

Bonanza

**AMERICAN BONANZA GOLD CORP.
QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2006**

American Bonanza Gold Corp.
Management's Discussion and Analysis
(Three months ended March 31, 2006, as of May 12, 2006)

General

The following discussion of performance, financial condition and analysis should be read in conjunction with American Bonanza Gold Corp. ("the Corporation") and American Bonanza Gold Mining Corp. ("Bonanza") annual audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the unaudited consolidated financial statement of the Corporation for the three months ended March 31, 2006 and 2005. The comparative information as at December 31, 2004 is that of Bonanza under the continuity of interests accounting discussed below. All amounts are expressed in Canadian Dollars unless otherwise indicated.

Forward-Looking Statements

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

Description of Business

The Corporation is an exploration stage company engaged in the acquisition, exploration and development of high-grade gold properties located in the United States and Canada. The Corporation is developing its advanced stage 100% owned Copperstone gold project in Arizona and has commenced an advanced exploration program on its 100% owned Fenelon gold project in Quebec. Fenelon exploration to date suggests that there is excellent potential to substantially increase the known resource of this Casa Berardi greenstone deposit. An aggressive surface drilling program is currently underway to expand the known resource and test several of the project's exploration targets. In addition to these advanced properties, the Corporation continues to progress other projects, including the Martiniere in Quebec, Gold Bar in Nevada, Taurus in British Columbia and 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 March 31, 2006 was \$3,231,712 compared with a working capital position of \$5,177,422 as at December 31, 2005. The decrease in working capital was primarily attributable to operating expenditures in the period of \$1,092,875 and exploration expenditures at the Copperstone and Fenelon gold properties totalling \$1,555,044. The loss for the three months ended March 31, 2006 was \$1,092,875 or \$0.01 per share compared with a net loss of \$307,105 or \$0.01 per share for the comparable period in 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 and the three months period ended March 31, 2006. The selected consolidated financial information should be read in conjunction with the Consolidated Financial Statements of the Corporation and Bonanza.

	March 31,		December 31,		
	2006	2005	2005	2004	2003
	\$	\$	\$	\$	\$
Net loss	(1,092,875)	(307,105)	(4,215,960)	(1,219,731)	(605,214)
Net loss per share	(0.01)	(0.01)	(0.06)	(0.03)	(0.02)
Total cash and cash equivalents	2,927,133	7,692,124	5,413,900	9,467,224	13,406,295
Working capital	3,231,712	5,226,127	5,177,422	8,750,640	13,089,684
Total debt	Nil	Nil	Nil	Nil	Nil
Total assets	54,103,225	57,216,883	54,428,595	28,688,663	25,006,389
Shareholders' equity	50,511,247	50,680,020	52,261,765	27,496,142	24,202,178

Results of Operations

For the three months ended March 31, 2006, the Corporation had a net loss of \$1,092,875 or \$0.01 per share compared to a net loss of \$307,105 or \$0.01 per share with the corresponding period in 2005. The increased in loss for the current period was related to the recognition of stock-based compensation expense of \$694,660 and an increase in exploration office expenses of approximately \$66,635 over the same period last year.

Interest income decreased to \$28,094 from \$66,108 which was the direct result of decreased cash balances from the comparable period in 2005. During the same comparable period, general and administrative costs decreased to \$218,188 from \$234,032 in 2005. Public company expenses decreased to \$92,378 from \$98,410 and business development expenses decreased to \$61,380 from \$76,534.

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

Summary of Quarterly Results

Selected consolidated financial information for each of the most recently completely quarters of fiscal 2006, 2005 and 2004 are as follows:

	2006		2005		2004			
	Mar.	Dec.	Sept.	June	Mar.	Dec.	Sept.	June
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income and other	28,094	26,865	28,756	6,456	66,108	61,359	79,176	81,282
Net loss	(1,092,875)	(1,750,819)	(546,482)	(1,611,554)	(307,105)	(130,122)	(456,612)	(491,260)
Net loss per share	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)

Liquidity and Capital Resources

The Corporation's working capital as at March 31, 2006 was \$3,231,712 compared with a working capital position of \$5,177,422 as at December 31, 2005. Flow-through funds of \$1,478,266 are included in working capital and must be spent prior to December 31, 2006 and are restricted to expenditures that qualify as Canadian Exploration Expenditures, as defined in the Canadian *Income Tax Act*. The decrease in working capital in the period was primarily attributable to increased expenditure levels in the period at the Copperstone, Fenelon and other gold properties totalling \$1,555,044. As of March 31, 2006 \$1,216,942 accrued receivable from 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 March 31, 2006, accrued payable related to a 2002 reassessment by Revenue Quebec for the amount of \$758,978 remained outstanding. The Corporation is currently appealing this reassessment.

