Bonanza

AMERICAN BONANZA GOLD CORP.
2006 Annual Report

American Bonanza Gold Corp.
Management's Discussion and Analysis
(Twelve months ended December 31, 2006, as of March 23, 2007)

General

The following discussion of performance, financial condition and analysis should be read in conjunction with American Bonanza Gold Corp. ("the Corporation") annual audited consolidated financial statements for the year ended December 31, 2006. All amounts are expressed in Canadian Dollars unless otherwise indicated.

Forward-Looking Statements

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

Description of Business

The Corporation is an exploration stage company engaged in the acquisition, exploration and development of high-grade gold properties located in the United States and Canada. The Corporation is developing its advanced stage 100% owned Copperstone gold project in Arizona and continues its advanced exploration program on its 100% owned Fenelon gold project located in Quebec. An aggressive surface drilling program is ongoing to expand the known resource of both projects and to test several high priority exploration targets. In addition to these advanced properties, the Corporation continues to progress other projects, including the Martiniere and Northway in Quebec, Gold Bar in Nevada, Taurus in British Columbia and Northshore 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, 2006 was $6,980,811 compared with a working capital position of $5,177,422 as at December 31, 2005. The increase in working capital was the result of the private placement raising $7,467,249 net of share issue costs plus an additional $6,440 in warrant exercise proceeds which were offset by operating activities in the period of $1,550,770 and exploration expenditures at the Copperstone, Fenelon and other properties totalling $4,096,242. The loss for the twelve months ended December 31, 2006 was $1,740,706 or $0.02 per share compared with a net loss of $4,215,960 or $0.06 per share for the twelve months period ended December 31, 2005.

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,		
	2006	**2005**	**2004**
	$	$	$
Net loss	**(1,740,706)**	(4,215,960)	(1,219,731)
Net loss per share	**(0.02)**	(0.06)	(0.03)
Total cash and cash equivalents	**6,150,005**	5,413,900	9,467,224
Working capital	**6,980,811**	5,177,422	8,750,640
Total debt	**Nil**	Nil	Nil
Total assets	**59,751,226**	54,428,595	28,688,663
Shareholders' equity	**57,799,245**	52,261,765	27,496,142

Results of Operations

For the twelve months ended December 31, 2006, the Corporation had a net loss of $1,740,706 or $0.02 per share compared to a net loss of $4,215,960 or $0.06 per share with the corresponding period in 2005. Stock-based compensation expense for this period was $748,300 (2005 - $733,248). Interest income increased to $214,474 from $128,185 which was the direct result of increased cash balances for the current period compared to the same period during 2005. General and administrative costs decreased to $1,079,642 from $1,288,724 in 2005 was the result of cost recovery from related parties under share management agreements. Public company expenses increase to $402,559 from $357,963 primary as a result of increased investor relations spending. Business development expenses decreased to $187,531 from $262,589 resulting from lower business acquisition activities compared to 2005. In 2006, the loss includes a write-down of mineral property for $79,283 (2005 - $1,742,720) and off-set by future income tax recovery provision of $649,777 (2005 – income tax expense was $84,965).

Exploration office expenses increased to $466,320 in the twelve months period from $384,020 in 2005. Activities relating to property evaluations and investigations are ongoing. Exploration expenses in the period also include all costs associated with maintaining the Corporation's exploration offices in Reno, Nevada. In 2005, the Corporation recorded a gain on debt settlement with Stonegate Management Ltd. of $306,392 and no such gain is recorded in 2006.

Summary of Quarterly Results

Selected consolidated financial information for each of the most recently completely quarters of fiscal 2006 and 2005 are as follows:

	2006				**2005**			
	Dec.	**Sept**	**Jun.**	**Mar.**	**Dec.**	**Sept.**	**June**	**Mar.**
	$	$	$	$	$	$	$	$
Interest income	**65,825**	81,664	38,891	28,094	26,865	28,756	6,456	66,108
Net income (Loss) for period	**420,651**	(411,177)	(657,305)	(1,092,875)	(2,057,211)	(546,482)	(1,305,162)	(307,105)
Net income (loss) per share	**0.00**	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)

Liquidity and Capital Resources

The Corporation's working capital as at December 31, 2006 was $6,980,811 compared with a working capital position of $5,177,422 as at December 31, 2005. Flow-through funds of $2,960,528 are included in the current working capital. Flow-through funds are restricted to Canadian Exploration Expenditures, as defined in the Canadian *Income Tax Act*. The increase in working capital in the period was the result of the private placement financing and offset by expenditures in the period at the Copperstone, Fenelon and other gold properties totalling $4,096,242. As of December 31, 2006 $1,292,884 accrued receivable from Revenue Quebec and the Ministry of Natural Resources of the Government of Quebec related to exploration expenditures occurred in that province during the previous years and up to the current quarter remained outstanding. As of December 31, 2006, accrued payable related to a 2002 and 2003 reassessment and interest by Revenue Quebec for the amount of $507,646 remained outstanding. The Corporation is contesting the interest portion of this assessment.

During 2006, the Corporation continued its surface and underground 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, 2006. In August, 2006, the Corporation began a large drilling campaign designed to expand the high grade gold resources at the 100% owned Copperstone gold project in Arizona. The drilling was completed ahead of schedule, consisting of 27 drill holes with a combined length of 7,695 meters. Total development and exploration expenditures at the Copperstone project during the twelve months period totalled $1,171,496 or $16,105,779 since the program began in 2003.

On May 31, 2006 the Corporation completed a private placement of flow-through shares and units with Dundee Securities Corporation and Haywood Securities Inc. (the "Agents") in the amount of $8,140,000. The private placement consists of 7,400,000 flow-through shares at a price of $0.55 per share, for gross proceeds of $4,070,000, and 7,400,000 units at a price of $0.55 per unit, for gross proceeds of $4,070,000. Each unit is comprised of one common share and one half of one transferable common share purchase warrant with each full warrant entitling the holder to acquire one common share at a price of $0.65 for a period of 18 months after the closing date.

