



# ETRUSCAN RESOURCES INC. (EET:TSX)

INTERIM REPORT TO SHAREHOLDERS

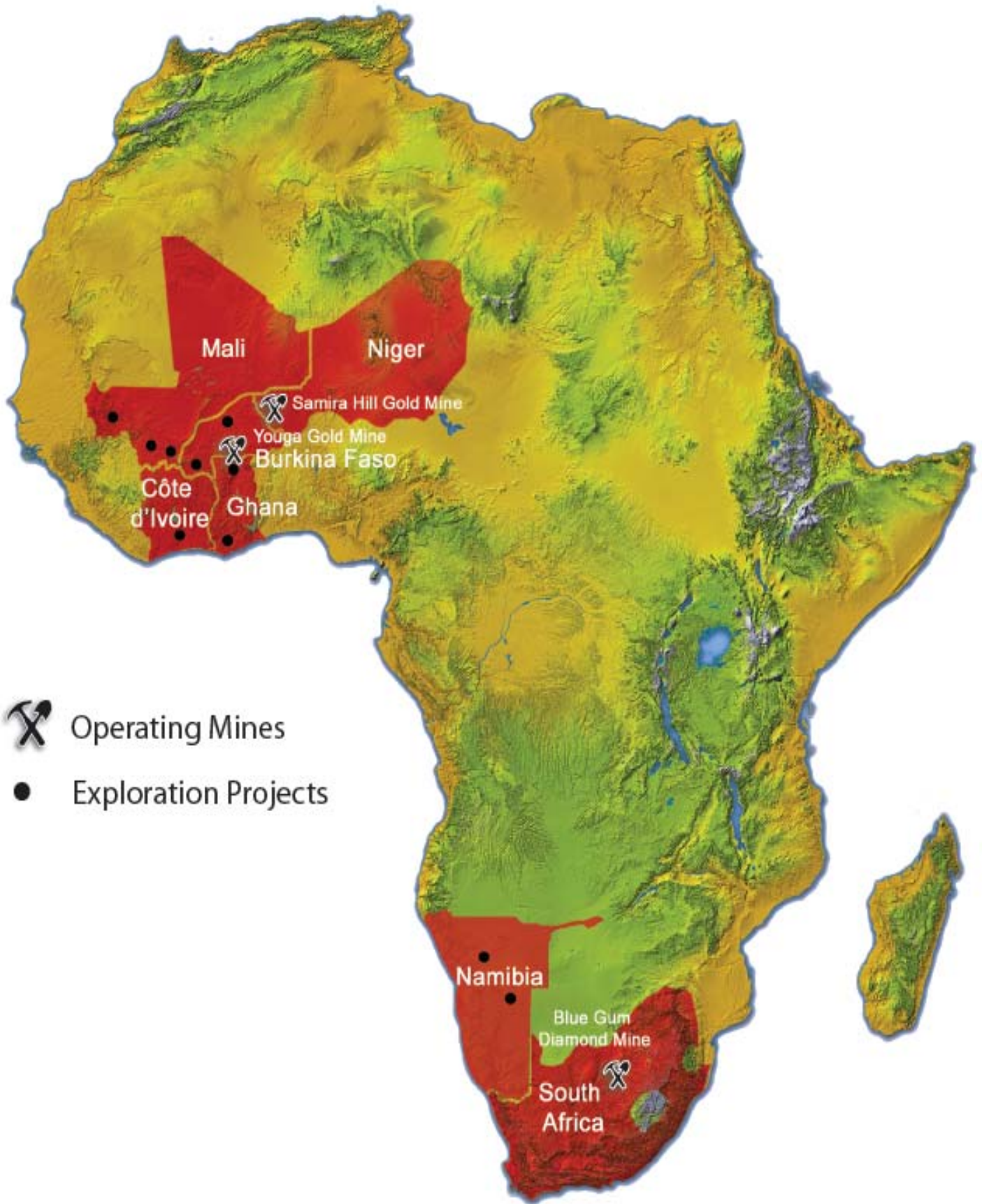
MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED  
FEBRUARY 29, 2008

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# INTERIM REPORT TO SHAREHOLDERS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008



We are pleased to report the results of operations for the interim period ended February 29, 2008 and to provide shareholders with an update on the Company's activities.

## Gold

At the **Youga Gold Project** the first ore was fed to the processing plant in early February and the first gold bar was poured from the smelting of gravity concentrate at the beginning of March marking a significant milestone on Etruscan's path to becoming a mid-tier gold producer. The Youga Gold Project is located 180 kilometers southeast of Ouagadougou, the capital city of Burkina Faso and is owned 90% by Etruscan and 10% by the Government of Burkina Faso.

Youga is forecasted to produce between 60,000 and 70,000 ounces of gold in 2008 and 100,000 ounces of gold in the first full year of operation in 2009. The Youga Project is initially mining from five open pits and the ore is processed through a conventional CIL/gravity plant having a design capacity of one million tonnes per annum. Current mineable reserves are 6.6 million tonnes with an average grade of 2.7 grams per tonne containing 580,000 ounces of gold. The project benefits from a year-round water supply from a nearby major river system. Access to grid power will be supplied via the northern grid of the Volta River Authority in Ghana which is forecasted to be connected for mid-2008. A diesel power plant supplies constant power to the site until the grid power is available.