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. Total development and exploration expenditures during the period totalled \$281,558 or \$15,215,841 since the program began in 2003.

As at March 31, 2006, the Corporation had cash of \$2,927,133 compared to \$5,413,900 as at December 31, 2005. The Corporation currently has no debt and has adequate working capital to continue its surface drilling program at the Fenelon gold project designed to expand the known gold resources for purposes of advancing the Fenelon project to the development stage.

As a mining company in the exploration stage, the future liquidity of the Corporation will be affected principally by the level of exploration expenditures and by its ability to raise an adequate level of capital through the equity markets. In management's opinion, the Corporation's current working capital will be sufficient for funding its planned exploration expenditures in 2006 at the Fenelon and Martiniere projects with additional funding required for purposes of the contemplated drilling at the Copperstone project.

Subsequent Events

On May 11, 2006 the Corporation announced it has negotiated, subject to regulatory approval and formal documentation, a best-efforts private placement of flow-through shares and units with Dundee Securities Corporation and Haywood Securities Inc. (the "Agents") totaling up to \$6,050,000. The private placement consists of up to 5,500,000 flow-through shares at a price of \$0.55 per share, for gross proceeds of \$3,025,000, and up to 5,500,000 units at a price of \$0.55 per unit, for gross proceeds of \$3,025,000. 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 will be paid a cash fee equal to 7.0% of the total gross proceeds raised in the private placement. In addition, the Agents will receive 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.

Controls and Procedures

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

of employees within the Corporation facilitates access to real time information about developments in the business for the person responsible for drafting disclosure documents. All documents are circulated to responsible members of management and the board of directors according to the disclosure time-lines contained within the disclosure policy. The disclosure controls conform with the Corporation's Corporate Governance policies.

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

Critical Accounting Estimates and Risk Factors

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

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

Change in Accounting Policy

The Corporation has substantially adopted the consensus of Abstract #146 of the Emerging Issues Committee of CICA in respect to its accounting for all flow-through renunciations occurring subsequent to January 1, 2006. 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 sheets and the offset recorded as share issue costs.

Use of Financial and Other Instruments

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

Outlook

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

As an Exploration Stage Company the future liquidity of the Corporation will be affected principally by the level of its development and exploration expenditures and by its ability to raise an adequate level of capital through the capital markets. In management's opinion the Corporation's current working capital position will be sufficient for purposes of completing the exploration expenditures at the Fenelon and Martiniere gold projects.

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

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

AMERICAN BONANZA GOLD CORP.

Consolidated Financial Statements
For the three months ended March 31, 2006

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

American Bonanza Gold Corp.

CONSOLIDATED BALANCE SHEETS

(In Canadian Dollars)

(Unaudited – Prepared by Management)

	March 31, 2006	December 31, 2005
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	2,927,133	5,413,900
Amounts receivable (note 5)	1,581,706	947,649
Prepaid expenses	58,974	83,814
Marketable securities (note 6)	10,200	10,200
	<u>4,578,013</u>	<u>6,455,563</u>
MINERAL PROPERTIES (note 7)	49,502,710	47,947,666
OFFICE EQUIPMENT, net	<u>22,502</u>	<u>25,366</u>
	<u>54,103,225</u>	<u>54,428,595</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 5)	1,346,301	1,278,141
ASSET RETIREMENT OBLIGATION	30,012	29,624
FUTURE INCOME TAXES (note 9)	<u>2,215,665</u>	<u>859,065</u>
	<u>3,591,978</u>	<u>2,166,830</u>
SHAREHOLDERS' EQUITY		
Share capital (note 9)	50,072,514	51,124,817
Flow-through common share subscription (note 9)	-	300,000
Contributed surplus (notes 9)	5,397,432	4,702,772
Cumulative currency translation adjustment	43,031	43,031
Deficit	<u>(5,001,730)</u>	<u>(3,908,855)</u>
	<u>50,511,247</u>	<u>52,261,765</u>
	<u>54,103,225</u>	<u>54,428,595</u>

