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## QUARTERLY REPORT FOR PERIOD ENDED 31 AUGUST 2008

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### HIGHLIGHTS

#### ANGOLA

- **Angolan Government approves kimberlite diamond exploration joint venture, paving the way for kimberlite exploration to commence at the Lulo project.**
- **Concession area secured and cleared of illegal artisanal diggers.**
- **Study of satellite and aerial photographs indicate various anomalies which may be kimberlitic.**

#### SOUTH AFRICA

- **Exclusive option agreement to sell 80% interest in the Schmidtsdrift prospecting right and associated mining equipment for US\$14 million.**

#### CORPORATE

- **Appointment of new management team.**
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### OPERATIONS

#### LULO DIAMOND CONCESSION – ANGOLA

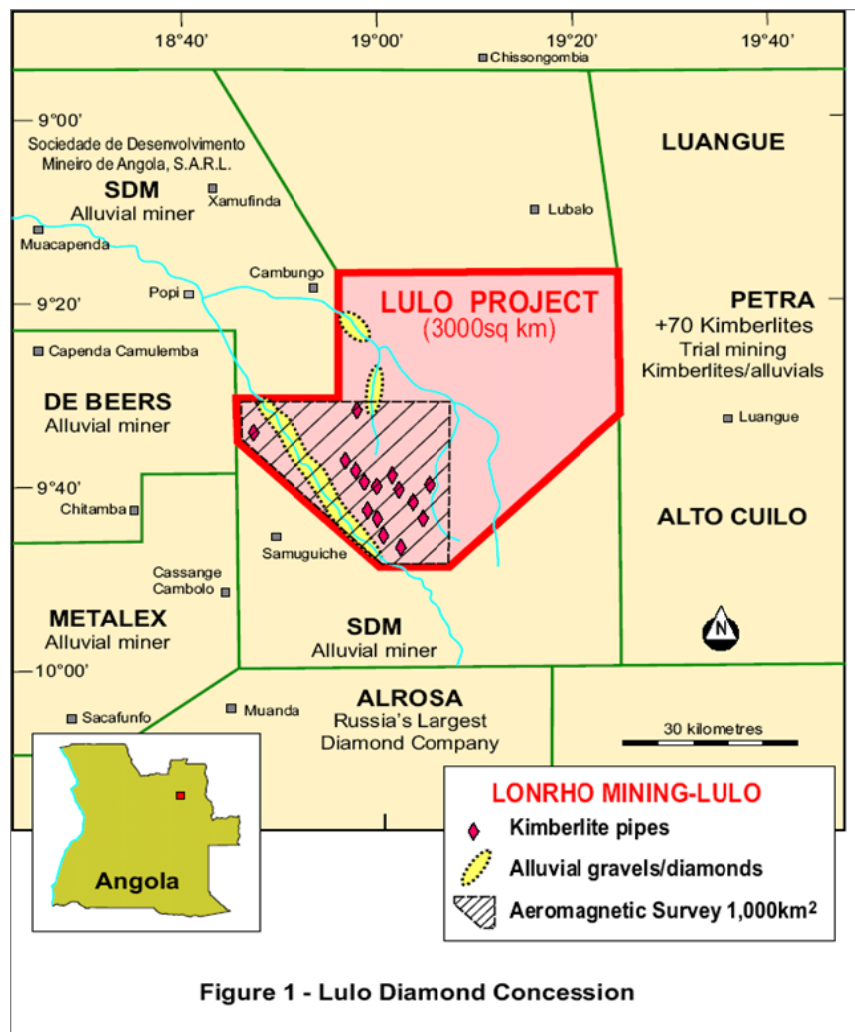
##### About Lulo

The Lulo Diamond Concession is located in the Cuango River Basin within the Lunda Norte Province of north-eastern Angola approximately 630km from the capital city of Luanda. This concession is Lonrho Mining's flagship exploration project based on significant diamond potential. Some 29 kimberlites are known within the concession and extensive diamond bearing (garimpeiro activity) alluvials occur along the Cacuilo and Lulo Rivers. (Figure 1)

A number of experts believe that the Cuango River Basin, in which the Lulo project is located, will become a prolific region for the production of diamonds. The Catoca mine, one of the largest kimberlite diamond mines in the world, produces 60% of Angola's diamond production is located 90km east of the Lulo Diamond Concession. The Catoca mine produced approximately 7 million carats in 2007. The Lulo Diamond Concession is also bordered to by the Petra Diamonds Alto Cuilo and Luangue projects. Petra conducted a drilling programme on their Alto Cuilo project, in which 99 targets were tested and 77 were confirmed to be kimberlites, an unusually high success rate in terms of kimberlite exploration.

