Lafayette Mining Limited

(ABN 88 076 390 451)

AND ITS CONTROLLED ENTITIES

Half Year Report

31 December 2005

Contents

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2005.

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

GILLARD, Reginald Norman	Chairman	
MCILWAIN, Andrew Ivor Bruce	Managing Director	
ROBINSON, Kevin Peter	Resigned 17 January 2006	
TAYLOR, Paul Richard	Appointed 1 October 2005	Resigned 13 January 2006
GEDDES, Peter Jeffrey	Resigned 31 July 2005	
MAHONY, David Ronayne	Resigned 30 September 2005	
WIDDUP, Robin Anthony	Appointed 14 January 2006	
DOMINGUEZ, Carlos G	Appointed 17 January 2006	

Review of Results and Operations

Results

The consolidated loss for the half-year after tax and outside equity interests was $7,508,332 (2004: loss $2,437,393).

Operations

Lafayette Mining Limited's operational focus for the half year to 31 December 2005 was the commissioning of the gold plant. The Rapu-Rapu operations poured its first gold from the gold plant in July 2005, with the first shipment taking place on 31 August 2005. A total of 5,279 ounces of gold and 20,808 ounces of silver were produced for the half.

As part of the transition from dedicated gold production to base metals production, the gold plant ceased operations in late October. On 10 November, the Company announced it had suspended all processing activities while investigations took place into two discharges of wastewater in October and November.

The first incident occurred within the gold plant on 11 October and the second within the tailings system (as per design parameters) on 1 November following a sustained period of torrential rain.

Late in the half year and with operations voluntarily suspended by the Company, Lafayette was informed by government that operations should remain suspended while investigations into the two discharges were completed, and a series of conditions met before resuming commissioning and production.

Mining activities continued during this period to ensure an adequate stockpile of base metals ore in preparation for the resumption of operations and also to provide material for continued construction of the tailings storage facility.

Lafayette has worked closely with the government authorities and the local communities to investigate both events, remediate any adverse impacts and ensure there would be no re-occurrence.

The Company has worked diligently to conform with the Philippine Government's list of conditions. An independent audit committee, set up by the government, confirmed on 28 December 2005 that the Rapu Rapu operations had met these conditions. We continue to seek from government approval to return to plant commissioning and base metals production.

The Company expects to return to commissioning of the base metals plant during March 2006, and to deliver initial base metals production.

These delays in base metals and gold production have resulted in deferred revenue, requiring alternative funding initiatives to continue mining and other preparatory activities. Whilst the Company is frustrated by delays in returning to the commissioning process, it remains confident of delivering production into the current climate for buoyant commodity prices. As a result of these buoyant commodity prices, the revenue generated from estimated production from the Rapu Rapu operations valued at the prevailing spot prices has increased from an initial value of US$374 million at the spot prices prevailing when the Company obtained project financing, to over US$590 million today.

Directors' Report (continued)

Exploration

Early in the second quarter, the Company announced that final evaluation of infill drilling at the Hixbar gold zone had delivered the potential for an extended mine life of the Rapu Rapu operations. The Hixbar deposit is located 3kms west of the Rapu Rapu mine.

This evaluation enabled a considerable percentage of the Hixbar resource to be moved from "Inferred" to the more confident levels of "Measured and Indicated". It also allows for inclusion of the Hixbar resource estimate into the mine plan.

The revised JORC compliant resource shifts 90% of the resource into the "Measured and Indicated" (77% and 13% respectively) categories and lifts the production profile of the Rapu Rapu mine from six to at least eight years.

	Tonnes	Gold (g/t)	Silver (g/t)	Au Equiv (ozs)
Measured	988,000	1.64	10.69	57,580
Indicated	157,000	1.59	17.59	9,460
Inferred	135,000	1.27	12.79	6,410
Total	**1,280,000**	**1.59**	**11.76**	**73,450**

Table 1: Hixbar Resource

Significant results from the latest infill drilling program at Hixbar included:

Drill Hole	Depth (m)	Grade Au (g/t)
HXRRC-088	13	2.78
HXRRC-095	15	16.82
HXRRC-125	11	5.57
HXRRC-132	8	10.30
HXRRC-175	10	3.00

Table 2: Infill Drilling Results

Funding

In September 2005, the Company successfully closed an A$8 million convertible note programme, designed to supplement working capital and provide exploration funding.