SUBSEQUENT EVENT (note 9)

CONTINGENT LIABILITY (note 7(a))

APPROVED ON BEHALF OF THE BOARD,

Signed: Brian Kirwin

Director

Signed: Robert T. McKnight

Director

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

American Bonanza Gold Corp.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(In Canadian Dollars)

(Unaudited – Prepared by Management)

Three Months Ended March 31,

	2006	2005
	\$	\$
EXPENSES (INCOME)		
General and administrative (note 10)	218,188	234,032
Stock-based Compensation	694,660	-
Exploration	138,035	71,400
Business development	61,380	76,534
Foreign exchange	4,002	(21,450)
Amortization	4,704	12,697
Interest income and other	(28,094)	(66,108)
NET LOSS	<u>(1,092,875)</u>	<u>(307,105)</u>
DEFICIT, beginning of year	<u>(3,908,855)</u>	<u>(18,376,847)</u>
ELIMINATION OF ACCUMULATED DEFICIT (note 9)	<u>-</u>	<u>18,683,952</u>
DEFICIT, end of period	<u>(5,001,730)</u>	<u>-</u>
LOSS PER COMMON SHARE		
Basic and diluted	<u>(0.01)</u>	<u>(0.01)</u>
WEIGHTED AVERAGE NUMBER OF SHARES	<u>85,790,020</u>	<u>47,373,975</u>

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

American Bonanza Gold Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Canadian Dollars)

(Unaudited – Prepared by Management)

Three Months Ended March 31,

	2006	2005
	\$	\$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	(1,092,875)	(307,105)
Items not affecting cash		
Amortization	4,704	12,697
Stock-based Compensation	694,660	-
	(393,511)	(294,408)
Changes in non-cash operating accounts		
Amounts receivable	(629,760)	(40,676)
Prepaid expenses	24,840	19,622
Accounts payable and accrued liabilities	68,160	(60,347)
	(930,271)	(375,809)
INVESTING ACTIVITIES		
Mineral properties	(1,555,044)	(1,359,126)
Acquisition of International Taurus Resources Inc. and Fairstar Exploration Inc.'s mineral interest, net of cash acquired	-	(20,071)
Office equipment	(1,452)	(20,094)
	(1,556,496)	(1,399,291)
DECREASE IN CASH	(2,486,767)	(1,775,100)
CASH AND CASH EQUIVALENTS, beginning of period	5,413,900	9,467,224
CASH AND CASH EQUIVALENTS, end of period	2,927,133	7,692,124

SUPPLEMENTARY INFORMATION:

Cash flows include the following elements:

Interest paid	-	-
Interest received	28,094	66,108
Income taxes paid	-	-

Non-cash financing and investing transactions:

Fair value of common shares issued on acquisition (note 4)	-	22,898,264
Fair value of options and warrants issued on acquisition (note 4)	-	592,719
Fair value of common shares and warrant modification on debt settlement (notes 8 and 9)	-	489,566

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS

American Bonanza Gold Corp. (the “Corporation” or “Company”) was incorporated in British Columbia on December 10, 2004, as a wholly owned subsidiary of American Bonanza Gold Mining Corp. (“Bonanza”), under the name of 0710887 B.C. Ltd. Its name was changed to American Bonanza Gold Corp. on February 10, 2005. The Company was formed in anticipation of the transaction discussed in note 4. 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. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles for interim financial reporting, and the accounting policies used are consistent with the most recent annual audited financial statements of the Corporation and Bonanza. The comparative figures as at December 31, 2005 and for the three months ended March 31, 2005 are those of Bonanza pursuant to continuity of interests accounting requirements described in note 4. While these financial statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and notes required by Canadian generally accepted accounting principles for financial statements. These unaudited consolidated financial statements should be read in conjunction with the Corporation’s and Bonanza’s annual audited consolidated financial statements for the periods ended December 31, 2005.

3. CHANGE IN ACCOUNTING POLICIES

The Corporation has substantially adopted the consensus of Abstract #146 of the Emerging Issues Committee of CICA in respect to its accounting for all flow-through renunciations occurring subsequent to January 1, 2006. 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 sheets and the offset recorded as share issue costs.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

4. 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.