Lonrho Mining Limited (ASX: **LOM**) (**Lonrho Mining** or the **Company**) signed a joint venture agreement with Endiama, the national diamond company of Angola and exclusive concessionary for Angolan diamond mining rights. Within the 3,000km<sup>2</sup> Lulo Concession, the Company's participating interest in the kimberlite deposits will initially be 39% of the joint venture which will decrease to 30% after recoupment of its investment in the Project. On all alluvial deposits Lonrho Mining's participating interest will be 40% in the joint venture.

Under the terms of the joint venture with Endiama, Lonrho Mining has paid a deposit of US\$1.4 million in cash. Lonrho Mining is required to fund a work programme on both alluvial and kimberlite exploration with a combined minimum expenditure commitment of US\$4million.



### Aeromagnetic Survey

In February 2008, a low level MIDAS helicopter survey was completed over 1,000km<sup>2</sup> covering the upper Caculo and Lulo Rivers. The aim of the survey was to assist in the identification of magnetic anomalies within the surveyed area at Lulo. The data from the survey has been processed by Fugro Airborne Surveys (Pty) Ltd and analysed by the Company's independent geophysical consultant Mr E O Kostlin.

Mr Kostlin has identified a large cluster consisting of 217 magnetic anomalies which he believes could possibly be kimberlites or kimberlite magma blows (see Figure 2 and Figure 3). This cluster is located within the diamond bearing Caculo River catchment area on the Lulo Concession.

The Company's consultant geologist Manfred Marx believes that the results to date from the Lulo survey are the most encouraging that he has witnessed since the discovery of the Orapa Mine in Botswana in 1967.

Other diamond operators in this region (eg Petra Diamonds Ltd) have reported that up to 75% of the targeted magnetic anomalies drilled on their neighbouring Alto Cuilo concession are kimberlite pipes.

The Company's consultants believe that the Lulo concession encompasses the core of a vast kimberlite cluster which extends into the neighbouring concessions. Furthermore, the kimberlite pipes at Lulo will be more conducive to rapid and accurate evaluation than those pipes further east on the sand-covered plateau. Diamond grades within the upper, lesser eroded levels of the pipes (such as those on the plateau), are often highly diluted by sterile sand contamination within the ancient crater or mouth of the pipe. The Lulo pipes within the Caungo River lowlands have had this troublesome upper portion of the pipe eroded, leaving a section of the pipes in which the diamond distribution is more regular and hence more predictable.

Significantly, the terrace gravels on the Caculo River have high kimberlitic indicator mineral concentrations (see Figure 4) in addition to the presence of artisanal diggings, especially in the lower extent of the river system. Furthermore, historical records confirm the existence of 29 kimberlite pipes that are known to be within the concession area.