In December 2005, the Company completed an A$8 million private share placement with Australian and overseas institutional and professional investors. In addition, AuSelect Limited committed to invest a further A$2 million on the same terms as the placement, subject to Lafayette shareholder approval.

At this time, a Shareholder Purchase Plan (SPP) was offered to existing shareholders (record date 13 December 2005) allowing them the opportunity to acquire additional shares up to the value of A$5,000. The closing date was 17 February 2006.

Proceeds from these placements were required to supplement the Company's existing working capital due to the delay in expected revenue as a consequence of the delay in the restart of the commissioning of the base metals plant.

During December 2005, Lion Selection Group Limited, which held A$1.38 million of convertible notes, exercised its right to convert these into fully paid ordinary shares. Additionally, post 31 December 2005, holders of the remaining convertible notes issued in January 2003 elected to convert their holdings to shares on maturity at 31 January 2006.

Standard Bank London exercised five million options with an exercisable price of 10 cents per share in July 2005, resulting in a A$500,000 payment to the Company. Subsequently, Standard Bank London exercised its final balance of a further five million options in January 2006.

Directors' Report (continued)

Corporate

During the period, Lafayette appointed Gryphon Partners Pty Ltd as its financial advisors to assist in the Company's development and implementation of initiatives addressing its working capital issues and to assist in corporate initiatives with the aim of strengthening the Company's balance sheet and enhancing shareholder value.

Lafayette Mining Limited also appointed Mr Brad Marwood to the position of Chief Operating Officer. Mr Marwood brings a wealth of mining and corporate experience to the Company and has been in the resource industry for over 25 years.

Other

On 30 September, Mr David Mahony retired from his position as a non-executive director to pursue other business interests. On the same date, Mr Paul Taylor was appointed as non-executive director and stepped down as non-executive director on 13 January 2006, following the restructure of the Company's Management and Board.

On 17 January 2006, Mr Kevin Robinson retired from the board as a non-executive director as part of the management restructure.

The Board would like to express its appreciation to Mr Mahony, Mr Taylor and Mr Robinson for their considerable efforts towards the development of the Rapu Rapu Project. The Board is especially appreciative of Mr Robinson's contribution to the Board over six years. At the time of this restructure, Mr Robin Widdup and Mr Carlos Dominguez joined the Board as non-executive directors, with Mr Dominguez also being appointed Chairman, President and CEO of Lafayette's operational arm, Lafayette Philippines Inc.

The information in the report that relates to mineral resources is based on information compiled by Dmitry Pertel who is a Member of the Australian Institute of Geoscientists and who is employed by Micromine Proprietary Limited.

Dmitry Pertel has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dmitry Pertel consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

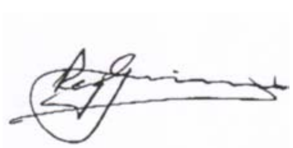
Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

This interim report has been prepared under Australian Equivalents to IFRS. The preparation of the financial statements under the new standards provide significant differences in the balance sheet composition, most notably from the inclusion of the financial derivative instruments in the balance sheet. A reconciliation of differences between previous GAAP and Australian Equivalents to IFRS has been included in Note 2 of this report.

Auditor's Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 4 and forms part of this directors' report for the half-year ended 31 December 2005.

This report is signed in accordance with a resolution of the Board of Directors.



RN Gillard
Chairman

Dated this 27th day of February 2006.

HLB Mann Judd
Chartered Accountants

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Lafayette Mining Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lafayette Mining Limited.

Perth, Western Australia	**L DI GIALLONARDO**
27 February 2006	**Partner, HLB Mann Judd**

CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

		Consolidated	
	Note	Half year ended 31 Dec 2005 $	Half year ended 31 Dec 2004 $
Revenue		3,107,835	-
Other income		63,400	29,090
Change in inventories of finished goods and work in progress		(2,741,159)	-
Raw materials and consumables used		(3,367,822)	-
Share based payments expense		(76,638)	-
Depreciation and amortisation expense		(934,800)	(13,543)
Finance Costs		(1,151,419)	(161,642)
Other expenses		(4,389,030)	(2,780,515)
Loss before income tax expense		(9,489,633)	(2,926,610)
Income tax expense		-	-
Net loss for the period		(9,489,633)	(2,926,610)
Loss attributable to minority interest		1,981,302	489,217
Net loss attributable to members of parent		**(7,508,331)**	**(2,437,393)**
Earnings per share:			
Basic earnings per share (cents per share)		(0.04)	(0.01)
Diluted earnings per share (cents per share)		(0.03)	(0.01)

The accompanying notes form part of these financial statements.