The Agents were paid a cash fee equal to 7.0% of the total gross proceeds raised in the private placement. In addition, the Agents received compensation warrants exercisable for non-flow-through common shares of the Corporation equal in number to 7.0% of the number of flow-through shares and units sold under the private placement. The compensation warrants will be exercisable at a price of $0.65 per compensation share for a period of 18 months after the closing date.

As at December 31, 2006, the Corporation had cash of $6,150,005 compared to $5,413,900 as at December 31, 2005. The Corporation currently has no debt and has adequate working capital to continue its drilling programs at the Fenelon and Copperstone gold projects designed to expand the known gold resources for purposes of advancing these projects 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 programs in 2007 at the Copperstone, Fenelon and Martiniere gold projects.

Transactions with Related Parties

(a) The Corporation shares certain premises and facilities with companies which have certain directors in common, under cost-sharing arrangements with no profit elements involved. During 2006 the Corporation recovered management and consulting fees of $100,000 and general and administration expenses of $57,500.

(b) As at December 31, 2006, there were $3,291 accounts receivable due from companies with certain directors in common.

Fourth Quarter

	2006				**2005**			
	Dec.	**Sept**	**Jun.**	**Mar.**	**Dec.**	**Sept.**	**June**	**Mar.**
	$	$	$	$	$	$	$	$
Net income (Loss) for period	**420,651**	(411,177)	(657,305)	(1,092,875)	(2,057,211)	(546,482)	(1,305,162)	(307,105)
Net income (loss) per share	**0.00**	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)

The Corporation reported income of $420,651 in the fourth quarter of 2006 compared to a loss of $2,057,211 during the fourth quarter of 2005. The income in the fourth quarter of 2006 was the result of downward adjustments in stock-based compensation of $265,860 and future income tax recovery of $649,777. The loss in 2005 was due to a write off of deferred exploration expenses and mineral exploration property costs. In the fourth quarter of 2006 $79,283 of mineral property costs were written-off. Over the last eight quarters the Corporation's financial performance has largely been a function of the level of administrative expenses required to operate a public company and manage its exploration activities and stock-based compensation. In certain quarters these expenses have been offset to varying degrees by foreign exchange gains and interest income.

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 and Procedures Manual dated July 15, 2005.

The Chief Executive Officer and Chief Financial Officer also have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. After evaluating the effectiveness of the Corporation's disclosure controls and procedures, the Officers 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 recoverability of the carrying value of these mineral properties. The business of mineral exploration and extraction involves a high degree of risk since very few properties that are explored and developed ultimately achieve commercial production. At present, none of the Corporation's properties have a known body of commercial ore.

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

New Accounting Policy

The Corporation has applied the consensus of Abstract #146 of the Emerging Issues Committee of CICA in respect to its accounting for all flow-through renunciations. Under the Canadian *Income Tax Act* an enterprise may issue securities referred as flow-through shares whereby the investor may claim the tax deduction associated with the related resource expenditures. The Corporation records future income tax liabilities (or renounced expenditures multiplied by the effective corporate tax rate) on the earlier of the date that the resource expenditures are renounced to the investors and the date that, in the opinion of management, reasonable assurance exists that the expenditures will be completed. During 2006 these future income tax liabilities have been presented in the balance sheet and the offset recorded as share issue costs.

Recent Canadian accounting pronouncements

Financial Instruments

Effective January 1, 2007, the Corporation has adopted CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement, CICA Handbook Section 3865 Hedges and CICA Handbook Section 1530 Comprehensive Income (the "Financial Instrument Standards"). As the Corporation has not previously undertaken hedging activities, adoption of Section 3865 will have no impact. Prior to January 1, 2007, the principal accounting policies affecting the Corporation's financial instruments related to marketable securities that were valued at the lower of original cost and quoted market value.

The adoption of the Financial Instrument Standards will result in the Corporation classifying marketable securities and cash equivalents as available for sale investments and all derivative and other financial instruments as held for trading assets or liabilities measured at fair value. The Corporation has no derivative financial instruments or other financial instruments held for trading at December 31, 2006. Transitional adjustments in respect of these available for sale assets will be recorded to the opening investment balances and accumulated other comprehensive income on January 1, 2007.

As a consequence of adopting the Financial Instrument Standards on January 1, 2007, accumulated other comprehensive income will increase by approximately $12,300 with a corresponding increase of approximately $12,300 in investments. As a result of the adoption of this standard, the carrying value of this investment is increased by $12,300, with a corresponding increase, net of tax, to accumulated comprehensive income. This represents the net gain on measuring the fair value of available for sale investments, which has been not recognized on a fair value basis prior to January 1, 2007.

Gains or losses associated with items classified as available for sale will be separately recorded as unrealized within our other comprehensive income until such time the investment is disposed of or incurs a decline in fair value that is on an other-than-temporary basis, at which time any gains or losses will then be realized and reclassified to the income statement. The Corporation has elected to designate cash equivalents (consisting of guaranteed investment certificates and banker's acceptances) and marketable securities (all of which are investments in common shares), as available for sale.

Financial Instruments and Other Instruments

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

Marketable securities are subject to market price fluctuations. The Corporation values its marketable securities at the lower of cost and market. There were unrealized gains of $12,300 relating to marketable securities at December 31, 2006 compared to unrealized gains of $12,600 relating to marketable securities at December 31, 2005.

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

Use of Financial and Other Instruments

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

Outlook

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

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 its planned exploration programs at the Copperstone, Fenelon and other Canadian exploration assets.

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

Subsequent Events

(a) On March 2, 2007 the Corporation announced it has reached an agreement in principle with Cusac Gold Mines Ltd. ("Cusac") for the sale of its Taurus Project for total cash consideration valued of up to $11 million plus up to 3 million common shares of Cusac. The transaction is subject to regulatory approval.

The sale consideration consists of total cash payments of $6,000,000 over a two year period, 3 million common shares of Cusac over a two year period, and a further cash payment of $3,000,000 payable within 60 days of the earlier of Cusac receiving a bankable feasibility study to place the Taurus project into commercial production ("Bankable Feasibility Study") and the date the property is placed into commercial production.

