TASEKO MINES LIMITED
NINE MONTHS ENDED JUNE 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 Date

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

This MD&A is prepared as of August 3, 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 is focusing on production and improvements at the Gibraltar mine and updating a feasibility study on the Prosperity project.

Taseko had operating profit of $18.3 million and earnings of $4.1 million during the quarter ended June 30, 2006, compared to operating profit of $7.4 and earnings of $3.1 million in the previous quarter.

During the quarter ended June 30, 2006, the Company realized revenues of $54.8 million and $5.2 million from sales of 16.0 million pounds of copper and 186 thousand pounds of molybdenum in concentrates, respectively. The average price realized for sales of copper and molybdenum during the quarter were US$3.08/lb and US$24.81/lb respectively. During this same period the Gibraltar mine produced 10.1 million pounds of copper and 169 thousand pounds of molybdenum.

Taseko's operating profit over the nine months of fiscal 2006 was $33.8 million and earnings were $13.9 million, as compared to operating profit of $12.0 million and earnings of $6.9 million in the same period of fiscal 2005. The fiscal 2005 results were lower because they included only six months of commercial production at the Gibraltar mine and metal prices were also lower during that period. In the first nine months of fiscal 2006, the Gibraltar mine has produced 36.3 million pounds of copper and 623 thousand pounds of molybdenum and realized revenues of $122.1 million from copper and $16.6 million from molybdenum, increases of $74.6 million and $4.2 million, respectively, over fiscal 2005.

Work continued during the quarter on the expansion and upgrade of the concentrator facility at the Gibraltar mine with engineering and procurement on schedule. Engineering is approximately 30% complete, orders have been placed for major components and the tendering process for major contractors is under way. The upgrade and expansion project will increase the production capacity of the Gibraltar mine by 30%, from 70 million pounds to 100 million pounds of copper per year by 2008.

Rehabilitation of Gibraltar's solvent extraction and electrowinning (SX-EW) plant also began during the quarter. The SX-EW plant will add 7 million pounds of annual copper cathode production capacity to the mine. The rehabilitation project is on schedule and on budget. The plant is expected to be operational by the fall of 2006.

Since March 2006, 62 diamond drill holes, totaling 18,000 metres, have been completed at Gibraltar. The drilling program was designed to expand information on the mineral resources located near the current mineral reserves to update the geological and mine models. Work so far is confirming the continuity of the mineralization. It is expected that completion of modeling and new mine plan development will allow conversion of a significant amount of measured and indicated resources to proven and probable reserves.

In July 2006, Taseko announced that it had given notice of withdrawal from the joint venture established with Ledcor CMI Ltd. Effective November 5, 2006 Taseko will assume responsibility for all matters in connection with the Gibraltar Mine and has agreed to pay a termination fee of $3.5 million.

The update of the feasibility study for the Prosperity gold-copper project is progressing with the completion of the scoping level studies for the mill redesign and mill operating and capital costs. Further scoping studies are underway to assess optimal designs of the tailings impoundment system and to review mining and other infrastructure costs.

The Prosperity Project Environmental Impact Assessment is well underway with ongoing ground and research work being performed, designed to complete earlier baseline data and studies in the biophysical, socio-economic, archeological, and traditional use fields. The Environmental Assessment Report is scheduled to be substantially complete in the spring of 2007.

Gibraltar Mine

Third Quarter 2006 Highlights

Copper

- Copper in concentrate production during the quarter was 10.1 million pounds of copper, 20% less than the previous quarter.

- Copper concentrate sales for the quarter were 29,129 wet metric tonnes ("WMT"), containing 16.0 million pounds of copper, an increase from the 23,207 WMT, containing 13.2 million pounds of copper sold during the previous quarter.

- The average price realized for sales of copper in the quarter was US$3.08 per pound compared to US$2.06 per pound in the previous quarter.

- Copper concentrate inventory at June 30, 2006 was 1,094 WMT, a decrease in inventory from the 12,487 WMT of concentrate on hand at the end of the previous quarter.

Molybdenum

- Molybdenum in concentrate production in the quarter was 169 thousand pounds compared to 231 thousand pounds in the previous quarter.

- Molybdenum concentrate sales in the quarter were 185.6 WMT, containing 186 thousand pounds, a decrease from the 242.4 WMT, containing 243.0 thousand pounds sold in the previous quarter.

- The average price realized for sales of molybdenum in the quarter was US$24.81 per pound compared to US$22.16 in the previous quarter.

- At the end of the third quarter, molybdenum in concentrate inventory was 7.4 WMT, compared to 24.6 WMT at the end of the previous quarter.

Third Quarter Production Results

The following table is a summary of the operating statistics for the current quarter (Q3 - 2006) compared to the previous quarter (Q2 - 2006), and the same quarter in the previous year (Q3 - 2005).