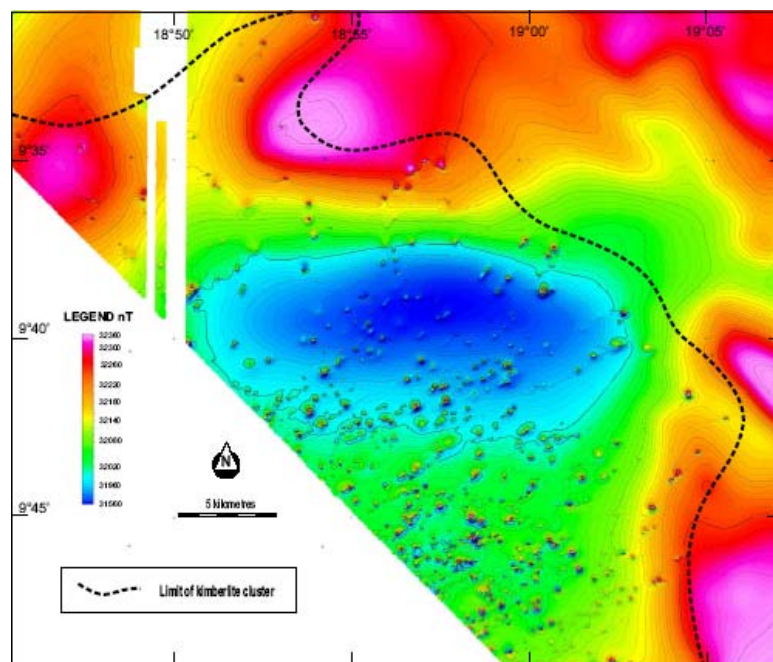


Figure 2 - Aeromagnetic total magnetic intensity colour contours

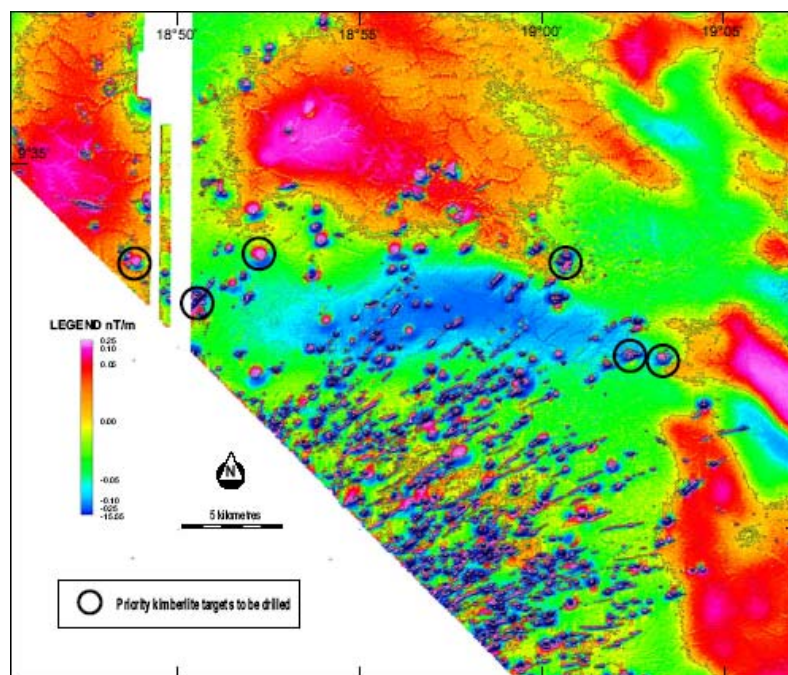


Figure 3 - Vertical gradient magnetic colour contours

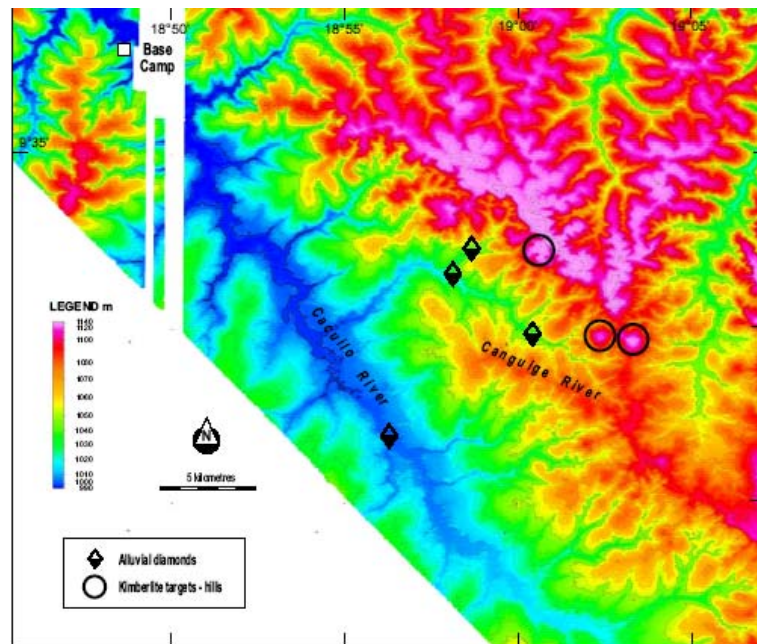


Figure 4 - Digital terrain image showing Caculo River drainage pattern

### Alluvial exploration update

The progress during this quarter fell short of the targets set earlier in this year. The reasons for this were mainly due to the security issues arising from the presence of numerous artisanal diggers operating within the Caculo River valley. In July and August the Angolan security forces (FAA) conducted an operation to evict the diggers from the Lulo concession. The objective to secure the project area was achieved and the FAA troops will now be replaced by contracted guards supplied by a private Angolan security company.

During the quarter the planning continued for the alluvial evaluation programme of a 16 km stretch of the lower Caculo River considered to be the most prospective, based on the intensity of artisanal digger activity.

Geological mapping will define the limits of the terrace and the flood plain gravels more accurately. This mapping will commence as soon as the construction of the base camp has been completed. This is expected to be completed during the next quarter.

The ancient river that deposited the terrace gravels followed the same north-northwesterly flow direction as the present day Caculo River. The exploration pits must therefore be sited at regular intervals along base lines surveyed at right angles to the river. The base lines will be spaced at 1,000m intervals parallel to each other for 16 km commencing at the concession border with the neighbouring SDM concession.

The geology of the pits will be mapped, allowing for the construction of accurate cross sectional profiles of the terrace gravels. Bulk gravel samples will then be selected based on the accumulated geological data and aimed at a representative assessment of the diamond distribution within the targeted gravels. Initially, a 6,000 ton sample will be collected and treated using rotary pans for diamond recovery.

During this stage of the operation, the metallurgical processes will be refined to achieve the optimum diamond recovery during the evaluation stages of this programme. Gravels from selected sites will be excavated and treated, in addition to the systematically selected pit samples comprising the 6,000 ton bulk sample.

