it is paid.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

The Corporation determines if any impairment exists whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is then required, if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of loss is measured as the amount by which the long-lived asset's carrying value exceeds its fair value.

Segmented information

The Corporation conducts its business in a single operating segment being the investment in exploration and development of mineral properties. All mineral properties are located in Canada and in the United States as detailed in note 7.

Comparative figures

Certain comparative figures have been reclassified where applicable to conform with the presentation adopted in the current year.

5. AMOUNTS RECEIVABLE AND OTHER ACCRUED LIABILITY

Amounts receivable consist of the following:

	2005	2004
	\$	\$
Goods and services tax	61,673	12,405
Quebec sales tax	60,496	-
Mining duty receivable (a)	748,114	-
Other	77,366	43,049
	<u>947,649</u>	<u>55,454</u>

(a) Government Assistance

In connection with the Arrangement, summarized in note 2, the Corporation, through Taurus, qualifies for mineral exploration assistance programs associated with incurring exploration and development expenditures on mineral properties located in Quebec. The assistance programs comprised of a Refundable Tax Credit of 35% of eligible exploration expenses pursuant to Quebec's Tax Act and a further 12% refundable credit on eligible expenditures pursuant to Quebec's Mining Duties Act. During 2005, the Corporation was re-assessed for its 2002 tax year filing reducing its claim for Refundable Tax Credit Claim received by \$587,604, plus interest of \$138,169. The Corporation intends to file an appeal to contest the assessment. The Corporation has accrued the \$725,773 in accounts payable and other liabilities at December 31, 2005.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. MARKETABLE SECURITIES

As at December 31, 2005 the Corporation held the following marketable securities:

	Number of Shares	December 31, 2005 \$	December 31, 2004 \$
Northern Canadian Minerals Inc.	60,000	10,200	10,200

Pursuant to the terms of the Option Agreement entered into with Northern Canadian Minerals Inc. (formerly "American Nevada Gold Corp.") (note 7(c)) the Corporation received 60,000 common shares as other consideration for entering into this Agreement. The quoted market value of these securities was \$2,800 at December 31, 2005 and \$10,200 at December 31, 2004.

7. MINERAL PROPERTIES

Project	2005 \$	2004 \$
Copperstone (a)	21,732,835	16,064,009
Fenelon (b(i))	12,350,507	-
Taurus Gold (b(ii))	6,546,020	-
Gold Bar (c)	1,013,399	857,445
Northway	3,774,047	-
Other (d)	2,530,858	173,064
Pamlico (c)	-	1,732,170
	<u>47,947,666</u>	<u>18,826,688</u>

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

7. MINERAL PROPERTIES (continued)

Schedule of mineral property expenditures during 2005:

	Copperstone	Fenelon	Taurus	Gold Bar	Pamlico	Northway	Martiniere and Other	Total 2005	Total 2004	Total 2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of year	16,064,009	-	-	857,445	1,732,170	-	173,064	18,826,688	11,406,116	8,749,879
Additions during the year:										
Acquisition of International Taurus Inc. and Fairstar Resources Inc.'s Mineral Investments (note 2)	-	12,065,842	6,480,898	-	-	3,755,517	2,311,864	24,614,121	-	-
Decline, drilling and underground support	3,769,846	-	-	-	-	-	-	3,769,846	4,309,183	1,387,361
Geological consulting and related	605,503	542,014	65,122	24,637	-	17,969	1,475	1,256,720	1,010,314	354,694
Consulting – fair value of options	-	-	-	-	-	-	-	-	220,568	232,542
Drilling, net of JV costs	-	-	-	103,470	-	-	-	103,470	306,809	141,211
Assaying	407,426	-	-	4,992	-	-	187	412,605	540,519	107,239
Geophysics	35,028	-	-	27	-	-	-	35,055	123,129	-
Feasibility	209,324	-	-	-	-	-	-	209,324	-	-
Engineering/environmental	128,749	-	-	-	-	-	-	128,749	-	-
Advance royalty payment	-	-	-	-	-	-	-	-	40,740	40,551
BLM land payments	125,932	-	-	16,541	-	-	10,090	152,563	129,692	94,362
Property acquisition and related	102,870	-	-	-	-	-	-	102,870	151,506	-
Property payment	-	3,838	-	-	10,146	561	34,178	48,723	119,750	197,385
Computer and related	8,291	-	-	-	-	-	-	8,291	10,701	78,618
Capitalized interest	-	-	-	-	-	-	-	-	-	36,907
Site maintenance and camp:										
Utilities and power	73,198	-	-	-	247	-	-	73,445	82,934	56,527
Property caretakers	39,490	-	-	-	-	-	-	39,490	82,111	43,767
Equipment and truck rental	85,931	-	-	1,084	-	-	-	87,015	203,298	32,593
Telephone	6,205	-	-	-	-	-	-	6,205	9,735	11,573
Maintenance, supplies, other	71,033	19,829	-	5,203	157	-	-	96,222	79,583	34,613
Government assistance	-	(281,016)	-	-	-	-	-	(281,016)	-	-
Write-off of Pamlico property	-	-	-	-	(1,742,720)	-	-	(1,742,720)	-	-
Debt forgiveness and exchange gain on acquisition payables	-	-	-	-	-	-	-	-	-	(193,706)
	5,668,826	12,350,507	6,546,020	155,954	(1,732,170)	3,774,047	2,357,794	29,120,978	7,420,572	2,656,237
Balance, end of year	21,732,835	12,350,507	6,546,020	1,013,399	-	3,774,047	2,530,858	47,947,666	18,826,688	11,406,116