If gold prices trade at or above US$800 for a period of 100 consecutive trading days during this two year period, the cash payment will be increased by $2,000,000 with $1,000,000 being added to the cash consideration and a further payment of $1,000,000 upon receipt of a Bankable Feasibility Study or commencement of commercial production, whichever is earlier.

In the event that Cusac completes all cash payments within 12 months of regulatory approval the total purchase price will be capped at $6 million in cash payments, plus $3 million upon the earlier of receipt of a Bankable Feasibility Study and the commencement of commercial production, and 1.5 million common shares of Cusac.

(b) Subsequent to December 31, 2006, 615,000 options granted to various employees and consultants with exercise price ranging from $0.40 to $1.68 had expired or cancelled. An additional 50,000 options were granted to a consultant at an exercise price of $0.40 expiring February 12, 2012.

(c) Subsequent to December 31, 2006, the Company renounced $4,070,000 of exploration expenditures to investors who purchased flow-through shares in 2006.

AMERICAN BONANZA GOLD CORP.

Consolidated Financial Statements
Years ended December 31, 2006, 2005 and 2004

Together with Auditors' Report

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated balance sheets of American Bonanza Gold Corp. as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended December 31, 2006. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

March 15, 2007

American Bonanza Gold Corp.

CONSOLIDATED BALANCE SHEETS
(In Canadian Dollars)

December 31	**2006**	2005
	$	$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**6,150,005**	5,413,900
Amounts receivable (note 5)	**1,499,433**	947,649
Prepaid expenses	**88,884**	83,814
Marketable securities (note 6)	**10,200**	10,200
	7,748,522	6,455,563
MINERAL PROPERTIES (note 7)	**51,964,625**	47,947,666
OFFICE EQUIPMENT, net	**38,079**	25,366
	59,751,226	54,428,595
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	**767,711**	1,278,141
ASSET RETIREMENT OBLIGATION (note 13)	**31,179**	29,624
FUTURE INCOME TAXES (note 14)	**1,153,091**	859,065
	1,951,981	2,166,830
SHAREHOLDERS' EQUITY		
Share capital (note 9)	**57,954,703**	51,124,817
Flow-through common share subscription (note 9)	-	300,000
Contributed surplus (notes 3 and 9)	**5,451,072**	4,702,772
Cumulative currency translation adjustment	**43,031**	43,031
Deficit	**(5,649,561)**	(3,908,855)
	57,799,245	52,261,765
	59,751,226	54,428,595

NATURE OF OPERATIONS (note 1)
COMMITMENTS (notes 7 and 11)
SUBSEQUENT EVENTS (note 16)

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	**2006**	2005	2004
	$	$	$
EXPENSES (INCOME)			
General and administrative (note 10)	**1,079,642**	1,288,724	993,938
Stock-based compensation (note 9)	**748,300**	733,248	-
Exploration	**466,320**	384,020	343,056
Business development	**187,531**	262,589	108,455
Foreign exchange	**6,341**	67,806	55,112
Interest and accretion of asset retirement obligation	**26,965**	60,450	-
Amortization	**10,575**	26,015	12,697
Write-down of mineral properties (note 7)	**79,283**	1,742,720	-
Write-down of marketable securities	-	-	12,300
Gain on debt settlement (note 8)	-	(306,392)	-
Interest income	**(214,474)**	(128,185)	(305,827)
	2,390,483	4,130,995	1,219,731
LOSS FOR THE YEAR BEFORE INCOME TAXES	**(2,390,483)**	(4,130,995)	(1,219,731)
INCOME TAXES RECOVERY (EXPENSE) (note 14)	**649,777**	(84,965)	-
LOSS FOR THE YEAR	**(1,740,706)**	(4,215,960)	(1,219,731)
DEFICIT, beginning of year	**(3,908,855)**	(18,376,847)	(14,282,149)
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	**(5,649,561)**	(3,908,855)	(18,376,847)
LOSS PER COMMON SHARE			
Basic and diluted	**(0.02)**	(0.06)	(0.03)
WEIGHTED AVERAGE NUMBER OF SHARES (note 4)	**96,280,740**	72,356,898	45,528,057

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	**2006**	2005	2004
	$	$	$
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year	**(1,740,706)**	(4,215,960)	(1,219,731)
Items not affecting cash			
Amortization	**10,575**	26,015	12,697
Gain on debt settlement	**-**	(306,392)	-
Stock-based compensation	**748,300**	733,248	-
Write-down of mineral properties	**79,283**	1,742,720	-
Write-down of marketable securities	**-**	-	12,300
Future income taxes	**(649,777)**	84,965	-
Accretion of asset retirement obligation	**1,555**	7,252	-
	(1,550,770)	(1,928,152)	(1,194,734)
Changes in non-cash operating accounts			
Amounts receivable	**(551,784)**	276,903	47,777
Prepaid expenses	**(5,070)**	8,825	(48,414)
Accounts payable and accrued liabilities	**(510,430)**	269,215	388,310
	(2,618,054)	(1,373,209)	(807,061)
INVESTING ACTIVITIES			
Mineral properties	**(4,096,242)**	(6,249,577)	(7,200,004)
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	**(23,288)**	(20,871)	(8,175)
	(4,119,530)	(6,290,519)	(7,425,137)
FINANCING ACTIVITIES			
Issue of common shares, net of issue costs	**7,473,689**	3,967,786	4,293,127
Proceeds received on flow-through common share subscription	**-**	300,000	-
Repayment of long-term debt (note 8)	**-**	(657,382)	-
	7,473,689	3,610,404	4,293,127
INCREASE (DECREASE) IN CASH	**736,105**	(4,053,324)	(3,939,071)
CASH AND CASH EQUIVALENTS, beginning of year	**5,413,900**	9,467,224	13,406,295
CASH AND CASH EQUIVALENTS, end of year	**6,150,005**	5,413,900	9,467,224

SUPPLEMENTARY INFORMATION:			
Cash flows include the following elements:			
Interest paid	**-**	60,499	-
Interest received	**214,474**	128,185	305,527
Income taxes paid	**-**	-	-
Non-cash financing and investing transactions:			
Common shares issued for share subscriptions previously received (note 9)	**300,000**	-	-
Future income tax liability and share issue costs incurred on renouncement of exploration expenditures (note 9)	**943,803**	-	-
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

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

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.