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	Consolidated 31 Dec 2005 $	30 June 2005 $
Assets			
Current Assets			
Cash and cash equivalents		4,648,324	4,577,017
Trade and other receivables		1,138,301	428,496
Inventories		2,945,094	700,261
Total Current Assets		8,731,719	5,705,774
Non-Current Assets			
Trade and other receivables		23,178,308	20,053,842
Property, plant and equipment		66,169,520	56,535,248
Total Non-Current Assets		89,347,828	76,589,090
Total Assets		98,079,547	82,294,864
Liabilities			
Current Liabilities			
Trade and other payables		7,995,338	2,366,712
Derivative financial instruments	3	22,496,010	-
Provisions		94,499	76,181
Interest-bearing liabilities		3,586,913	5,194,721
Total Current Liabilities		34,172,760	7,637,614
Non-Current Liabilities			
Interest-bearing liabilities		64,774,191	53,134,802
Derivative financial instruments	3	62,416,437	-
Total Non-Current Liabilities		127,190,628	53,134,802
Total Liabilities		161,363,388	60,772,416
Net (Liabilities)/Assets		**(63,283,841)**	**21,522,448**
Equity			
Issued capital	4	56,782,227	46,370,423
Reserves	5	(63,112,473)	538,751
Accumulated losses		(39,959,437)	(32,451,106)
Parent entity interest		(46,289,683)	14,458,068
Minority interest		(16,994,158)	7,064,380
Total Equity		**(63,283,841)**	**21,522,448**

The accompanying notes form part of these financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Consolidated					
	Issued Capital	Accumulated Losses	Reserves (Note 5)	Total	Minority Interest	Total Equity
	$	$	$	$	$	$
Balance at 1 July 2004	39,395,387	(18,777,105)	398,528	21,016,810	8,346,794	29,363,604
Currency translation differences	-	-	-	-	-	-
Loss attributable to members of the parent entity	-	(2,437,393)	-	(2,437,393)	-	(2,437,393)
Loss attributable to minority interest	-	-	-	-	(489,217)	(489,217)
Issue of share capital	3,131,190	-	-	3,131,190	-	3,131,190
Balance at 31 December 2004	**42,526,577**	**(21,214,498)**	**398,528**	**21,710,607**	**7,857,577**	**29,568,184**
Balance at 1 July 2005	46,370,423	(32,451,106)	538,751	14,458,068	7,064,380	21,522,448
Currency translation differences	-	-	(892,651)	(892,651)	-	(892,651)
Net losses on cash flow hedges	-	-	(84,912,447)	(84,912,447)	-	(84,912,447)
Transfer minority share of net losses on cash flow hedges	-	-	22,077,236	22,077,236	(22,077,236)	-
Loss attributable to members of the parent entity	-	(7,508,331)	-	(7,508,331)	-	(7,508,331)
Loss attributable to minority interest	-	-	-	-	(1,981,302)	(1,981,302)
Issue of share capital	10,411,804	-	-	10,411,804	-	10,411,804
Cost of share based payments	-	-	76,638	76,638	-	76,638
Balance at 31 December 2005	**56,782,227**	**(39,959,437)**	**(63,112,473)**	**(46,289,683)**	**(16,994,158)**	**(63,283,841)**

The accompanying notes form part of these financial statements.

CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Consolidated	
	Half year ended 31 Dec2005 $	Half year ended 31 Dec 2004 $
	Inflows/(Outflows)	
Cash flows from operating activities		
Cash receipts in the course of operations	3,107,835	-
Cash payments in the course of operations	(11,720,705)	(1,568,960)
Interest received	63,199	29,031
Interest expense	(824,876)	(452)
Net cash used in operating activities	(9,374,547)	(1,540,381)
Cash flows from investing activities		
Evaluation of mineral tenements, exploration and development	-	(32,431)
Purchase of property, plant and equipment	(6,650,105)	(5,842)
Advances to associated entities	(443,414)	(262,870)
Decrease in other non-current assets	(8,348)	-
Net cash used in investing activities	(7,101,867)	(301,143)
Cash flows from financing activities		
Proceeds from issue of shares	9,023,701	3,000,000
Prospectus and share issue costs	(516,580)	(30,000)
Proceeds from borrowings	10,450,544	-
Repayment of borrowings	(1,259,208)	-
Interest paid	(1,103,479)	-
Net cash provided by/(used in) financing activities	16,594,978	2,970,000
Net increase/(decrease) in cash held	118,563	1,128,476
Cash at 1 July 2005	4,577,107	1,998,234
Effect of exchange rate changes on cash	(47,346)	(24,697)
Cash at 31 December 2005	**4,648,324**	**3,102,013**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The half-year report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets which are measured at fair value.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Lafayette Mining Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Accordingly, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the full financial report.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared and is presented in Note 2.