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. 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 per cent 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 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 with the royalty increasing to 6 per cent if the price of gold increases to over US\$551 per ounce. The Corporation pays a minimum advance royalty per year of US\$30,000.

In June 2000, the Corporation entered into an agreement (the Copperstone D-Zone Joint Venture as amended) 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.

During 2001, Phase One was completed and the Corporation obtained an accumulated 60% 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:

- (i) 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;
- (ii) 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;
- (iii) 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 agreement;
- (iv) US\$345,000 payable to CDC and or its principal on or before July 31, 2002; and
- (v) US\$70,000 from initial proceeds from extraction of mineralized materials from the D-Zone, following repayment of the Brascan loan agreement.

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

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 percent net profits royalty from the D-Zone bulk sample of up to 50,000 tons of mineralized material that may be completed.

All required payments were made with respect to the Copperstone project during 2005 and the claims held are in good standing until August 2006.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. MINERAL PROPERTIES (continued)

(b) Taurus and Fairstar mineral interests

Taurus and Fairstar were engaged in the acquisition, exploration and development of high-grade 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

Taurus' principal property is the Fenelon gold property located in the Province of Quebec, approximately 30 kilometers east of the Corporation's Martiniere gold property. The Fenelon property consists of 454 mining claims totaling 17,830 acres. The Corporation holds a 100% interest in the Fenelon project as a result of the Arrangement as summarized in note 2.

Pursuant to a joint venture agreement among Cyprus Canada ("Cyprus"), now a wholly owned subsidiary of Phelps Dodge Corporation, and OGY Petroleum Ltd. dated April 30, 1994 (the "Joint Venture Agreement"), the Assignment and Novation Agreement dated July 28, 1995 among OGY Petroleum Ltd, Fairstar and Cyprus, the Assignment and Novation Agreement May 1, 2000 among Cyprus, Taurus and Fairstar and a Memorandum of Agreement between Taurus and Fairstar dated July 10, 2002, Taurus has a 62% interest in the Fenelon Project and Fairstar held the remaining 38% interest prior to the Arrangement.

Cyprus is entitled to payments of US\$450,000 payable in three installments of US\$150,000 each, with the first installment to be paid on the achievement of commercial production. Once these payments have been made, Cyprus will relinquish all of its rights in respect of the Fenelon property and the other Casa Berardi properties described below in exchange for a royalty. Cyprus will be entitled to a minimum 1% net smelter return ("NSR") royalty and a maximum 2% NSR royalty on properties not subject to other royalty burdens. This royalty is only applicable to Taurus' 62% interest in the Fenelon project.

A NSR royalty of 2% is also payable from production on the Fenelon Property to Morrison Petroleum Limited, a corporation that is party to an underlying agreement to the Joint Venture Agreement. This royalty is payable by Taurus and Fairstar in accordance with their respective interests under the Joint Venture Agreement. In addition, a 2% net profit royalty interest in the Fenelon Project is payable to Stonegate Management Limited (note 8).

(ii) Taurus Gold Project, British Columbia

The Corporation holds 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. Ten claim units are subject to a 2.5% net smelter royalty payable to Sable Resources Ltd.

(iii) Casa Berardi Exploration Portfolio, Quebec

Pursuant to the Option Agreement, as amended by agreement dated May 1, 2000, between Taurus and Cyprus, 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 now comprises four properties: the Fenelon Project, Martiniere "D", Northway-Noyon and La Peltrie located within the Casa Berardi sector of the Abitibi Greenstone belt.

To earn a 100% interest in all of the Cyprus Properties, Taurus must make the cumulative combined payments of US\$450,000, commencing on commercial production, which are described above under note 7(b)(i). Once these payments are made, Cyprus will 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.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. MINERAL PROPERTIES (continued)

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. Bonanza's Fenelon Gold Project is 30 kilometers to the east.

