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Rapu Rapu Project
Lafayette Convertible Notes – Financial Close

Financial Close: Lafayette Convertible Notes

On 9 February 2007, Lafayette Mining Limited (Lafayette) announced that a final lifting order (FLO) had been issued by the Pollution Adjudication Board (PAB), authorising Rapu Rapu Processing, Inc. (RRPI) to immediately resume production of copper and zinc concentrates from its base metals plant on the island of Rapu Rapu in the Republic of the Philippines.

The FLO represented the last substantive condition precedent for the completion of the US$15 million convertible note issue approved by Lafayette shareholders last year. The principal investor in the notes, South East Asian Strategic Assets Fund (SEASAF), has accordingly confirmed that Financial Close has been achieved. Issue of the notes and receipt of the subscription moneys will be completed within the week.

The proceeds of the note issue are available to provide working capital for the ramp up of the base metals plant. An amount of US$3 million will be set aside to fund an accelerated exploration program with initial focus on the western end of the existing Ungay open cut deposit to delineate possible extensions in the ore body at depth and along strike.

Restoration Project

The restoration of Rapu Rapu mine-site facilities after Supertyphoon Reming is progressing on schedule and within initial budget estimates since commencement in early January.

Pre-operating repair works, to allow mining and processing activities to safely recommence, are complete. The key targets were restoration of electro-mechanical systems and basic communications, re-establishment of a minimum level of accommodation, rehabilitation of the laboratory facilities and reinstatement of the dining hall. These have been completed and as a result, mining operations have recommenced and the processing plant has already demonstrated close to full (1Mtpa) capacity. Using both newly-mined ore and previously stockpiled ore, processing of the base metal ores is expected to be maintained consistently at design levels.

All site restoration, including rehabilitation of the marine facilities, is planned to be completed by late May. None of these restoration activities should impede the expected shipment of copper and zinc concentrates in late March or early April.

Insurance

Claims processes are proceeding under the various policies. The insurers of the base metals plant policy have not yet confirmed that a claim will be entertained. Nevertheless, Lafayette remains confident that all of the existing policies will respond and that a substantial portion of the cost of repair will be covered by those policies.

Multi Option Facility and Concentrate Sales

In the meantime, funding for the restoration project has been sourced from the Multi Option Facility established by Lafayette late last year with the project bank group and the proceeds of the stockpile financing facility provided by LG International for the concentrate produced immediately before Supertyphoon Reming caused a suspension of operations at the end of November 2006. US$1.145 million was received on 2 February 2007 in respect of stockpiled copper concentrate and a further US$900,000 is expected to be received for additional copper and stockpiled and bagged zinc concentrate within the next week.

Options Issued

The terms of the Multi Option Facility and the funding provided for the settlement of the December 2006 base metal forward sale contracts required Lafayette to issue unlisted options to the relevant banks to purchase Lafayette ordinary shares at a 20% premium to the average share price over a period prior to the date upon which the entitlement vested (31 January 2007, if the FLO had not been issued by that date). No other establishment or participation fees are payable to the banks by Lafayette for these facilities.

In full satisfaction of that requirement, Lafayette issued 91,164,190 options on 7 February 2007 with an exercise price of 10.6 cps. Each bank received four (4) options for each US dollar amount of the relevant facility. Appendix 3B notices will be lodged with the ASX today.

About Lafayette Mining Limited (ASX: LAF)

Lafayette Mining Limited, through its subsidiary companies and Philippine partners, holds an interest in the Rapu-Rapu Polymetallic Project in the Philippines. Rapu Rapu Island is approximately 350kms south of Manila.

The Rapu-Rapu mineral resource currently supports an eight-year mine life capable of producing approximately 10,000 tonnes of copper in concentrates, 14,000 tonnes of zinc in concentrates, 50,000 ounces of gold and 600,000 ounces of silver annually.

The Project was suspended by the national government's Department of Environment and Natural Resources (DENR) after two incidents in late 2005 which resulted in relatively minor volume discharges of low level contaminated liquid. Public opposition mounted in early 2006 following a mercury hoax that was falsely attributed to the operation of the Project and which caused significant hardship to the many fisherfolk in the surrounding region, who were unable to sell their fish.