(a) Principles of consolidation

The consolidated financial report comprises the financial statements of Lafayette Mining Limited and its controlled entities.

A controlled entity is any entity controlled by Lafayette Mining Limited whereby Lafayette Mining Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income tax

Deferred income tax is provided for on all temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and the companies within the consolidated entity will continue to comply with the conditions of deductibility imposed by the law.

Since Lafayette Mining Limited does not have any wholly owned Australian subsidiaries, it has not entered into the Tax Consolidation system.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is defined as those costs incurred in bringing each component of inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Land and buildings

Land and buildings are recorded initially at cost and subsequently at revalued amount (being fair value less any related accumulated depreciation and impairment losses). Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Revaluations

Where the fair value model is used, valuations are performed with sufficient regularity to ensure that carrying value does not differ materially from fair value at balance date.

Revaluation increments are credited to the asset revaluation reserve as a component of equity unless it constitutes a reversal of a previous revaluation decrement previously recognised through the income statement. The associated depreciation expense relating to the revaluation is transferred annually to retained earnings from the asset revaluation reserve.

Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued asset amount.

On disposal of a revalued asset, the portion of the asset revaluation reserve which relates to the asset disposed of is transferred to retained earnings.

Impairment

Carrying values of assets are reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part.

Where an asset does not generate cash flows that are largely independent, it is assigned to a cash generating unit and the recoverable amount test applied to the cash generating unit as a whole.

Recoverable amount is determined as the greater of fair value less costs to sell and value in use. The assessment of value in use considers the present value of future cash flows discounted using an appropriate pre-tax discount rate reflecting the current market assessments of the time value of money and risks specific to the asset.

If the carrying value of the asset is determined to be in excess of its recoverable amount, the asset or cash generating unit is written down to its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (continued)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
Plant and equipment	3-33%
Fixtures and Fittings	8-25 %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the consolidated entity's rights of tenure to that area of interest are current and that the costs are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease.

Leases are classified as operating leases where substantially all the risks and benefits remain with the lessor. Payments in relation to operating leases are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Cash flow hedges

Changes in the fair value of cash flow hedges are deferred in a reserve within equity to the extent that they are effective and meet the criteria for hedge accounting. Any ineffective portion is recognised immediately in the income statement.

Amounts within the reserve are recognised in the income statement in the same period as the hedged item. Where the forecast hedged transaction results in the recognition of a non-financial asset or liability, the deferred gains or losses are included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued upon expiry, exercise or disposal of the hedging instrument or if the criteria for hedge accounting are no longer met.

Any cumulative deferred gains or losses remain in equity and are recognised when the forecast transaction is ultimately recognised in the income statement.

If the forecast transaction is no longer expected to occur, the cumulative deferred gains or losses are recognised immediately in the income statement.

(h) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting where significant influence is exercised over an investee. Significant influence exists where the investor has the power to participate in the financial and operating policy decisions of the investees but does not have control or joint control over those policies.

The associate and the consolidated entity have the same reporting date and apply consistent accounting policies.

The investment in associate is carried at cost adjusted for any post-acquisition changes in the consolidated entity's share of the associate's net assets. The consolidated entity's share of the results of the associate is included within the income statement.

(i) Foreign currency transactions and balances

The functional and presentation currency of Lafayette Mining Limited is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of a net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

The functional currency of the overseas subsidiaries is Philippine Pesos (Php).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Foreign currency transactions and balances (continued)

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the reporting currency of Lafayette Mining Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity is recognised in the income statement.

(j) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(k) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue is capable of being reliably measured.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) AASB 1 Transitional exemptions

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Designation of previously recognised financial instruments

AASB 139 'Financial Instruments – Measurement and Recognition'. The financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) AASB 1 Transitional exemptions (continued)

Share based payment transactions

AASB 2 'Share-Based Payment' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Foreign currency translation

AASB 121 "The effects of Changes in Foreign Exchange Rates' were not applied to the cumulative translation differences at the date of transition to AIFRS.