The Northway Project is located in Quebec, 25 kilometers south of Matagami and 530 kilometers northwest of Montreal. The property covers the ~~east~~ extension of Agnico Eagle's ~~Veza~~ gold deposit and it is on the Casa Berardi Break or deformation zone, which also hosts ~~the~~ Eagle, Vior, Golden Hope and Golden Knight gold mines. The property consists of two contiguous ~~claims~~ blocks: the 113-claim, 1,600 hectare block and the contiguous 114 claim, 2,000 hectare Noyon block. International ~~Tar~~ Resources Inc. acquired the Cyprus Canada 75% interest in these properties in 2000. A 25% interest remains in ~~the~~ Caspian Energy Inc. On the Northway block, there is a 2% Net Smelter Return royalty, which may be bought out entirely.

(iv) Northshore Project, Ontario

The Northshore gold property is 100% owned by Taurus ~~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.

(c) Pamlico and Gold Bar

Through the acquisition in 2000 of Bonanza Gold Inc. and ~~its~~ wholly-owned subsidiary, Bonanza Explorations Inc., the Corporation purchased, or controlled by option, a number ~~of~~ exploration projects in the State of Nevada, United States. The primary projects consisted of the Pamlico and Gold Bar.

The Pamlico and Gold Bar projects currently ~~compr~~ise 133 patented and unpatented mining claims covering approximately 10 square kilometers which are ~~prospective~~ for gold. An annual ~~cost~~ 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 2005 and the claims ~~held~~ in good standing until August 2006.

The Pamlico property is located in Mineral County, ~~15~~ kilometers from Hawthorne, Nevada. The Pamlico property was subject to a cash payment of US\$25,000 due ~~November 2001~~ which was deferred and paid in 2002. In 2002, a further cash payment of US\$150,000 was made. On ~~November 10,~~ 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. On November 10, 2004, the Corporation made a cash payment of US\$100,000 ~~and~~ deferred the final remaining cash payment of US\$425,000 to November 2005. In November 2005, the ~~Corporation~~ did not make the final property payment and returned the Pamlico project to the property ~~vendor~~ and ~~recognized~~ a write-down of deferred mineral property expenditures of \$1,742,720.

The Gold Bar property is located in Eureka County, 50 ~~kilometers~~ 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~~ Agreement with Northern Canadian Minerals Inc. ("Northern Canadian"). Under the terms of the ~~Option~~ Agreement, Northern Canadian 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 ~~year~~ period totaling \$3,600,000. On September 9, 2003 Northern Canadian 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 Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. MINERAL PROPERTIES (continued)

(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.

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.

8. LOAN AND INTEREST PAYABLE

In connection with the Arrangement, as summarized in Note 2, the Corporation, through Taurus, assumed a loan facility with Stonegate Management Limited ("Stonegate"). In August 2000, Taurus had entered into a loan agreement with Stonegate, a private corporation, for US\$1,000,000 ("loan") which was to be used for purposes of funding development work at the Fenelon Gold Project. During 2003, the amended terms of the loan agreement provided for repayment of the principal, together with interest at a rate of 15% p annum by December 1, 2005. In addition, Stonegate was granted a net profits royalty of 6% on Taurus share (62%) of the profits from the Fenelon Project and 600,000 common share purchase warrants to purchase common shares of the Corporation at \$1.50 per common share (adjusted pursuant to the Arrangement) which were to expire on December 1, 2005.

On June 1, 2005 the Corporation and Stonegate revised the terms of the loan agreement whereby the net profits interest was amended to 2% on the entire Fenelon project rather than 6% of 62% of the project, and the Corporation agreed to repay US\$400,000 of principal, pay accrued interest to May 2005 of US\$231,813 and extend the expiry date of the common share purchase warrants to December 1, 2007. The Corporation repaid US\$400,000 of principal and accrued interest to May 31, 2005 totaling US\$231,813 through the issuance of 1,224,551 Common Shares of the Corporation. On August 12, 2005, the Corporation completely repaid the remaining balance of the Stonegate loan totaling US\$600,000 of principal and accrued interest of US\$17,942.

A gain on debt settlement in the amount of \$355,120 has been recognized based on the difference in the fair market value of the Company's shares at the time of settlement (\$0.36 per shares) and the implied price in the debt settlement agreement (\$0.65 per share). This gain has been offset by the cost of the extension of the warrants of \$48,728 valued under the fair value method.

9. 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. Details of issued common shares of Bonanza prior to completion of the Arrangement and been retroactively restated to reflect the exchange ratios discussed in note 2(i) and of the Corporation subsequent to the Arrangement are as follows:

American Bonanza Gold Corp.

