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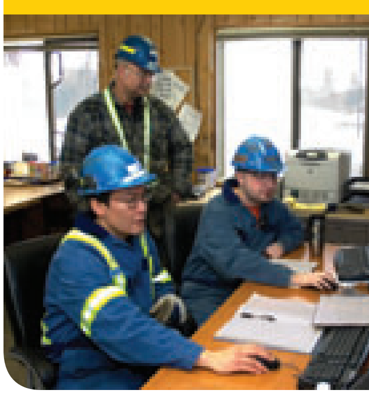
Elements *for* Success



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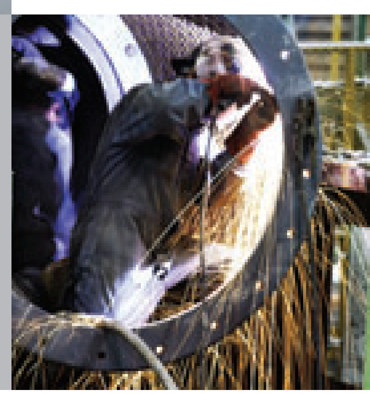


Taseko Mines Limited

2006 Annual Report

Elements *for* Success

Proven reserves

Strong commodity prices

Skilled, motivated workforce

First Nations engagement

Experienced, stable management

Secure financial foundation

Excellent health & safety record

A diverse, knowledgeable Board

Transparent governance

Sustainable development

Contents

Taseko shares trade on the TSX and AMEX Stock Exchanges under the symbols TKO and TGB, respectively.

Annual Meeting

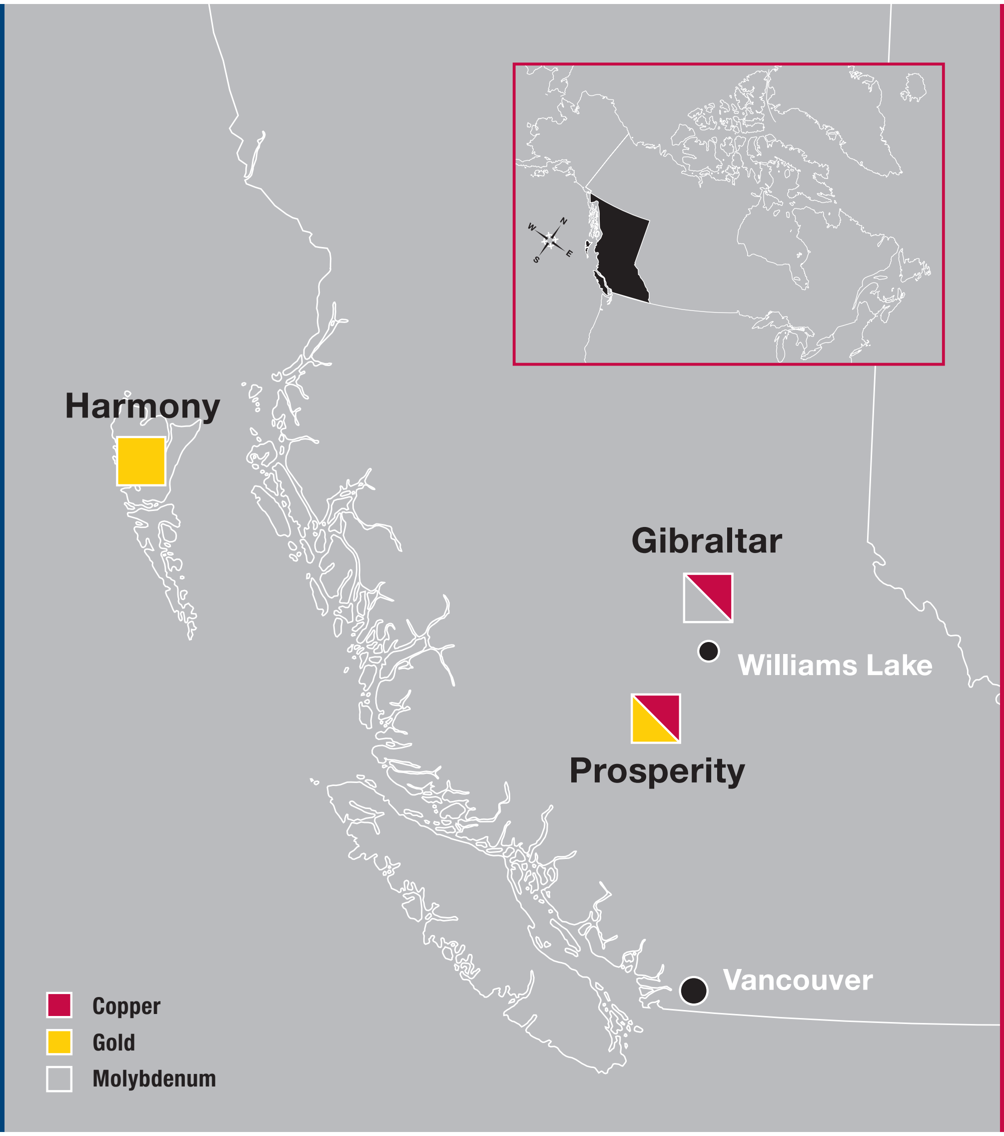
The Annual Meeting of Shareholders for Taseko Mines Limited will be held on March 15, 2007 at 1:30 pm at the Vancouver Convention & Exhibition Centre, Vancouver, British Columbia, Canada.

Dollar amounts are expressed in Canadian currency unless otherwise stated.
"Taseko," "we," or the "Company" refer to Taseko Mines Limited.

Creating Wealth *in* British Columbia

Taseko Mines Limited

Taseko Mines Limited is focused on creating wealth through the operation, development and acquisition of mineral projects. Our primary assets are the Gibraltar Mine, a major source of copper and molybdenum; the Prosperity project, where a gold and copper deposit is moving toward completion of feasibility and a construction decision; and the Harmony gold deposit, which offers future opportunity.



The Gibraltar Mine in south-central British Columbia, near Williams Lake, is undergoing a major expansion and modernization. By 2008, annual production capacity will be increased to 100 million pounds of copper and 1.3 million pounds of molybdenum. Additional resources could extend the mine's life from 21 (at current operating parameters) to 30 years.

The Prosperity project, also near Williams Lake, British Columbia, hosts a sizeable porphyry gold-copper deposit amenable to large scale open pit mining. Extensive exploration, engineering, environmental and socio-economic studies had been completed prior to 2001. In late 2005, supported by improved metal prices, project work was re-initiated. Environmental Assessment of the Project is progressing and the final feasibility study is expected to be completed in the first half of 2007.

The Harmony property is a gold project on British Columbia's west coast, providing a longer-term development opportunity.

A Year of Progress *and* Growth

November 2005
Taseko re-initiates work on the Prosperity gold-copper project.

December 2005
Gibraltar proven and probable mineral reserves increase by 30% to 194 million tons, extending mine life to 15.5 years.

February 2006
Taseko achieves first quarter earnings of $6.7 million and sales revenues of $41.3 million.

March 2006
Taseko commences trading on the Toronto Stock Exchange.

Board of Directors approves concentrator facility improvements, which will increase production to 100 million pounds of copper annually by 2008.

April 2006
SX-EW plant refurbishing initiated. The $3 million refurbishment of the solvent extraction and electrowinning (SX-EW) plant at Gibraltar was completed on time and began production in January 2007. The plant is capable of producing up to 7 million pounds of LME grade cathode copper per year.

May 2006
Taseko achieves second quarter earnings of $3.1 million and sales revenue of $37.5 million.

June 2006
Additions to management team announced. Kim Barrowman named General Manager of Gibraltar Mine, and Scott Jones named General Manager of Project Development, responsible for leading the Prosperity project. Both individuals have extensive operational and management experience in the mining sector.

July 2006
Taseko announces it has effected a notice of voluntary withdrawal from the joint venture established with Ledcor CMI Ltd. After a successful transition, Taseko assumes full responsibility for Gibraltar operations in November 2006.

August 2006
William Armstrong joins Board of Directors. Mr. Armstrong is a geological engineer with over 40 years of experience in the exploration and evaluation of base and precious metals projects.

Taseko achieves third quarter earnings of $4.1 million and sales revenue of $59.9 million.

US$30 million in five-year convertible bonds are privately placed, at 40% over prevailing Taseko stock price.

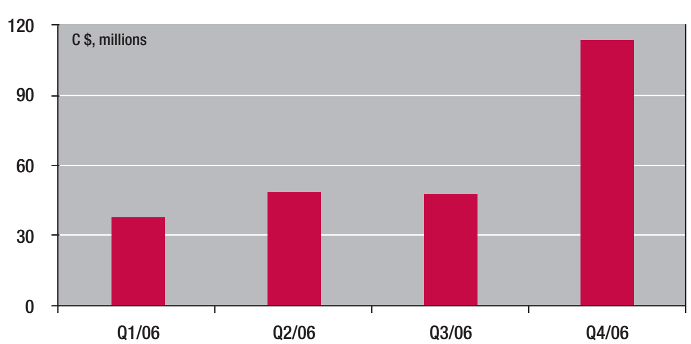
Taseko wins arbitration dispute against copper concentrate purchaser. Approximately US$8.5 million in sales proceeds, which had been withheld, is repaid with interest.

The Company purchases a one-year, $11.5 million convertible promissory note of Continental Minerals Corporation that pays 16% annual interest.

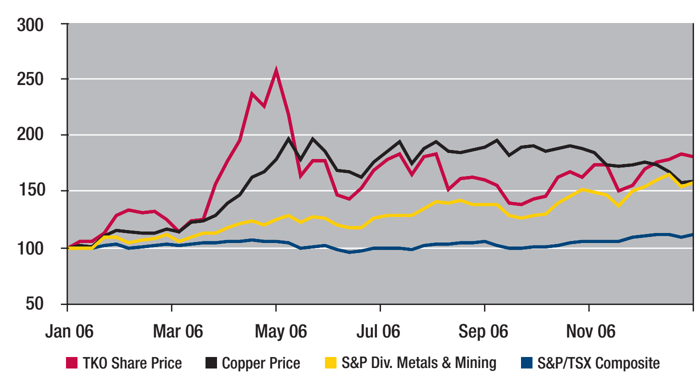
September 2006
After completion of a successful drilling program, Gibraltar proven and probable mineral reserves increase by 40% to 256 million tons extending mine life to 21 years.

Taseko achieves record after-tax earnings of $32.9 million for fiscal 2006.

Financial – Cash & Equivalents + Inventory



12-Month Relative Performance



Taseko achieves record after-tax earnings of $32.9 million for fiscal 2006.

Our Goals for 2007

Improve Gibraltar Mine by:

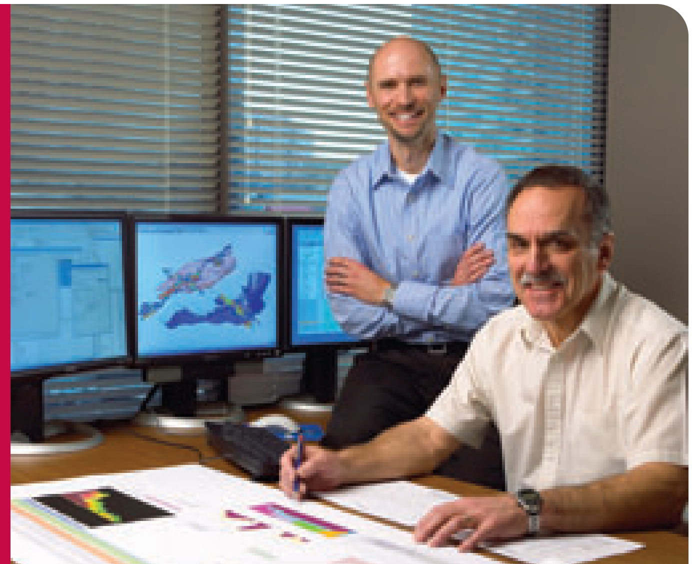
- Lowering operating costs by increasing throughput and recovery
- Building on current exemplary safety record and seeking further improvements
- Increasing reserve base through a focused and aggressive drill program
- Negotiating a new long-term smelting and refining contract
- Completing mine modernization and concentrator expansion, on time and on budget
- Evaluating additional mine expansion opportunities

Advance Prosperity project by:

- Submitting Environmental Assessment to regulatory authorities and entering panel review
- Completing feasibility study

Build on corporate strength by:

- Initiating a strategic acquisition of a project or company
- Improving corporate and mine management teams by attracting top notch personnel and implementing strategic training and compensation initiatives



Creating the Elements *for* Success

Russell Hallbauer
President and Chief Executive Officer

Mr. Hallbauer is a Professional Engineer and has worked in the mining industry for 30 years. He is past Chairman of the Mining Association of BC and past President of the Canadian Institute of Mining and Metallurgy.

2006 was an exceptional year for Taseko and a breakthrough year for the commodities market. Copper hit new highs of over US$4 per pound while molybdenum pricing remained well above historical averages. The Company ended the year with record earnings and a substantial list of accomplishments. The strategies and initiatives that were implemented last year are bearing fruit and further strengthen our value-focused, growth-oriented company.

Rewarding our Investors

The year's results are impressive: at fiscal year end, our share price stood at $2.40 on the TSX, an 83% gain over 2005. After-tax earnings for 2006 were $32.9 million, a 40% increase from 2005, and cash flow from operations was $55.4 million. The Company sold 50.6 million pounds of copper and 798,000 pounds of molybdenum, posting sales revenue of $161.9 million, surpassing last year's total of $87.6 million.

In 2006, the Gibraltar Mine produced 49.1 million pounds of copper in concentrate and 821,000 pounds of molybdenum in concentrate. The upgrade of the Gibraltar concentrator, once completed later this year, will increase and stabilize production over the long run. The project involves installation of a new semi-autogenous grinding mill and replacement of the flotation recovery system that will improve metal recoveries and reduce site costs. Combined with copper cathode production from the recommissioned solvent extraction and electrowinning plant, Gibraltar's efficiencies will be maximized.

Developing our Strengths

Financial and operational performance are only partial measures of our success. Our long-term future is underpinned by the numerous initiatives we have launched and which now support our growth and financial stability.

Mineral reserve expansion at our operations and development properties is the key ingredient of our strategy.

Long mine life at Gibraltar allows for expansion opportunities that increase production and reduce overall costs. In 2006, reserves at Gibraltar were increased by 74 million tons, a 40% boost from 2005 reserves. Drilling is continuing and we expect that reserves and mine life will be expanded again in 2007.

The initiatives we have launched support our growth and financial stability.

In January 2007, we announced the positive results of a pre-feasibility study and reserve estimate for our Prosperity project, another important milestone for Taseko.

One of our goals in 2006 was to improve our capabilities and foster a dedicated company culture. As a result, Taseko and Ledcor CMI Ltd. terminated the joint venture at Gibraltar and Taseko is now the sole operator of the mine. We would like to acknowledge Ledcor's assistance during pre-production and start-up, and the staff at the mine that participated in the smooth transition to employment with Taseko. The Gibraltar site team is now led by Kim Barrowman, who joined Taseko as General Manager of the Gibraltar Mine, responsible for overseeing mine operations. Kim is a mining engineer with 30 years of industry experience in all facets of mine management.

Building Prosperity

Another key component for Taseko's growth is the advancement of the Prosperity project, one of the largest undeveloped gold-copper deposits in Canada. To help us meet our objectives, we appointed Scott Jones, General Manager of Project Development for Taseko, to lead the project. Scott is a mining engineer with over 25 years of related industry experience.

We continue to advance feasibility and permitting work at Prosperity. In January 2007, we announced the results of a pre-feasibility level study for the project, establishing 480 million tonnes of mineral reserves, and demonstrating Prosperity's long-term viability. As we move toward completion of the feasibility study, we expect that the project's economics will be further improved. In parallel with the feasibility studies, we re-initiated the BC Environmental Assessment process last year. Work is underway to assemble the data needed to determine the project's environmental and socioeconomic impacts. Ongoing consultations and dialogue with First Nations and other members of the local communities are an essential part of the process.

We cannot talk about Taseko's growth strategy without discussing our drive to acquire new projects or companies that would complement our portfolio of assets. We will continue to look for acquisitions that enhance our status as an emerging mining company based in British Columbia.

Achieving Excellence

At Taseko, we strive to continuously improve all areas of our business. Our objective is to build a stronger company for the benefit of all our stakeholders.

High on the priority list is the health and safety of our employees, who are vital to our success. We have a workplace safety program in place at Gibraltar and I am pleased to report that we had no lost time accidents at the mine in fiscal 2006. Despite this excellent record, we remain vigilant and are constantly seeking to improve our practices.