### Kimberlite exploration update

A study of the high quality satellite and aerial photographic images of the concession area has been ongoing. Of great interest are two locations within the Caculo valley immediately upstream of artisanal gravel diggings where it would appear that kimberlite pipes have been targeted by the artisanal diggers. One of these disturbed but restricted areas coincides with the coordinates of a historically known kimberlite pipe. The second target coincides with a dipolar aeromagnetic anomaly. This and other similarly interesting locations will be studied on the ground during the next quarter.



If kimberlite has been exposed, heavy mineral analyses will immediately be conducted. The bulk sampling of such pipes will commence as soon as possible after the commissioning of the recovery plant. A drilling programme will be conducted concurrently with the bulk sampling to determine the dimensions of the pipes. The aim is to achieve this by the end of the second quarter of 2009.

### **Gazettal of Kimberlite Diamond Exploration Joint Venture Agreement**

The Angolan Government approval to commence kimberlite exploration was received during the quarter. The Company received the approval to commence alluvial operations at the beginning of the year. The Company has now received all the necessary approvals to commence exploration and development of the alluvial and kimberlite deposits on the Lulo project.

Work on both the alluvials and kimberlites depends to a very large extent on available funds.

### **SCHMIDTSDRIFT – SOUTH AFRICA**

#### **Production and Sales for the Quarter**

Production for the quarter was 1,322 carats from 266,927 ROM tonnes at an average grade of 0.50 carats per hundred tonnes. The production included 25 stones in excess of 5 carats in size. This included 5 stones between 10 and 30 carats in size.

During the quarter, a total of 1,313 carats were sold to Unitrade 1266 CC at an average price of US\$495 per carat for a total of US\$649,818.

#### **Sale of the Schmidtsdrift operation**

In August the Company entered into an option agreement to sell the Schmidtsdrift prospecting right and associated mining equipment to New African Mining ("NAM").