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9. SHARE CAPITAL (continued)

Issued	Number of Common Shares	Amount \$
Balance, December 31, 2002	23,316,598	21,329,982
Shares issued for:		
Private placements	12,609,578	13,025,000
Corporate finance fees on private placements	356,250	-
Public offering	1,785,715	2,000,000
Corporate finance fee on public offering	55,000	-
Warrant exercise	3,579,043	2,991,744
Stock option exercise	150,000	94,500
Share issue costs	-	(1,232,472)
Balance, December 31, 2003	41,852,184	38,208,754
Shares issued for:		
Warrant exercise	5,218,904	4,293,127
Balance, December 31, 2004	47,071,088	42,501,881
Shares issued for:		
Shares issued on acquisition of Taurus (note 2)	20,759,837	17,438,264
Shares issued on acquisition of Fairst mineral interests (note 2)	6,500,000	5,460,000
Shares issued on loan repayment (note 8)	1,224,551	440,838
Private placement	9,762,000	4,392,900
Share issue costs	-	(425,114)
Elimination of accumulated deficit	-	(18,683,952)
Balance, December 31, 2005	85,317,476	51,124,817

On January 31, 2003 Bonanza completed a brokered private placement of 4,573,864 units at a price of \$0.88 per unit for gross proceeds of \$4,025,000. Each unit was comprised of one common share and one half of a non-transferable common share purchase warrant. Each whole non-transferable common share purchase warrant entitled the holder to acquire one additional common share for a period of one year until January 31, 2004 at a price of \$1.12. All of these warrants were exercised during 2004.

Canaccord, as agent for this offering, was paid a cash agent fee of 7 percent of the aggregate gross proceeds, agent warrants totaling 457,386 representing 10 percent of the units sold, exercisable under the same terms as the private placement, and a corporate finance fee payable through the issuance of 11,500 units. Each unit was comprised of one common share and one non-transferable warrant exercisable under the same terms as the private placement.

On October 23, 2003, Bonanza completed a public offering of 1,785,715 units at a price of \$1.12 per unit totaling \$2,000,000. Each unit was 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 two years until October 23, 2005 at a price of \$1.40.

Canaccord as agent for this offering, was paid a cash agent fee of 7 percent of the aggregate gross proceeds, agent warrants totaling 178,572 representing 10 percent of the units sold, exercisable under the same terms as the public offering, and a corporate finance fee payable through the issuance of 55,000 units. Each unit was comprised of one common share and one non-transferable common share purchase warrant exercisable under the same terms as the public offering.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9. SHARE CAPITAL (continued)

Additionally on October 23, 2003, Bonanza also completed a brokered private placement of 8,035,714 units at a price of \$1.12 per unit totaling \$9,000,000. Each unit was 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 one year until October 23, 2006 at a price of \$1.40.

Canaccord as agent for this offering, paid a cash agent fee of 7 percent of the aggregate gross proceeds, agent warrants totaling 803,372 representing 10 percent of the number of units sold and a corporate finance fee payable through the issuance of 243,750 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.

On August 5, 2005, the Corporation completed a private placement consisting of 8,174,000 common shares which were designated as flow through shares at a price of \$0.45 per flow through share totaling \$3,678,300 and 1,588,000 non-flow through units at a price of \$0.45 per unit totaling \$714,600. Each unit consists of one common share of the Corporation and one half of one common share purchase warrant. Each whole warrant may be exercised to acquire a further common share at \$0.56 per share until February 5, 2008.

Desjardins Securities Inc. and Canac Capital Corporation (the "Agents") received a cash commission equal to 7 percent of the proceeds of the offering. The Agents also received warrants (the "Agent's Warrants") to acquire such number of common shares as is equal to 7 percent of the number of flow through shares totaling 572,180 warrants and 7 percent of the number of units sold totaling 166,740 warrants. Each Agent's Warrant is exercisable until August 5, 2007, at a price of \$0.45 per common share, as applicable.

On December 29, 2005 the Corporation entered into a brokered private placement with Northern Precious Metals 2005 Limited Partnership pursuant to which it has agreed to issue 500,000 flow-through common shares at \$0.60 per share for total proceeds of \$300,000. The securities issued in connection with the private placement were issued on January 18, 2006 and subject to a minimum four month hold period until May 18, 2006. The proceeds were fully collected in 2005.

Deficit Elimination

Pursuant to a shareholder resolution completed concurrently with the Arrangement (note 2) the Corporation reduced its common share capital account to the extent necessary to eliminate the accumulated deficit at closing of the Arrangement.

Options

The Corporation grants incentive stock options as permitted pursuant to the Corporation's Stock Option Plan (the "Plan") approved by the shareholders on March 24, 2005. 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 the date – including options granted prior to the adoption of the Plan. All options granted subsequent to March 24, 2005 may not be granted for a term exceeding 5 years, and the term will be reduced to one year following the date of grant. If the Optionee ceases to be qualified to receive options from the Corporation those options shall immediately terminate. All options vest when granted unless otherwise specified by the Board of Directors.