Combined:

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

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

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

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

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

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

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

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

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

5. AMOUNTS RECEIVABLE AND OTHER ACCRUED LIABILITY

Amounts receivable consist of the following:

	2006	2005
	\$	\$
Goods and services tax	115,780	61,673
Quebec sales tax	169,226	60,496
Mining duty receivable (a)	1,216,942	748,114
Other receivables	79,758	77,366
	1,581,706	947,649

(a) Government Assistance

In connection with the Arrangement, summarized in note 4, the Corporation qualifies for mineral exploration assistance programs associated with incurring exploration and development expenditures on mineral properties located in Quebec. The assistance programs are comprised of a Refundable Tax Credit of 35% of eligible exploration expenses pursuant to Quebec's Taxation Act and a further 12% refundable credit on eligible expenditures pursuant to Quebec's Mining Duties Act. During 2005, the Corporation was re-assessed for its 2002 tax year filing reducing its claim for Refundable Tax Credit Claim received by \$587,604, plus interest of \$138,169. The Corporation intends to file an appeal to contest the assessment. The Corporation has accrued the \$758,978 (\$725,773 – December 31, 2005) in accounts payable and accrued liabilities at March 31, 2006.

6. MARKETABLE SECURITIES

As at March 31, 2006 the Corporation held the following marketable securities:

	Number of Shares	March 31, 2006
		\$
Northern Canadian Minerals Inc.	60,000	10,200

Pursuant to the terms of the Option Agreement entered into with Northern Canadian Minerals Inc. (formerly "American Nevada Gold Corp.") (note 7(c)) the Corporation received 60,000 common shares and other consideration for entering into this Agreement. The quoted market value of these securities was \$30,600 at March 31, 2006.

7. MINERAL PROPERTIES

Project	2006	2005
	\$	\$
Copperstone (a)	22,014,393	21,732,835
Fenelon (b(i))	13,551,684	12,350,507
Taurus Gold (b(ii))	6,546,020	6,546,020
Gold Bar (c)	1,013,399	1,013,399
Northway (b(iii))	3,784,411	3,774,047
Martiniere (b(iii))	2,267,986	2,206,637
Other (d)	324,817	324,221
	49,502,710	47,947,666

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

7. MINERAL PROPERTIES (continued)

Schedule of mineral property expenditures during 2006:

	Copperstone	Fenelon	Taurus	Gold Bar	Northway	Martiniere	Other	Total 2006	Total 2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of period	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
Decline, drilling and underground support	60,928	1,285,629				30,070		1,376,627	3,769,846
Geological consulting and related Consulting – fair value of options	74,524	186,262			10,363	19,824		290,973	1,256,720
Drilling, net of JV costs								-	-
Assaying	17,104	62,240						79,344	412,605
Geophysics	11,721							11,721	35,055
Feasibility								-	209,324
Engineering/environmental Advance royalty payment	51,893	14,090				11,074		77,057	128,749
BLM land payments		10,706					596	11,302	152,563
Property acquisition and related Property payment								-	102,870
Computer and related Capitalized interest								-	48,723
Site maintenance and camp:								-	8,291
Utilities and power	15,403							15,403	-
Property caretakers	25,215	45,482						70,697	73,445
Equipment and truck rental	8,017	6,008						14,025	39,490
Telephone	1,917							1,917	87,015
Maintenance, supplies, other	14,836	43,723				382		58,941	6,205
Government assistance-accrual		(468,828)						(468,828)	96,222
Non taxable interest and penalty		15,865						15,865	(281,016)
Write-off of Pamlico property								-	-
	281,558	1,201,177	-	-	10,363	61,350	596	1,555,044	29,120,978
Balance, end of period	22,014,393	13,551,684	6,546,020	1,013,399	3,784,411	2,276,986	324,817	49,502,710	47,947,666

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

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 June 2000, the Corporation entered into an agreement (the Copperstone D-Zone Joint Venture as amended) with Centennial Development Corporation ("CDC") for the underground exploration and extraction of mineralized materials from the D-Zone of up to 50,000 tons of mineralized material from the Copperstone property.