Under the Option Agreement, NAM had an exclusive option for 14 days to conclude all the necessary documentation and formal agreements for the sale of the Company's interests in the Schmidtsdrift mining operation. NAM agreed to pay an option fee of US\$500,000 for the exclusive right to purchase the Company's interest in the Schmidtsdrift prospecting right (US\$7,500,000) and the mining fleet and equipment (US\$6,500,000). The option fee is non-refundable and will be deducted from the purchase price of the transaction. Due diligence has been completed in relation to the sale of the prospecting right and in relation to sale of the equipment. The Company has agreed to extend the option period and it is expected that the formal sale agreements will be signed during the first week of October 2008.

On completion of the transaction and after payment of debt and other associated costs, the Company will retain sale proceeds of approximately US\$6.5 million. These funds will in due course be applied towards the exploration and development of the Lulo diamond project in Angola.

### **KAMFERSDAM – SOUTH AFRICA**

In November 2007, the Company agreed to sell certain tailings dumps near Kimberley in South Africa and its Kamfersdam new order prospecting rights to Meepo Investment Consortium (Pty) Ltd for A\$3.7 million (see announcements dated 15 and 28 November 2007). De Beers has approved the sale of the tailings dumps which was a condition of the transaction. Completion of the sale of the new order prospecting rights will also now occur subject to receiving final approval of that transaction from the Department of Minerals and Energy.

The sale of these smaller non-core assets is part of the Company's strategy to focus its management efforts on developing the highly prospective Lulo Diamond Project in Angola.

No exploration costs have been incurred by the Company on this asset during the quarter.

## **GROEN RIVIER – SOUTH AFRICA**

The Groen River prospect is an exploration alluvial diamond prospect located in Namaqualand adjacent to an exploration programme conducted by Firestone Diamonds and De Beers. Due to the increasing operational focus on the Lulo Diamond Concession, in Angola, no exploration work was done by the Company at Groen River during the quarter.

No exploration costs have been incurred by the Company on this asset during the quarter.

## **KLIPSPRINGER JOINT VENTURE – SOUTH AFRICA**

### **Background**

The Company owns a 20% interest in the Mwana Africa Plc ('Mwana') operated Klipspringer mine.

During 2007 a trial mining and bulk sampling exercise was undertaken by Mwana to try a new mining method and test market conditions. The mining method was changed to a more conventional underhand stoping method as opposed to the long hole open stoping method used in the initial mine design. The mine was re-engineered with the new mining method resulting in reduced tonnage along with a significant reduction in manpower and costs but designed to operate in a strong Rand environment. The trial mining programme was operated successfully and in December 2007 a decision was made by Mwana to commence commercial production.

### **Production and Sales for the Quarter**

Production for the quarter was 9,296 carats from 16,630 ROM tonnes at an average grade of 55.9 carats per hundred tonnes.

During the quarter, a total of 8,322 carats were sold at an average price of US\$149 per carat for a total value of US\$1,239,978.

No costs were incurred by the Company during the quarter.

## **CORPORATE**

Miles Kennedy and John Firth have been appointed directors of the Company. Each has extensive diamond mining experience in Angola and will be responsible for taking over the development of the highly prospective Lulo Project.

Charles Mostert has resigned as Chief Executive Officer.

The new Board and management team comprise:

David Lenigas – Non Executive Chairman  
Miles Kennedy – Chief Executive Officer  
John Firth – Operations Director, Angola  
Geoffrey White – Non Executive Director  
Kagiso Chikane – Non Executive Director  
Manfred Marx – Consulting Geologist

Bêrend van Deventer, who previously advised the Company of his intention to resign, has now formally resigned as a Director but has agreed to continue on a consulting basis in relation to finalising the Company's South African business. Will Burbury has also resigned as Company Secretary due to his increased business interests in Australia.

**Miles Kennedy**  
**DIRECTOR**

30 September 2008

Competent Persons Disclosure

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves has been prepared by Consulting Geologist Manfred Marx and Consulting Geophysicist E. O. Kostlin (in relation to Angola) and Gerhard du Plessis (in relation to South Africa). Mr Marx and Mr Kostlin are consultants to the Company and have sufficient experience with the relevant style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to be qualified as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr du Plessis is a full time employee of the Company and has sufficient experience with the relevant style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to be qualified as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Each of Mr Marx, Mr Kostlin and Dr du Plessis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.