As at December 31, 2005, the Corporation has stock options outstanding to acquire aggregate of 7,000,000 common shares to directors, officers, employees and consultants exercisable at between \$0.40 and \$1.68 per share exercisable at varying times up until June 24, 2012. The above information has been restated to reflect the exchange ratios discussed in note 2(i):

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

9. SHARE CAPITAL (continued)

Options (continued)

	Number of Options	Weighted average exercise price
Balance, December 31, 2002	2,252,500	\$0.60
Granted	1,962,500	\$1.60
Exercised	(150,000)	\$0.64
Cancelled	(275,000)	\$0.60
Balance, December 31, 2003	3,790,000	\$1.12
Granted	387,500	\$1.20
Cancelled	(50,000)	\$1.20
Balance, December 31, 2004	4,127,500	\$1.12
Options issued on acquisition (note 2)	820,000	\$1.22
Expired	(430,000)	\$0.60
Cancelled	(482,500)	\$1.35
Granted	2,965,000	\$0.43
Balance, December 31, 2005	7,000,000	\$0.86

Subsequent to December 31, 2005, the Corporation granted 1,355,000 stock options at a weighted average exercise price of \$0.69.

The following table summarizes stock options outstanding and exercisable at December 31, 2005:

Number of Options	Exercise Price	Expiry Date
552,500	\$0.40	March 4, 2007
850,000	\$0.68	December 6, 2007
312,500	\$1.24	February 24, 2008
40,000	\$1.10	April 8, 2008
62,500	\$1.16	May 9, 2008
1,562,500	\$1.68	October 27, 2008
170,000	\$1.50	January 8, 2009
275,000	\$1.20	May 17, 2009
90,000	\$1.15	October 25, 2009
2,440,000	\$0.43	May 10, 2010
525,000	\$0.45	July 14, 2010
50,000	\$0.50	September 11, 2010
50,000	\$0.50	September 26, 2010
20,000	\$0.60	June 24, 2012
<u>7,000,000</u>		

During the year ended December 31, 2005, under the fair value based method, \$733,248 compensation expense was recorded for options granted to employees and charge operations. In the year ended December 31, 2004, \$220,568 (2003 - \$232,542) was recorded for options granted to consultants had charged to the Mineral Properties. In addition, the effect of retroactively adopting the fair value based method for options granted to directors, officers and employees is to increase the opening deficit and contributed surplus by \$2,874,967 as at January 1, 2004 as described in note 3.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

9. SHARE CAPITAL (continued)

Options (continued)

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:

	2005	December 31, 2004	2003
Risk free interest rate	3.5%	2.5%	2.5%
Expected dividend yield	0%	0%	0%
Stock price volatility	104%	90%	165%
Expected life of options	5 years	3 years	3 years

The weighted average fair value of options granted during the year ended December 31, 2005 was \$0.43 (2004 - \$0.14; 2003 - \$0.34).

Warrants

At December 31, 2005, the Corporation has granted common share purchase warrants ("warrants") to acquire an aggregate of 7,675,786 common shares outstanding. The below information has been restated to reflect the exchange ratio discussed in note 2(i):

	Number of Warrants	Weighted Average Exercise Price \$
Balance, December 31, 2002	7,688,905	1.08
Warrants issued on financing	9,048,466	1.32
Exercised	(3,579,043)	0.84
Balance, December 31, 2003	13,158,328	1.08
Exercised	(5,218,904)	0.82
Expired	(334,008)	0.68
Balance, December 31, 2004	7,605,416	1.24
Warrants issued on acquisition (note 2)	4,116,335	1.52
Warrants issued on financing	1,532,920	0.51
Expired	(5,578,885)	1.22
Balance, December 31, 2005	<u>7,675,786</u>	<u>1.27</u>

The following table summarizes warrants outstanding and exercisable at December 31, 2005:

Number of warrants	Exercise Price	Expiry Date
438,350	\$2.00	June 30, 2006
54,650	\$2.00	July 15, 2006
5,049,866	\$1.40	October 23, 2006
738,920	\$0.45	August 5, 2007
600,000	\$1.50	December 1, 2007
794,000	\$0.56	February 5, 2008
<u>7,675,786</u>		

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

9. SHARE CAPITAL (continued)

Contributed Surplus

The effect of retroactively adopting the fair value method for options granted to directors, officers and employees, without restatement, is to increase contributed surplus and the opening deficit by \$2,874,967 as at January 1, 2004 as described in note 3:

	2005
	\$
Balance, December 31, 2002 and 2003	232,542
Adjustment to reflect change in accounting for stock options (note 3)	2,874,967
Stock-based compensation	220,568
Balance, December 31, 2004	3,328,077
Option and warrant consideration on acquisition (note 2)	592,719
Extension of warrant term on Stonegate loan settlement (note 8)	48,728
Stock-based compensation	733,248
Balance, December 31, 2005	<u>4,702,772</u>