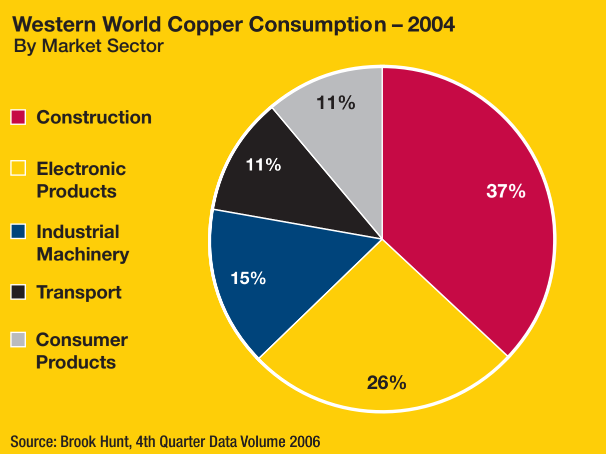
As stewards of the environment in which we operate, we are proud of our reputation as a responsible mining company. We have had no environmental incidents since Gibraltar re-opened in 2004. In addition, last year Taseko contributed $13 million into a reclamation trust fund, fully funding its reclamation liability for Gibraltar.

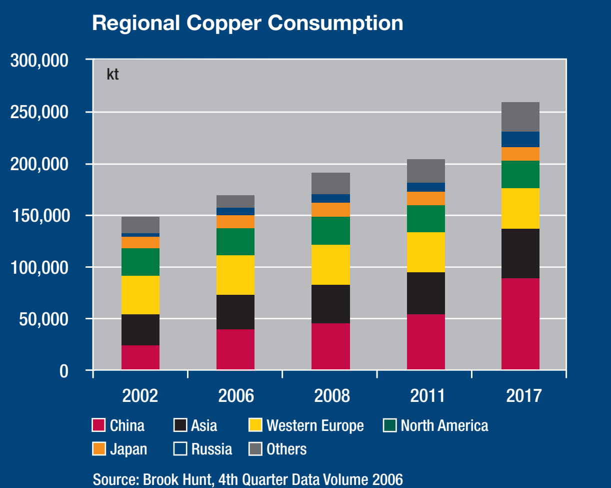
Today, a company is judged not only by its financial performance but also by how transparent and accountable it is to its shareholders and stakeholders. This past year, we added another independent Board member, Bill Armstrong, a geological engineer whose specialty over the past 40 years has been project and resource evaluation. Taseko's Board of Directors, with a broad array of experience and diverse backgrounds, provides leadership and direction to the management team and helps guide corporate activities. We have adopted corporate governance practices and a code of ethics to oversee management decisions and conduct. We are fortunate to have on our Board individuals who have many years of experience in finance and the mining sector as well as a vision of greater success for Taseko.

On behalf of our Board, I want to thank our shareholders for their continuing support. Our accomplishments are made possible by a talented and committed group of people who are dedicated to building a value focused company and optimizing benefits for all our stakeholders. We have had a very successful 2006 and I am looking forward to an even better 2007.

Russell E. Hallbauer
President and Chief Executive Officer

World Demand *drives* Commodity Prices





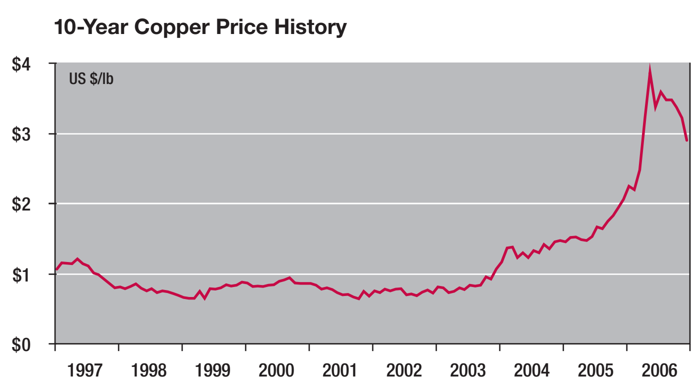
2006 proved to be an exciting year in most commodity markets, and the base and precious metals markets were no different. With 2006 gross domestic product (GDP) expected to be approximately 5%, the world economy had a very strong year and fueled robust demand for raw and finished goods. Despite very high commodity prices, interest rates helped to keep inflation relatively low.

Copper

Most of the copper produced in the world is used in electrical products. Other uses of copper are everyday items such as tubing, plumbing fixtures, hardware, and machine tool products. It is also combined with other metals to form more than 1,000 different alloys.

Continued strength in copper demand, combined with a weak US dollar, pushed copper pricing to all-time highs by mid-2006. After hitting US$4 per pound in May, concerns over the US economy started to grow and the effect was immediately felt in the commodity markets, and in particular the copper market. By the end of the year the copper price had dropped significantly but was still a healthy price at just below US$3 per pound. These strong fundamentals underpinned a 41% increase in copper prices in 2006.

What will keep copper pricing strong in 2007 and beyond? It appears that the global economy will remain robust, even in light of a slowing US economy. As stated by Brook Hunt, a leading mining and metal industry consultant, "During the current price cycle, which is projected to be from 2002 to 2011, we forecast that global consumption will grow at an average annual rate of 3.3% per annum compared with an average annual growth rate of 3.1% in the previous price cycle which ran between 1993 and 2002."



2006 proved to be an exciting year in most commodity markets—base and precious metals markets were no different.

Additionally, risks on the production side persist. Of the top 20 largest mines in world, 16 are located in countries with elevated political risk and account for nearly 50% of global copper production. In 2006, a number of supply disruptions occurred, with the most notable being the lengthy labour strike at the world's largest copper mine, Escondida. Going forward, lower than projected production will result from labour strikes, political unrest, project slippage and environmental issues. Combined with healthy demand growth, it appears that the fundamentals of the copper industry will remain tight for an extended period, which will result in above average pricing.

Gold

Gold is as popular now as it has ever been: as jewelry, as a financial asset and as an industrial product. Though jewelry fabrication accounts for approximately 85% of gold consumption, gold ranks among the most high-tech of metals. Almost all electronic and computer technologies contain gold, which is critical to the reliable and efficient functioning of equipment. Gold performs vital functions in medical applications, pollution controls, air bags, mobile telephones, laptop computers, space travel, and many other uses. Approximately 11% of demand for gold comes from industry.

2006 proved to be an exceptionally strong year for gold. The average price for gold in 2006 was over $600 per ounce—significantly higher than the $350 average price over the past 10 years.

The outlook for gold continues to be bullish and demand growth remains strong across all geographies. Even with the elevated price, gold mining companies are struggling to maintain production levels. The mounting problems of cost, politics and finance are capping how fast gold ore can be mined.

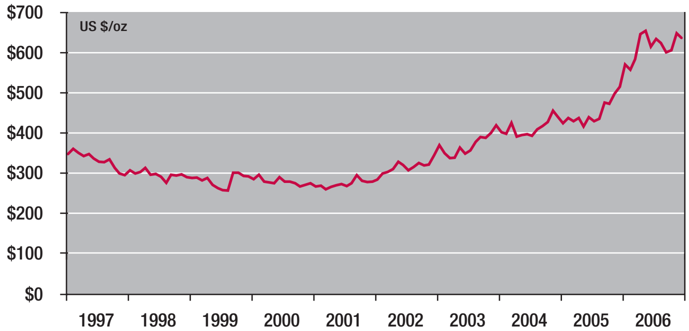
Molybdenum

Even though the molybdenum market is relatively small, it is important in domestic and industrial applications. Its use as an alloy in stainless and alloy steels accounts for over 50% of molybdenum consumption. Stainless steels include the strength and corrosion-resistant requirements for water distribution systems, food handling equipment, chemical processing equipment, home, hospital and laboratory requirements. Alloy steels include the stronger and tougher steels needed to make automotive parts, construction equipment and gas transmission pipes. Molybdenum is also an important material for the chemicals and lubricant industries.

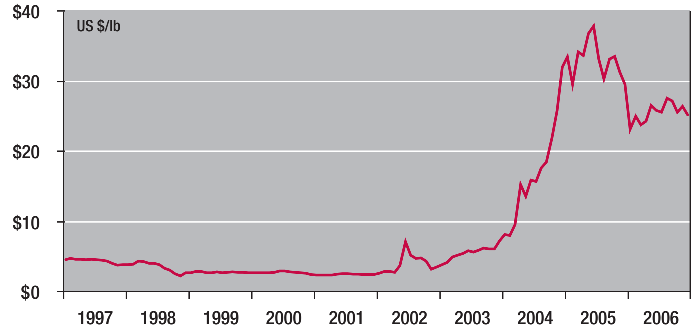
2006 was another exceptional year for molybdenum. The average price in 2006 for the grey metal was over US$25 per pound, compared to a 10-year average price of approximately US$10 per pound.

Global trends suggest that molybdenum demand will remain robust. Control of greenhouse emissions through its use as a catalyst, and its use in high-pressure pipelines for long distance gas and oil transportation are just two examples.

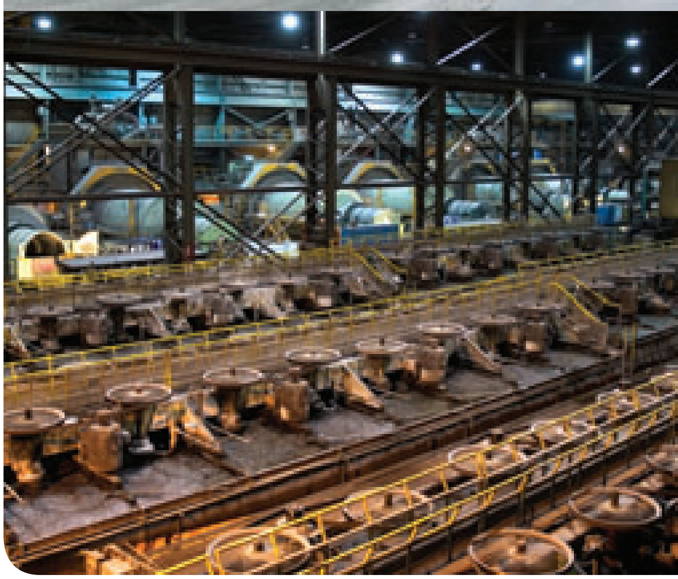
10-Year Gold Price History



10-Year Molybdenum Price History



Progress *and* Development at Gibraltar



2006 Operational Highlights

- Total Material Mined: 38.4 million tons
- Ore Milled: 10.9 million tons
- Stripping Ratio: 2.44:1
- Average Copper Grade: 0.285%
- Average Molybdenum Grade: 0.009%
- Copper Recovery: 79.1%
- Molybdenum Recovery: 41.2%
- Copper Production: 49.1 million pounds
- Molybdenum Production: 821,000 pounds

2006 Financial Highlights

- Total Revenue: $161.9 million
- Net Earnings: $32.9 million
- Net Earnings per Share: $0.29
- Operating Profit: $54.9 million
- Cash and Equivalents (at September 30, 2006): $89.4 million
- Production Costs: US$1.50 per pound of copper
- Average Realized Copper Price: US$2.44 per pound
- Average Realized Molybdenum Price: US$23.28 per pound

Investing in our Future

2006 was a year of significant progress and accomplishments. This was the second year of commercial production at Gibraltar since Taseko restarted the mine in late 2004. Total production for the year was 49.1 million pounds of copper and 821,000 pounds of molybdenum. 2006 was anticipated to be a lower than average production year, the result of mining lower grade sections of the Pollyanna pit. As the mine plan progresses through 2007 the average grade improves, and accordingly, the production levels should rise.

Creating a sustainable, long-term production facility requires an investment of money and time to maintain and upgrade the mine and equipment. These expenditures and the mill downtime will have an impact on our short-term results, but will create positive long-term results.

People are vital to a company's success; in 2006, we devoted a great deal of our attention to human resource matters.

Hiring, training and retaining our people

The key to any successful operation or company is its employees. In 2006, a great deal of focus and attention was given to personnel issues, specifically at the mine. Hiring, training and retaining employees are of critical concern at Gibraltar and throughout the entire mining and exploration industry. Many mines are located in remote areas, making it difficult to attract employees. Gibraltar is less than 45 minutes away from Williams Lake, a city of approximately 20,000 people. Because the city is a great place to live and work, and relatively close to the mine, it makes attracting and retaining employees easier. Several key management positions were filled this year, including the Mine Manager and the Manager of Milling positions. By the end of 2006, the employee count at the mine was 282, up from 248 at the end of 2005. The Gibraltar team was also reorganized to properly utilize experienced workers in key roles.

When Gibraltar was restarted in 2004, it commenced operations under a joint venture with Ledcor CMI Ltd. Ledcor provided financial security that allowed Gibraltar to lease new mining equipment, mining and earth moving expertise and access to a skilled workforce. As Taseko built a management team with a strong mining operations background and became financially solid, it withdrew from the joint venture.

Looking forward to 2007

As the Gibraltar Mine plan progresses, the ore grade will gradually increase by approximately 15%, which will help to boost production in 2007.

Also positively affecting production will be the addition of copper cathode production from the solvent extraction and electrowinning (SX-EW) plant. The SX-EW plant was built in 1986 and produced 85 million pounds of copper cathode until it was shut down in 1998. Since mining operations recommenced in 2004, oxidized material required for the restart of the SX-EW plant had been stockpiled. Refurbishing activities began in April 2006 and the first 99.9% pure copper cathode was produced in January 2007. Production will ramp up and reach annual capacity of 7 million pounds by mid year. For fiscal 2007, the plant is expected to produce approximately 3.5 million pounds of copper cathode.

Progress *and* Development at Gibraltar

Increasing reserves and resources

When the mine was restarted in 2004, the mine life was 12 years. A key objective was to increase reserves and extend the mine life. A review of the mine plan in 2005 resulted in a portion of the measured and indicated resources being converted to reserves, which extended the mine life by 30% to 15.5 years. In March 2006, a $2 million drilling program was initiated to upgrade information on resources located near current reserves and update the geological and mine models. By the end of 2006, 67 drill holes were completed. Reserves were again increased by 40%, and mine life extended to 21 years at the current operating parameters of 36,700 tons milled per day. Additionally, the new reserves have a 5% higher copper grade and an 11% higher molybdenum grade than the previous reserves.

Based on the success of the 2006 drilling program, the Board of Directors approved drilling through the spring of 2007, directed toward a further increase in reserves in 2007. Continued reserve growth at Gibraltar will allow engineering studies to be undertaken for additional expansion to the concentrator facility, providing increased concentrate production and a reduced cost profile.

Expanding the Gibraltar Concentrator

The concentrator expansion and modernization project that was announced in spring 2006 will increase Gibraltar's annual production capacity to approximately 100 million pounds of copper and 1.3 million pounds of molybdenum by 2008. At the end of 2006, work on this project was on schedule and is expected to reach the commissioning phase by late 2007. This upgrade will increase throughput, improve operating performance and reduce costs going forward. A key benefit to this project is the ability to use existing Gibraltar infrastructure. Compared to greenfield projects, the capital costs of this expansion and modernization are relatively low and the capacity can be built very quickly.

The concentrator expansion will be achieved by adding a semi-autogenous grinding (SAG) mill to the front end of the concentrator. This will increase the grinding capacity from 36,700 tons to 46,000 tons per day. Modernizing the concentrator consists of the complete replacement of the flotation circuit. The 96 existing 1970s vintage float cells will be replaced with 10 new cells, which will increase flotation capacity and provide better copper and molybdenum recovery. The first float cell was installed at the end of 2006 and the remaining nine will be installed by the third quarter of 2007.

Taseko is recognized by industry for its innovative approach to sustainability and its commitment to the environment.

Sharing benefits with the community

For Taseko, responsible mineral development is represented by a set of core values. These values can be summarized as follows:

- Being good neighbors, and showing respect to the environment and the people who live in the vicinity of the development areas
- Maximizing and sharing the benefits of the project with the community
- Engaging the community with open dialogue and using local hiring and purchasing whenever possible

Taseko has been actively engaged with local communities and First Nations band members regarding employment and training opportunities since the mine restart. Local engagement is an essential element to working in the region and the Company strives to form mutually beneficial relationships with all stakeholders.

The Gibraltar Mine is a major contributor to the economy of south-central BC. It employs approximately 300 people, pays an average annual payroll of $23 million in wages and benefits, and spends approximately $120 million annually in the region and province wide.

A Commitment to the Environment

Taseko is recognized by industry for its innovative approach to sustainability and its commitment to the environment, winning awards from business and environmental groups. One such example was the partnership between Gibraltar Mine and the Cariboo Regional District to build a landfill facility at the mine site during Gibraltar's standby phase. The landfill, which began operations in 2003, helps reduce environmental impacts on the region and complements the mine's reclamation program. In recognition of the landfill, Taseko has received awards from the Mining Association of BC, the Fraser Basin Council, the Northern BC Business and Technology Awards and the Solid Waste Association of North America.

The Company is committed to adhering to best practices in the areas of environmental stewardship and management, and ensuring total compliance with all governmental regulations. The goal is to minimize environmental impact on the properties and to continually improve upon processes while seeking progressive solutions.

Like all mining operations in BC, Taseko is required to post a reclamation bond, in an amount sufficient to fully reclaim the entire site and maintain ongoing maintenance costs long after mine closure. Last year, the Company contributed a further $13.8 million into a reclamation trust fund, which already held $18.2 million, fully funding its reclamation liability.

Preparing for Development *of* Prosperity

Positive results from pre-feasibility study

Positive results from the pre-feasibility level study were announced in January 2007. The pre-feasibility study was prepared using long-term metal prices of US$1.50/lb for copper, US$500/oz for gold and an exchange rate of US$0.80/C$1.00.