(In Canadian Dollars)

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 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 was 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

(In Canadian Dollars)

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

The Corporation plans to 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 accounting for 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 15.

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the recoverability of mineral property deferred costs, amounts receivable, future income tax assets and liabilities and assumptions used in valuing options and warrants in stock-based compensation calculations.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks or highly liquid short-term interest bearing securities that are readily convertible to known amounts of cash and those that have maturities of three months or less when acquired.

Marketable securities

Marketable securities are carried at the lower of cost and market value.

Mineral properties, deferred exploration costs and government assistance

Costs related to mineral activities, which include the investigation, acquisition, exploration, and development of mining properties, are capitalized on a property-by-property basis until such time as the Corporation determines that economically recoverable reserves are established or the property is evaluated as non-productive or uneconomical. Where exploration activities are conducted jointly with others, only the Corporation’s proportionate cost in the related mineral projects is included in the financial statements.

Costs relating to non-productive or uneconomical properties are charged to earnings and written down to their net recoverable amounts. The recovery of the carrying amount of mineral properties is dependent upon the future commercial success of the properties or from proceeds of disposition. The amounts shown for mineral properties represent costs incurred to date and are not intended to reflect present or future values.

The Corporation qualifies for mineral exploration assistance programs associated with the exploration and development of mineral properties located in Quebec. Recoverable amounts are offset against deferred exploration costs incurred when the Corporation has complied with the terms and conditions of the program and the recovery is reasonably assured.

Deferred acquisition costs

The Company defers external incremental costs of proposed acquisitions if such acquisitions are considered more than likely to be completed.

Office equipment

Office equipment, consisting of office and computer equipment, are recorded at cost and are amortized on a straight-line basis over five years.

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 U.S. subsidiary is dependent on funding from its parent, the temporal method of translating the accounts of the foreign subsidiaries has been adopted. 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 rate of exchange for the year. Translation gains and losses are included in the statement of operations.

Financial instruments

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

Income taxes

The Corporation accounts for income taxes under the asset and 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 accreted to the amount ultimately payable over the period to the date it is paid.

(In Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

The Corporation determines if any impairment exists when 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 it business in a single operating segment being the acquisition, 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:

	2006	2005
	$	$
Goods and services tax	**36,502**	61,673
Quebec sales tax	**19,955**	60,496
Interest receivable	**92,866**	27,761
Quebec refundable tax and mining duty receivable (a)	**1,292,884**	748,114
Other	**57,226**	49,605
	1,499,433	947,649

(a) Government Assistance

In connection with the Arrangement, summarized in note 2, the Corporation, through Taurus, qualifies for mineral exploration assistance programs associated with exploration and development expenditures on mineral properties located in Quebec. The assistance programs are comprised of a Refundable Tax Credit of 35% of eligible exploration expenses pursuant to Quebec's Taxation Act and a further 12% refundable credit on eligible expenditures pursuant to Quebec's Mining Duties Act. During 2005, the Corporation was re-assessed for its 2002 tax year filing, reducing its claim for the Refundable Tax Credit previously received by $587,604, plus interest of $171,374. In 2006, the Corporation was re-assessed for its 2003 filing, reducing its claim for the Refundable Tax Credit previously claimed by $235,881. In addition, during 2006, the Government of Quebec applied $528,488 of the 2005 refund towards the amounts owing by the Corporation. The Corporation has filed an appeal to contest the interest portions assessments. The Corporation has accrued an additional interest payable of $41,275 resulting in a total liability for the Refundable Tax Credit at December 31, 2006 of $507,646 (2005 - $743,113) which is included in accounts payable and accrued liabilities of $767,711 at December 31, 2006 (2005 - $1,278,141).

(In Canadian Dollars)

6. MARKETABLE SECURITIES

As at December 31, 2006 and 2005 the Corporation held the following marketable securities:

	Number of Shares	December 31, 2006	December 31, 2005
		$	$
Northern Canadian Minerals Inc.	**60,000**	**10,200**	10,200

The quoted market value of these securities was $22,500 at December 31, 2006 and $22,800 at December 31, 2005.

7. MINERAL PROPERTIES

Project	2006	2005
	$	$
Copperstone (a)	**22,904,331**	21,732,835
Fenelon (b(i))	**14,183,469**	12,350,507
Taurus Gold (b(ii))	**6,583,770**	6,546,020
Gold Bar (c)	**1,035,264**	1,013,399
Northway (b(iii))	**3,915,092**	3,774,048
Martiniere (b(iii))	**2,659,280**	2,206,636
Northshore (b(iv))	**524,051**	111,873
Other (d)	**159,368**	212,348
	51,964,625	47,947,666

(In Canadian Dollars)

7. MINERAL PROPERTIES (continued)

Schedule of mineral property expenditures during 2006:

	Copperstone	Fenelon	Taurus	Gold Bar	Northway	Martiniere	Northshore And Other	Total 2006	Total 2005	Total 2004
	$	$	$	$	$	$	$	$	$	$
Balance, beginning of year	**21,732,835**	**12,350,507**	**6,546,020**	**1,013,399**	**3,774,048**	**2,206,636**	**324,221**	**47,947,666**	18,826,688	11,406,116
Acquisition of International Taurus Inc. and Fairstar Resources Inc.'s Mineral Investments (note 4)	-	-	-	-	-	-	-	-	24,614,121	-
Consulting fair value of options	-	-	-	-	-	-	-	-	-	220,568
Decline, drilling and underground support	347,165	1,595,035	-	-	-	154,480	223,259	**2,319,939**	3,769,846	4,309,183
Geological consulting and related	162,699	405,682	37,750	-	62,461	144,129	129,075	**941,796**	1,256,720	1,010,314
Drilling, net of JV costs	-	-	-	-	-	-	-	-	103,470	306,809
Assaying	97,500	83,279	-	-	-	27,496	17,167	**225,442**	412,605	540,519
Geophysics	-	-	-	-	-	-	-	-	35,055	123,129
Feasibility	-	-	-	-	-	-	-	-	209,324	-
Engineering/environmental	266,433	217,818	-	-	-	11,074	-	**495,325**	128,749	-
Advance royalty payment	-	-	-	-	-	-	-	-	-	40,740
BLM land payments/Permit, Licenses	52,872	27,548	-	21,865	-	-	31,993	**134,278**	152,563	129,692
Property acquisition and related	-	-	-	-	75,000	-	17,058	**92,058**	102,870	151,506
Property payment	25,213	-	-	-	-	-	-	**25,213**	48,723	119,750
Computer and related	3,047	-	-	-	-	-	-	**3,047**	8,291	10,701
Site maintenance and camp:	-	-	-	-	-	-	-	-	-	
Utilities and power	57,482	-	-	-	-	-	-	**57,482**	73,445	82,934
Property maintenance and supplies	74,937	278,411	-	-	3,583	-	9,867	**366,798**	135,712	161,694
Equipment and truck rental	78,735	32,275	-	-	-	115,465	9,769	**236,244**	87,015	203,298
Telephone	5,413	14,426	-	-	-	-	293	**20,132**	6,205	9,735
Government assistance	-	(821,512)	-	-	-	-	-	**(821,512)**	(281,016)	-
Write-off of mineral properties	-	-	-	-	-	-	(79,283)	**(79,283)**	(1,742,720)	-
	1,171,496	**1,832,962**	**37,750**	**21,865**	**141,044**	**452,644**	**359,198**	**4,016,959**	29,120,978	7,420,572
Balance, end of period	**22,904,331**	**14,183,469**	**6,583,770**	**1,035,264**	**3,915,092**	**2,659,280**	**683,419**	**51,964,625**	47,947,666	18,826,688

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 one or more ten-year terms at the Corporation's option under the same terms and conditions. The Corporation is obligated to pay for all permitting and state lease bonding, insurance, taxes, and to pay a 1 per cent production gross royalty 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 September 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 earned 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. 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 on estimated CDC payroll tax liability that may arise. The Corporation is required to pay $70,000 from initial proceeds from extraction and a Net Smelter royalty of three percent paid to CDC from the first 50,000 tonnes of mineralized material extracted from the D-Zone.

During 2002, the Corporation entered into a mining services agreement with an Underground Mining Contractor ("Mining Contractor") for purposes of the development and extension of an existing underground decline in the D-Zone to establish underground infrastructure for subsequent exploration and development programs. On the basis of meeting certain pre-determined performance criteria the Mining Contractor can earn up to a 5 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 2006 and the claims held are in good standing until August 2007.

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

The Fenelon property, located in the Province of Quebec, approximately 30 kilometers east of the Corporation's Martiniere gold property, consists of 454 mining claims totaling 17,830 acres. The Corporation acquired its 38% interest in the Fenelon project and an option to acquire the remaining 62% interest as a result of the Arrangement as summarized in note 2. Pursuant to a 1998 agreement between Cyprus Canada Inc. ("Cyprus") and International Taurus Resources Inc. ("Taurus") and amended in 2000, Taurus was required to pay certain consideration to exercise its option to acquire Cyprus's 62% ownership interests in the Fenelon Property and the Casa Berardi portfolio of properties (Martiniere, Northway-Noyon and La Peltrie properties), which are described below in note 7(b)(iii). The remaining consideration included 2,027,579 common shares of Taurus which were issued and three installments of US$150,000 (total US$450,000), with the first installment to be paid upon commencement of commercial production on any one of the properties and the remaining installments to be made six and twelve months thereafter. As at December 31, 2006 and 2005, the remaining installments totaling US$450,000 are required to be paid in order to exercise the Corporation's option to acquire Cyprus's 62% ownership in the Fenelon Property and Cyprus's interest in the Casa Berardi portfolio of properties. Cyprus will maintain a net smelter return royalty to a maximum of 2% and minimum of 1% in certain conditions on commercial production attributable to Taurus.

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

A NSR royalty of 2% is also payable from production on the Fenelon Property to Morrison Petroleum Limited. In addition, a 2% net profit royalty interest in the Fenelon Project is payable to Stonegate Management Limited (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 an agreement dated May 1, 2000, between Taurus and Cyprus (note 7(b)(i)), Cyprus granted to Taurus the right to explore certain mineral properties and granted to Taurus an option to purchase all of Cyprus' interest in Cyprus' entire Casa Berardi exploration portfolio in the province of Quebec, Canada (the "Cyprus Properties"). The Taurus exploration portfolio 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 all of Cyprus' 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.

7. MINERAL PROPERTIES (continued)

(b) Taurus and Fairstar mineral interests (continued)

(iii) Casa Berardi Exploration Portfolio, Quebec (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 Corporation's option with Cyprus is for a 100% interest in this property.

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

During 2006, the Company entered into an agreement to acquire the 25% interest from Caspian Energy Inc. in exchange for cash totalling $150,000, of which $75,000 had been paid as of December 31, 2006. The Corporation will receive the 25% interest upon payment of the final $75,000 installment.

(iv) Northshore Project, Ontario

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

(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 properties.

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 13, 2003 the Corporation made a cash payment of US$150,000 and deferred the final remaining cash payment of US$525,000 until November 2004. 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 determined that cash resources were required for other active exploration projects and as a result elected not to make the final property payment and returned the Pamlico project to the property vendor for nil consideration 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. All required payments were made with respect to the Gold Bar project during 2006 and the claims held are in good standing until August 2007.

Northern Canadian Minerals Inc. holds a 5% interest in both Pamlico and Gold Bar properties subject to certain dilution provisions.

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.

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

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 (“principal”) 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% per annum by December 1, 2005. In addition, Stonegate was granted a net profits royalty of 6% on Taurus’s 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 $US400,000 of principal, pay accrued interest to May 31, 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.