During the year ended December 31, 2003, no compensation costs were recorded in the statements of operation and deficit for options granted to employees and directors. Had compensation costs been determined for employees and directors awards granted after December 31, 2001 using the fair value based method at their respective grant dates, the Corporation's loss for the year ended December 31, 2003 would have been as follows:

	2003
	\$
Net loss for the year, as reported	(605,214)
Employee compensation expense related to the fair value of options granted	(2,431,000)
Pro forma net loss for the year	<u>(3,036,214)</u>
Pro forma loss per share – basic and diluted	<u>(0.10)</u>

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004	2003
	\$	\$	\$
Management fees, consulting and salaries	555,344	443,700	190,909
Office and administration	93,546	32,215	34,305
Legal and accounting	188,643	102,276	10,968
Insurance	93,228	41,580	45,320
Public company expenses	357,963	343,100	121,720
Capital taxes	-	31,067	-
	<u>1,288,724</u>	<u>993,938</u>	<u>403,222</u>

11. LEASE OBLIGATION

The company is committed under lease agreements for office premises in Vancouver and Reno in the amount of \$74,120 per year expiring May 31, 2008.

The Company's lease obligation to The Patch Living Trusts the Copperstone mineral property is disclosed in note 7(a).

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

12. INCOME TAXES

The difference between the actual income tax expense of \$84,965 and the expected statutory corporate income tax recovery is largely attributable to non-deductible stock-based compensation, expiry of prior year losses, resource tax adjustments and the non-recognition of certain losses.

The Corporation has Canadian tax loss carryforwards of approximately \$5.5 million. The non-capital losses can offset future income for tax purposes which expire between 2005 to 2015. In addition, the Corporation has approximately \$26.4 million of resource pools, which can be utilized and deducted against future resource profits.

The income tax expenses for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	\$	\$	\$
Current	-	-	-
Future tax expense	84,965	-	-
	<u>84,965</u>	-	-

Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2005	2004
	\$	\$
Future income tax assets:		
Tax loss carry forwards	1,723,000	2,036,000
Book and tax base differences on resource properties	3,245,000	2,604,000
Share Issue costs	309,000	318,000
Book and tax base differences on office equipment	41,000	31,000
	<u>5,318,000</u>	<u>4,989,000</u>
Valuation allowance	<u>(2,327,190)</u>	<u>(4,989,000)</u>
Future income tax assets	2,990,810	-
Future tax liabilities:		
Mineral properties	<u>(3,849,875)</u>	<u>(328,654)</u>
Net future income tax liabilities	<u>(859,065)</u>	<u>(328,654)</u>

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP")

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A description of US GAAP and practices prescribed by the US Securities and Exchange Commission ("SEC") that result in material measurement differences from Canadian GAAP are as follows:

(a) Mineral properties and deferred exploration costs

US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Corporation is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. SEC staff has indicated that their interpretation of US GAAP requires mineral property exploration and land use costs to be expensed as incurred until commercially mineable deposits are determined to exist within a particular property as cash flows cannot be reasonably estimated prior to such determination. Accordingly, for all periods presented, the Corporation has expensed all mineral property exploration and land use costs for US GAAP purposes. The costs remaining for US GAAP purposes relate to mineral property acquisition costs.

For Canadian GAAP, cash flows relating to mineral property costs are reported as investing activities. For US GAAP, these costs would be characterized as operating activities.

(b) Stock-based compensation

The Financial Accounting Standards Board in the U.S. issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") which is effective for fiscal years beginning after December 15, 1995. The statement encourages entities to adopt a fair value methodology of accounting for employee stock-based compensation.

As permitted by the statement, the Corporation has elected to continue measuring compensation costs using the intrinsic value based method for US GAAP purposes and accounting for employee stock-based compensation as prescribed by APB Opinion No. 25 and related interpretations. Under the intrinsic value method, compensation cost is the excess, if any, of the quoted market value of the stock at the date of the granting of options to employees and directors to purchase stock over the amount an optionee must pay to acquire the stock at that date. This excess is recognized by a charge to compensation expense over the vesting period. As the exercise price of options granted by the Corporation to employees and directors is equal to or is greater than the market value at the grant date, the Corporation has determined that the application of this accounting policy for stock options granted to employees and directors resulted in no compensation expense for US GAAP purposes for any of the periods presented.

The Company adopted the fair value based method of accounting for employee stock-based compensation under US GAAP effective January 1, 2005 using the modified prospective transition method. Under this method, the Company recognized employee stock-based compensation beginning January 1, 2005 as if the fair value method had been used for all employee awards granted, modified beginning in fiscal year beginning after December 15, 1994. Results of prior years were not restated and no cumulative adjustment was required upon adoption.