Highlights:

- Proven and probable reserves of 480 million tonnes grading 0.43 grams gold per tonne and 0.22 percent copper at a $4 net smelter return per tonne cut-off
- 19-year mine life at a milling rate of 70,000 tonnes per day
- Annual production of 235,000 ounces of gold and 100 million pounds of copper
- Life of mine strip ratio of 0.8:1
- Mine site production costs net of gold credits of US$0.48/lb copper
- Operating cost of $5.78 per tonne milled over the life of mine
- Pre-tax internal rate of return of 14% with a 6-year payback
- Total pre-production capital cost of $756 million

Focused on Opportunity

In 1991, Taseko purchased the Prosperity property, near Williams Lake in south-central British Columbia. The property contains a large gold-copper deposit. From 1991 to 1997, Taseko drilled 275 holes totaling 125,000 metres. In 2000, the project was suspended due to low gold and copper prices.

In late 2005, as gold and copper prices strengthened and the longer-term outlook improved, work was re-initiated on the Prosperity project. The activities included updating the previously completed feasibility study and preparing an environmental assessment (EA) for submission to government authorities.

In 2006, a preliminary overview and pre-feasibility study were completed. These focused on opportunities associated with the redesign of the concentrator, in particular, utilizing a single, large-diameter, semi-autogenous grinding (SAG) mill as opposed to multiple smaller SAG mills. An updated feasibility study, performed by consultants Hatch Ltd., is expected to be complete by May 2007.

Establishing a lasting, respectful and mutually productive relationship with First Nations is an important objective.

Environmental Assessment initiated

The EA process assembles all aspects of environmental and socioeconomic impact, including input and consultation with communities of interest, to allow a fair and open review by government and the public. The Prosperity project will be reviewed under both the BC and Canadian Environmental Assessment Acts. It is expected the Prosperity EA will be submitted before the end of April 2007.

Ongoing Dialogue with First Nations

The proposed Prosperity project is located in the traditional territory of the Tsilhqot'in First Nation. It is also located in an area in which the Xeni Gwet'in First Nation (formerly known as Nemiah Indian Band) is engaged in an important rights and title case. Taseko and the Xeni Gwet'in recognize the special significance of this case and are respectful of its potential impact on current and future development.

The Company has a well established record of dialogue with the Tsilhqot'in National Government (TNG) and is expanding that dialogue to include direct discussions with the six First Nation bands that make up the TNG: Nemiah, Stone, Toosey, Alexandria, Anaham, and Alexis Creek. Similar efforts at relationship-building are underway with the Northern Shuswap Canoe Creek band which is aligned with the Cariboo Tribal Council and the Alkali band who are also Northern Shuswap First Nation.

Establishing a lasting, respectful and mutually productive relationship with First Nations is an important objective for the Company and progress in this regard is being made.

Creating Value *through* Growth

Many companies target growth as a key component of their corporate strategy—but few companies have the growth potential of Taseko. Growth is a key target for Taseko and our goal is to become a multi-faceted metal producer.

Near- and longer-term growth from Canadian assets

- Gibraltar—an operating copper-molybdenum mine with an increasing production capacity, declining cost profile and long-life reserves that continue to expand
- Prosperity—an advanced stage gold-copper project, with long-life reserves and the potential to be producing within four years
- Harmony—an advanced stage gold deposit that provides a longer-term opportunity

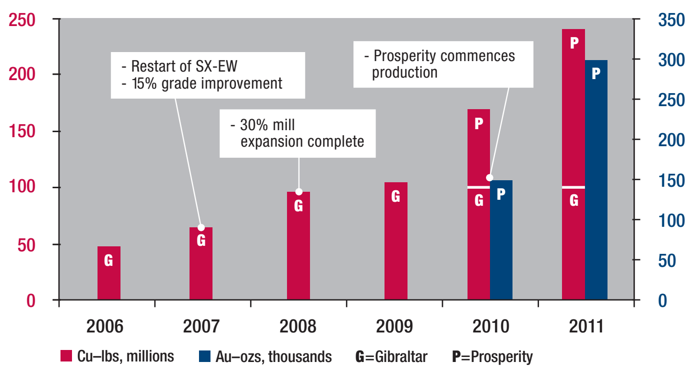
Financial strength enables growth through acquisitions

- Strong cash flows
- Nearly $90 million in cash and equivalents
- Very low debt-equity

Experienced, stable management

- Senior management team with depth of experience in mining operations
- Through affiliation with Hunter Dickinson Inc., access to personnel with world-class experience and success in exploration, engineering and finance

Potential Copper & Gold Production Profile



Mineral Reserves *and* Resources

MINERAL RESERVES

		Proven		Probable		Total		Recoverable metal
Copper		Tons (millions)	Grade (% Cu)	Tons (millions)	Grade (% Cu)	Tons (millions)	Grade (%Cu)	Pounds (billions)
	Gibraltar	**217.8**	**0.320**	**38.6**	**0.305**	**256.4**	**0.318**	**1.4**
		Tonnes (millions)	Grade (% Cu)	Tonnes (millions)	Grade (% Cu)	Tonnes (millions)	Grade (% Cu)	Pounds (billions)
	Prosperity	**280**	**0.25**	**200**	**0.18**	**480**	**0.22**	**2.0**
Molybdenum		Tons (millions)	Grade (% Mo)	Tons (millions)	Grade (% Mo)	Tons (millions)	Grade (% Mo)	Pounds (millions)
	Gibraltar	**217.8**	**0.010**	**38.6**	**0.011**	**256.4**	**0.010**	**21.0**
Gold		Tonnes (millions)	Grade (g/t Au)	Tonnes (millions)	Grade (g/t Au)	Tonnes (millions)	Grade (g/t Au)	Ounces (millions)
	Prosperity	**280**	**0.47**	**200**	**0.36**	**480**	**0.43**	**4.5**

MINERAL RESOURCES

		Measured		Indicated		Total	
Copper		Tons (millions)	Grade (% Cu)	Tons (millions)	Grade (% Cu)	Tons (millions)	Grade (% Cu)
	Gibraltar	**414**	**0.284**	**197**	**0.272**	**611**	**0.280**
		Tonnes (millions)	Grade (% Cu)	Tonnes (millions)	Grade (% Cu)	Tonnes (millions)	Grade (% Cu)
	Prosperity	**547.1**	**0.27**	**463.4**	**0.21**	**1010.5**	**0.24**
Molybdenum		Tons (millions)	Grade (% Mo)	Tons (millions)	Grade (% Mo)	Tons (millions)	Grade (% Mo)
	Gibraltar	**414**	**0.008**	**197**	**0.007**	**611**	**0.008**
Gold		Tonnes (millions)	Grade (g/t Au)	Tonnes (millions)	Grade (g/t Au)	Tonnes (millions)	Grade (g/t Au)
	Prosperity	**547.1**	**0.46**	**463.4**	**0.34**	**1010.5**	**0.41**

Gibraltar: The resource and reserve estimation was completed in 2006 by Gibraltar Mine staff under the supervision of Ian S. Thompson, P. Eng., Superintendent of Engineering and a Qualified Person under National Instrument 43-101. Reserves are estimated at 0.20% Cu cut-off and resources as 0.16 to 0.20% Cu cut-off, based on long-term metal prices of US$1.50/lb for copper and US$8.00/lb for molybdenum and a foreign exchange of C$0.88 per US dollar. There are also oxide reserves (see Taseko Annual Information Form for fiscal 2006), but these have not changed from previous estimates.

Prosperity: The resource and reserve estimation was reviewed by Scott Jones, P.Eng., General Manager of Project Development for Taseko and a Qualified Person under National Instrument 43-101, and is based on a 2006 pre-feasibility study done using long-term metal prices of US$1.50/lb for copper, US$500/oz for gold, and an exchange rate of US$0.80/C$1.00. Reserves are estimated at $4.00 net smelter return per tonne cut-off and resources at 0.14% Cu cut-off. The reserve estimate takes into consideration all geologic, mining, milling, and economic factors, and is stated according to Canadian standards. Under US standards no reserve declaration is possible until a full feasibility study is completed and financing and permits are acquired.

The Hunter Dickinson Advantage

Access to Hunter Dickinson professionals

Taseko Mines enjoys both cost and expertise advantages through access to a shared multidisciplinary team of mining and financial professionals at Hunter Dickinson Inc. This approach provides Taseko with:

- Management capability
- Geological, engineering and environmental expertise
- Financial acumen
- Administrative and support services

Taseko is dedicated to providing its shareholders with excellent value while upholding the tenets of socially responsible mining, an integral part of Taseko and Hunter Dickinson's corporate philosophy.

Management's Discussion *and* Analysis

1.1

DATE

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Taseko Mines Limited ("Taseko", or the "Company") for the year ended September 30, 2006 and 2005.

This MD&A is prepared as of December 15, 2006. All dollar figures stated herein are expressed in Canadian dollars, unless otherwise specified.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the Company 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 market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

1.2

OVERVIEW

Taseko is a mining and mineral exploration company with three properties located in British Columbia, Canada. These are the Gibraltar copper-molybdenum mine and two exploration projects: the Prosperity gold-copper property and the Harmony gold property. In 2006, Taseko focused on production improvements at the Gibraltar mine and updating a feasibility study on the Prosperity project.

During the year ended September 30, 2006, Taseko's operating profit was $54.9 million and earnings were $32.9 million, as compared to operating profit of $13.6 million and earnings of $23.3 million in fiscal 2005.

Gibraltar

In fiscal 2006, the Gibraltar mine produced 49.1 million pounds of copper and 821,000 pounds of molybdenum and realized revenues of $140.3 million from copper and $21.6 million from molybdenum, increases from $71.9 million and $15.7 million, respectively, in fiscal 2005. The average price realized for sales of copper and molybdenum during fiscal 2006 were US$2.44 and US$23.28 respectively. In fiscal 2005, the Gibraltar mine produced 54.8 million pounds of copper and 427,000 pounds of molybdenum and the average price per pound realized for sales was US$1.48 and US$31.00, respectively.

Work commenced during the year on the expansion and upgrade of the concentrator facility at the Gibraltar mine with engineering and procurement on schedule. Engineering is approximately 70% complete. The upgrade and expansion project will increase the copper production of the Gibraltar mine to 100 million pounds of copper per year by 2008.

Rehabilitation of Gibraltar's solvent extraction and electrowinning (SX-EW) plant has also progressed. Commissioning will begin in mid December and full production is expected in January 2007. The SX-EW plant will add copper production capacity of approximately 3.6 million pounds in 2007 and 7 million pounds, annually, going forward.

An exploration drilling program was initiated at Gibraltar in the spring of 2006, with the objective of delineating additional mineralization adjacent to the walls and beneath the existing open pits. The program was successful in meeting both of these objectives. In addition to outlining new volumes of mineralization, the deep holes encountered copper and molybdenum grades that are significantly higher than the average grades that have previously been mined, indicating that the grade is increasing with depth. A second phase of drilling was initiated in the fall of 2006.

Gibraltar mine staff recently completed an estimate of the additional mineral resources and reserves based on this year's drilling, increasing the reserves by some 74 million tons in the Granite Lake deposit. Management is currently in the process of updating and revising its life of mine plan.

On July 1, 2006, Kim Barrowman, P.Eng., was appointed General Manager of the Gibraltar operation.

The agreement established with Ledcor CMI Ltd. ("Ledcor") on the Gibraltar mine has been dissolved. Effective November 5, 2006, Taseko assumed responsibility for all matters in connection with the Gibraltar Mine.

Prosperity

An update of the feasibility study for the Prosperity Gold-Copper Project, being performed by Hatch consultants, is progressing and is scheduled for completion in May 2007. Updating of optimum mine plans and input parameters to a pre-feasibility level is nearing completion, and results are scheduled for release early in January 2007. The Prosperity Project Environmental Impact Assessment Report will be completed in the spring of 2007.

Convertible Bond Financing

In September 2006, Taseko announced the completion of an issuance of US$30 million in five year convertible bonds. The bonds, due in 2011, are convertible into Taseko's common (ordinary) shares. Resale of any of the 8,995,224 shares in the capital of the Company, issuable on conversion of the bonds, will be restricted in Canada until December 29, 2006.

Investment in Continental Minerals Corporation

Also in September 2006, the Company completed an $11.5 million convertible note investment into Continental Minerals Corporation ("Continental"). Continental, a company with certain directors in common with Taseko, holds a 100% interest in the Xietongmen copper-gold project in Tibet, China.

The Xietongmen property hosts a significant porphyry copper-gold deposit. Feasibility-level studies were initiated at Xietongmen in 2006, which are targeted for completion in 2007.

Investment into bcMetals Corporation

In November 2006, Taseko launched a $1.05 per share take-over bid offer for all of the outstanding shares of bcMetals Corporation ("bcMetals"). bcMetals holds a 100% interest in the Red Chris copper-gold project in northern British Columbia. The results of a feasibility study on the Red Chris project were announced by bcMetals earlier in 2006.

Taseko's offer represented an 11% premium over the then current bid price for bcMetals being made by Imperial Metals Corporation and, if successful, would cost approximately $45 million for 100% of bcMetals. The Taseko bid is subject to a number of conditions, including that at least 66.66% of bcMetals shares are tendered to the bid, a conditional settlement agreement is reached with certain minority shareholders of bcMetals' subsidiary, American Bullion Minerals Ltd., as well as rejection by bcMetals shareholders of bcMetals' Limited Purpose Shareholder Rights Plan and its proposed joint venture of Red Chris with Global International Jiangxi Copper Mining Company Limited.

As of December 15, 2006, Taseko purchased, through ordinary market transactions on the TSX Venture Exchange, 1,791,600 common shares (4.67%) of bcMetals at an average price of $1.007 per share.

GIBRALTAR MINE

FISCAL 2006 HIGHLIGHTS

Copper

- Copper in concentrate production during the year was 49.1 million pounds of copper, 10.4% less than the previous year.
- Copper concentrate sales for the year were 90,230 wet metric tonnes ("WMT"), containing 51.0 million pounds of copper, an increase from the 77,695 WMT or 44.0 million pounds of copper sold during fiscal 2005.
- The average price realized for sales of copper in fiscal 2006 was US$2.44 per pound, compared to US$1.48 per pound in fiscal 2005.
- Copper concentrate inventory at September 30, 2006 was 13,396 WMT (8.4 million pounds of copper), a decrease in inventory from the 18,614 WMT of copper concentrate (10.6 million pounds of copper) at the end of the prior fiscal year.

Molybdenum

- Molybdenum in concentrate production during the year was 821,000 pounds compared to 427,000 pounds in the previous year.
- Molybdenum concentrate sales during the year were 789 WMT, containing 798,000 pounds, an increase from the 418,000 pounds sold in fiscal 2005.
- The average price realized for sales of molybdenum in fiscal 2006 was US$23.28 per pound compared to US$31.00 in the previous fiscal year.
- At the end of the year, molybdenum in concentrate inventory was 30.7 WMT (32,400 pounds of molybdenum), compared to 9.4 WMT (9,000 pounds of molybdenum) at the end of the fiscal 2005.

2006 PRODUCTION RESULTS

The following table is a summary of the operating statistics for fiscal 2006 compared to fiscal 2005.

	Fiscal 2006	Fiscal 2005
Total tons mined (millions)[1]	38.4	40.0
Tons of ore milled (millions)	10.9	11.5
Stripping ratio	2.44	2.31
Copper grade (%)	0.285	0.314
Molybdenum grade (%Mo)	0.009	0.010
Copper recovery (%)	79.1	76.2
Molybdenum recovery (%)	41.2	23.1
Copper production (millions lb)	49.1	54.8
Molybdenum production (thousands lb)	821	427
Copper production costs, net of by-product credits[2], per lb of copper	US$1.25	US$0.87
Off property costs for transport, treatment (smelting and refining) and sales per lb of copper	US$0.25	US$0.28
Total cash costs of production per lb of copper	US$1.50	US$1.15

1 *Total tons mined includes sulphide ore, oxide ore, low grade stockpile material, overburden, and waste rock which were moved from within pit limit to outside pit limit during the period.*

2 *The by-product credit is based on pounds of molybdenum and ounces of silver sold. Unit costs were lower in fiscal 2005 because molybdenum prices and pounds of copper produced were higher.*

Total tons mined in the current fiscal year were lower than in fiscal 2005 as a result of low haulage truck availability due to the industry wide lack of tire supply. Gibraltar maintains a contract for 80% of the mine's haulage truck tire requirements and is working to secure other sources as well as taking all reasonable measures to extend tire life. The worldwide ongoing tire supply issue will likely remain a major issue at least through 2007. Preemptive action taken includes: examining mine planning options to maintain ore supply, securing other sources of tires, purchase of lightweight truck boxes, construction of an in-pit crusher/conveyor and implementing ongoing tire life extension programs.

The mine worked through a lower grade portion of the Pollyanna pit and an unexpectedly high percentage of very fine clay type ore caused by geological faults, affecting mill throughput. As well, production was further negatively affected by a lower than planned mill mechanical availability (including fifteen days of primary crusher down time during May and June). As a result, copper produced in concentrate during fiscal 2006 was 49.1 million pounds, a decrease from the 54.8 million pounds produced in fiscal 2005.