	Q3- 2006	Q2 - 2006	Q3 - 2005
Total tons mined (millions)[1]	8.8	9.9	10.3
Tons of ore milled (millions)	2.4	2.7	3.1
Stripping ratio	2.68	2.80	2.38
Copper grade (%)	0.265	0.300	0.314
Molybdenum grade (%MoS_2)	0.015	0.017	0.018
Copper recovery (%)	79.6	79.7	80.8
Molybdenum recovery (%)	38.3	42.7	26.5
Copper production (millions lb)	10.1	12.8	15.5
Molybdenum production (thousands lb)	169	231	176

[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.

Total tons mined in the current quarter were lower than the previous quarter as a result of low shovel availability in April and an unscheduled five day shutdown of mine operations at the end of June as a result of failure of the primary crusher.

Copper produced in concentrate during the third quarter was 10.1 million pounds, a decrease from the 12.8 million pounds produced in the second quarter as a result of fifteen days of primary crusher down time during May and June. The primary crusher suffered a failure of the main bearing which then required complete dismantling and rebuild of the unit. The mill was able to continue to operate by drawing from the fine ore inventory but was unable to continue once the fine ore bin had been drawn down. Since the end of June, the primary crusher has resumed operations consistently. Copper production was further negatively affected as the mine worked through a lower grade portion of the pit.

Molybdenum produced in concentrate during the quarter was 169 thousand pounds, a decrease from 231 thousand pounds produced in the previous quarter as a result of the same issues which caused the reduced copper production.

Costs per pound of copper produced were above forecast for the quarter due to the reduced metal production, unplanned expenditures for crusher repairs, higher than planned fuel and labour costs, and by mining at an above budget strip ratio. The crusher down time accounted for the delay in production of approximately 2.5 million pounds of copper and 40 thousand pounds of molybdenum. The lost production accounted for an increase of approximately US$0.37 per pound of copper produced.

Off-site costs included the disputed price participation amount currently being deducted by Glencore Ltd. Price participation deductions by Glencore for the third quarter added approximately US$3.4 million, or roughly an extra US$0.21 per pound, to off-site costs.

Labour

There were no lost time accidents during the quarter. The number of personnel at the end of the quarter was 281, compared to 274 at the end of the previous quarter and the planned complement of 285.

Third Quarter Actual Compared to Current Forecast

The current forecasted copper and molybdenum production for fiscal 2006 is estimated to be 48-50 million pounds of copper and 820-850 thousand pounds of molybdenum. Actual production and costs for the first three quarters and forecast for the fourth quarter are tabulated below.

	Q1 (A)	Q2 (A)	Q3 (A)	Q4 (F)
Copper (millions lb)	13.4	12.8	10.1	12 to 14
Molybdenum (thousands lb)	223	231	169	200 to 225
Copper production costs, net of by product credits[1], per lb of copper	US$1.10[2]	US$1.07[2]	US$1.50[3]	US$1.00 to $US1.15
Off Property Costs for transport, treatment (smelting & refining) & sales per lb of copper	US$0.33	US$0.43	US$0.50	US$0.43[4]
Total cash costs of production per lb of copper	US$1.43	US$1.50	US$2.00	US$1.50 to US$1.65

[*]The by-product credit is based on pounds of molybdenum sold. The forecast production costs for 2006 are based on a molybdenum sales price of US$20 per pound for the remainder of the year.

[2]Excludes mining equipment lease costs but includes contractor overhead costs.

[3] Includes contractor overhead and mining lease costs. Copper production cost for Q3 is approximately US$0.37/lb above plan as a result of lost production as a result of primary crusher failure.

[4]Off-property costs are affected by price participation assessments applied by Glencore Ltd. Should the outstanding dispute be concluded in Taseko's favor, off-property costs will decrease.

Drilling Program Underway

A $2 million definition drilling program was nearly completed at the end of the quarter. This work is the basis for defining the mineral resources between the existing pits and tying together the extensive mineralization zones. Results to date are very encouraging, indicating that the objectives of the program will be achieved. .

Prosperity Project

Taseko holds a 100% interest in the Prosperity property, located approximately 125 kilometres southwest of the City of Williams Lake in south-central British Columbia. The Company carried out extensive exploration, engineering, mine planning, environmental and socio-economic studies on the property prior to 2001, outlining a large porphyry copper-gold deposit.

A preliminary overview study of the project has now been completed. The focus of the study was 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. Identification and “scoping” of opportunities to further reduce capital and operating costs is in progress and will be complete by September 2006, prior to a recommendation to proceed to a full feasibility study.