(In Canadian Dollars)

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, which have been retroactively restated to reflect the exchange ratios discussed in note 2 and of the Corporation subsequent to the Arrangement, are as follows:

Issued	Number of common shares	Amount
		$
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 Fairstar's 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 (see below)	-	(18,683,952)
Balance, December 31, 2005	**85,317,476**	**51,124,817**
Shares issued for:		
Private placements	14,800,000	8,140,000
Share subscription received	500,000	300,000
Warrant exercise	11,500	6,440
Share issue costs on flow-through renunciation (see below)	-	(943,803)
Share issue costs	-	(672,751)
Balance, December 31, 2006	**100,628,976**	**57,954,703**

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 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.

Desjardins Securities Inc. and Canaccord 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 non-flow through 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 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. The proceeds were fully collected in 2005.

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

(In Canadian Dollars)

9. SHARE CAPITAL (continued)

On May 31, 2006, the Corporation completed a private placement of flow-through shares and units with Dundee Securities Corporation and Haywood Securities Inc. (the "Agents") in the amount of $8,140,000. The private placement consisted of 7,400,000 flow-through shares at a price of $0.55 per share, for gross proceeds of $4,070,000, and 7,400,000 non-flow-through units at a price of $0.55 per unit, for gross proceeds of $4,070,000. Each unit is comprised of one common share and one half of one common share purchase warrant with each full warrant entitling the holder to acquire one common share at a price of $0.65 for a period of 18 months after the closing date.

The Agents were paid a cash fee equal to 7.0% of the total gross proceeds raised in the private placement. In addition, the Agents received compensation warrants exercisable for 1,036,000 non-flow-through common shares of the Corporation equal in number to 7.0% of the number of flow-through shares and units sold under the private placement. The compensation warrants are exercisable at a price of $0.65 per share for a period of 18 months after the closing date.

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 of $18,683,952 at closing of the Arrangement.

Options

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

As at December 31, 2006, the Corporation has stock options outstanding to acquire an aggregate of 9,330,000 common shares to directors, officers, employees and consultants exercisable at between $0.40 and $1.68 per share exercisable at varying times up until October 17, 2011. The below information has been restated to reflect the exchange ratios discussed in note 2:

	Number of Options	**Weighted average exercise price**
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
Cancelled	(725,000)	$0.97
Granted	3,055,000	$0.59
Balance, December 31, 2006	**9,330,000**	**$0.78**

(In Canadian Dollars)

9. SHARE CAPITAL (continued)

Options (continued)

The following table summarizes stock options outstanding and exercisable at December 31, 2006:

Number of Options	Exercise Price	Expiry Date
502,500	$0.40	March 4, 2007
725,000	$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
1,437,500	$1.68	October 27, 2008
70,000	$1.50	January 8, 2009
275,000	$1.20	May 17, 2009
60,000	$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
1,155,000	$0.71	January 31, 2011
1,200,000	$0.55	June 20, 2011
200,000	$0.40	September 1, 2011
225,000	$0.40	October 17, 2011
9,330,000		

During the year ended December 31, 2006, under the fair value based method, $748,300 (2005 - $733,248; 2004 - nil) in compensation expense was recorded for options granted to employees and charged to operations. In the year ended December 31, 2004, $220,568 was recorded for options granted to consultants and charged to mineral properties.

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:

	December 31, 2006	2005	2004
Risk free interest rate	4.20%	3.5%	2.5%
Expected dividend yield	0%	0%	0%
Stock price volatility	85%	104%	90%
Expected life of options	4.3 years	5 years	3 years

The weighted average fair value of options granted during the year ended December 31, 2006 was $0.27 (2005 - $0.43; 2004 - $0.14).

(In Canadian Dollars)

9. SHARE CAPITAL (continued)

Warrants

At December 31, 2006, the Corporation has granted common share purchase warrants ("warrants") to acquire an aggregate of 6,857,420 common shares outstanding. The below information has been restated to reflect the exchange ratio discussed in note 2:

	Number of Warrants	Weighted Average Exercise Price
		$
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	**7,675,786**	1.27
Exercised	(11,500)	0.56
Expired	(5,542,866)	1.45
Warrants issued on financing	4,736,000	0.65
Balance, December 31, 2006	**6,857,420**	0.70

The following table summarizes warrants outstanding and exercisable at December 31, 2006:

Number of warrants	Exercise Price	Expiry Date
683,340	$0.45	August 5, 2007
600,000	$1.50	December 1, 2007
4,736,000	$0.65	November 30, 2007
838,080	$0.56	February 5, 2008
6,857,420		

(In Canadian Dollars)

9. SHARE CAPITAL (continued)

Contributed Surplus

The effect of retroactively adopting the fair value based 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:

	2006
	$
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	**4,702,772**
Stock-based compensation	748,300
Balance, December 31, 2006	**5,451,072**

10. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	**2005**	2004
	$	$	$
Management fees, consulting and salaries	**394,911**	555,344	443,700
Office and administration	**43,707**	93,546	32,215
Legal and accounting	**141,432**	188,643	102,276
Insurance	**97,033**	93,228	41,580
Public company expenses	**402,559**	357,963	343,100
Capital taxes	**-**	-	31,067
	1,079,642	1,288,724	993,938

11. LEASE OBLIGATION

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

12. RELATED PARTY TRANSACTIONS

(a) The Corporation shares certain premises and facilities with companies which have certain directors in common, under cost-sharing arrangements. During 2006 the Corporation recovered management and consulting fees of $100,000 and general and administration expenses of $57,500 from these companies.

(b) As at December 31, 2006, there were $3,291 accounts receivable due from companies with certain directors in common.

(In Canadian Dollars)

13. ASSET RETIREMENT OBLIGATION

The Corporation's asset retirement obligations consist of reclamation and closure costs. The present value of obligations relating to explorations projects reflecting payments for approximately the next 8 years. Significant reclamation and closure activities include land rehabilitation, demolition of buildings and ongoing care and maintenance and other costs.

The liability for reclamation and closure cost obligations at December 31, 2006 is $31,179 (2005 - $29,624). The undiscounted value of this liability is $45,000 (2005 - $45,000). An accretion expense component of $1,555 (2005 - $7,252) has been charged to operations in 2006 to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using a discount rate of 5.25%.