Molybdenum produced in concentrate was 821,000 pounds, an increase from 427,000 pounds produced in fiscal 2005. The molybdenum circuit was being commissioned and fine tuned during fiscal 2005, which accounts for the lower production.

FOURTH QUARTER 2006 HIGHLIGHTS

Copper

- Copper in concentrate production during the quarter was 12.8 million pounds of copper, 26% more than the previous quarter.
- Copper concentrate sales for the quarter were 8,982 wet metric tonnes ("WMT"), containing 5.0 million pounds of copper, a decrease from the 29,129 wet metric tonnes ("WMT"), containing 16.0 million pounds of copper sold during the previous quarter.
- The average price realized for sales of copper in the quarter was US$3.23 per pound compared to US$3.08 per pound in the previous quarter.
- Copper concentrate inventory at September 30, 2006 was 13,396 WMT (8.4 million pounds of copper), an increase in inventory from the 1,094 WMT of concentrate (0.6 million pounds of copper) on hand at the end of the previous quarter.

Molybdenum

- Molybdenum in concentrate production in the quarter was 197,000 pounds, a 17% increase from the previous quarter.
- Molybdenum concentrate sales in the quarter were 169 WMT, containing 172,000 pounds, a decrease from the 186 WMT, containing 186,000 pounds sold in the previous quarter.
- The average price realized for sales of molybdenum in the quarter was US$24.10 per pound compared to US$24.81 in the previous quarter.
- At the end of the fourth quarter, molybdenum in concentrate inventory was 30.7 WMT (32,400 pounds of molybdenum), compared to 7.4 WMT (7,600 pounds of molybdenum) at the end of the previous quarter.

FOURTH QUARTER PRODUCTION RESULTS

The following table is a summary of the operating statistics for the fourth quarter of 2006 (Q4 2006) compared to the same quarter in fiscal 2005 (Q4 2005).

	Q4 2006	Q4 2005
Ore plus waste mined (000's tons)	9,594	10,504
Ore milled (000's tons)	2,766	2,977
Stripping ratio	2.47	2.42
Copper grade (%)	0.293	0.281
Molybdenum grade (% Mo)	0.009	0.008
Copper recovery (%)	79.6	77.7
Molybdenum recovery (%)	40.8	20.3
Copper production (000's lb)	12,748	13,021
Molybdenum production (000's lb)	197	108
Copper production costs, net of by-product credits, per lb of copper	US$1.38	US$0.80[1]
Off property costs for transport, treatment (smelting and refining) and sales per lb of copper	US($1.35)[2]	US$0.34
Total cash costs of production per lb of copper	US$0.03	US$1.14

1 *The by-product credit is based on pounds of molybdenum and ounces of silver sold. Unit costs were lower in fiscal 2005 because molybdenum prices and pounds of copper produced were higher.*

2 *Off-property costs includes proceeds of the Glencore Ltd. arbitration award.*

Tons mined were lower in the fourth quarter of fiscal 2006 compared to fiscal 2005 as a result of low haulage truck availability due to the continuing lack of tire supply, discussed above. (For further details see 2006 Production Results.)

Ore milled was slightly lower in Q4 2006 compared to the same quarter of the prior year. Mill mechanical availability improved in Q4 2006 compared to Q3 2006, even when 48 hours of downtime attributable to work required to tie-in the mill expansion is included, but it continues to adversely affect copper production. The most significant mill availability issues in Q4 were in the secondary crusher circuit where material handling issues were encountered as a result of a high percentage of wet and fine ore coming from the Pollyanna pit. Material handling problems are being addressed by mine planning and ore type blending. Upon completion of the mill expansion in December 2007, the secondary crusher will be largely unnecessary but, in the interim, immediate preemptive action on mill availability has been taken and includes: ongoing operations and maintenance procedures reviews and training, root cause analyses and repair/replacement programs to eliminate or reduce bottlenecks.

Copper recovery has improved in fiscal 2006 compared with the same quarter in fiscal 2005; however, copper production for the quarter was lower as a result of lower mill production. Molybdenum production has improved from fiscal 2005 when commissioning problems were still taking place related to the new molybdenum circuit that was completed in early 2005.

Costs per pound of copper produced were above forecast due to reduced metal production, as explained above, and as a result of higher than expected expenditures. Cost reductions as a result of lower production were off set by higher overall input costs for tires, grinding media, fuel, and contracted maintenance labour. Expenditures were also higher as a result of accelerating planned maintenance on the mining fleet of equipment, including the $1.5 million rebuild of a shovel performed in September and repairs and replacement of equipment in the secondary crushers.

MILL EXPANSION PROJECT

Work on an expansion and upgrade to the concentrator facility at the Gibraltar mine commenced in Q3 2006. Engineering and procurement is proceeding on schedule, with engineering approximately 70% complete. The upgrade and expansion project will increase the copper production capacity of the Gibraltar mine to 100 million pounds of copper per year by 2008.

The mill expansion is fully underway. Outside earthworks and foundation pours for the 10.4-metre diameter SAG mill and associated buildings are approximately 60% completed. The focus of construction activities moved inside the main mill building during the winter months to continue with the installation of the nine new 160 cubic metre flotation cells. All major components have been ordered and are confirmed to arrive at the site on time. Contracts for engineering, procurement and construction management, earthworks, civil engineering, and building erection have been let and contracts for mechanical and electrical installation are pending. Final cost projections are expected by mid-December and will include detailed estimates for piping, pumping, electrical, and instrumentation installations.

SOLVENT EXTRACTION /ELECTROWINNING (SX/EW) PLANT RESTART

All oxide material required for the restart of the SX/EW plant was in place during the fourth quarter of fiscal 2006 and solvent distribution systems had been installed. The SX/EW plant is scheduled to go through hot commissioning on December 15, and the plant is expected to be in full production in January 2007.

LABOUR

There were no lost time accidents during the fourth quarter or over the fiscal year. The number of personnel at the end of the year was 282, compared to 281 at the end of the previous quarter and 248 at the end of fiscal 2005.

On site full-time staff and hourly Ledcor employees were informed in July that their employment would be transferred to Gibraltar as a result of the dissolution of the agreement with Ledcor. The transfers were completed on November 5, 2006.

MINERAL RESERVES AND RESOURCES

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources: *The following section uses the terms 'measured resources' and 'indicated resources'. The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.*

A 61,500-foot exploration drilling program was carried out in 2006 to define the mineral resources between the existing pits, tying together the extensive mineralization zones, and to test for additional mineralization at depth. The work successfully met both objectives, and additionally encountered copper and molybdenum grades and copper equivalent values at depth that are significantly higher than the average 0.30% copper and 0.008% molybdenum grades (0.34% copper equivalent) mined over the past ten years of operation at the Gibraltar Mine.

Modeling and mine plan development subsequent to September 30, 2006 resulted in a 40% increase in proven and probable reserves in the Granite Lake deposit. The mine production plans and economic analysis meet the requirements of Canadian securities regulations to upgrade resources to reserves but a life of mine plan has not yet been formalized and approved by Taseko's board of directors.

Under present mine operating parameters of 36,000 tons milled per day, this addition to reserves extends the mine life to 21 years. Upon completion of the mill expansion in December 2007 to 46,000 tons per day, the Gibraltar mine life will be approximately 15 years.

Gibraltar Mineral Reserves
at October 1, 2006 at 0.20% Copper cut-off

Pit	Category	Tons (millions)	Cu (%)	Mo (%)
Pollyanna	Proven	17.2	0.335	0.011
	Probable	1.4	0.276	0.009
	Subtotal	**18.6**	**0.331**	**0.011**
PGE Connector	Proven	43.0	0.297	0.010
	Probable	13.3	0.278	0.014
	Subtotal	**56.3**	**0.293**	**0.011**
Granite Lake	Proven	97.0	0.318	0.009
	Probable	10.5	0.317	0.006
Granite Lake Additional	Proven	60.6	0.334	0.011
	Probable	13.4	0.326	0.011
	Subtotal	**181.5**	**0.324**	**0.010**
Total		**256.4**	**0.318**	**0.010**

The resource and reserve estimation was completed by Gibraltar mine staff under the supervision of Ian S. Thompson, P. Eng., Superintendent of Engineering and a Qualified Person under National Instrument 43-101. The estimates used long term metal prices of US$1.50/lb for copper and US$8.00/lb for molybdenum and a foreign exchange of C$0.88 per US dollar. A technical report will be filed on www.sedar.com in January 2007.

In addition to the above reserves, the mineral resources are estimated to be:

Gibraltar Mineral Resources
at 0.16% to 0.20% Copper cut-off

Category	Tons (millions)	Cu (%)	Mo (%)
Measured	414	0.284	0.008
Indicated	197	0.272	0.007
Total	**611**	**0.280**	**0.008**

There are also oxide reserves (see Taseko Annual Information Form for fiscal 2005), but these have not changed from previous estimates.

With the promising results encountered in the 2006 drilling program, Hunter Dickinson Inc. exploration specialists have been called upon to re-evaluate the property for exploration potential and to assist in devising and managing a focused program to further expand the Gibraltar mineral reserve. Two diamond drills are currently on the property continuing to work outwards from existing pits with the objective of expanding the reserves again in 2007.

2007 PRODUCTION FORECAST

Forecasted metal production for 2007 is 60–70 million pounds of copper and one million pounds of molybdenum. Total copper production is expected to increase from that achieved in 2006 through a combination of improved ore grade, increased mill throughput from improved mill mechanical availability and the additional production of cathode copper from the rehabilitated SX/EW plant. With the expected higher grade and improved mill throughput, molybdenum production will also increase from 2006.

PROSPERITY PROJECT

Taseko holds a 100% interest in the Prosperity property, which encompasses 196 mineral claims covering approximately 85 square kilometres. The property, located 125 kilometres southwest of the City of Williams Lake in south-central British Columbia, hosts a large porphyry copper-gold deposit amenable to large-scale open pit mining.

An update of the feasibility study for the Prosperity Gold-Copper Project, being performed by Hatch consultants, is progressing and is scheduled for completion in May 2007. Updating of optimum mine plans and input parameters to a pre-feasibility level with a National Instrument 43-101 reserve statement is nearing completion. Results are scheduled for release early in January 2007.

Field work for the environmental impact assessment (EIA) has essentially concluded and the main task at hand is writing the project report. The EIA is to be substantially completed by the end of April 2007, at which time it will enter the harmonized Federal/Provincial evaluation process. The Company is in discussions with local First Nations groups regarding their involvement in the project and it is important to note that the project is in an area which has been involved in a native title claim court case for some time.

HARMONY PROJECT

In 2006, the Company was focused on the Gibraltar mine and the Prosperity project; therefore only maintenance activities were performed on the Harmony project. These activities will continue and assessments will be undertaken as new opportunities arise for the Harmony project. Taseko anticipates continuing to focus its resources and its efforts on the Gibraltar mine and the Prosperity project in 2007.

MARKET TRENDS

Copper prices have been increasing since late 2003. Copper prices averaged US$1.30/lb in 2004 and US$1.59/lb in 2005. Copper prices have continued to increase in 2006, averaging US$3.03/lb to mid-December.

Molybdenum prices increased from US$7.60/lb to US$34/lb in 2004. The average molybdenum price in 2005 was US$33/lb. Prices appear to have stabilized since January, averaging US$25.53 to mid-December 2006.Gold prices have been increasing over the past two years, and this uptrend has accelerated since September 2005. Overall, the gold price increased from US$410/oz in 2004 to US$445/oz in 2005. The gold price has also increased in 2006, averaging US$604/oz to mid-December.

1.3

SELECTED ANNUAL INFORMATION

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and are expressed in Canadian dollars except common shares outstanding.

Balance Sheets *(as at September 30)*	**2006**	**2005** *(restated)*	**2004** *(restated)*
Current assets	$ 149,446,742	$ 58,380,111	$ 18,064,003
Mineral properties	2,628,000	3,000	3,000
Other assets	145,386,341	132,613,767	112,799,415
Total assets	297,461,083	190,996,878	130,866,418
Current liabilities	47,861,378	52,204,979	40,354,912
Other liabilities	148,665,895	109,682,344	95,426,763
Shareholders' equity	100,933,810	29,109,555	(4,915,257)
Total liabilities and shareholders' equity	$ 297,461,083	$ 190,996,878	$ 130,866,418

Statements of Operations *(year ended September 30)*	**2006**	**2005** *(restated)*	**2004** *(restated)*
Revenue	$ 161,900,063	$ 87,638,300	$ –
Cost of sales	(103,627,678)	(71,348,118)	–
Amortization	(3,412,048)	(2,657,165)	17,296
Operating profit (loss)	**$ 54,860,337**	**$ 13,633,017**	**$ (17,296)**
Accretion of reclamation obligation	1,732,000	1,574,000	1,431,000
Exploration	3,544,081	505,586	4,597,968
Foreign exchange loss (gain)	(288,801)	34,080	–
Loss on sale of equipment	–	2,160,992	–
Loss on extinguishment of capital leases	240,049	–	–
General and administration	5,286,039	2,411,688	2,693,067
Ledcor termination fee	3,500,000	–	–
Interest and other income	(7,170,301)	(10,547,609)	(5,154,209)
Interest expense	4,593,622	3,175,353	–
Interest accretion on convertible debt	1,280,099	1,075,478	977,705
Premium paid for acquisition of Gibraltar Reclamation Trust LP	–	–	5,095,249
Refinery project	–	–	–
Restart project	–	6,346,650	14,982,008
Stock-based compensation	3,182,102	1,129,026	5,172,244
Write down of mineral property acquisition costs	–	–	28,810,296
Earnings (loss) before income taxes	**$ 38,961,447**	**$ 5,767,773**	**$ (58,622,624)**
Current income tax expense (recovery)	4,397,000	(4,099,000)	23,744,000
Future income tax expense (recovery)	1,648,000	(13,423,000)	–
Earnings (loss) for the year	**$ 32,916,447**	**$ 23,289,773**	**$ (82,366,624)**
Basic earnings (loss) per share	$ 0.29	$ 0.23	$ (1.10)
Diluted earnings (loss) per share	$ 0.26	$ 0.21	$ (1.10)
Basic weighted average number of common shares outstanding	113,553,556	100,021,655	75,113,426
Diluted weighted average number of common shares outstanding	126,462,009	110,732,926	75,113,426

1.4

SUMMARY OF QUARTERLY RESULTS

Expressed in thousands of Canadian dollars, except per-share amounts. Small differences are due to rounding.

	Sept 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005 *(restated)*[1]	Jun 30 2005 *(restated)*[1]	Mar 31 2005 *(restated)*[1]	Dec 31 2004 *(restated)*[1]
Current assets	$ 149,447	$ 68,651	$ 64,839	$ 57,067	$ 58,380	$ 50,973	$ 31,424	$ 24,673
Mineral properties	2,628	3	3	3	3	3	3	3
Other assets	145,386	134,459	132,713	132,684	132,614	120,522	118,945	115,055
Total assets	**$ 297,461**	**$ 203,113**	**$ 197,555**	**$ 189,754**	**$ 190,997**	**$ 171,498**	**$ 150,372**	**$ 139,732**
Current liabilities	$ 47,861	$ 39,330	$ 40,815	$ 41,238	$ 52,205	$ 46,802	$ 41,969	$ 40,894
Other liabilities	148,666	97,588	109,158	109,528	109,682	112,550	108,392	107,764
Shareholders' equity	100,934	66,195	47,582	38,988	29,110	12,146	11	(8,926)
Total shareholders' equity and liabilities	**$ 297,461**	**$ 203,113**	**$ 197,555**	**$ 189,754**	**$ 190,997**	**$ 171,498**	**$ 150,372**	**$ 139,732**
Revenue	$ (23,196)	$ (59,922)	$ (37,511)	$ (41,271)	$ (27,699)	$ (31,520)	$ (28,419)	$ –
Mine site operating costs	8,829	31,866	22,574	26,047	20,902	13,263	23,635	–
Transportation and treatment	(7,581)	8,973	6,643	6,277	4,401	5,300	3,848	–
Amortization	898	812	852	849	779	710	655	512
Expenses								
Accretion of reclamation obligation	433	433	433	433	393	393	394	394
Conference and travel	223	39	84	71	60	36	11	13
Consulting	137	104	78	115	102	83	66	64
Corporation taxes	(564)	434	166	–	(7)	–	–	1
Exploration	(155)	2,958	471	270	455	7	12	32
Interest and accretion charges	1,678	2,311	1,043	1,082	1,502	933	910	906
Ledcor termination fee	3,500	–	–	–	–	–	–	–
Legal, accounting and audit	(81)	1,061	334	363	176	74	79	97
Office and administration	457	613	499	390	530	237	237	164
Restart project	–	–	–	–	–	–	(1,215)	7,561
Shareholder communications	101	183	97	69	90	45	112	53
Trust and filing	55	23	215	21	8	8	67	6
Interest and other (income)	(2,418)	(1,579)	(1,546)	(1,627)	(1,324)	(1,553)	(1,233)	(6,437)
Loss on sale of equipment	–	–	–	–	–	–	(17)	2,178
Income taxes	(1,968)	5,603	2,410	–	(17,522)	–	–	–
Foreign exchange	(132)	323	(448)	(32)	324	194	(241)	(244)
Stock-based compensation	731	1,685	535	231	401	170	393	165
Earnings (loss) for the period	**$ 19,053**	**$ 4,080**	**$ 3,071**	**$ 6,712**	**$ 16,429**	**$ 11,620**	**$ 706**	**$ (5,465)**
Earnings (loss) per share—basic	**$ 0.16**	**$ 0.04**	**$ 0.03**	**$ 0.06**	**$ 0.17**	**$ 0.11**	**$ 0.01**	**$ (0.06)**

1 As discussed in Note 4 of the consolidated financial statements the consolidated balance sheet as at September 30, 2005 has been amended to present the liability component and equity component separately on the balance sheet. The accretion charges that were previously recorded through deficit are now recorded as interest accretion on convertible debt in the consolidated statement of operations. For the year ended September 30, 2005, this amounted to $1,075,478 (2004—$977,705).