As a result of these elections, the consolidated entity has adopted AIFRS in relation to AASB 2, AASB 139 and AASB 121 from 1 July 2005.

(q) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(r) Going concern

The condensed balance sheet of the consolidated entity as at 31 December 2005 discloses a net working capital deficiency of $25,441,041 and a deficiency in net assets of $63,283,481. The working capital deficiency takes into account a current liability of $22,496,010 being the current portion of losses on forward contracts. In respect of cash flow hedges, AASB 139 requires the consolidated entity to recognise the cumulative loss on the hedging instruments (forward contracts) for the period that the hedges were effective, directly in equity (with the recording of a corresponding liability). This amount will be transferred to the income statement in the period during which the hedged forecast transaction occurs.

The deficiency in net assets takes into account the current portion of the losses on forward contracts noted above ($22,496,010) as well as the non-current portion of $62,416,437. The total losses on forward contracts amounts to $84,912,447.

As noted in the Director's Report and in market announcements during and since the half-year, the consolidated entity suspended all processing activities at the Rapu Rapu operations while investigations took place into two discharges of wastewater in October and November 2005. The consolidated entity was subsequently informed by the Philippine Government that operations would remain suspended while investigations into the two discharges were completed and a series of conditions met before resuming commissioning and production. At the date of this report, the consolidated entity has not been advised that this suspension has been removed.

The directors and management have undertaken the following steps subsequent to balance date in order to improve the consolidated entity's financial position:

a) Included in current interest-bearing liabilities is an amount of A$1.5 million in the form of convertible notes. These notes are convertible to shares at the holders' volition at a conversion rate of 8 cents per share. With the current price at a minimum of a 50% premium to this exercise price, the Board formed the view that these notes would be converted to fully paid ordinary shares (this subsequently happened on 31 January 2006).

b) AuSelect Limited, had committed to invest A$2.0 million in the Company, subject to approval at a General Meeting held on 25 January 2006. The meeting approved this investment, and AuSelect Limited subsequently invested $2.0 million in the Company.

c) In mid-December 2005, the Company announced a Shareholder Purchase Plan (SPP) to existing investors to purchase up to A$5,000 worth of fully paid ordinary shares in the Company at a price of 11 cps. This SPP closed on 17 February 2006 with subscriptions received in the amount of A$5m.

d) The Company, in conjunction with its corporate advisors, is pursuing a number of initiatives with its major stakeholders including the project financiers, to realign its financial commitments with those institutions to the delayed productions file, to alleviate any undue liquidity pressure on the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Going Concern (continued)

Unless operations resume, there is uncertainty as to whether the consolidated entity can continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors are confident that operations will resume in the near future to allow the consolidated entity to continue to operate and that it will be able to deal with its current working capital issues, and have accordingly prepared the financial statements on a going concern basis.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the consolidated entity not be able to continue as a going concern.

NOTE 2: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (‘AIFRS’)

Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (previous Australian GAAP) are illustrated below.

(i) Reconciliation of total equity as presented under previous Australian GAAP to that under AIFRS

		Consolidated		
	Note	**1 July 2004**	**31 Dec 2004**	**30 June 2005**
		$	**$**	**$**
Total equity under previous Australian GAAP		29,363,604	29,568,184	21,522,448
Adjustments to equity:				
Share based payment expense	(a)	-	-	(140,223)
Option reserve	(a)	-	-	140,223
Total equity under AIFRS		29,363,604	29,568,184	21,522,448

(a) Recognition of share based payments within retained earnings and the option reserve.

(ii) Reconciliation of profit after tax under previous Australian GAAP to that under AIFRS

		Consolidated	
	Note	**Year ended 30 June 2005**	**Half year ended 31 December 2004**
		$	**$**
Loss after tax as previously reported		13,533,778	2,437,393
Recognition of share-based payment expense	(a)	140,223	-
Loss after tax under AIFRS		13,674,001	2,437,393

(a) Share-based payment costs are charged to the income statement under AASB 2 ‘Share-based Payment’.