14. INCOME TAXES

(a) Effective tax rate:

The effective income tax rates differ from Canadian statutory rates for the following reasons in 2006:

	2006
	$
Combined federal and provincial tax rates at the expected rate of 34.12%	(815,633)
Permanent differences	172,119
Change in valuation allowance	(340,086)
Future tax recovery resulting from reduction in statutory rate and expiry of loss carry-forward and other	333,823
Recovery of income taxes	(649,777)

The Corporation has Canadian tax loss carry forwards of approximately $4.5 million. The non-capital losses can offset future income for tax purposes which expire between 2007 and 2026. In addition, the Corporation has approximately $27.9 million of resource pools, which can be utilized to be deducted against future resource profits.

The income tax expenses for the years ending December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	$	$	$
Current	-	-	-
Future tax recovery (expense)	649,777	(84,965)	-
	649,777	(84,965)	-

(In Canadian Dollars)

14. INCOME TAXES (continued)

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

	2006	2005
	$	$
Future income tax assets:		
Tax loss carry forwards	**2,562,000**	1,723,000
Book and tax base differences on resource properties	**2,105,000**	3,245,000
Share Issue costs	**322,000**	309,000
Book and tax base differences on office equipment	**44,000**	41,000
	5,033,000	5,318,000
Valuation allowance	**(1,987,104)**	(2,327,190)
Future income tax assets	**3,045,896**	**2,990,810**
Future tax liabilities:		
Mineral properties	**(4,198,987)**	(3,849,875)
Net future income tax liabilities	**(1,153,091)**	(859,065)

15. 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.

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

(b) Stock-based compensation

As permitted by Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS 123"), the Corporation continued to measure compensation costs using the intrinsic value based method for US GAAP purposes of accounting for employee stock-based compensation as prescribed by APB Opinion No. 25 and related interpretations until January 1, 2005. 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 operations 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, or settled in fiscal years 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 contributed surplus by $2,874,967 as at January 1, 2004. For US GAAP purposes, no adjustment would be made as the Company continued to follow the intrinsic value method until January 1, 2005.

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 15(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 does not result in a measurement difference for grants made in the years ended December 31, 2004, 2003 and 2002. The 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.

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* for all employee equity classified awards granted, modified or settled after the effective date using the fair value measurement method of this standard. For unvested awards outstanding as of the effective date, compensation is recognized based upon the grant date fair value determined under SFAS 123. Upon adoption of SFAS 123R, there was no cumulative effect adjustment required and no differences existed in accounting for stock-based compensation between Canadian and US GAAP in 2006.

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

(c) Unrealized holding gains and losses on marketable securities

Statement of Financial Accounting Standards Board No. 115, *"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.

(d) 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 all 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, 2006, 2005 and 2004, comprehensive loss equals the loss for the year.

(e) 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.

(f) 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.

(g) Elimination of accumulated deficit

During the year ended December 31, 2005, the Company 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-reorganization rules were not met and the recapitalization of the deficit is not recorded.

(h) Income taxes

Under Canadian GAAP, future tax assets and liabilities recorded at substantively 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.

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

(i) Flow-through equity financings

Under Canadian income tax legislation, a corporation is permitted to issue shares whereby the corporation agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Corporation has accounted for the issue of flow-through shares by reducing shareholders' equity and recognizing a future income tax liability for the amount of tax credit renounced to the investors, in accordance with Canadian GAAP.

For US GAAP, the amount received by the Corporation on the issuance of flow-through shares in excess of the fair value of common shares is required to be credited to liabilities and included in operations when the Corporation renounces the qualified expenditures. As at December 31, 2006, total flow-through share fair value premiums were $1,724,000 (2005 - $nil; 2004 - $nil) of which $540,000 relates to qualified expenditures renounced in 2006 (2005 - $nil; 2004 - $nil) and, therefore, would have been credited to earnings under US GAAP as a deferred tax benefit, and $1,184,000 would remain in liabilities at December 31, 2006 (2005 - $nil; 2004 - $nil) under US GAAP.

Also, notwithstanding there is no specific contractual restrictions or requirements to segregate the funds received for the flow-through shares, funds that are unexpended at the consolidated balance sheet dates are considered to be restricted funds and are not considered to be cash or cash equivalents under the SEC staff interpretation of US GAAP. Such amounts would be required to be disclosed separately in a consolidated balance sheet prepared in accordance with US GAAP. As at December 31, 2006, unexpended flow-through funds were $2,960,528 (2005 - $3,230,385; 2004 - $nil).

(j) Recent accounting pronouncements

(i) On June 1, 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 requires retrospective application to prior periods' financial statements of any change in accounting principle unless it is impracticable to do so. This is a change from the existing practice that requires most accounting changes to be accounted for by including in net income, in the period of the change, the cumulative effect of changing to the new accounting principle. SFAS 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard had no significant effect on the company's results of operations or financial position.

(ii) In June 2006, FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes - An Interpretation of SFAS Statement No. 109. This interpretation provides guidance on recognition and measurement of uncertainties in income taxes and is effective for the Company's 2007 fiscal year end. The Company does not expect the adoption of this Interpretation to have a significant effect on the Company's results of operations or financial position.

(iii) In September 2006, FASB issued SFAS No. 157, Fair Value Measurement to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. The statement only applies to fair value and is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of this Interpretation to have a significant effect on the Company's results of operations or financial position.

(In Canadian Dollars)

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

(j) Recent accounting pronouncements (continued)

(iv) In September 2006, the US Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 which provides guidance on the consideration of the effects of prior year misstatements in quantifying misstatements in current year financial statements. This guidance is applicable for annual statements ending after November 15, 2006. The adoption of this interpretation had no impact on the Company's results of operations or financial position.