Management's Discussion *and* Analysis

1.5

RESULTS OF OPERATIONS

Year ended September 30, 2006 ("2006") versus year ended September 30, 2005 ("2005")

The Company's pre-tax earnings for 2006 increased to $39.0 million, compared to $5.8 million in 2005 due mainly to higher sales of copper and molybdenum and higher realized metal prices for sales during the year. The Company's after-tax earnings for 2006 increased to $32.9 million, compared to $23.3 million in 2005.

The Company reported revenues of $161.9 million, compared to $87.6 million in the previous year. The average price per pound of copper concentrate sold increased to US$2.44 per pound, up from US$1.48 per pound in the previous year. Revenues increased due to significantly higher copper prices and more pounds of copper sold. The increase in pounds of copper sold is attributed to having a full year of sales in 2006 compared to nine months in 2005.

Revenues consisted of copper concentrate sales of $140.3 million (2005—$71.9 million) and molybdenum concentrate sales of $21.6 million (2005—$15.7 million).

Cost of sales for 2006 was $103.6 million, compared to $71.3 million in the 2005. Costs of sales for 2006 consists of total production cost of $92.5 million (2005—$75.0 million), less a concentrate inventory addition of $2.0 million (2005—$16.3 million), and silver credits of $1.2 million (2005—$0.9 million). Also included in cost of sales are transportation and treatment costs of $14.3 million for 2006 compared to $13.5 million 2005. This increase in cost of sales for 2006 is due to higher sales quantities compared to the prior year, and partially offset by an arbitration award discussed in Section 1.10 below.

Amortization expense for 2006 was $3.4 million compared to $2.7 million in 2005. The increase was due to more depreciable assets in 2006.

Exploration expenses increased to $3.5 million in 2006 compared to $0.5 million in 2005 due to a higher level of exploration activity, mainly at the Prosperity project and focused on the initial stages of an environmental impact assessment and preparing an updated feasibility study. Exploration expenses of $2.6 million at Gibraltar were capitalized as a result of the increase in the mineral reserves.

General and administrative costs increased to $5.3 million in 2006 from $2.4 million in 2005. The main increase was attributable to legal, tax and accounting fees (2006—$1.7 million; 2005—$0.4 million), which increased in 2006 due to higher corporate activities, professional fees relating to the Company's continued efforts to comply with the reporting requirements under Sarbanes-Oxley and tax planning initiatives. Office and administration (2006—$2.0 million; 2005—$1.2 million);conference and travel (2006—$0.4 million; 2005—$0.1 million); and trust and filing (2006—$0.3 million; 2005—$0.1 million) all increased in 2006 due to higher staffing levels and an increase in corporate activities.

The Company recorded a one-time fee in 2006 of $3.5 million to Ledcor as a result of the Company voluntarily withdrawing from an agreement with Ledcor to operate the Gibraltar mine. The Company has assumed responsibility for all operational matters in connection with the Gibraltar Mine in November 2006.

Stock-based compensation increased to $3.2 million in the current year compared to $1.1 million in 2005 as a result of a slight increase in the number of share purchase options granted and a higher fair value on the options granted during the year.

A current income tax provision of $4.4 million was recorded in 2006, compared to $4.1 million current income tax recovery in 2005. In addition, the Company had a future income tax expense of $1.6 million in 2006 compared to a recovery of $13.4 million in 2005. The increase in the income tax provision is due mainly to the depletion of tax pools as a result of the Company becoming more profitable.

The Company has accrued a tax provision of a subsidiary company of $21.1 million (2005—$19.6 million) in the consolidated financial statements. This provision relates to an income tax expense recorded in 2004 which management believes is less than likely of ever becoming payable. The Company would exhaust all appeals if any taxes were actually assessed against the subsidiary. The amount represents a potential liability which has been recognized in a conservative manner in accordance with Canadian generally accepted accounting principles. It does not represent a payable amount based on any filed, or expected to be filed, tax return. No taxation authority has assessed the amount or any portion thereof as payable. Accordingly, there is no immediate impact on liquidity. The subsidiary will consider its current and past tax filing positions in addition to tax planning strategies which might be put in place prior to the Company's fiscal year ending on September 30, 2007.

1.6

LIQUIDITY

At September 30, 2006, Taseko had working capital of $101.6 million, as compared to a $6.2 million at September 30, 2005. The increase in cash was primarily a result higher revenues from operations at the Gibraltar mine, the exercising of share purchase options and warrants and the issuance of US$30 million convertible bonds during the year.

On August 29, 2006, the Company purchased from Continental, a related public company with certain directors in common with the

Company, a Convertible Secured Promissory Note of Continental (the "Note") in the amount of $11.5 million. The Note provides for interest at the rate of 16% per annum payable monthly and is payable in cash or, at the Company's election, in Continental common shares. The Note is secured by an indirect pledge of Continental's 60% interest in the Xietongmen property, which security interest will be subordinated, if necessary, to any security interest granted by Continental in respect of senior debt, of which none is outstanding at September 30, 2006. The Company has the right to convert any or the entire principal then outstanding under the one year Note, plus a 5% premium into Continental common shares at $2.05 per share if the conversion right is exercised within the first six months, or at $2.25 per share if exercised in the second six months.

In September 2006, the Company made a contribution of $13.8 million during the year to a qualified environmental trust in relation to its site closure and reclamation obligations for the Gibraltar mine.

Management anticipates that revenues from copper and molybdenum, along with current cash balances will be sufficient to cover operating costs, working capital, the Gibraltar mill expansion and the proposed acquisition of bcMetals Corporation for the fiscal year of 2007.

1.7

CAPITAL RESOURCES

During the year, the Company exercised its right to acquire certain of the Company's mine haul trucks and a mining shovel held under capital leases for approximately US$12.5 million. The purchase caused the capital lease obligation to be extinguished and the assets under capital lease to be reclassified as property, plant and equipment.

On August 29, 2006, the Company issued US$30 million in principal amount of five year convertible bonds due in 2011 (the "Bonds") to qualified institutional buyers. The Bonds are convertible into Taseko common shares. The Bonds constitute direct, unsubordinated, unsecured, general and unconditional obligations of the Company. The Bonds were issued at 100% and, if not converted, will be redeemed at maturity at 101%. The Bonds carry a coupon interest rate of 7.125% per annum. The Bonds are convertible at the holder's option after 40 days from issuance until August 19, 2011 at a conversion price of US$3.35 ($3.76), or up to 8,955,224 common shares of the Company, which is a premium of approximately 40% over the recent trading price of the Company's shares at August 29, 2006. At any time after September 12, 2008, the Company will have the right to call for the conversion of the Bond into the number of shares as set out above, if the Company's shares trade at least 50% above the conversion price for at least 20 business days in any period of 30 consecutive business days. On August 29, 2009, the Bondholders have a one time right to redeem the Bonds at 100.60%. Debt issuance costs of $1.4 million were incurred upon closing of the transaction and are being amortized over the first redemption term of the Bonds.

The Company had no commitments for material capital expenditures as of September 30, 2006.

The Company has no lines of credit or other sources of financing.

1.8

OFF-BALANCE SHEET ARRANGEMENTS

None.

1.9

TRANSACTIONS WITH RELATED PARTIES

Hunter Dickinson Inc. ("HDI") carries out investor relations, geological, corporate development, administrative and other management activities for, and incurs third party costs on behalf of, the Company. Taseko reimburses HDI on a full cost-recovery basis.

Costs for services rendered and costs incurred on behalf of the Company by HDI were $2,869,003 in 2006, as compared to $1,235,403 in 2005. The increase is due to higher staffing levels required to support the increase in general corporate development and exploration activities.

As previously discussed, the Company purchased a note from Continental, a related party.

1.10

FOURTH QUARTER

The Company reported revenues of $23.2 million, compared to $59.9 in the previous quarter and $27.7 million in the fourth quarter of 2005. The average price per pound of copper concentrate sold increased to US$3.23 per pound in the fourth quarter, up from US$3.08 per pound in the previous quarter and US$1.64 in the same quarter in 2005. Revenues decreased in the fourth quarter as a result of only completing one shipment of concentrate due to a lack of available vessels. This was partially offset by an increase in the price of copper.

Revenues consisted of copper concentrate sales of $18.2 million and molybdenum concentrate sales of $5.0 million.

Cost of production sold for the period was $8.8 million, compared to $31.9 million in the previous quarter, and $20.9 million in the same quarter of 2005. Costs of production sold consist of total production cost for the period of $24.8, compared to $22.8 million in the previous quarter and $33.2 million in the same quarter of the previous year; less concentrate inventory addition of $15.9 million, compared to inventory reduction of $9.6 million in the previous quarter and addition of $12.1 million in the fourth quarter of 2005; and silver credits of $0.1 million, compared to $0.2 million in the previous quarter and $0.2 million in the previous fourth quarter.

Transportation and treatment costs for the fourth quarter amounted to a recovery of $7.6 million compared to an expense of $9.0 million in the previous quarter and $4.4 million for the same period last year. The recovery of transportation and treatment costs in the fourth quarter was due to the August 2006 arbitration ruling in favor of the Company. The Company sells the whole of the copper concentrates produced by the Gibraltar mine to Glencore Ltd. ("Glencore") pursuant to the terms of a written contract. During the year, Gibraltar and Glencore had a dispute over the interpretation of the contract. Glencore asserted that the contract provides that the price to be paid for the concentrates should be reduced by a deduction referred to as "price participation". Gibraltar asserted that the contract does not provide for any such deduction. Both parties agreed to binding arbitration to settle this dispute. In August 2006, the arbitrator ruled in favor of Gibraltar and awarded the Company approximately US$8.5 million in amounts previously withheld by Glencore. At September 30, 2006, the Company had received substantially all of the withheld amounts and had been reimbursed for $0.8 million of legal costs associated with the arbitration.

Amortization expense of $0.9 million for the fourth quarter was comparable to the previous quarter and the fourth quarter of 2005.

1.11

PROPOSED TRANSACTIONS

In November 2006, Taseko launched a $1.05 per share take-over bid offer for all of the outstanding shares of bcMetals Corporation ("bcMetals"). bcMetals holds a 100% interest in the Red Chris copper-gold project in northern British Columbia. The results of a feasibility study on the Red Chris project were announced by bcMetals earlier in 2006.

Taseko's offer represented an 11% premium over the then current bid price for bcMetals being made by Imperial Metals Corporation. The Taseko bid is subject to a number of conditions, including that 66.66% of bcMetals shares are tendered to the bid, the conditional settlement agreement with certain minority shareholders of bcMetals' subsidiary, American Bullion Minerals Ltd., and rejection by bcMetals shareholders of bcMetals' Limited Purpose Shareholder Rights Plan and its proposed joint venture of Red Chris with Global International Jiangxi Copper Mining Company Limited.

1.12

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are presented in note 3 of the audited consolidated financial statements for the year ended September 30, 2006. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the consolidated financial statements. These estimates include:

- mineral resources and reserves,
- the carrying values of concentrate inventories and supplies inventories,
- the carrying values of mineral properties,
- the carrying values of property, plant and equipment,
- rates of amortization of property, plant and equipment,
- the carrying values of the reclamation liability,
- the carrying values of the convertible debentures and conversion rights,
- income taxes,
- the valuation allowances for future income taxes,
- the carrying values of the receivables from sales of concentrate,
- the carrying values of deferred revenue,
- the assumptions used in determining the reclamation obligation, and
- the valuation of stock-based compensation expense.

Actual amounts could differ from the estimates used and, accordingly, affect the results of operations.

1.13

CHANGE IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Effective October 1, 2005 the Company adopted certain new provisions of the CICA Handbook Section 3860, *"Financial Instruments—Disclosure and Presentation"*, which came into effect on that date. The standard requires that convertible debentures which may be settled in cash, or by a variable number of common shares of the Company at the Company's discretion, be presented as a liability. This change has been applied retroactively. The consolidated balance sheet as at September 30, 2005 has been amended to present the liability component and equity component separately on the balance sheet. The accretion charges that were previously recorded through deficit are now recorded as interest accretion on convertible debt in the consolidated statement of operations. For the year ended September 30, 2005, this amounted to $1,075,478 (2004—$977,705). For the year ended September 30, 2006 this amounted to $1,183,024. This change had no effect on earnings (loss) per share.

1.14

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

None.

1.15

OTHER MD&A REQUIREMENTS

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

1.15.1

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Not applicable. The Company is not a Venture Issuer.

1.15.2

DISCLOSURE OF OUTSTANDING SHARE DATA

The following details the share capital structure as at December 15, 2006, the date of this MD&A. These figures may be subject to minor accounting adjustments prior to presentation in future consolidated financial statements.

	Expiry date	Exercise price	Number	Number
Common shares				128,388,175
Share purchase option	September 28, 2007	$ 1.15	166,500	
	December 14, 2007	$ 1.29	75,000	
	March 27, 2009	$ 2.07	90,000	
	March 27, 2009	$ 2.18	316,500	
	March 27, 2009	$ 2.68	137,500	
	September 28, 2010	$ 1.15	1,346,667	
	September 28, 2010	$ 2.07	236,667	
	September 28, 2010	$ 2.18	170,000	
	March 28, 2011	$ 2.18	475,000	
	March 28, 2011	$ 2.63	380,000	
	March 28, 2011	$ 2.68	90,000	3,483,834
Convertible debenture, Boliden Westmin (Canada) Limited	July 21, 2009	$ 4.89	3,476,483	3,476,483
Convertible bonds	August 29, 2011	US$3.35	8,955,224	8,955,224
Preferred shares redeemable into Taseko Mines Limited common shares				12,483,916

1.15.3

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and the board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An internal control significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. An internal control material weakness is a significant deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected.

Management of the Company conducted an assessment of the effectiveness of the Company's internal controls over financial reporting as of September 30, 2006. Based on its assessment, management concluded that the Company did not have effective review procedures associated with the Company's accounting for income taxes and related disclosures. As a result, the Company recorded adjustments, including a material adjustment related to the future income tax asset valuation allowances, to correct errors in accounting and to fairly present its financial statements as of and for the year ended September 30, 2006.

In order to remediate the material weakness identified in Management's Report on Internal Control Over Financial Reporting, we have retained tax consultants who are skilled in the area of taxation and related financial reporting. The consultants have assisted the Company in the preparation of its financial statements as of and for the year ended September 30, 2006 and will continue assisting the Company in its quarterly and annual financial statements with respect to income tax reporting.

Other than the material weakness discussed above, management concludes that the Company maintained effective internal controls over financial reporting as of September 30, 2006.

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Taseko Mines Limited as at September 30, 2006 and 2005 and the consolidated statements of operations, deficit and cash flows for each of the years in the three-year period ended September 30, 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 the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
December 8, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Balance Sheets

(expressed in Canadian dollars)

	September 30, 2006	September 30, 2005 *(restated–note 4)*
ASSETS		
Current assets		
Cash and equivalents	$ 89,407,801	$ 21,728,789
Accounts receivable	9,342,044	6,746,378
Inventory (note 5)	24,217,881	20,874,231
Prepaid expenses	1,221,297	1,914,214
Investment (note 6)	11,500,000	–
Current portion of future income taxes (note 15)	11,601,000	4,479,000
Current portion of promissory note (note 8(e))	2,156,719	2,637,499
	149,446,742	58,380,111
Restricted cash	–	5,000,000
Deferred financing costs	1,381,577	–
Mineral properties, plant and equipment (note 9)	43,444,943	9,916,992
Assets under capital leases (note 10)	–	20,794,000
Reclamation deposits (note 13)	32,004,138	18,281,420
Promissory note (note 8(e))	71,009,683	69,680,355
Future income taxes (note 15)	174,000	8,944,000
	$ 297,461,083	**$ 190,996,878**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 21,960,232	$ 13,082,146
Current portion of capital lease obligation (note 11)	–	2,092,334
Current portion of deferred revenue (notes 3(b) and 8(e))	19,759,131	14,748,000
Current portion of royalty obligation (note 8(e))	2,156,719	2,637,499
Income taxes (note 15)	3,985,296	19,645,000
	47,861,378	52,204,979
Capital lease obligation (note 11)	–	12,984,805
Income taxes (note 15)	21,058,378	–
Royalty obligation (note 8 (e))	64,632,443	66,153,298
Deferred revenue (note 8 (e))	1,225,000	1,400,000
Convertible debt (note 12)	42,774,663	11,830,241
Site closure and reclamation costs (note 13)	18,975,411	17,314,000
	196,527,273	161,887,323
Shareholders' equity		
Share capital (note 14)	197,591,937	160,829,442
Equity component of convertible debt (note 12)	13,654,673	9,822,462
Tracking preferred shares (note 7)	26,641,948	26,641,948
Contributed surplus (note 14(e))	3,647,716	5,334,614
Deficit	(140,602,464)	(173,518,911)
	100,933,810	29,109,555
Subsequent event (note 18)		
Commitments (note 8)		
	$ 297,461,083	**$ 190,996,878**

See accompanying notes to Consolidated Financial Statements.