The Prosperity Project Environmental Impact Assessment is fully underway. Multidisciplinary work teams are gathering fisheries, wildlife, archaeology and traditional use data in the area where the project will be developed. Validation of previous work and completion of baseline studies is expected by the end of the year. The Environmental Impact Assessment will be completed by the spring of 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$2.81/lb to the end of July.

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$24/lb to the end of July.

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$596/oz to the end of July.

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 Sheet	As at September 30 2005	As at September 30 2004 (restated)	As at September 30 2003 (restated)
Current assets	$ 58,380,111	$ 18,064,003	$ 3,832,059
Mineral properties	3,000	3,000	28,813,296
Other assets	132,613,767	112,799,415	16,825,852
Total assets	190,996,878	130,866,418	49,471,207
Current liabilities	52,023,078	40,179,912	3,851,136
Other liabilities	109,864,245	95,601,763	24,086,058
Shareholders' equity	29,109,555	(4,915,257)	21,534,013
Total liabilities & shareholders' equity	$ 190,996,878	$ 130,866,418	$ 49,471,207

Statement of operations	Year ended September 30 2005	As at September 30 2004 (restated)	As at September 30 2003 (restated)
Revenue	$ (87,638,300)	$ –	$ –
Cost of production	57,799,558	–	–
Transportation and treatment	13,548,560	–	–
Amortization	2,657,165	17,296	42,564
Accretion of reclamation obligation	1,574,000	1,431,000	1,300,000
Exploration	505,586	4,456,901	2,024,671
Foreign exchange	34,080	–	–
Loss (gain) on sale of equipment	2,160,992	–	(131,638)
General and administration	2,411,688	2,334,840	855,646
Interest and other income	(10,547,609)	(5,154,209)	(721,480)
Interest expense	4,250,831	1,476,999	1,090,765
Premium paid for acquisition of Gibraltar Reclamation Trust LP	–	5,095,249	–
Refinery project	–	–	500,000
Restart project	6,346,650	14,982,008	–
Stock-based compensation	1,129,026	5,172,244	65,344
Write down of mineral property acquisition costs	–	28,810,296	–
Current income tax expense (recovery)	(4,099,000)	23,744,000	–
Future income tax expense (recovery)	(13,423,000)	–	–
Loss (earnings) for the year	$ (23,289,773)	$ 82,366,624	$ 5,025,872
Basic earnings (loss) per share	$ 0.23	$ (1.10)	$ (0.11)
Diluted earnings (loss) per share	$ 0.21	$ (1.10)	$ (0.11)
Basic weighted average number of common shares outstanding	100,021,655	75,113,426	46,984,378
Diluted weighted average number of common shares outstanding	110,732,926	75,113,426	46,984,378

1.4 Results of Operations

The Company's pre-tax earnings for the quarter ended June 30, 2006 increased to $9.7 million, compared to $5.5 million in the previous quarter and decreased from $11.6 million in the same period in 2005. The Company's after-tax earnings for the quarter ended June 30, 2006 increased to $4.1 million, compared to $3.1 million in the previous quarter and decreased from $11.6 million in the same period in 2005.

The Company reported revenues of $59.9 million, compared to $37.5 in the previous quarter and $31.5 million in the third quarter of 2005. The average price per pound of copper concentrate sold increased to US$3.08 per pound in the third quarter, up from US$2.06 per pound in the previous quarter and US$1.51 in the same quarter in 2005. Revenues increased significantly because of inventory drawdown and higher copper prices.

Revenues consisted of copper concentrate sales of $54.8 million and molybdenum concentrate sales of $5.2 million.

Cost of Sales for the period was $31.9 million, compared to $22.6 million in the previous quarter, and $13.2 million in the same quarter of 2005. Costs of Sales consist of total production cost, concentrate inventory reduction (Q3-2006 – $9.6 million; Q2-2006 – $0.4 million), and silver credits (Q3-2006 – $0.5 million; Q2-2006 – $0.3 million).

Total production costs for the period were $22.3, compared to $22.2 million in the previous quarter and $20.3 million in the same quarter of the previous year.

Transportation and treatment costs were $9.0 million for Q3-2006 compared to $6.6 million in Q2-2006. This increase in Q3-2006 is attributed to higher sales quantities and a significant increase in accrued price participation. Amortization expense remained the same at $0.8 million in each of the last two quarters.

Glencore Ltd. ("Glencore") purchases the whole of the copper concentrates produced by the Gibraltar mine pursuant to the terms of a written contract. Gibraltar and Glencore are currently in dispute concerning the interpretation of the contract. Glencore asserts 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 asserts that the contract does not provide for any such deduction. To June 30, 2006, Glencore had withheld approximately US$8.5 million from invoices rendered by Gibraltar and is claiming repayment of a further US$0.5 million, on the basis of its interpretation of the contract. Of this amount, US$3.4 million was withheld during the quarter ended June 30, 2006.