This is not the case under previous Australian GAAP.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statement presented under AIFRS and that presented under previous Australian GAAP.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2005 $	30 June 2005 $
Loss on forwards contracts :		
Current	22,496,010	-
Non-current	62,416,437	-
Total	84,912,447	-

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1.

As a requirement from the Banking Syndicate providing the finance for the Rapu Rapu Project, there was a requirement that a certain percentage of the revenue during the loan life period was underpinned via a forward metal sales programme. A hedging programme was subsequently executed pursuant to the controlled entity's price risk management policy. The details of the forward metals programme are as follows:

Committed Forward Sales

Copper

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total*
Tonnes Hedged	3,100	6,525	7,700	17,325
Average Hedged Price / tonne (USD)	1,994	1,989	1,864	1,949
Mark to Market Value (USD)	**(5,146,999)**	**(9,718,580)**	**(10,014,172)**	**(24,879,751)**

Zinc

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total*
Tonnes Hedged	4,200	9,450	8,925	22,575
Average Hedged Price / tonne (USD)	979	966	941	962
Mark to Market Value (USD)	**(3,382,355)**	**(6,132,665)**	**(4,426,841)**	**(13,941,861)**

Gold

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total*
Ounces Hedged	51,907	45,129	48,851	145,887
Average Hedged Price / Oz (USD)	403.31	410.55	418.31	410.72
Mark to Market Value (USD)	**(6,501,093)**	**(6,154,453)**	**(7,064,538)**	**(19,720,084)**

Silver

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total*
Ounces Hedged	493,765	346,626	384,166	1,224,557
Average Hedged Price / Oz (USD)	5.92	5.92	5.92	5.92
Mark to Market Value (USD)	**(1,472,626)**	**(1,069,770)**	**(1,207,679)**	**(3,750,075)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Summary of mark to market valuations - US Dollars

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total – US$*
Copper	(5,146,999)	(9,718,580)	(10,014,172)	(24,879,751)
Zinc	(3,382,355)	(6,132,665)	(4,426,841)	(13,941,861)
Gold	(6,501,093)	(6,154,453)	(7,064,538)	(19,720,084)
Silver	(1,472,626)	(1,069,770)	(1,207,679)	(3,750,075)
Total	**(16,503,073)**	**(23,075,468)**	**(22,713,230)**	**(62,291,771)**

Summary of mark to market valuations

Converted to Australian Dollars (A$1 = US$0.7336)

	Current (< 1 Year)	*Non Current 1 to 2 Years*	*2 to 5 Years*	*Total - A$*
Copper	(7,016,084)	(13,247,792)	(13,650,725)	(33,914,601)
Zinc	(4,610,626)	(8,359,685)	(6,034,407)	(19,004,718)
Gold	(8,861,904)	(8,389,385)	(9,629,959)	(26,881,249)
Silver	(2,007,396)	(1,458,247)	(1,646,236)	(5,111,880)
Total	**(22,496,010)**	**(31,455,109)**	**(30,961,328)**	**(84,912,447)**

Non Committed Hedging

In addition to the above hedging, the controlled entity also holds a series of put options over approximately 45 % of the first year of production of copper and zinc that allow the Company to sell copper at US$2,100 per tonne and zinc at US$950 per tonne. Should the price be above these levels during that period, the controlled entity would allow these options to lapse, and would then participate in the market price of the commodity at that time. A summary of these put option positions is as follows:

Copper - Put Options

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total - US$*
Tonnes Hedged	3,500	-	-	3,500
Strike Price	2,100	-	-	2,100
Mark to Market Value (USD)	**72**	**-**	**-**	**72**

Zinc - Put Options

	< 1 Year	*1 to 2 Years*	*2 to 5 Years*	*Total - US$*
Tonnes Hedged	3,875	-	-	3,875
Average Hedged Price / tonne (USD)	950	-	-	950
Mark to Market Value (USD)	**86**	**-**	**-**	**86**

This overall committed hedging position represents approximately 35% of the metal forecast to be produced from the Rapu Rapu project. Significantly, the value of the expected production from the Rapu Rapu Project at spot prices has increased from US$374 million at the time of project financing to over US$590 million at spot prices prevailing on 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Embedded Derivatives