Approved by the Board of Directors

Russell E. Hallbauer
Director

Jeffrey R. Mason
Director

Consolidated Statement *of* Operations

(expressed in Canadian dollars)

	Years ended September 30		
	2006	2005 *(restated–note 4)*	2004 *(restated–note 4)*
Revenue			
Copper	$ 140,340,929	$ 71,945,925	$ –
Molybdenum	21,559,134	15,692,375	–
	161,900,063	87,638,300	–
Cost of sales	(103,627,678)	(71,348,118)	–
Depletion, depreciation and amortization	(3,412,048)	(2,657,165)	(17,296)
Operating profit (loss)	54,860,337	13,633,017	(17,296)
Expenses (income)			
Accretion of reclamation obligation	1,732,000	1,574,000	1,431,000
Exploration	3,544,081	505,586	4,597,968
Foreign exchange	(288,801)	34,080	–
Loss on sale of equipment	–	2,160,992	–
Loss on extinguishment of capital leases (note 11)	240,049	–	–
General and administration	5,286,039	2,411,688	2,693,067
Ledcor termination fee (note 8 (a))	3,500,000	–	–
Interest and other income	(7,170,301)	(10,547,609)	(5,154,209)
Interest expense	4,593,622	3,175,353	–
Interest accretion on convertible debt	1,280,099	1,075,478	977,705
Premium paid for acquisition of Gibraltar Reclamation Trust Limited Partnership	–	–	5,095,249
Restart project	–	6,346,650	14,982,008
Stock-based compensation	3,182,102	1,129,026	5,172,244
Write down of mineral property acquisition costs (note 8 (c))	–	–	28,810,296
	15,898,890	7,865,244	58,605,328
Earnings (loss) before income taxes	38,961,447	5,767,773	(58,622,624)
Income tax recovery (expense) (note 15)	(4,397,000)	4,099,000	(23,744,000)
Future income tax recovery (expense) (note 15)	(1,648,000)	13,423,000	–
Earnings (loss) for the year	$ 32,916,447	$ 23,289,773	$ (82,366,624)
Earnings (loss) per share			
Basic	$ 0.29	$ 0.23	$ (1.10)
Diluted	0.26	0.21	(1.10)
Weighted average number of common shares outstanding			
Basic	113,553,556	100,021,655	75,113,426
Diluted	126,462,009	110,732,926	75,113,426

Consolidated Statements *of* Deficit

(expressed in Canadian dollars)

	Years ended September 30		
	2006	2005	2004
Deficit, beginning of year	$ (173,518,911)	$ (196,808,684)	$ (114,442,060)
Earnings (loss) for the year	32,916,447	23,289,773	(82,366,624)
Deficit, end of year	$ (140,602,464)	$ (173,518,911)	$ (196,808,684)

See accompanying notes to Consolidated Financial Statements.

Consolidated Statements *of* Cash Flows

(expressed in Canadian dollars)

	Years ended September 30		
	2006	2005 (restated–note 4)	2004 (restated–note 4)
Operating activities			
Earnings (loss) for the year	$ 32,916,447	$ 23,289,773	$ (82,366,624)
Items not involving cash			
Accretion of reclamation obligation	1,732,000	1,574,000	1,431,000
Depreciation, depletion and amortization	3,412,048	2,657,165	17,296
Interest accretion on convertible debt	1,280,099	1,075,478	977,705
Loss on extinguishment of capital leases	240,049	–	–
Loss on sale of equipment	–	2,160,992	–
Stock-based compensation	3,182,102	1,129,026	5,172,244
Future income taxes	1,648,000	(13,423,000)	–
Unrealized foreign exchange	48,901	–	–
Write down of mineral property acquisition costs	–	–	28,810,296
Premium paid for acquisition of Gibraltar Reclamation Trust Limited Partnership	–	–	5,095,249
Shares issued for loan guarantee	–	–	450,000
Shares issued pursuant to farmout agreement	–	–	935,000
Changes in non-cash operating working capital			
Accounts receivable	(2,595,666)	(3,980,194)	(1,792,899)
Inventories	(3,343,650)	(20,874,231)	–
Prepaids	692,917	(1,704,199)	–
Accrued interest income on promissory note	(4,311,069)	(4,145,474)	–
Accounts payable and accrued liabilities	8,878,086	(1,301,169)	12,750,113
Deferred revenue	4,836,131	14,398,000	1,750,000
Accrued interest expense on royalty obligation	1,460,886	1,433,797	–
Income taxes	5,398,674	(4,099,000)	23,744,000
Site closure and reclamation expenditures	(70,589)	–	–
Cash provided by (used for) operating activities	55,405,366	(1,809,036)	(3,026,620)
Investing activities			
Purchase of property, plant and equipment	(16,145,999)	(8,263,188)	(26,928,697)
Proceeds received on sale of property, plant and equipment	–	22,067,711	–
Restricted cash	5,000,000	(5,000,000)	–
Funds advanced on promissory note	–	–	(68,172,380)
Reclamation deposits	(13,000,000)	–	(401,311)
Accrued interest income on reclamation deposits	(722,718)	(634,364)	(488,471)
Investment in convertible promissory note	(11,500,000)	–	–
Cash provided by (used for) investing activities	(36,368,717)	8,170,159	(95,990,859)
Financing activities			
Principal repayments under capital lease obligation	(15,077,139)	(7,273,554)	–
Bank operating loan	–	(1,857,740)	(135,656)
Common shares issued for cash, net of issue costs	31,893,495	9,606,013	27,167,069
Proceeds on sale of royalty	–	–	67,357,000
Advances from Gibraltar Reclamation Trust Limited Partnership	–	–	17,097,792
Convertible bonds issued, net of issue costs	31,826,007	–	–
Cash provided by financing activities	48,642,363	474,719	111,486,205
Increase in cash and equivalents	67,679,012	6,835,842	12,468,726
Cash and equivalents, beginning of year	21,728,789	14,892,947	2,424,221
Cash and equivalents, end of year	**$ 89,407,801**	**$ 21,728,789**	**$ 14,892,947**

Supplementary cash flow disclosures (note 16)

See accompanying notes to consolidated financial statements.

Notes *to* Consolidated Financial Statements

1.

NATURE OF OPERATIONS

Taseko Mines Limited ("Taseko" or the "Company") is a public company incorporated under the laws of the Province of British Columbia. At September 30, 2006, the Company's principal business activities related to the operations of the Gibraltar Copper Mine, and exploration on the surrounding properties as well as exploration on the Company's 100% owned Prosperity Gold-Copper Property, and Harmony Gold Property. The Gibraltar property and the Prosperity gold property are located in south central British Columbia, Canada, near the City of Williams Lake. The Harmony gold property is located on Graham Island, Queen Charlotte Islands (also known as Haida Gwaii), British Columbia.

2.

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These consolidated financial statements include the accounts of the Company and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated.

3.

SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and equivalents

Cash and equivalents consist of cash and highly liquid investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash. At September 30, 2006, of the $89.4 million cash and cash equivalents held by the Company, $81.6 million (US$73.0 million) were held in United States-dollar-denominated cash and equivalents (2005—$21.1 million (US$18.2 million)).

(b) Revenue recognition

Revenue from the sales of metal in concentrate is recognized when persuasive evidence of a sales agreement exists, the title and risk is transferred to the customer, collection is reasonably assured, and the price is reasonably determinable. Revenue from the sales of metal may be subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement. Cash received in advance of meeting these revenue recognition criteria is recorded as deferred revenue. At September 30, 2006, the Company had deferred revenues of $19.6 million (2005—$14.6 million) pertaining to cash received in advance of title and risk passing to the customer.

(c) Inventory

Concentrate inventory consists of finished goods, work-in-process inventories and stockpiled ore. Concentrate inventory is valued based on the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour and mine-site overhead expenses and depreciation.

The costs of removing waste material in the process of mining ore, referred to as "stripping costs", are considered costs of the extracted minerals and recognized as a component of concentrate inventory to be recognized in cost of sales in the same period as the revenue from the sale of the concentrate inventory.

Supplies inventory is valued at the lower of average cost and replacement cost.

(d) Investment

Investment consists of a convertible promissory note with a maturity date of less than one year, which is carried at the lower of cost and estimated realizable value.

(e) Deferred financing charges

Deferred financing charges consist of expenses related to debt financing transactions and are amortized over the life of such debt facilities.

(f) Plant and equipment

Plant and equipment are stated at cost less accumulated amortization. Mining and milling assets are amortized using the units of production method based on tons mined and milled, respectively, divided by the estimated tonnage to be recovered in the mine plan. Amortization for all other assets is calculated using the declining balance method at rates ranging from 10% to 50% per annum. Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements which extend the useful life of the asset are capitalized as incurred.

The costs of removing overburden material to access mineral deposits, referred to as "pre-stripping costs", are deferred and amortized using the units of production basis to cost of sales over the life of the mineral deposit accessed.

(g) Mineral property interests

The Company capitalizes mineral property acquisition costs on a property-by-property basis. Exploration expenditures and option payments incurred prior to the determination of the feasibility of mining operations are charged to operations as incurred. Exploration and development expenditures

Notes *to* Consolidated Financial Statements

3.

SIGNIFICANT ACCOUNTING POLICIES, continued

incurred subsequent to such determination, to increase production, or to extend the life of existing production are capitalized, except as noted below. Such acquisition costs and deferred exploration and development expenditures are amortized over the estimated life of the property, or written off to operations if the property is abandoned, allowed to lapse, or if there is little prospect of further work being carried out by the Company or its option or joint venture partners.

All costs incurred by the Company during the standby care and maintenance period and restart at the Gibraltar mine were expensed as incurred, net of revenues earned during such period.

Mineral property acquisition costs include the cash consideration and the fair market value of common shares, issued for mineral property interests, pursuant to the terms of the relevant agreement. Payments relating to a property acquired under an option or joint venture agreement, where such payments are made at the sole discretion of the Company, are recorded in the accounts upon payment.

Costs related to feasibility work and the development of processing technology are expensed as incurred. Costs incurred subsequent to the determination of the feasibility of the processing technology will be capitalized and amortized over the life of the related plant.

Administrative expenditures are expensed as incurred.

The amount presented for mineral property interests represents costs incurred to date and accumulated acquisition costs, less write-downs, and does not necessarily reflect present or future values.

(h) Site closure and reclamation costs

The Company accounts for site closure and reclamation costs in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations" ("HB 3110"). HB 3110 requires the recognition of any statutory, contractual or other legal obligation related to the retirement of tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made.

These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for the accretion of the discount and any changes in the amount or timing of the underlying future cash flows. The asset retirement cost is amortized to operations over the life of the asset. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability, and the related asset retirement cost is capitalized as part of the carrying amount of the related long-lived asset.

(i) Impairment of long-lived assets

Long-lived assets, including mineral properties, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount and the fair value less costs to sell, and are no longer amortized.

(j) Share capital

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted market price on the date of issue.

The proceeds, net of issue costs, from common shares issued pursuant to flow-through share financing agreements are credited to share capital and the tax benefits of these exploration expenditures are transferred to the purchaser of the shares.

(k) Stock-based compensation

The Company has a share option plan which is described in note 14(c). The Company records all stock-based payments granted on or after October 1, 2002 using the fair value method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is credited to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

(l) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, generally using the substantively enacted or enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets also result from unused loss carry forwards, resource-related pools, and other deductions. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

(m) Earnings (loss) per common share

Basic earnings (loss) per common share is based on the weighted average number of common shares outstanding during the period.

Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share includes the underlying common shares related to the tracking preferred shares and convertible debt on an if-converted basis and assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price of the common shares for the year.

In periods of loss, under the treasury stock method, the basic and diluted loss per share are the same as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

(n) Variable interest entities

The Company accounts for variable interest entities ("VIE") in accordance with CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG15"). AcG15 prescribes the application of consolidation principles for entities that meet the definition of a VIE. An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both.

(o) Fair value of financial instruments

The carrying amounts of cash and equivalents, accounts receivable, reclamation deposits, and accounts payable and accrued liabilities approximate their fair values due to their short term nature.

The carrying values of the promissory note, convertible bonds (note 12(a)) and the royalty obligation approximate their fair values.

The fair values of the Boliden convertible debenture (note 12(b)) and the tracking preferred shares are not readily determinable with sufficient reliability due to the difficulty in obtaining appropriate market information. It is not practicable to determine the fair value of the investment and advances from related parties because of the related party nature of such amounts and the absence of a secondary market for such instruments. Details of the terms of these financial instruments are disclosed in these notes to the consolidated financial statements.

(p) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Significant areas requiring the use of management estimates relate to the impairment of mineral property interests and plant and equipment, the balances of reclamation liability and capital lease obligation, income taxes, valuation allowances for future income tax assets, rates for depletion, depreciation and amortization, the assumptions used in computing stock-based compensation, the fair value of the option to convert the debenture into common shares and future cash flows related thereto, receivables from sales of concentrate and valuation of concentrate inventory, and the determination of mineral reserves and mine life. Actual results could differ from these estimates.

(q) Segment disclosures

The Company operates in a single reportable operating segment, the exploration, development and operation of mineral property interests, within the geographic area of British Columbia, Canada.

(r) Comparative figures

Certain of the prior years' comparative figures have been restated to conform with the presentation adopted for the current year.

Notes *to* Consolidated Financial Statements

4.

CHANGE IN ACCOUNTING POLICY

Effective October 1, 2005 the Company adopted certain new provisions of the CICA Handbook Section 3860, *"Financial Instruments—Disclosure and Presentation"*, which came into effect on that date. The standard requires that convertible debentures which may be settled in cash, or by a variable number of common shares of the Company at the Company's discretion, be presented as a liability. This change has been applied retroactively. The consolidated balance sheet as at September 30, 2005 has been amended to present the liability component and equity component separately on the balance sheet. The accretion charges that were previously recorded through deficit are now recorded as interest accretion on convertible debt in the consolidated statement of operations. For the year ended September 30, 2005, this amounted to $1,075,478 (2004—$977,705). For the year ended September 30, 2006, this amounted to $1,183,024. This change had no effect on earnings (loss) per share.

5.

INVENTORY

(as at September 30)	2006	2005
Copper concentrate	$ 16,212,600	$ 16,284,800
Ore in process	2,114,200	–
Materials and supplies	5,891,081	4,589,431
	$ 24,217,881	$ 20,874,231

6.

INVESTMENT

(as at September 30)	2006	2005
Continental Convertible Promissory Note	$ 11,500,000	$ –

On August 29, 2006 ("Closing"), the Company purchased from Continental Minerals Corporation ("Continental"), a related public company with certain directors in common with the Company, a one-year Convertible Secured Promissory Note of Continental (the "Note") in the amount of $11.5 million.

The Company has the right to convert any or the entire principal then outstanding under the Note, plus a 5% premium into Continental common shares at $2.05 per share if the Note is converted within the first six months or, at $2.25 per share if converted in the second six months after the Closing. In addition, upon conversion of the Note, the Company will acquire a right of first refusal (the "Pre Emptive Right") for up to five years, during which time the Company may purchase up to 50% of any equity or convertible securities, except certain normal course securities offerings and strategic alliances, offered by Continental in a subsequent financing until a maximum of 19.9% of Continental's then outstanding shares on a fully diluted basis is held by the Company. If the Company fails to exercise the Preemptive Right in regards to any offered securities under a future financing, the Preemptive Right thereupon expires.

The Note provides for interest at the rate of 16% per annum payable monthly. Interest is payable in cash, or at the Company's election, in Continental common shares based upon the higher of the five day volume weighted average of the closing price of Continental's common shares at the time the interest payment is due or at closing, being $1.55. The Note is secured by an indirect pledge of Continental's 60% interest in the Xietongmen property, which security interest will be subordinated, if necessary, to any security interest granted by Continental in respect of senior debt of which none is outstanding at September 30, 2006. Continental retains the right to pre-pay the Note on 10 days notice, after 180 days from Closing.

7.

ARRANGEMENT AGREEMENT (TRACKING PREFERRED SHARES AND HARMONY GOLD PROPERTY)

In October 2001, the Company and its subsidiary Gibraltar Mines Ltd. ("Gibraltar") completed the acquisition of the Harmony Gold Property and related assets from Continental, for 12,483,916 series "A" non-voting tracking preferred shares of Gibraltar and $2.23 million cash. The tracking preferred shares were recorded at $26,641,948 and are designed to track and capture the value of the Harmony Gold Property and will be redeemed for common shares of Taseko upon a realization event, such as a sale of the Harmony Gold Property to a third party or commercial production at the Harmony Gold Property or, at the option of Gibraltar, if a realization event has not occurred within ten years. Accordingly, the tracking preferred shares have been classified within shareholders' equity on the consolidated balance sheet.