The dispute is pending the results of an arbitration hearing held in London, England, in June 2006. If Gibraltar is successful in the arbitration, then Gibraltar should immediately receive the full amount that has been withheld by Glencore. The results of the arbitration hearing are expected in mid August 2006.

Exploration expenses increased to $3.0 million in Q3-2006 compared to $0.5 million in Q2-2006. Part of this significant increase was due to an exploratory drilling program at the Gibraltar mine site to upgrade the resources at the mine and complete a new mine plan (Q3-2006 – $1.8 million; Q2-2006 – $0.05 million). The other significant exploration project was the continuing ramp up of activities at the Prosperity project and due diligence relating to potential new projects (Q3-2006 – $1.3 million; Q2-2006 – $0.07 million).

General and administrative costs increased to $2.5 million in Q3-2006 from $1.5 million in Q2-2006 due to an increase in legal and accounting fees (Q3-2006 – $1.1 million; Q2-2006 – $0.3 million) associated with legal and travel costs for the Glencore arbitration case as well as professional fees relating to the Company's continued efforts to comply with the reporting requirements under Sarbanes-Oxley. Other items that significantly increased under General and Administrative costs were as follows: office and administration costs (Q3-2006 – $0.6 million; Q2-2006 – $0.5 million); and shareholder communications (Q3-2006 – $0.2 million; Q2-2006 – $0.1 million).

Due to a strengthening Canadian dollar, foreign exchange gain in Q2-2006 of $0.4 million became a loss of $0.3 million in Q3-2006.

A provision of $5.6 million was recorded for income taxes during the current quarter compared to $2.4 million in the previous quarter. The increase in the tax provision is due mainly to the depletion of tax pools as a result of the Company becoming more profitable. The Company is currently evaluating tax planning strategies to implement prior to year end.

1.5 Summary of Quarterly Results

The following summary is presented in Canadian dollars except common shares outstanding.

	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005 (restated)	Jun 30 2005 (restated)	Mar 31 2005 (restated)	Dec 31 2004 (restated)	Sep 30 2004 (restated)
Current assets	68,650,908	67,249,013	57,067,156	58,380,111	50,973,406	31,423,939	24,673,141	18,064,003
Mineral properties	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Other assets	134,459,315	132,713,221	132,683,929	132,613,767	120,521,937	118,945,024	115,055,389	112,799,415
Total assets	**203,113,223**	**199,965,234**	**189,754,085**	**190,996,878**	**171,498,343**	**150,371,963**	**139,731,530**	**130,866,418**
Current liabilities	39,329,642	40,814,739	41,238,381	52,023,078	46,801,857	41,968,895	40,893,737	40,179,912
Other liabilities	97,587,689	109,158,078	109,527,872	109,864,245	112,549,977	108,391,925	107,763,788	95,601,763
Shareholders' equity	66,195,892	49,992,417	38,987,832	29,109,555	12,146,509	11,143	(8,925,995)	(4,915,257)
Total shareholders' equity and liabilities	**203,113,223**	**199,965,234**	**189,754,085**	**190,996,878**	**171,498,343**	**150,371,963**	**139,731,530**	**130,866,418**
Revenue	(59,921,542)	(37,510,724)	(41,271,228)	(27,698,995)	(31,520,306)	(28,418,999)	–	–
Mine site operating costs	31,866,224	22,573,586	26,046,632	20,901,551	13,262,656	23,635,351	–	–
Transportation and treatment	8,973,018	6,642,980	6,276,902	4,400,743	5,300,114	3,847,703	–	–
Amortization	811,932	852,836	848,888	779,415	710,398	655,179	512,173	844
Expenses:								
Accretion of reclamation obligation	433,000	433,000	433,000	393,500	393,500	393,500	393,500	357,750
Conference and travel	39,352	83,528	71,485	60,369	36,301	11,281	12,995	11,689
Consulting	103,643	78,008	115,335	101,736	82,694	65,944	63,760	56,450
Corporation taxes	433,954	165,619	–	(6,825)	–	–	554	14,184
Exploration	2,957,745	470,840	269,629	455,211	6,634	11,694	32,047	(1,892,174)
Interest and finance charges	2,310,971	1,042,774	1,082,037	1,501,780	932,688	910,049	906,314	263,569
Legal, accounting and audit	1,061,474	334,396	362,495	176,167	74,022	79,317	97,146	325,567
Office and administration	612,865	498,553	390,319	527,896	236,954	236,804	164,316	88,512
Property investigation	–	–	–	–	–	–	–	4
Restart project	–	–	–	–	–	(1,214,796)	7,561,446	14,982,008
Shareholder communications	182,501	97,019	69,247	90,326	44,641	112,241	52,822	34,142
Trust and filing	22,651	214,792	21,086	8,300	8,027	67,787	6,114	53,052
Interest and other (income)	(1,579,117)	(1,545,680)	(1,626,954)	(1,324,344)	(1,552,559)	(1,233,485)	(6,437,221)	(4,464,851)
Loss on sale of property plant and equipment	–	–	–	–	–	(17,000)	2,177,992	–
Income taxes	5,603,000	2,410,000	–	(17,522,000)		–	–	23,744,000
Foreign exchange	322,914	(447,665)	(32,151)	324,275	194,365	(120,290)	(364,270)	–
Write down of mineral property acquisition costs	–	–	–	–	–	–	–	28,810,296
Stock-based compensation	1,685,331	535,070	230,846	401,470	170,310	392,697	164,549	2,035,178
Earnings (loss) for the period	**4,080,084**	**3,071,068**	**6,712,432**	**16,429,425**	**11,619,561**	**585,023**	**(5,334,237)**	**(64,420,220)**
Basic and diluted loss per share	0.03	0.03	0.06	0.14	0.12	0.01	(0.06)	(0.85)