In accordance with one of the transitional options permitted under amended CICA Handbook Section 3870, during the year ended December 31, 2004 the Corporation adopted and retroactively applied the fair value based method under Canadian GAAP for employee and director stock options granted on or after January 1, 2002, without restatement. The effect of retroactively adopting the fair value based method, without restatement, under Canadian GAAP was to increase the deficit and retained surplus by \$2,874,967 as at January 1, 2004. For US GAAP purposes, no adjustment would be made as the Company could follow the intrinsic value method until January 1, 2005.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(b) Stock-based compensation(continued)

Stock-based compensation for non-employees recognized for Canadian GAAP purposes in 2004 of \$220,568 (2003 - \$232,542) and included in exploration costs would also be recognized under US GAAP and have been adjusted for US GAAP purposes under the adjustment for deferred exploration costs in note 13(a).

Under SFAS 123, stock options granted to non-employees for services rendered to the Corporation are required to be accounted for using the fair value method as compensation cost and charged to operations as the services are performed and the options are earned. This method is similar to the Canadian standard adopted as of January 1, 2002 for awards granted on or after January 1, 2002. Since the Corporation's options vested at the date of grant, compensation costs for US GAAP purposes do not result in a measurement difference for grants made in the years ended December 31, 2004, 2003 and 2002. Stock-based compensation expense in respect of stock options granted to non-employees, under US GAAP, would be \$nil cumulatively from the date of adoption of SFAS 123 to December 31, 2001.

(c) Escrow shares

With respect to contingently issuable shares held in escrow, U.S. GAAP requires that contingently issuable shares only be included in the calculation of earnings per share when eligible for release from escrow. Consequently, 302,055 contingently issuable escrow shares would not have been included in weighted average common shares outstanding and therefore would not have been included in the calculation of loss per share for the year ended December 31, 2003.

(d) Unrealized holding gains and losses on marketable securities

Statement of Financial Accounting Standards Board No. "Accounting for Investments in Debt and Equity Securities" ("SFAS 115") requires that the Corporation's marketable securities be classified as available-for-sale securities and that they be recorded at market value with unrealized gains or losses recorded outside of income as a component of shareholders' equity unless a decline in value is considered to be other than temporary. The Corporation's marketable securities are presented at the lower of cost or market value under Canadian GAAP. There are no significant differences between the carrying value and market value of the securities which would be recorded in comprehensive income for US GAAP purposes for any of the years presented in these consolidated financial statements.

(e) Reporting comprehensive income

Statement of Financial Accounting Standards No. 130 ("SFAS 130 Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income (loss) for the year as adjusted for all other non-owner changes in shareholders' equity. SFAS 130 requires that items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. For the years ended December 31, 2005, 2004 and 2003, comprehensive loss equals the loss for the year.

(f) Development stage company

Pursuant to US GAAP, the Corporation would be subject to the disclosure requirements applicable to a development stage enterprise as the Corporation is devoting its efforts to establishing commercially viable mineral properties. However, the identification of the Corporation as such for accounting purposes does not impact the measurement principles applied to these financial statements.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(g) Consolidated statements of cash flows

The Corporation has included a subtotal in cash flows from operating activities. Under US GAAP, no such subtotal would be disclosed.

(h) Elimination of accumulated deficit

During the year ended December 31, 2005, the Corporation reduced its share capital by \$18,683,952 to eliminate its accumulated deficit at closing of the Arrangement (note 9).

As it was not necessary to revalue the assets of the Company in order to effect this reduction, all conditions necessary under US GAAP quasi-organization rules were not met and the capitalization of the deficit is not recorded.

(i) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantially enacted tax rates. Under US GAAP, deferred tax assets and liabilities are recorded at enacted tax rates. There were no significant differences between enacted and substantively enacted tax rates.

(j) Flow-through shares

Included in cash and cash equivalents is unused flow-through share offering proceeds of \$3,230,385 (2004 - nil) which are required to be expended on qualifying mineral exploration expenditures. Under US GAAP, these amounts would be separately disclosed on the consolidated balance sheet as restricted cash and cash equivalents balances.

(k) Recent accounting pronouncements

(i) Financial Interpretation No. 46 as revised ("FIN 46R", "Consolidation of Variable Interest Entities") addresses the consolidation of variable interest entities (formerly referred to as "Special-Purpose Entities"). The Interpretation is generally in effect as of the beginning of the first reporting period ending after March 15, 2004. To date, the adoption of FIN 46R has not impacted the Corporation's consolidated financial statements.

(ii) FASB has issued a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123(R)"). SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The compensation cost is to be recognized over the service period which is determined by the vesting period. This statement is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company has not determined the effect of adopting SFAS No. 123(R).