The initiation of a Presidential Fact Finding Commission, to examine the health effects of the Project followed, thereby delaying the processing of the Project's application for a Temporary Lifting Order (TLO) – a quasi-judicial process, based upon rules of procedural fairness and conducted by the Pollution Adjudication Board (PAB) under the auspices of the DENR.

The Fact Finding Commission delivered its report on 19 May 2006. The Company understands that the report did not identify any credible health risks from the operation of the Project.

The TLO was subsequently issued by the DENR on 10 July 2006. The order permitted the base metals plant to operate and to 'sample' and 'test' environmental management systems to demonstrate 'best practice'. The granting of the TLO by the DENR followed an extensive review process which verified the completion of extensive remedial measures.

Commissioning

Stage 1 commissioning commenced the next day. The test run involved the circulation of water into the system to test for leakages. This stage was completed in three days, which was two days ahead of the schedule contemplated by the TLO.

On 18 July 2006, the DENR issued an order confirming that Rapu Rapu Processing, Inc. (RRPI) had fully complied with all of the requirements of the Stage 1 of testing and, accordingly, granted permission for RRPI to proceed with Stage 2 of the test run. This involved the processing of non-ore bearing materials to test the electro-mechanical systems within the plant.

All of these commissioning activities proceeded smoothly with all critical sections of the plant achieving continuous 'steady state' operation at designed throughput. Permission to commence Stage 3 commissioning (which was received on 24 August 2006) was the final regulatory approval required to ramp up production from the plant, pending a successful application for a Permanent Lifting Order (PLO).

On 13 September 2006, a 60 day extension of the TLO (backdated to 9 September 2006) was granted, enabling the Group to continue commissioning its base metals plant and testing its environmental management systems at commercial levels of production.

Operations at site then withstood a direct hit by Typhoon Milenyo in early October 2006. All critical operational areas, from the tailings dams to the processing plant, were undamaged despite the severity of the tempest, proving the competency of infrastructure construction and the robust quality of the environmental remediation and emergency procedures at site. Power supply to the process water pumps was quickly restored with processing activities resuming on 6 October 2006.

On 9 November 2006, a further extension to the TLO was announced. The extension of 30 days was granted by the PAB to allow the completion and final review of the independent reports required by the DENR under the terms of the original TLO. At the end of November 2006, the Project was reliably producing commercial grade copper and zinc concentrates with increasingly higher recovery rates. The inventory was increasing to a level that would fill the Project's first 5000t shipment of on-specification material.

Suspension of Operations

At the end of November 2006, Supertyphoon Reming hit the island causing damage to various structures including the wharf facility, camp accommodation and office facilities, but without adverse impact on environmental management systems, which once again demonstrated a robust ability to withstand the most adverse weather conditions.

Pending repairs to the marine facilities, alternative arrangements for the bagging of bulk concentrate have been adopted for shipment to a Chinese smelter. Sale proceeds of US$1.920 million have been received, utilising a stockpile financing facility and further sale proceeds of $900,000 are expected shortly. The load out facility is expected to be fully repaired by late March 2007, the expected shipment date for new concentrate production following the resumption of full operations on Friday, 9 February 2007.

Permanent/Final Lifting Order (FLO) and Resumption of Operations

On 8 February 2007, the PAB issued a Final Lifting Order (FLO) formally terminating all proceedings in connection with the discharge incidents that occurred in late 2005 as the base metals plant was being commissioned. The FLO authorises the immediate resumption of production of concentrates from the base metals plant.

Financial Close: SEASAF Convertible Note

On 9 October 2006, Lafayette announced that an indicative terms sheet in respect of a US$10 to 15 million convertible note issue had been agreed with South East Asian Strategic Assets Fund (SEASAF) and its advisor CIMB Standard Strategic Asset Advisors Pte Ltd. Shareholder approval for the issue was subsequently obtained and financial close was declared on 15 February 2007. The proceeds of the issue will be used to accelerate a targeted exploration program on Rapu Rapu and provide a working capital safety net pending the receipt of increasing Project revenues as production ramps up.

For further information, visit: www.lafayettemining.com

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