1.6 Liquidity

At June 30, 2006, Taseko had working capital of $29.3 million, as compared to a $24.0 million at March 31, 2006. The increase was primarily a result of operations from the Gibraltar mine and the exercising of share purchase options and warrants during the quarter.

The Company has accrued a tax provision of a subsidiary company of $24.1 million in the consolidated financial statements. Of this provision, $21.5 million is net of a $23.7 million income tax expense recorded in 2004 which management believes is less than likely of ever becoming payable. 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, 2006. 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.

Management anticipates that revenues from copper and molybdenum, along with current cash balances will be sufficient to cover operating costs, working capital and the Gibraltar mill expansion during the remainder of fiscal 2006 and 2007.

Subsequent to June 30, 2006, the Company announced that it has agreed to offer up to US$30 million in principal amount of five year convertible bonds (“Bonds”) to accredited institutional investors outside of North America. The Bonds will be convertible into Taseko’s listed common (ordinary) shares at a conversion price to be set at a premium to the prevailing market price of the shares at the time of completion of the offering. The Bonds will constitute direct, unsubordinated, unsecured, interest bearing obligations of Taseko.

1.7 Capital Resources

In April 2006, 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". The Company has various loans on its on-road vehicles totaling $29,691, all of which is current.

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 by HDI to the Company during the three months ended June 30, 2006 increased to $866,839, as compared to $658,552 in the previous quarter and as compared to $234,300 in the third quarter of the previous year.

1.10 Fourth Quarter

Not applicable.

1.11 Proposed Transactions

There are no proposed asset or business acquisitions or dispositions, other than those in the ordinary course, before the board of directors for consideration.

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, 2005. 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 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, and of assets under capital lease,
- the carrying values of the reclamation liability,
- the carrying values of the capital leases,
- the carrying values of the convertible debenture and conversion right,
- income taxes,
- the valuation allowances for future income taxes,
- the carrying values of the receivables from sales of concentrate,
- 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

Convertible debentures

Effective October 1, 2005 the Company adopted certain new provisions of the Canadian Institute of Chartered Accountants Handbook Section 3860, Financial Instruments – Disclosure and Presentation. The standard requires that convertible debentures which may be settled in cash, or by common shares of the Company at the Company's discretion, be presented as a liability. The accretion charges that were previously recorded through deficit have been eliminated and now included as interest expense. For the year ended September 30, 2005, this amounted to $1,075,478 (2004 – $977,705). For the nine months ending June 30, 2006 it amounted to $886,052. This change had no effect on earnings 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 August 3, 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				121,426,675
Share purchase option	September 29, 2006	$ 0.55	280,000	
	September 20, 2006	$ 1.40	1,415,000	
	September 29, 2006	$ 1.36	650,000	
	September 28, 2010	$ 1.15	1,346,667	
	September 28, 2007	$ 1.15	226,500	
	December 14, 2007	$ 1.29	75,000	
	March 27, 2009	$ 2.07	96,667	
	September 28, 2010	$ 2.07	270,000	
	March 28, 2011	$ 2.18	475,000	
	September 28, 2010	$ 2.18	170,000	
	March 27, 2009	$ 2.18	372,000	
	March 28, 2011	$ 2.18	380,000	
	March 27, 2009	$ 2.18	137,500	
	March 28, 2011	$ 2.18	90,000	5,984,334
Warrants	September 28, 2006	$ 1.40	2,900,000	
	September 18, 2006	$ 1.66	1,704,000	4,604,000
Convertible debenture, Boliden Westmin (Canada) Limited	July 21, 2009	$ 4.64	3,663,793	3,663,793
Preferred shares redeemable into Taseko Mines Limited common shares				12,483,916

Taseko Mines Limited

FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED JUNE 30, 2006

(Expressed in Canadian Dollars)
(Unaudited)