During 2001, Phase One was completed and the Corporation 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 for the following consideration:

- (i) assumption of a total of US\$325,000 of Copperstone related liabilities and if these liabilities exceed the estimated amount then the additional amounts will be paid equally by CDC and the Corporation. These liabilities were previously recorded by the Corporation as at December 31, 2000 and as at December 31, 2003 all of these liabilities have either been paid or settled;
- (ii) assumption of an estimated CDC payroll tax liability of up to US\$180,000 that may arise. If these liabilities exceed the estimated amount, then the additional amounts will be paid equally by CDC and the Corporation;
- (iii) A net smelter royalty of three percent paid to CDC from the first 50,000 tons of mineralized material extracted from the D-Zone, subsequent to repayment of the Brascan loan agreement;
- (iv) US\$345,000 payable to CDC and or its principal on or before July 31, 2002; and
- (v) US\$70,000 from initial proceeds from extraction of mineralized materials from the D-Zone, following repayment of the Brascan loan agreement.

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

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

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

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

7. MINERAL PROPERTIES (continued)

(b) Taurus and Fairstar mineral interests

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

(i) Fenelon Project, Quebec

Taurus' principal property is the Fenelon gold property located in the Province of Quebec, approximately 30 kilometers east of the Corporation's Martiniere gold property. The Fenelon property consists of 454 mining claims totaling 17,830 acres. The Corporation holds a 100% interest in the Fenelon project as a result of the Arrangement as summarized in note 4.

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

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

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

(ii) Taurus Gold Project, British Columbia

The Corporation holds a 100% interest in the Taurus gold property which covers 800 hectares and is located near the town of Cassiar, in northwestern British Columbia. The Taurus Project consists of 46 mining claims. Ten claim units are subject to a 2.5% net smelter royalty payable to Sable Resources Ltd.

(iii) Casa Berardi Exploration Portfolio, Quebec

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

To earn a 100% interest in all of the Cyprus Properties, Taurus must make the cumulative combined payments of US\$450,000, commencing on commercial production, which are described above under note 7(b)(i). Once these payments are made, Cyprus will relinquish all of its rights in respect of all of the properties in exchange for a minimum 1% NSR royalty from certain properties having an underlying royalty and a maximum 2% NSR royalty on those properties not subject to other royalty burdens.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

7. MINERAL PROPERTIES (continued)

The Martiniere Property is located 600 kilometers northwest of Montreal and consists of 226 unpatented crown mining claims covering approximately 3,000 hectares, which are subject to a 2% Net Smelter Return royalty. Bonanza's Fenelon Gold Project is 30 kilometers to the east.

The Northway Project is located in Quebec, 25 kilometers south of Matagami and 530 kilometers northwest of Montreal. The property covers the eastern extension of Agnico Eagle's Vezza gold deposit and it is on the Casa Berardi Break or deformation zone, which also hosts the Agnico Eagle, Vior, Golden Hope and Golden Knight gold mines. 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. International Taurus Resources Inc. acquired the Cyprus Canada 75% interest in these properties in 2000. A 25% interest remains 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.

(iv) Northshore Project, Ontario

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

(c) Pamlico and Gold Bar

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

The Pamlico and Gold Bar projects currently comprise 133 patented and unpatented mining claims covering approximately 10 square kilometers which are prospective for gold. An annual cash filing of US\$110 per unpatented claim is required to be paid to the Bureau of Land Management and the local counties. Annual taxes on patented claims are payable to the local authorities. All required payments were made with respect to the Pamlico and Gold Bar projects during 2005 and the claims held are in good standing until August 2006.

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

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

On September 27, 2002 the Corporation entered into an Option Agreement with Northern Canadian Minerals Inc. ("Northern Canadian"). Under the terms of the Option Agreement, Northern Canadian was granted an option to earn a 50 percent interest in both the Pamlico and Gold Bar properties by way of providing cash and securities with a value of \$131,500 and funding exploration expenditures over a three year period totaling \$3,600,000. On September 9, 2003 Northern Canadian elected not to proceed with Year 2 and 3 of this option agreement and retained a 5 percent interest in both the Pamlico and Gold Bar properties subject to standard dilution provisions.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

7. MINERAL PROPERTIES (continued)

(d) Other

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

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

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

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

8. LOAN AND INTEREST PAYABLE

In connection with the Arrangement, as summarized in note 4, 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.