(k) 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:

(*i*) Assets

	2006	2005
	$	$
Total assets, under Canadian GAAP	59,751,226	54,428,595
Adjustment for mineral properties land use and deferred exploration costs (note 15(a))	(23,367,562)	(19,350,603)
Total assets, under US GAAP	36,383,664	35,077,992

(*ii*) Liabilities

	2006	2005
	$	$
Total liabilities, under Canadian GAAP	1,951,981	2,166,830
Adjustment for flow-through shares (note 15(i))	1,184,000	-
Adjustment for income taxes related to mineral properties (note 15(a)) and flow-through shares (note 15(j))	(294,026)	-
Liabilities, under US GAAP	2,841,955	2,166,830

(In Canadian Dollars)

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

(k) Reconciliation (continued)

(*iii*) Deficit

	2006	2005
	$	$
Deficit, under Canadian GAAP	(5,649,561)	(3,908,855)
Adjustment for mineral properties land use and deferred exploration costs (note 15(a))	(23,367,562)	(19,350,603)
Adjustment for income taxes related to mineral properties (note 15(a))	(649,777)	-
Stock-based compensation (note 15(b))	2,874,967	2,874,967
Elimination of accumulated deficit (note 15(g))	(18,683,952)	(18,683,952)
Adjustment for flow-through shares (note 15(i))	540,000	-
Deficit, under US GAAP	(44,935,885)	(39,068,443)

(*iv*) Share capital

	2006	2005
	$	$
Share capital, under Canadian GAAP	57,954,703	51,124,817
Elimination of share capital on deficit elimination (note 15(g))	18,683,952	18,683,952
Adjustment for flow-through shares (note 15(i))	(1,724,000)	-
Adjustment for flow-through shares - reverse Canadian GAAP (note 15(i))	943,803	-
Share capital, under US GAAP	75,858,458	69,808,769

(*v*) Contributed surplus

	2006	2005
	$	$
Contributed surplus, under Canadian GAAP	5,451,072	4,702,772
Stock-based compensation (note 15(b))	(2,874,967)	(2,874,967)
Contributed surplus, under US GAAP	2,576,105	1,827,805

(In Canadian Dollars)

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

(k) Reconciliation (continued)

(*vi*) Net loss and loss per share for the year

	Years ended December 31		
	2006	2005	2004
	$	$	$
Loss for the year, under Canadian GAAP	(1,740,706)	(4,215,960)	(1,219,731)
Adjustment for mineral property land use and deferred exploration costs (note 15(a))	(4,016,959)	(5,860,497)	(7,420,572)
Adjustment for income taxes related mineral properties adjustments (note 15(a))	(649,777)	-	-
Adjustment for flow-through shares (note 15(i))	540,000	-	-
Loss and comprehensive loss for the year, under US GAAP	(5,867,442)	(10,076,457)	(8,640,303)
Weighted average number of common shares outstanding under US GAAP, basic and diluted	96,280,740	72,356,898	45,528,057
Basic and diluted loss per share, under US GAAP	(0.06)	(0.14)	(0.19)

(In Canadian Dollars)

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

(k) Reconciliation (continued)

(*vii*) Statement of Cash Flows

Cash provided by (used in) operating activities

	Years ended December 31		
	2006	2005	2004
	$	$	$
Cash used in operating activities, under Canadian GAAP	(2,618,054)	(1,373,209)	(807,061)
Adjustment for mineral properties and deferred exploration (note 15(a))	(4,096,242)	(6,249,577)	(7,200,004)
Cash used in operating activities, under US GAAP	(6,714,296)	(7,622,786)	(8,007,065)
Cash provided by financing activities, under Canadian GAAP	7,473,689	3,610,404	4,293,127
Change in restricted cash from issuance of flow-through shares (note 15(i))	269,857	(3,230,385)	-
Cash used in financing activities, under US GAAP	7,743,546	380,019	4,293,127
Cash used in investing activities, under Canadian GAAP	(4,119,530)	(6,290,519)	(7,425,137)
Adjustment for mineral properties and deferred exploration (note 15(a))	4,096,242	6,249,577	7,200,004
Cash used in investing activities, under US GAAP	(23,288)	(40,942)	(225,133)
Cash and cash equivalents, end of year, Canadian GAAP	6,150,005	5,413,900	9,467,224
Restricted cash from issue of flow-through shares (note 15(i))	(2,960,528)	(3,230,385)	-
Cash and cash equivalents, end of year, US GAAP	3,189,477	2,183,515	9,467,224

16. SUBSEQUENT EVENTS

(a) On March 1, 2007, the Corporation reached an agreement in principle with Cusac Gold Mines Ltd. ("Cusac") for the sale of its Taurus Project for total cash consideration of up to $11 million plus up to 3 million common shares of Cusac.

In the event that Cusac completes all cash payments within 12 months of regulatory approval, the total purchase price will be $6 million in cash payments, 1.5 million common shares of Cusac and $3 million upon the earlier of receipt of a Bankable Feasibility Study and the commencement of commercial production.

Alternatively, Cusac can elect to make total cash payments of $6,000,000 over a two year period, issue 3 million common shares of Cusac over a two year period, and make a further cash payment of $3,000,000 payable within 60 days of the earlier of Cusac receiving a Bankable Feasibility Study to place the Taurus project into commercial production and the date the property is placed into commercial production.

If gold prices trade at or above US$800 for a period of 100 consecutive trading days during this two year period, the cash payments under this latter alternative will be increased by $2,000,000, with $1,000,000 being added to the cash consideration and a further payment of $1,000,000 upon receipt of a Bankable Feasibility Study or commencement of commercial production, whichever is earlier.

The completion of the transaction is subject to the execution of a definitive agreement within 60 days of the date of the letter agreement and regulatory approval.

(b) Subsequent to December 31, 2006, 615,000 options granted to various employees and consultants with exercise prices ranging from $0.40 to $1.68 had expired or were cancelled. An additional 50,000 options were granted to a consultant at an exercise price of $0.40 expiring February 12, 2012.

(c) Subsequent to December 31, 2006, the Company renounced $4,070,000 of exploration expenditures to investors who purchased flow-through shares in 2006.

CORPORATE INFORMATION

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James Bagwell
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Giulio T. Bonifacio
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OFFICERS
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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 December 31, 2006)
Shares Issued and Outstanding: 100,628,976

AUDITOR
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Vancouver, Canada

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Vancouver, Canada

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

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