These financial statements have not been reviewed by the Company's auditors

TASEKO MINES LIMITED

Consolidated Balance Sheets

(Expressed in Canadian Dollars)

	June 30 2006 *(unaudited)*	September 30 2005
Assets		
Current assets		
Cash and equivalents	$ 37,867,129	$ 21,728,789
Amounts receivable	16,319,598	6,746,378
Advances to related parties (note 4)	245,406	–
Concentrate inventory	2,417,200	16,284,800
Supplies inventory	5,635,649	4,589,431
Prepaid expenses	1,110,265	1,914,214
Current portion of future income taxes	3,669,000	4,479,000
Current portion of promissory note	1,386,661	2,637,499
	68,650,908	58,380,111
Restricted cash (note 6)	7,475,000	5,000,000
Mineral properties, plant and equipment	31,268,629	9,916,992
Assets under capital leases	–	20,794,000
Reclamation deposits	18,875,977	18,281,420
Promissory note	70,689,709	69,680,355
Future income taxes	6,153,000	8,944,000
	$ 203,113,223	**$ 190,996,878**
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 13,681,290	$ 12,580,463
Advances from related parties (note 4)	–	105,067
Current portion of vehicle loans	29,691	214,715
Current portion of capital lease obligation	–	2,092,334
Current portion of deferred revenue	175,000	14,748,000
Current portion of royalty obligation	1,386,661	2,637,499
Income taxes	24,057,000	19,645,000
	39,329,642	52,023,078
Vehicle loans	–	181,901
Capital lease obligation	–	12,984,805
Royalty obligation	65,041,516	66,153,298
Deferred revenue	1,268,750	1,400,000
Convertible debenture (note 3(c))	12,716,293	11,830,241
Site closure and reclamation costs	18,561,130	17,314,000
	136,917,331	161,887,323
Shareholders' equity		
Share capital (note 3)	181,600,948	160,829,442
Convertible debenture – conversion right (note 3(c))	9,822,462	9,822,462
Tracking preferred shares	26,641,948	26,641,948
Contributed surplus	7,785,861	5,334,614
Deficit	(159,655,327)	(173,518,911)
	66,195,892	29,109,555
Contingency (note 5)		
Subsequent events (note 7)		
	$ 203,113,223	**$ 190,996,878**

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

/s/ Russell E. Hallbauer
Russell E. Hallbauer
Director

/s/ Jeffrey R. Mason
Jeffrey R. Mason
Director

TASEKO MINES LIMITED

Consolidated Statements of Operations

(Unaudited - Expressed in Canadian Dollars)

	Three months ended June 30		Nine months ended June 30	
	2006	2005 *(restated - note 2)*	2006	2005 *(restated - note 2)*
Revenue				
Copper	$ 54,764,162	$ 22,141,140	$ 122,144,846	$ 47,570,336
Molybdenum	5,157,380	9,379,166	16,558,648	12,368,969
	59,921,542	31,520,306	138,703,494	59,939,305
Cost of sales	(31,866,224)	(13,262,656)	(80,486,442)	(36,898,007)
Treatment and transportation	(8,973,018)	(5,300,114)	(21,892,900)	(9,147,817)
Amortization	(811,932)	(710,398)	(2,513,656)	(1,877,750)
Operating profit	18,270,368	12,247,138	33,810,496	12,015,731
Expenses (income)				
Accretion of reclamation obligation	433,000	393,500	1,299,000	1,180,500
Exploration	2,957,745	6,634	3,698,214	50,375
Foreign exchange loss (gain)	322,914	194,365	(156,902)	(290,195)
Loss on sale of equipment	–	–	–	2,160,992
General and administration	2,456,440	482,639	4,958,322	1,615,838
Interest and other income	(1,579,117)	(1,552,559)	(4,751,751)	(9,223,265)
Interest expense	2,310,971	932,688	4,435,782	2,586,933
Restart project	–	–	–	6,346,650
Stock-based compensation	1,685,331	170,310	2,451,247	727,556
	8,587,284	627,577	11,933,912	5,155,384
Earnings before income taxes	9,683,084	11,619,561	21,876,584	6,860,347
Income tax expense	(2,000)	–	(4,412,000)	–
Future income tax expense	(5,601,000)	–	(3,601,000)	–
Earnings for the period	$ 4,080,084	$ 11,619,561	$ 13,863,584	$ 6,860,347
Earnings per share				
Earnings per common share - basic	$ 0.04	$ 0.11	$ 0.13	$ 0.07
Earnings per common share - diluted	$ 0.03	$ 0.10	$ 0.12	$ 0.06
Weighted average number of common shares outstanding				
Basic	115,046,751	103,137,700	110,402,713	98,890,529
Diluted	126,851,578	112,996,073	119,581,527	110,076,845

Consolidated Statements of Deficit

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
Deficit, beginning of period	$ (163,735,411)	$ (201,567,898)	$ (173,518,911)	$ (196,808,684)
Earnings for the period	4,080,084	11,619,561	13,863,584	6,860,347
Deficit, end of period	$ (159,655,327)	$ (189,948,337)	$ (159,655,327)	$ (189,948,337)

See accompanying notes to consolidated financial statements.