As previously noted, the Gibraltar tracking preferred shares are redeemable for common shares of Taseko upon the occurrence of certain value realization events for the Harmony Gold Property. The tracking preferred shares are redeemable at specified prices per common share of Taseko starting at $3.39 and escalating by $0.25 per year, currently at $4.64 (as of September 30, 2006). If a realization event does not occur on or before October 16, 2011, Gibraltar has the right to redeem the tracking preferred shares for Taseko common shares at a deemed price equal to the greater of the then average 20 day trading price of the common shares of Taseko and $10.00. The Taseko common shares to be issued to Continental upon a realization event will in turn be distributed pro-rata, after adjustment for any taxes, to the holders of redeemable preferred shares of Continental that were issued to Continental shareholders at the time of the Arrangement Agreement.

8.

MINERAL PROPERTY INTERESTS

(as at September 30)	2006	2005
Gibraltar Copper Mine (note 8(a))	$ 2,626,000	$ 1,000
Prosperity Gold-Copper Property (note 8(b))	1,000	1,000
Harmony Gold Property (note 8(c))	1,000	1,000
	$ 2,628,000	$ 3,000

(a) Gibraltar Copper Mine

In July 1999, the Company acquired a 100% interest in the Gibraltar Copper Mine mineral property, located near Williams Lake, British Columbia, Canada from Boliden Westmin (Canada) Limited ("BWCL") for $3.3 million. The acquisition of the Gibraltar mine, which had been on care and maintenance since 1998, included plant and equipment and supplies inventory of the Gibraltar mine, and $8 million of funds set aside for future reclamation. As part of its 1999 operating permits, the Company had agreed to incur a total of $4 million on reclamation and environmental programs during the six year period July 1999 to July 2005. The Gibraltar mine final reclamation and closure plan is updated every five years. The most recent reclamation plan and closure report was approved by the British Columbia Ministry of Energy and Mines in 2004. Pursuant to this approved closure plan, the Ministry agreed that the Company had satisfied the $4 million reclamation obligation required under the 1999 operating permits.

The agreement contained certain indemnification clauses. The $8 million of funds set aside for future reclamation were considered a "Qualified Environmental Trust" for Canadian income tax purposes. During the year ended September 30, 2003, the Government of British Columbia released these funds from the Trust, which resulted in an income inclusion to the Company, and consequently resulted in the Company utilizing $3.57 million of tax pools otherwise available to it. The Company has made a claim to BWCL for this estimated tax liability under the indemnification terms of the agreement. No amount has been recognized in these consolidated financial statements related to this claim.

During the year ended September 30, 2004, the Company commenced restart activities and entered into an agreement with Ledcor CMI Ltd. and Ledcor Mining Ltd. (together "Ledcor"), whereby Ledcor would finance certain equipment and commission, restart, and operate the Gibraltar mine. Ledcor's primary responsibility was the commissioning and the operating of the mine in addition to other aspects of mine operations, including drilling, blasting, loading and hauling of ore and waste as well as the recruitment of personnel and the maintenance of equipment and facilities. Pursuant to the agreement, the Company is required to maintain a bank account with a balance of at least $5 million in a "product revenue account", for the purposes of providing a working capital reserve for operations and general administrative costs. The Company granted a general security agreement in favour of Ledcor in the amount of $5.8 million and a second charge on certain mine equipment with an appraised fair value of at least $5.8 million.

In July 2006, the Company effected a notice of voluntary withdrawal from the agreement established with Ledcor. Under this notice and effective November 2006, the Company will assume responsibility as operator of the Gibraltar mine and will pay to Ledcor a termination fee of $3.5 million. This termination fee has been accrued for in the consolidated financial statements for the year ended September 30, 2006.

(b) Prosperity Gold-Copper Property

The Company owns 100% of the Prosperity Gold-Copper Property, consisting of 196 mineral claims covering the mineral rights for approximately 85 square km in the Clinton Mining Division in south central British Columbia, Canada. The $28.66 million cash and share consideration to acquire the Prosperity property was written down to a nominal $1,000 value in fiscal 2001, to reflect the extended depressed conditions in the metals markets at that time.

In May 2005, the Company entered into an option agreement with Amarc Resources Ltd ("Amarc"), a public company with certain directors in common with Taseko, for Amarc to earn a 50% interest in the Wasp and Anvil properties currently held by Taseko, which are located approximately 15 kilometers southeast of the Company's Prosperity project. Amarc was the operator and could have acquired its interest by incurring $150,000 of exploration expenditures over a two year period. During the year ended September 30, 2006, Amarc terminated the option agreement on these properties.

(c) Harmony Gold Property

Under the terms of an arrangement agreement (note 7), the Company acquired a 100% interest in the Harmony Gold Property in fiscal 2002.

The Company does not believe there has been a fundamental change in the nature of the Harmony Gold Property; however, as the Company had not conducted significant exploration or development on the property in the last several years the Harmony Gold Property was written down to a nominal value of $1,000 during the year ended September 30, 2004.

8.

MINERAL PROPERTY INTERESTS, continued

(d) Gibraltar Reclamation Trust Limited Partnership ("GRT Partnership")

In December 2003, the GRT Partnership completed a private placement of limited partnership units for aggregate proceeds of $18.6 million, and entered into a joint venture arrangement with Gibraltar, with the purpose of restarting the Gibraltar mine with the funds raised. Gibraltar, as its contribution to the joint venture, was to contribute the use of its mine assets and fund the start-up expenses of the Gibraltar mine, and the GRT Partnership funded a qualifying environmental trust ("QET"), which consequently allowed Gibraltar to access other funds then held by the Government of British Columbia as a security for the mine's environmental reclamation obligations. Under the joint venture agreement, the GRT Partnership was to be entitled to certain revenues or production share from the Gibraltar mine following the resumption of production.

In March 2004, the Company issued 7,967,742 common shares at $2.79 per share for total consideration of $22.23 million to acquire all of the units of the GRT Partnership. In conjunction with this agreement, certain directors and officers of the Company personally guaranteed certain obligations to third parties on behalf of the Company to the extent of $4.5 million. In consideration for the guarantee, the Company issued 225,000 common shares at $2.00 per share to those directors and officers.

(e) Royalty Agreement (promissory note and royalty obligation)

In September 2004, the Company entered into agreements with an unrelated investment partnership, Red Mile Resources No. 2 Limited Partnership ("Red Mile"). Gibraltar sold to Red Mile a royalty for $67.357 million cash, which cash was received on September 29, 2004. These funds were subsequently loaned to a trust company (and a promissory note received) and the Company pledged the promissory note along with interest earned and to be earned thereon for a total of $70.2 million to secure its royalty obligations under the agreements.

At September 30, 2006, the promissory note amounted to $73,166,402 (2005—$72,317,854), of which $2,156,719 is current, while the royalty obligation amounted to $66,789,162 (2005—$68,790,797) of which $2,156,719 is current.

Pursuant to the agreements, the Company received an aggregate of $10.5 million in fees and interest for services performed in relation to the Red Mile transaction, of which $5.25 million was received in each of September and December of 2004, and included in interest and other income.

The amount of $5.25 million received in September 2004 included $1.75 million for indemnifying an affiliate of Red Mile from any claims relating to a breach by Gibraltar under the royalty agreement. The funds received in respect of the indemnification are presented as deferred revenue, and are recognized over the expected remaining life of the royalty agreement, with $1,400,000 (2005—$1,575,000) remaining as deferred as at September 30, 2006, of which $175,000 is classified as current.

Annual royalties will be payable by Gibraltar to Red Mile at rates ranging from $0.01 per pound to $0.14 per pound of copper produced during the period from the commencement of commercial production (as defined in the agreement) to the later of (i) December 2014 and (ii) five years after the end of commercial production from the mine. For the year ended September 30, 2006, Gibraltar paid a royalty of $0.0607 per pound of copper produced to Red Mile. Gibraltar is entitled to have released to it funds held under the promissory note and interest thereon to fund its royalty obligations to the extent of its royalty payment obligations.

The Company has a preemptive option to effectively purchase ("call") the royalty interest by acquiring the Red Mile partnership units at a future date in consideration of a payment which is (i) approximately equal to the funds received by the Company less royalty payments to date, or (ii) fair value, whichever is lower. Under certain circumstances, the investors in Red Mile also have a right to sell ("put") their Red Mile partnership units to the Company at fair value; however such right is subject to the Company's preemptive right to exercise the "call" in advance of any "put" being exercised and completed.

The Company has granted to Red Mile a net profits interest ("NPI"), which survives any "put" or "call" of the Red Mile units. The NPI is applicable for the years 2011 to 2014 and is 2% if the price of copper averages US$2.50 to US$2.74 per pound, 3% if the price of copper averages US$2.75 to US$2.99 per pound and 4% if the price of copper averages US$3.00 per pound or greater for any year during that period. The US-dollar pricing amounts specified above are based upon an exchange rate of US$0.75 for Cdn$1.00, and shall be adjusted from time to time by any variation of such exchange rates. No NPI is payable until the Company reaches a pre-determined aggregate level of revenues less defined operating costs and expenditures. No NPI is payable at September 30, 2006.

In accordance with AcG15, the Company has determined that the royalty agreement created certain variable interest entities for which the Company holds a variable interest. However, as the Company is not the primary beneficiary under the agreement, it is not required to consolidate any of such entities.

9.

MINERAL PROPERTIES, PLANT AND EQUIPMENT

Plant and equipment—Gibraltar Mine

(as at September 30)	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings and equipment	$ 6,059,655	$ 1,442,256	$ 4,617,399	$ 6,059,655	$ 929,212	$ 5,130,443
Mine equipment (note 10)	35,679,559	7,493,428	28,186,131	11,259,369	3,237,581	8,021,788
Plant and equipment	14,636,690	1,222,963	13,413,727	4,434,090	986,814	3,447,276
Vehicles	992,245	498,480	493,765	916,288	311,281	605,007
Computer equipment	1,765,921	915,385	850,536	1,057,681	384,467	673,214
Land	152,230	–	152,230	–	–	–
Deferred pre-stripping costs	285,426	–	285,426	–	–	–
Total Gibraltar mine	$ 59,571,726	$ 11,572,512	$ 47,999,214	$ 23,727,083	$ 5,849,355	$ 17,877,728
Mineral property interests (note 8)			$ 2,628,000			$ 3,000
Net asset retirement obligation adjustment			$ (7,182,271)			$ (7,963,736)
Mineral properties, plant and equipment			$ 43,444,943			$ 9,916,992

As at September 30, 2006, approximately $8.6 million (2005—nil) of plant and equipment is under construction and not being amortized.

10.

ASSETS UNDER CAPITAL LEASES

(as at September 30)	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Mine equipment	$ –	$ –	$ –	$ 22,350,693	$ 1,556,693	$ 20,794,000

In fiscal 2004, the Company purchased a mining shovel and five mine haul trucks for approximately $23.7 million. In October 2004, the Company sold the mining equipment for approximately $22.0 million, of which approximately $17.5 million was received, net of a 20% down payment (approximately $4.5 million) which was funded by the Company. The purchaser leased the mining equipment to a subsidiary of Ledcor, and this equipment was used at the Gibraltar mine. The Company accounted for this transaction as a sale-leaseback transaction, and recorded a loss on sale of approximately $2.2 million during the year ended September 30, 2005.

In April 2006, the Company re-acquired the mining shovel and five mine haul trucks for approximately $14.5 million and extinguished the lease obligations to which they relate (note 11).

11.

CAPITAL LEASE OBLIGATION

(as at September 30)	2006	2005
Total capital lease obligation	$ –	$ 15,077,139
Less: principal amounts due within one year	–	(2,092,334)
Capital lease obligation—long term	$ –	$ 12,984,805

11.

CAPITAL LEASE OBLIGATION, continued

The Company had certain mining equipment which it acquired pursuant to a sale-leaseback arrangement in October 2004 (note 10). The associated capital leases were payable in US dollars at variable floating interest rates ranging from approximately 6% to 10%. These capital leases had terms of 48 months, and were secured by the mining equipment to which they relate. In April 2006, the Company agreed with the lessor to acquire the equipment for approximately $14.5 million and consequently, the remaining lease obligations were extinguished and the Company recorded a loss on the early lease extinguishment of $240,049.

12.

CONVERTIBLE DEBT

(as at September 30)	2006	2005 *(restated–note 4)*
Liability Component		
Convertible Bonds—August 2006	$ 29,761,398	$ –
Convertible Debenture—Boliden	13,013,265	11,830,241
Convertible Debt—Liability Component	$ 42,774,663	$ 11,830,241
Equity Component		
Convertible Bonds—August 2006	$ 3,832,211	$ –
Convertible Debenture—Boliden	9,822,462	9,822,462
Convertible Debt—Equity Component	$ 13,654,673	$ 9,822,462

(a) Convertible Bonds—August 2006

On August 29, 2006 (the "Closing"), the Company issued US$30 million in principal amount of five year convertible bonds due in 2011 (the "Bonds") to qualified institutional buyers. The Bonds are convertible into the Company's common shares. The Bonds constitute direct, unsubordinated, unsecured, general and unconditional obligations of the Company.

The Bonds were issued at 100% and, if not converted, will be redeemed at maturity at 101%. The Bonds carry coupon interest rates of 7.125% per annum. The Bonds are convertible at the holder's option after 40 days from issuance until August 19, 2011 at a conversion price of US$3.35 ($3.76), or up to 8,955,224 common shares of the Company, which is a premium of approximately 40% over the recent trading price of the Company's shares at the time of Closing. At any time after September 12, 2008, the Company will have the right to call for the conversion of the Bond into the number of shares as set out above, so long as the Company's shares trade at least 50% above the conversion price for at least 20 business days in any period of 30 consecutive business days.

On August 29, 2009, the Bondholders have a one time right to redeem the Bonds at 100.60%. Debt issuance costs of $1.4 million were incurred upon closing of the transaction and are being amortized over the first redemption term of the Bonds.

For accounting purposes, the Bonds contain both a liability component and an equity component, being the holder's conversion right, which have been separately presented in the consolidated balance sheets. The Company has allocated the US$30 million face value of the Bonds to the liability and equity components. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the Bonds from the face value of the principal of the Bonds. The fair value of the liability component was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 10.5% for a comparable debt instrument that excluded any conversion privilege by the holder. The residual carrying value of the Bonds is required to be accreted to the redemption value of the Bonds to the first redemption date of the Bonds based on an effective annual interest rate of 12%. For the year ended September 30, 2006, interest and accretion relating to the debt totaled $296,165. The continuity of the Bond is as follows:

(year ended September 30)	2006
Present value of convertible bonds	
Beginning of period, August 29, 2006	$ 29,398,789
Unrealized foreign exchange loss	265,534
Accretion for the year	97,075
End of year, September 30, 2006	29,761,398
Conversion right	3,832,211
Convertible bonds	$ 33,593,609

Convertible Bonds *(as at September 30)*	2006
Summary of the convertible bond terms	
Principal amount of convertible debenture	US$ 30,000,000
Price per common share of the unexercised conversion right	US$ 3.35
Number of common shares potentially issuable under unexercised conversion right	8,955,224

(b) Convertible Debenture—Boliden

On July 21, 1999, in connection with the acquisition of the Gibraltar mine, the Company issued a $17 million interest-free debenture to BWCL, which is due on July 21, 2009, but is convertible into common shares of the Company over a 10 year period commencing at a price of $3.14 per share in year one and escalating by $0.25 per share per year thereafter ($4.89 per share as at September 30, 2006). BWCL's purchase of the convertible debenture was receivable as to $4,000,000 in July 1999, $1,000,000 on October 19, 1999, $3,500,000 on July 21, 2000, and $8,500,000 by December 31, 2000, all of which were received. BWCL has the right to convert, in part or in whole from time to time, the debenture into fully paid common shares of the Company from year one to year ten, but has not requested any conversions to date.

From the commencement of the sixth year to the tenth year, the Company has the right to automatically convert the debenture into common shares at the then-prevailing market price. The Company has the right and the intention to settle the convertible debenture through the issuance of common shares, notwithstanding the Company's right to settle the debenture with cash.

Accounting standards in Canada for compound financial instruments require the Company to allocate the proceeds received from the convertible debenture between (i) the estimated fair value of the holder's option to convert the debenture into common shares and (ii) the estimated fair value of the future cash outflows related to the debenture. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the convertible debenture, calculated using a risk-adjusted discount rate of 10%, from the face value of the principal of the convertible debenture. The residual carrying value of the convertible debenture is accreted to the face value of the convertible debenture over the life of the debenture by a charge to earnings. The continuity of the convertible debenture is as follows:

(year ended September 30)	**2006**	**2005**
Present value of convertible debenture		
Beginning of period	$ 11,830,241	$ 10,754,763
Accretion for the period	1,183,024	1,075,478
End of period	13,013,265	11,830,241
Conversion right	9,822,462	9,822,462
Convertible debenture	$ 22,835,727	$ 21,652,703

Boliden convertible debenture

(as at September 30)	**2006**	**2005**
Summary of the convertible debenture terms		
Principal amount of convertible debenture	$ 17,000,000	$ 17,000,000
Price per common share of the unexercised conversion right	$ 4.89	$ 4.64
Number of common shares potentially issuable under unexercised conversion right	3,476,482	3,663,793

13.