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(k) Recent accounting pronouncements (continued)

- (iii) In December 2004, United States Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 153 ("SFAS 153"). This statement addresses the measurement of exchanges of non-monetary assets. The guidance in Accounting Principles Board Opinion No. 29, "Accounting for Non-Monetary Transactions" ("APB 29") is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for exchanges of non-monetary assets of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. We believe the adoption of this statement will have no impact on our financial statements.

(l) Reconciliation

The effect of the above measurement differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the consolidated balance sheets and statements of loss and deficit and cash flows is summarized as follows:

	2005	2004
	\$	\$
(i) Total assets, under Canadian GAAP	54,428,595	28,688,663
Adjustment for mineral properties land use and deferred exploration costs (note 13(a))	(19,350,603)	(13,490,106)
Total assets, under US GAAP	35,077,992	15,198,557
(ii) Deficit		
	2005	2004
	\$	\$
Deficit, under Canadian GAAP	(3,908,855)	(18,376,847)
Adjustment for mineral properties land use and deferred exploration costs (note 13(a))	(19,350,603)	(13,490,106)
Stock-based compensation (note 13(b))	2,874,967	2,874,967
Elimination of accumulated deficit (note 13(h))	(18,683,952)	-
Deficit, under US GAAP	(39,068,443)	(28,991,986)

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(i) Reconciliation (continued)

(iii) Share capital

	2005	2004
	\$	\$
Share capital, under Canadian GAAP	51,124,817	42,501,881
Elimination of share capital on deficit elimination (note 13(h))	18,683,952	-
Share capital, under US GAAP	69,808,769	42,501,881

(iv) Contributed surplus

	2005	2004
	\$	\$
Contributed surplus, under Canadian GAAP	4,702,772	3,328,077
Stock-based compensation (note 13(b))	(2,874,967)	(2,874,967)
Contributed surplus, under US GAAP	1,827,805	453,110

(v) Net loss and loss per share for the year

	Years ended December 31		
	2005	2004	2003
	\$	\$	\$
Loss for the year, under Canadian GAAP	(4,215,960)	(1,219,731)	(605,214)
Adjustment for mineral property land use and deferred exploration costs (note 13(a))	(5,860,497)	(7,420,572)	(2,656,237)
Loss and comprehensive loss for the year, under US GAAP	(10,076,457)	(8,640,303)	(3,261,451)
Weighted average number of common shares outstanding under US GAAP, basic and diluted	72,356,898	45,528,057	30,471,692
Basic and diluted loss per share, under US GAAP	(0.14)	(0.19)	(0.11)

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

December 31, 2005, 2004 and 2003

13. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP") (continued)

(I) Reconciliation (continued)

(vi) Cash provided by (used in) operating activities

	Years ended December 31		
	2005	2004	2003
	\$	\$	\$
Cash used in operating activities, under Canadian GAAP	(1,373,209)	(807,061)	(1,129,473)
Adjustment for mineral properties and deferred exploration (note 13(a))	(6,249,577)	(7,200,004)	(2,423,695)
Cash used in operating activities, under US GAAP	(7,622,786)	(8,007,065)	(3,553,168)

(vii) Cash provided by (used in) investing activities

	Years ended December 31		
	2005	2004	2003
	\$	\$	\$
Cash used in investing activities, under Canadian GAAP	(6,290,519)	(7,425,137)	(2,433,747)
Adjustment for mineral properties and deferred exploration (note 13(a))	6,249,577	7,200,004	2,423,695
Cash used in investing activities, under US GAAP	(40,942)	(225,133)	(10,052)

CORPORATE INFORMATION

DIRECTORS

James Bagwell
Tampa Bay, United States

Donald Lay
Vancouver, Canada

Robert T. McKnight
North Vancouver, Canada

Ronald K. Netolitzky
Victoria, Canada

Carl Ravinsky
Montreal, Canada

Brian P. Kirwin
Reno, United States

Giulio T. Bonifacio
Vancouver, Canada

ADVISOR TO THE BOARD OF DIRECTORS

Robert Blakestad
Denver, United States

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OFFICERS

Brian P. Kirwin
President & Chief Executive Officer

Giulio T. Bonifacio
Executive Vice President & Chief Financial Officer

Joe G. Kircher
Vice President, Chief Operating Officer

Foster V. Wilson
Vice President, Corporate Development

Robert Hawkins
Vice President, Exploration

Joe Chan
Vice President, Controller

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
Vancouver, Canada

SHARES LISTED

Toronto Stock Exchange: BZA

CAPITALIZATION

(As at March 1, 2006)
Shares Issued and Outstanding: 85,828,977

AUDITOR

KPMG LLP, Chartered Accountant
Vancouver, Canada

LEGAL COUNSEL

Lang Michener
Vancouver, Canada

Harris, Mericle & Wakayama
Seattle, United States

Woodburn & Wedge
Reno, United States

WEBSITE

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

INVESTOR RELATIONS CONTACT

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