TASEKO MINES LIMITED

Consolidated Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

	Three months ended June 30		Nine months ended June 30	
	2006	2005 *(restated - note 2)*	2006	2005 *(restated - note 2)*
Earnings for the period	$ 4,080,084	$ 11,619,561	$ 13,863,584	$ 6,860,347
Items not involving cash				
Loss on sale of equipment	–	–	–	2,160,992
Amortization	811,932	710,240	2,513,656	1,877,750
Accretion of reclamation obligation	433,000	393,500	1,299,000	1,180,500
Stock-based compensation	1,685,331	170,310	2,451,247	727,556
Future income taxes	5,601,000	–	3,601,000	–
Changes in non-cash operating working capital				
Amounts receivable	(3,901,047)	(2,991,338)	(9,573,220)	(4,989,198)
Inventories	9,052,448	(7,740,771)	12,821,382	(19,369,166)
Prepaids	(265,043)	(200,729)	803,949	(1,336,136)
Accrued interest income on promissory note	(1,062,293)	(1,049,973)	(3,221,037)	(3,119,751)
Accounts payable and accrued liabilities	4,739,206	(323,143)	1,100,827	(4,585,916)
Deferred revenue	(8,716,219)	10,108,054	(14,704,250)	10,020,554
Accrued interest expense on royalty obligation	360,985	371,803	1,099,901	1,113,661
Income taxes	2,000	–	4,412,000	–
Cash provided by (used for) operating activities	12,821,384	11,067,514	16,468,039	(9,458,807)
Investing activities				
Purchase of property, plant and equipment	(2,260,028)	(1,372,995)	(3,071,293)	(7,342,833)
Proceeds received on sale of property, plant and equipment	–	–	–	22,461,945
Restricted cash	(2,475,000)	–	(2,475,000)	(5,000,000)
Accrued interest income on reclamation deposits	(164,039)	(392,595)	(594,557)	(581,025)
Reclamation expenditures	(51,870)	–	(51,870)	–
Cash provided by (used for) investing activities	(4,950,937)	(1,765,590)	(6,192,720)	9,538,087
Financing activities				
Principal repayments under capital lease obligation	(14,108,445)	(308,436)	(15,077,139)	(6,037,949)
Bank operating loan	–	(1,432,719)	–	(1,857,740)
Vehicle loans	(22,249)	(51,413)	(366,925)	448,657
Advances from related parties	(642,651)	(35,133)	(350,473)	267,468
Common shares issued for cash, net of issue costs	12,848,060	345,495	20,771,506	9,473,863
Accrued interest expense on convertible debenture	295,351	268,501	886,052	805,503
Cash provided by (used for) financing activities	(1,629,934)	(1,213,705)	5,863,021	3,099,802
Increase in cash and equivalents	6,240,513	8,088,219	16,138,340	3,179,082
Cash and equivalents, beginning of period	31,626,616	9,983,810	21,728,789	14,892,947
Cash and equivalents, end of period	**$ 37,867,129**	**$ 18,072,029**	**$ 37,867,129**	**$ 18,072,029**

Supplementary cash flow disclosures

Cash paid for:				
Interest	$ 542,422	$ 84,385	$ 1,337,615	$ 174,020
Taxes	$ 685,541	$ –	$ 685,541	$ 554

See accompanying notes to consolidated financial statements.

1. Basis of presentation and principles of consolidation

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They do not include all the disclosures as required for annual financial statements under generally accepted accounting principles. However, these interim consolidated financial statements follow the same accounting policies and methods of application as the Company's most recent annual financial statements, except for the change described in note 2. These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements, which are available at www.sedar.com

Operating results for the three and nine month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the full fiscal year ending September 30, 2006.

2. Change in accounting policy

Effective October 1, 2005 the Company adopted certain new provisions of the Canadian Institute of Chartered Accountants 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 common shares of the Company at the Company's discretion, be presented as a liability. This change has been applied retroactively. The accretion charges that were previously recorded through deficit have been eliminated and are now included as interest expense. For the year ended September 30, 2005, this amounted to $1,075,478 (2004 – $977,705). For the nine months ending June 30, 2006 it amounted to $886,052. This change had no effect on earnings per share.

3. Share capital

(a) Authorized

Authorized share capital of the Company consists of an unlimited number of common shares without par value, and an unlimited number of preferred shares without par value.