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

9. SHARE CAPITAL

Authorized

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of Class A Preferred Shares without par value. No Class A Preferred Shares have been issued. Details of issued common shares of Bonanza prior to completion of the Arrangement and been retroactively restated to reflect the exchange ratios discussed in note 4(i) and of the Corporation subsequent to the Arrangement are as follows:

Issued	Number of Common Shares	Amount \$
Balance, December 31, 2004	47,071,088	42,501,881
Shares issued for:		
Shares issued on acquisition of Taurus (note 4)	20,759,837	17,438,264
Shares issued on acquisition of Fairstar's mineral interests (note 4)	6,500,000	5,460,000
Shares issued on loan repayment (note 8)	1,224,551	440,838
Private placement	9,762,000	4,392,900
Share issue costs	-	(425,114)
Elimination of accumulated deficit	-	(18,683,952)
Balance, December 31, 2005	85,317,476	51,124,817
Shares issued for:		
Private placement	500,000	300,000
Warrant exercise	11,500	6,440
Share issue cost	-	(1,358,743)
Balance, March 31, 2006	85,828,976	50,072,514

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

Desjardins Securities Inc. and 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 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 has agreed to issue 500,000 flow-through common shares at \$0.60 per share for total proceeds of \$300,000. The securities issued in connection with the private placement were issued on January 18, 2006 and subject to a minimum four month hold period until May 18, 2006. The proceeds were fully collected in 2005.

During the current period, flow-through shares totalling \$3,978,300 were renounced and as a result the Corporation no longer has the ability to use these expenditures for tax purposes, the Corporation is required to record a tax liability which is equal to the renunciation times the corporate tax rate when the expenditures are renounced.

On May 11, 2006 the Corporation announced it has negotiated, subject to regulatory approval and formal documentation, a best-efforts private placement of flow-through shares and units with Dundee Securities Corporation

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

9. SHARE CAPITAL (continued)

and Haywood Securities Inc. (the “Agents”) totaling up to \$6,050,000. The private placement consists of up to 5,500,000 flow-through shares at a price of \$0.55 per share, for gross proceeds of \$3,025,000, and up to 5,500,000 units at a price of \$0.55 per unit, for gross proceeds of \$3,025,000. 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 will be paid a cash fee equal to 7.0% of the total gross proceeds raised in the private placement. In addition, the Agents will receive 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.

Deficit Elimination

Pursuant to a shareholder resolution completed concurrently with the Arrangement (note 4) the Corporation reduced its common share capital account to the extent necessary to eliminate the accumulated deficit at closing of the Arrangement.

Options

The Corporation grants incentive stock options as permitted pursuant to the Corporation’s Stock Option Plan (the “Plan”) approved by the shareholders on March 24, 2005. The Plan has been structured to comply with the rules of the Toronto Stock Exchange (“TSX”). The aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Corporation as of that date – including options granted prior to the adoption of the Plan. All options granted subsequent to March 24, 2005 may not be granted for a term exceeding 5 years, and the term will be reduced to one year following the date of 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 March 31, 2006, the Corporation has stock options outstanding to acquire an aggregate of 8,055,000 common shares to directors, officers, employees and consultants exercisable at between \$0.40 and \$1.68 per share exercisable at varying times up until June 24, 2012. The below information has been restated to reflect the exchange ratios discussed in note 4(i):

	Number of Options	Weighted average exercise price
Balance, December 31, 2002	2,252,500	\$0.60
Granted	1,962,500	\$1.60
Exercised	(150,000)	\$0.64
Cancelled	(275,000)	\$0.60
Balance, December 31, 2003	3,790,000	\$1.12
Granted	387,500	\$1.20
Cancelled	(50,000)	\$1.20
Balance, December 31, 2004	4,127,500	\$1.12
Options issued on acquisition (note 4)	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	(300,000)	\$1.05
Granted	200,000	\$0.60
Granted	1,155,000	\$0.71
Balance, December 31, 2005	8,055,000	\$0.83

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

9. SHARE CAPITAL (continued)

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

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
170,000	\$1.50	January 8, 2009
275,000	\$1.20	May 17, 2009
90,000	\$1.15	October 25, 2009
2,440,000	\$0.43	May 10, 2010
525,000	\$0.45	July 14, 2010
50,000	\$0.50	September 11, 2010
50,000	\$0.50	September 26, 2010
20,000	\$0.60	June 24, 2012
200,000	\$0.60	February 14, 2008
1,155,000	\$0.71	January 31, 2011
8,055,000		

During the three months ended March 31, 2006, under the fair value based method, \$694,660 in compensation expense was recorded for options granted to employees and charged to operations. In the year ended December 31, 2005, \$733,248 (2004 – \$220,568) was recorded for options granted to consultants and charged to operations.