SITE CLOSURE AND RECLAMATION OBLIGATIONS

The continuity of the provision for site closure and reclamation costs related to the Gibraltar mine is as follows:

Balance, September 30, 2003	$ 32,700,000
Changes during fiscal 2004:	
Impact of adoption of new accounting policy	(18,391,000)
Accretion expense	1,431,000
Balance, September 30, 2004	15,740,000
Changes during fiscal 2005:	
Accretion expense	1,574,000
Balance, September 30, 2005	17,314,000
Changes during fiscal 2006:	
Reclamation incurred	(70,589)
Accretion expense	1,732,000
Site closure and reclamation obligations, September 30, 2006	$ 18,975,411

The estimated amount of the reclamation costs, adjusted for estimated inflation at 2.5% per year, in 2017 dollars, is $49.4 million (September 30, 2005—$49.4 million) and is expected to be spent over a period of approximately three years beginning in 2017. The credit-adjusted risk free rate at which the estimated future cash flows have been discounted is 10%, to arrive at a net present value of $18,975,411 (2005—$17,314,000). The accretion of $1,732,000 (2005—$1,574,000) is charged to the statement of operations.

As required by regulatory authorities, at September 30, 2006, the Company had cash reclamation deposits totaling $32,004,138 (2005—$18,281,420) comprised of $31,813,796 (2005—$18,091,078) for the Gibraltar mine, $15,342 (2005—$15,342) for the Prosperity project, and $175,000 (2005—$175,000) for the Harmony project. These deposits are invested in government backed securities and bear interest at rates ranging from 3.89% to 4.54% per annum.

14.

SHARE CAPITAL

(a) Authorized
Authorized share capital of the Company consists of an unlimited number of common shares (2005—200,000,000) without par value.

(b) Issued and outstanding

	Number of Shares	Amount
Common shares		
Balance, September 30, 2003	**53,880,973**	**$ 99,446,319**
Issued during the year		
Share purchase options at $0.50 per share	4,265,000	2,132,500
Share purchase options at $0.40 per share	152,500	61,000
Share purchase options at $0.25 per share	75,000	18,750
Share purchase options at $0.55 per share	380,000	209,000
Share purchase options at $0.65 per share	25,500	16,575
Fair value of stock options allocated to shares issued on exercise		290,000
Share purchase warrants at $0.58 per share	276,596	160,426
Share purchase warrants at $0.55 per share	414,850	228,168
Share purchase warrants at $0.40 per share	302,250	120,900
Share purchase warrants at $0.50 per share	7,393,751	3,696,876
Share purchase warrants at $0.75 per share	473,332	354,999
Private placement at $0.60 per share, net of issue costs	6,700,000	3,910,728
Private placement at $2.00 per share, net of issue costs	3,900,000	7,323,943
Private placement at $1.25 per share, net of issue costs	8,000,000	8,933,206
For acquisition of GRTLP at $2.79 per share, net of issue costs (note 8(d))	7,967,742	22,193,039
Loan guarantee at $2.00 per share (note 8(d))	225,000	450,000
Farmout agreement at $2.79 per share (note 8(e))	335,125	935,000
Balance, September 30, 2004	**94,767,619**	**150,481,429**
Issued during the year		
Share purchase options at $0.25 per share	50,000	12,500
Share purchase options at $0.30 per share	100,000	30,000
Share purchase options at $0.38 per share	20,000	7,600
Share purchase options at $0.40 per share	22,500	9,000
Share purchase options at $0.55 per share	610,000	335,500
Share purchase options at $0.81 per share	45,000	36,450
Share purchase options at $1.36 per share	270,000	367,200
Share purchase options at $1.40 per share	44,500	62,300
Share purchase options at $1.65 per share	10,000	16,500
Fair value of stock options allocated to shares issued on exercise		742,000
Share purchase warrants at $0.75 per share	2,313,336	1,735,002
Private placement at $1.45 per share, net of issue costs	5,204,361	6,993,961
Balance, September 30, 2005	**103,457,316**	**160,829,442**
Issued during the year		
Share purchase options at $0.55 per share	1,500,000	825,000
Share purchase options at $1.15 per share	451,833	519,608
Share purchase options at $1.29 per share	60,000	77,400
Share purchase options at $1.36 per share	1,970,000	2,679,200
Share purchase options at $1.40 per share	3,405,500	4,767,700
Share purchase options at $1.50 per share	10,000	15,000
Share purchase options at $2.07 per share	33,333	68,999
Share purchase options at $2.18 per share	7,500	16,350
Fair value of stock options allocated to shares issued on exercise		4,869,000
Share purchase warrants at $0.40 per share	375,000	150,000
Share purchase warrants at $0.75 per share	3,913,332	2,934,999
Share purchase warrants at $1.40 per share	8,000,000	11,200,000
Share purchase warrants at $1.66 per share	5,204,361	8,639,239
Balance, September 30, 2006	**128,388,175**	**$ 197,591,937**

14.

SHARE CAPITAL, continued

(c) Share purchase option plan

The Company has a share purchase option plan approved by the shareholders that allows it to grant a maximum of 10% of the issued and outstanding common shares of the Company at the time an option is granted, less common shares reserved or issued in the plan, subject to regulatory terms and approval, to its employees, officers, directors and consultants. The exercise price of each option may be set equal to or greater than the closing market price of the common shares on the TSX Exchange on the day prior to the date of the grant of the option, less any allowable discounts. Options have a maximum term of ten years and terminate 30 to 90 days following the termination of the optionee's employment or term of engagement, except in the case of retirement or death. Vesting of options is at the discretion of the Board of Directors at the time the options are granted.

The continuity of share purchase options is as follows:

	2006		2005		2004	
	Number of shares	Average Price	Number of shares	Average Price	Number of shares	Average Price
Opening balance	9,280,500	$ 1.17	8,627,500	$1.13	4,685,000	$ 0.48
Granted during the period	2,159,500	2.24	2,040,000	1.15	8,855,500	1.12
Exercised during the period	(7,438,166)	1.21	(1,172,000)	0.75	(4,898,000)	0.50
Expired/cancelled during period	(423,000)	0.91	(215,000)	1.47	(15,000)	1.36
Closing balance	3,578,834	$ 1.78	9,280,500	$ 1.17	8,627,500	$ 1.13
Average contractual remaining life (years)		3.70		1.69		1.93
Range of exercise prices	$ 1.15 – $ 2.68		$ 0.55 – $ 1.50		$ 0.25 – $ 1.65	

The following table summarizes information about share purchase options outstanding at September 30, 2006:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at Sept. 30 2006	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Sept. 30 2006	Weighted average exercise price
$1.15 to $1.29	1,643,167	3.60 years	$ 1.16	800,833	$ 1.16
$2.07 to $2.18	1,328,167	3.67 years	$ 2.15	521,339	$ 2.15
$2.63 to $2.68	607,500	4.04 years	$ 2.65	130,005	$ 2.63
	3,578,834	3.70 years	$ 1.78	1,452,177	$ 1.65

As at September 30, 2006, 1,452,177 (2005—8,053,834) of the options outstanding had vested with optionees and were exercisable.

The exercise prices of all share purchase options granted during the year were equal to the market price at the grant date. The weighted average assumptions used to estimate the fair value of options during the years ended September 30, 2006, 2005, and 2004 were:

	2006	2005	2004
Risk free interest rate	4%	3%	3%
Expected life	3.93 years	2.75 years	2.4 years
Volatility	71%	90%	95%
Expected dividends	nil	nil	nil

(d) Share purchase warrants

The continuity of share purchase warrants during the year ended September 30, 2006 is as follows:

Expiry dates	Exercise price	Outstanding Sept. 30 2005	Issued	Exercised	Expired	Outstanding Sept. 30 2006
January 8, 2006	$ 0.40	375,000	–	(375,000)	–	–
December 31, 2005	$ 0.75	3,913,332	–	(3,913,322)	–	–
September 28, 2006	$ 1.40	8,000,000	–	(8,000,000)	–	–
September 18, 2006	$ 1.66	5,204,361	–	(5,204,361)	–	–
		17,492,693	–	(17,492,693)	–	–

The continuity of share purchase warrants during the year ended September 30, 2005 is as follows:

Expiry dates	Exercise price	Outstanding Sept. 30 2004	Issued	Exercised	Expired	Outstanding Sept. 30 2005
January 8, 2006	$ 0.40	375,000	–	–	–	375,000
December 31, 2005	$ 0.75	6,226,668	–	(2,313,336)	–	3,913,332
March 10, 2005	$ 2.25	3,900,000	–	–	(3,900,000)	–
September 28, 2006	$ 1.40	8,000,000	–	–	–	8,000,000
September 18, 2006	$ 1.66	–	5,204,361	–	–	5,204,361
		18,501,668	5,204,361	(2,313,336)	(3,900,000)	17,492,693

The continuity of share purchase warrants during the year ended September 30, 2004 is as follows:

Expiry dates	Exercise price	Outstanding Sept. 30 2003	Issued	Exercised	Outstanding Sept. 30 2004
October 19, 2003	$ 0.58	276,596	–	(276,596)	–
December 27, 2003	$ 0.55	414,850	–	(414,850)	–
January 8, 2006	$ 0.40	375,000	–	–	375,000
December 31, 2003	$ 0.40	302,250	–	(302,250)	–
December 31, 2004	$ 0.50	7,393,751	–	(7,393,751)	–
December 31, 2005	$ 0.75	–	6,700,000	(473,332)	6,226,668
March 10, 2005	$ 2.25	–	3,900,000	–	3,900,000
September 28, 2006	$ 1.40	–	8,000,000	–	8,000,000
		8,762,447	18,600,000	(8,860,779)	18,501,668

(e) Contributed surplus

Contributed surplus, September 30, 2003	$ 65,344
Changes during fiscal 2004:	
Non-cash stock-based compensation	5,172,244
Fair value of stock options allocated to shares issued on exercise	(290,000)
Contributed surplus, September 30, 2004	4,947,588
Changes during fiscal 2005:	
Non-cash stock-based compensation	1,129,026
Fair value of stock options allocated to shares issued on exercise	(742,000)
Contributed surplus, September 30, 2005	5,334,614
Changes during fiscal 2006:	
Non-cash stock-based compensation	3,182,102
Fair value of stock options allocated to shares issued on exercise	(4,869,000)
Contributed surplus, September 30, 2006	$ 3,647,716

15.

INCOME TAXES

Income tax expense (recovery) differs from the amount which would result from applying the statutory Canadian income tax rates (2006—36.6%, 2005—39.5%) for the following reasons:

	2006	2005 *(restated– note 4)*
Earnings before income taxes	$ 38,961,447	$ 5,767,773
Expected tax expense based on statutory rates	14,268,000	2,278,000
Permanent differences	2,403,000	871,000
Adjustment to tax reserve	2,028,000	–
Deductions allowable for tax purposes	(1,360,000)	(2,912,000)
Recognition of previously unrecognized tax assets	(12,172,000)	(17,351,000)
Other	878,000	(408,000)
Tax expense (recovery) for the year	$ 6,045,000	$ (17,522,000)
Presented as:		
Current income tax expense (recovery)	$ 4,397,000	$ (4,099,000)
Future income tax expense (recovery)	1,648,000	(13,423,000)
	$ 6,045,000	$ (17,522,000)

As at September 30, 2006 and 2005, the estimated tax effect of the significant components within the Company's future tax assets were as follows:

	2006	2005
Mineral properties	$ 4,907,000	$ 4,513,000
Loss carry forwards	154,000	154,000
Royalty obligation	20,181,000	23,458,000
BC mining taxes	9,850,000	9,062,000
Other tax pools	720,000	2,388,000
	35,812,000	39,575,000
Valuation allowance	(13,937,000)	(23,709,000)
Future income tax assets	21,875,000	15,866,000
Lease equipment and related lease obligation	–	(1,949,000)
Partnership deferral	(4,288,000)	–
Reclamation obligation	(4,286,000)	(494,000)
Plant and equipment	(1,526,000)	–
Net future income tax asset	**$ 11,775,000**	**$ 13,423,000**
Current portion	$ 11,601,000	$ 4,479,000
Long term FIT liability	174,000	8,944,000
Net future income tax asset	**$ 11,775,000**	**$ 13,423,000**

At September 30, 2006 the Company's tax attributes included capital losses totaling approximately $0.9 million (2005—$0.9 million) which are available indefinitely to offset future taxable capital gains, and resource tax pools totaling approximately $16.8 million (2005—$13.3 million) which are available indefinitely to offset future taxable income.

The Company has accrued a tax provision of a subsidiary company of approximately $21.1 million (2005—$19.6 million). This provision reflects an amount which management believes is less than likely of ever becoming payable. In addition, the subsidiary would exhaust all appeals if any taxes in connection with this accrual were actually assessed against the subsidiary. The amount represents a potential liability which has been recognized in a conservative manner in accordance with Canadian generally accepted accounting principles. It does not represent a payable amount based on any filed, or expected to be filed, tax return nor has any taxation authority assessed the amount or any portion thereof as payable.

16.

SUPPLEMENTARY CASH FLOW DISCLOSURES

In addition to the non-cash operating, financing and investing activities primarily disclosed, the Company's non-cash operating, financing and investing activities were as follows:

(as at September 30)	2006	2005	2004
Issuance of common shares on acquisition of Gibraltar Reclamation Trust Limited Partnership (note 8 (d))	$ –	$ –	$ 22,230,000
Acquisition of assets under capital lease (note 10)	–	(22,350,693)	–
Advances under capital lease (note 11)	–	22,350,693	–
Issuance of common shares for loan guarantee (note 8(d))	–	–	450,000
Fair value of stock options transferred to share capital from contributed surplus on exercise of options (note 14(e))	4,869,000	742,000	290,000

(as at September 30)	2006	2005	2004
Supplemental cash flow information			
Cash paid during the year for:			
Interest	$ 1,557,034	$ 1,046,568	$ 49,294
Taxes	$ 1,188,436	$ 554	$ 45,352

17.

RELATED PARTY TRANSACTIONS AND ADVANCES

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

	Years ended September 30		
Transactions	**2006**	**2005**	**2004**
Services rendered and expenses reimbursed			
Hunter Dickinson Inc. (a)	$ 2,869,003	$ 1,222,603	$ 806,970
Hunter Dickinson Group Inc. (b)	–	12,800	12,800

Advances from related parties *(as at September 30)*	2006	2005
Hunter Dickinson Inc. (a)(c)	$ 26,430	$ 105,067

(a) Hunter Dickinson Inc. ("HDI") is a private company owned equally by nine public companies, one of which is Taseko. HDI has certain directors in common with the Company and provides geological, corporate development, administrative and management services to, and incurs third party costs on behalf of, the Company and its subsidiaries on a full cost recovery basis pursuant to an agreement dated December 31, 1996. The liability is recorded in accounts payable and accrued liabilities.

(b) Hunter Dickinson Group Inc. is a private company with certain directors in common that provides consulting services to the Company.

(c) Advances are non-interest bearing and due on demand.

18.

SUBSEQUENT EVENT

Subsequent to year-end in November 2006, the Company launched a C$1.05 per share take-over bid offer for all of the outstanding shares of bcMetals Corporation ("bcMetals"). bcMetals holds a 100% interest in the Red Chris copper-gold project in northern British Columbia.

The Taseko bid is subject to a number of conditions, including that at least 66.66% of bcMetals shares are tendered to the bid, a conditional settlement agreement is reached with certain minority shareholders of bcMetals' subsidiary, American Bullion Minerals Ltd., as well as rejection by bcMetals shareholders of bcMetals' Limited Purpose Shareholder Rights Plan and its proposed joint venture of the Red Chris project with Global International Jiangxi Copper Mining Company Limited.

Our Corporate Directory

Officers and Directors

Russell E. Hallbauer
President & Chief Executive Officer
Director

John W. McManus
Vice President, Operations

Ronald W. Thiessen
Chairman, Director

Jeffrey R. Mason
Chief Financial Officer, Secretary, Director

William P. Armstrong
Director

David J. Copeland
Director

T. Barry Coughlan
Director

Scott D. Cousens
Director

Robert A. Dickinson
Director

David Elliott*
Director

Wayne Kirk
Director

**Audit Committee Chairman*

Forward Looking Statements

This annual report includes certain statements that may be deemed "forward-looking statements". Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. All information relating to a project's potential and the other information such as capital and operating costs, production summary, and financial analysis, are "forward looking statements" within the definition of the United States Private Securities Litigation Reform Act of 1995. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. For more information on the risks inherent in the Company's business, investors should review the Company's annual Form 20-F filing with the United States Securities Commission at www.sec.gov and its home jurisdiction filings that are available at www.sedar.com.

Cautionary Note to U.S. Investors Concerning Estimates of Measured and Indicated Resources

This annual report also uses the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **U.S. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves.**

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Toronto Stock Exchange (TKO)
American Stock Exchange (TGB)

Share Capitalization (as at September 30, 2006)
Common Authorized: Unlimited
Issued: 128,388,175

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