(Unaudited – Expressed in Canadian Dollars)

(b) Issued and outstanding

Common shares	Number of shares	Amount
Balance, September 30, 2005	**103,457,316**	**$ 160,829,442**
Issued during the period		
Share purchase options at $0.55 per share	1,140,000	627,000
Share purchase options at $1.15 per share	391,833	450,608
Share purchase options at $1.29 per share	60,000	77,400
Share purchase options at $1.36 per share	1,270,000	1,727,200
Share purchase options at $1.40 per share	1,930,500	2,702,700
Share purchase options at $1.50 per share	10,000	15,000
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	5,100,000	7,140,000
Share purchase warrants at $1.66 per share	2,979,879	4,946,599
Balance, June 30, 2006	**120,627,860**	**$ 181,600,948**

(c) Convertible debenture and conversion right

On July 21, 1999, in connection with the acquisition of the Gibraltar mine, the Company issued a $17 million interest-free debenture to Boliden Westmin (Canada) Limited ("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 ($4.64 per share as at June 30, 2006; $4.89 per share as at July 19, 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 (which is currently in the seventh year of this debenture term) has the right to automatically convert the debenture into common shares at the then-prevailing market price. Commencing October 1, 2005, as a result of a new accounting standard which the Company adopted on that date, the estimated present value of the convertible debenture is presented as a long term liability (note 2) while the conversion right attributable to the debenture is presented in shareholders' equity.

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 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:

(Unaudited – Expressed in Canadian Dollars)

	Nine months ended June 30 2006	Year ended September 30 2005
Estimated present value of convertible debenture		
Beginning of period	$ 11,830,241	$ 10,754,763
Accretion for the period	886,052	1,075,478
End of period	12,716,293	11,830,241
Conversion right	9,822,462	9,822,462
Convertible debenture and conversion right	$ 22,538,755	$ 21,652,703

	June 30 2006	September 30 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	$ 4.64	$ 4.64
Number of common shares potentially issuable under unexercised conversion right	3,663,793	3,663,793

4. Related party transactions and advances

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

Transactions		Nine months ended June 30 2006		Year ended September 30 2005
Hunter Dickinson Inc.				
Services rendered to the Company and its subsidiaries and reimbursement of third party expenses	$	2,045,989	$	1,222,603
Hunter Dickinson Group Inc.				
Consulting services rendered to the Company	$	–	$	12,800

Advances to (from)		June 30 2006		September 30 2005
Hunter Dickinson Inc.	$	245,406	$	(105,067)

(Unaudited – Expressed in Canadian Dollars)

5. Contingency

Glencore Ltd. ("Glencore") purchases the whole of the copper concentrates produced by the Gibraltar mine pursuant to the terms of a written contract (the "Contract"). Gibraltar Mines Ltd. ("Gibraltar"), which is a wholly owned subsidiary of the Company, and Glencore have a dispute concerning the interpretation of the Contract. Glencore asserts 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 asserts that the Contract does not provide for any such deduction. To June 30, 2006, Glencore has withheld approximately US$8.5 million from invoices rendered by Gibraltar and is claiming repayment of a further US$0.5 million, on the basis of its interpretation of the Contract. All amounts withheld and claimed have been reflected as treatment and transportation costs in the related period on the statement of operations. Of these amounts, US$3.4 million was withheld during the quarter ended June 30, 2006.

The dispute is pending the ruling of an arbitration hearing held in London, England, in June 2006. If Gibraltar is successful in the arbitration, then Gibraltar should immediately receive the full amount that has been withheld by Glencore.

6. Restricted Cash

In May 2006, the Company issued a standby letter of credit collateralized by cash in the amount of $2.475 million to Teck Cominco Metals Ltd. ("Teck") to cover the full value of obligations under a "Logistical and Advisory Services Agreement". Under the agreement, the Company is required to maintain a minimum of 2,000 dry metric tons of concentrates in Teck's storage facility as security for minimum tonnage obligations.

	Amount
Balance, September 30, 2005	**$ 5,000,000**
Issued during the period	
Letter of credit - expiring July 31, 2006	2,475,000
Balance, June 30, 2006	**$ 7,475,000**

7. Subsequent event

(a) In July 2006, the Company effected a notice of voluntary withdrawal from the joint venture established with Ledcor CMI Ltd. by agreement made in September 2004. Under this notice, 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.

(b) In August 2006, the Company agreed to offer up to US$30 million in principal amount of five year convertible bonds ("Bonds") to accredited institutional investors. The Bonds will be convertible into the Company's listed common (ordinary) shares at a conversion price to be set at a premium to the prevailing market price of the shares at the time of completion of the offering. The Bonds will constitute direct, unsubordinated, unsecured, interest bearing obligations of the Company.