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

	March 31, 2006	December 31, 2005	December 31, 2004
Risk free interest rate	4.0%	3.5%	2.5%
Expected dividend yield	0%	0%	0%
Stock price volatility	95%	104%	90%
Expected life of options	5 years	5 years	3 years

The weighted average fair value of options granted during the three months ended March 31, 2006 was \$0.51 (2005 - \$0.43; 2004 - \$0.14).

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

9. SHARE CAPITAL (continued)

Warrants

At March 31, 2006, the Corporation has granted common share purchase warrants (“warrants”) to acquire an aggregate of 7,664,286 common shares outstanding. The below information has been restated to reflect the exchange ratio discussed in note 4(i):

	Number of Warrants	Weighted Average Exercise Price
		\$
Balance, December 31, 2002	7,688,905	1.08
Warrants issued on financing	9,048,466	1.32
Exercised	(3,579,043)	0.84
Balance, December 31, 2003	13,158,328	1.08
Exercised	(5,218,904)	0.82
Expired	(334,008)	0.68
Balance, December 31, 2004	7,605,416	1.24
Warrants issued on acquisition (note 4)	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
	7,664,286	1.21

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

Number of warrants	Exercise Price	Expiry Date
438,350	\$2.00	June 30, 2006
54,650	\$2.00	July 15, 2006
5,049,866	\$1.40	October 23, 2006
738,920	\$0.45	August 5, 2007
600,000	\$1.50	December 1, 2007
782,500	\$0.56	February 5, 2008
7,664,286		

American Bonanza Gold Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Canadian Dollars)

For the three months ended March 31, 2006 and 2005 (Unaudited – Prepared by Management)

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 summarized below.

	<u>2006</u>
	\$
Balance, December 31, 2002 and 2003	232,542
Adjustment to reflect change in accounting for stock options	2,874,967
Stock-based compensation	220,568
Balance, December 31, 2004	3,328,077
Option and warrant consideration on acquisition (note 4)	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	694,660
Balance, March 31, 2006	5,397,432

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended March 31,	
	2006	2005
	\$	\$
Management fees, consulting and salaries	71,112	67,502
Office and administration	24,957	45,220
Legal and accounting	4,901	-
Insurance	24,840	22,900
Public company expenses	92,378	98,410
	218,188	234,032

CORPORATE INFORMATION

DIRECTORS

James Bagwell
Tampa Bay, United States

Donald Lay
Vancouver, Canada

Robert T. McKnight
North Vancouver, Canada

Ronald K. Netolitzky
Victoria, Canada

Carl Ravinsky
Montreal, Canada

Brian P. Kirwin
Reno, United States

Giulio T. Bonifacio
Vancouver, Canada

ADVISOR TO THE BOARD OF DIRECTORS

Robert Blakestad
Denver, United States

OFFICES

Corporate Office
*Suite 305 – 675 West Hastings St.
Vancouver, British Columbia
Canada, V6B 1N2
Telephone (604) 688-7523
Fax (604) 681-0122*

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

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

Val d'Or Office
*1200, 3^e Avenue
Val.d'Or, Quebec
Canada, J9P 1V1*

OFFICERS

Brian P. Kirwin
President & Chief Executive Officer

Giulio T. Bonifacio
Executive Vice President & Chief Financial Officer

Joe G. Kircher
Vice President, Chief Operating Officer

Foster V. Wilson
Vice President, Corporate Development

Robert Hawkins
Vice President, Exploration

Joe Chan
Vice President, Controller

REGISTRAR AND TRANSFER AGENT
Computershare Investor Services Inc.
Vancouver, Canada

SHARES LISTED

Toronto Stock Exchange: BZA

CAPITALIZATION

(As at March 31, 2006)
Shares Issued and Outstanding: 85,828,977

AUDITOR

KPMG LLP, Chartered Accountant
Vancouver, Canada

LEGAL COUNSEL

Lang Michener
Vancouver, Canada

Harris, Mericle & Wakayama
Seattle, United States

Woodburn & Wedge
Reno, United States

WEBSITE

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

INVESTOR RELATIONS CONTACT

Ascenta Capital Partners Inc.
Attention: Bruce Korhonen
Toll free 1-866-684-4743
Email bruce@ascentacapital.com