The consolidated entity has reviewed all valid contracts and has confirmed that an embedded derivative is contained within the convertible notes issued in September 2005. Included in these convertible notes is a price participation clause whereby the note holders are entitled to a pro-rata share of 1% of the gold revenue received for gold production on any day where the gold price exceeds US$475/oz. The note holders also participate in a pro-rata share of 1% of the copper revenue received from copper production on any day where the copper price exceeds US$2.00/lb. This price participation clause operates in the same manner as a call option over 1% of the copper and gold production where the call price, or price participation component is exceeded for the term of the convertible notes (expiring in September 2009). As this option is based on production rather than a fixed contract, and production is currently not occurring at the Rapu-Rapu project, management has not valued this option for inclusion in the financial statements under AIFRS. If the project was operating at its budgeted levels, this option would be the equivalent of a call option over 500ozs gold per annum at a price of US$475/oz, up until 30 September 2009, and a call option over 100 tonnes of copper per annum at a price of US$4,410/tonne up until 30 September 2009.

NOTE 4: ISSUED CAPITAL

	Consolidated	
	31 December 2005	**30 June 2005**
	$	**$**
Ordinary shares		
Issued and fully paid	56,782,226	46,370,423

	No.	**$**
Movements in ordinary shares on issue		
At 1 July 2005	500,511,405	46,370,423
Ordinary fully paid shares issued during the year	106,478,544	10,411,804
At 31 December 2005	606,989,949	56,782,227

NOTE 5: RESERVES

	Share Based Payment Reserve	**Option Reserve**	**Net Gains / (Losses) Reserve**	**Total**
	$	**$**	**$**	**$**
At 1 July 2005	140,223	398,528	-	538,751
Currency translation difference	-	-	(892,651)	(892,651)
Net losses on cash flow hedges	-	-	(62,835,211)	(62,835,211)
Cost of share based payments	76,638	-	-	76,638
At 31 December 2005	216,861	398,528	(63,727,862)	(63,112,473)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 6: SEGMENT REPORTING

Geographical segments

The following table presents the revenue and profit information regarding geographical segments for the half-year periods ended 31 December 2005 and 31 December 2004.

	Continuing Operations		Total
	Australia	**Philippines**	**Operations**
	$	**$**	**$**
31 December 2005			
Segment revenue	58,271	3,112,964	3,171,235
Segment results	(1,869,241)	(7,620,392)	(9,489,633)
31 December 2004			
Segment revenue	28,639	451	29,090
Segment results	(1,045,007)	(1,881,603)	(2,926,610)

NOTE 7: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 8:EVENTS SUBSEQUENT TO REPORTING DATE

A Shareholders Purchase Plan was offered to the shareholders of the Company (record date 13 December 2005), the closing date for applications was 17 February 2006. An amount of A$5 million was raised.

AuSelect Limited invested a further A$2 million into the Company (refer Directors' report).

All holders of the remaining convertible notes issued in January 2003, elected to convert their holdings to shares on maturity at 31 January 2006.

As part of a Board and Management restructure the Company appointed Mr Robin Widdup as non-executive director on 14 January 2006 and Mr Carlos Dominguez as non-executive director on 17 January 2005. As part of the restructure, Mr Dominguez has accepted the position as Chairman and Chief Executive Officer of Lafayette Philippines Inc.

On 10 January 2006, Lafayette Philippine Inc, was issued with a fine of Php10.7 million (A$267,000) as a result of two unscheduled waste water discharges in October 2005 at the Rapu-Rapu polymetallic mining operations (refer Directors' report). Concurrently, the Company was issued with a cease and desist order upon which further conditionality to start up was advised that had to be met in order to continue operations. This additional conditionality was administrative in nature, such as obtaining a surety bond as an insurance over environmental events, certification of the processing plant and settlement of the fine. The Company is working through these additional conditions and as outlined to the market on 14 February 2006, expects to be in a position to resume commissioning activities in mid March 2006.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 5 to 19:
    a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
    b. give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors.

R N Gillard

Chairman

Dated this 27th day of February 2006

HLB Mann Judd
Chartered Accountants

INDEPENDENT REVIEW REPORT

To the members of
LAFAYETTE MINING LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements and the directors' declaration of Lafayette Mining Limited for the half-year ended 31 December 2005. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express and audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration as set out on page 4 of the half year financial report has not changed as at the date of provision of our review report.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Lafayette Mining Limited, is not in accordance with:

(a) the Corporations Act, including:

   (i) giving a true and fair view of the consolidated entity's financial position at 31 December 2005 and of its performance for the half-year ended on that date; and

   (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(r) to the financial statements, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern unless operations resume and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia
27 February 2006