*Youga Gold Plant*



*First Gold Bar from Youga*

In February 2008 Coffey Mining of Perth, Australia completed an independent National Instrument 43-101 compliant resource estimate for the **Agbaou Gold Project**. The report significantly upgraded the quality of the historic resource with over one million ounces at a 0.5 gram per tonne cutoff now classified as indicated resource. At a 1.0 gram per tonne cutoff the indicated resource has increased 32% in contained ounces (from 659,000 ounces to 871,000 ounces) and 24% in grade (from 2.1 g/t to 2.6 g/t) from the previously reported resource estimate. The new resource estimates are presented in the table below:

Cut-off Grade g/t	Indicated Resource			Inferred Resource		
	Tonnes (m)	Grade g/t	Ounces	Mt	Grade g/t	Ounces
0.5	16.6	1.9	1,015,000	5.1	1.7	272,000
1.0	10.5	2.6	871,000	2.8	2.5	218,000
1.5	6.8	3.3	727,000	1.7	3.3	176,000
2.0	4.7	4.0	610,000	1.1	4.1	143,000

The previously reported historic resource was prepared in 2000 by RSG Global (Pty) Ltd. (now Coffey Mining) and at a 1.0 gram per tonne cutoff reported 9.7 Mt of indicated resource at a grade of 2.1 g/t (659,000 ounces) and 2.6 Mt of inferred resource at a grade of 2.3 g/t (188,000 ounces). This report was historical in nature and was compiled before NI 43-101 came into effect. The new estimate prepared by Coffey Mining has taken into account additional drilling carried out by Etruscan during the period 2005-2007 in order to verify and update the classification of the mineral resource estimates.

This resource provides the basis for the on-going feasibility study at Agbaou which is being prepared under the supervision of MDM Engineering of South Africa and Coffey Mining, with key technical input from Golder and Associates (geotechnical studies), Knight Piesold (tailings dam design and hydrology), African Mining Consultants (environmental study) and Mintek (metallurgical testwork). The study is scheduled to be completed in the third quarter of 2008 and subject to the receipt of a positive study; the Company intends to aggressively proceed with obtaining the mine permitting and project financing.

# INTERIM REPORT TO SHAREHOLDERS



FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008

Also during the first quarter 2008 the Company's joint venture partner, Resolute Mining Limited, completed an updated resource estimation for the Tabakoroni gold deposit on the **Finkolo Gold Project**. At a one gram per tonne cutoff, Resolute reported 4.62 million tonnes of measured and indicated resource at 2.6 g/t (382,000 ounces) and a further 4.54 million tonnes of inferred resource at 2.5 g/t (364,000 ounces). This represents a 53% increase of contained gold over the previous estimation reported in 2006. A detailed breakdown of the resource classification at varying cutoff grades is presented in table below:

Cut-off	Measured Resource			Indicated Resource			Measured & Indicated Resource			Inferred Resource		
	Grade g/t	Tonnes (m)	Grade g/t	Oz (k)	Tonnes (m)	Grade g/t	Oz (k)	Tonnes (m)	Grade g/t	Oz (k)	Tonnes (m)	Grade g/t
0.50	4.58	1.96	289	2.34	1.96	147	6.92	1.96	436	9.11	1.60	468
0.70	3.97	2.17	277	1.95	2.24	140	5.91	2.19	417	6.66	1.97	421
0.90	3.40	2.40	262	1.62	2.53	132	5.02	2.44	394	5.12	2.32	381
1.00	3.14	2.52	254	1.48	2.68	127	4.62	2.57	382	4.54	2.49	364
1.10	2.90	2.64	246	1.35	2.83	123	4.25	2.70	369	4.06	2.66	347
1.20	2.68	2.76	238	1.24	2.99	119	3.91	2.83	357	3.64	2.84	332
1.50	2.10	3.16	213	0.96	3.46	107	3.06	3.25	320	2.70	3.36	291

In light of the growing potential of the Tabakoroni deposit, the Finkolo Joint Venture partners have agreed to complete a 6,100 meter drilling program to test the potential of the Tabakoroni deposit at vertical depths of approximately 150 to 300 meters below surface. The new drill program also includes infill and extension drilling on the near surface resource, especially at the junction of the Tabakoroni Main Shear Zone and the adjacent Porphyry Zone. The proposed drill program includes 10 diamond core holes designed to test the depth continuation of the high grade shoots identified over more than one kilometer of strike length in the centre of the deposit. The potential for mineralization to continue to depth has been clearly demonstrated in longitudinal section.

## Diamonds

During the first quarter of 2008 an updated diamond resource estimation for the **Blue Gum Diamond Project** was completed by Dr. Tania Marshall of Explorations Unlimited. The updated 43-101 report estimates that the project contains 20.5 million cubic meters of indicated diamond resource and 17 million cubic meters of inferred diamond resource at grades ranging from 1.77 to 2.85 carats per hundred cubic meters.

Also during the first quarter Etruscan Diamonds recommenced mining and processing operations at the Tirisano Diamond Mine located on the Blue Gum property. The gravel from the mine is being processed at the pre-existing Tirisano DMS (dense media separation) plant, which is rated at 50,000 cubic meters of gravel per month, and at a pan plant facility comprised of four 16-foot pan plants, which have added an additional 50,000 cubic meters per month capacity to the Tirisano operation. The ramp up of the pre-existing plant and the new pan plants is continuing. At the combined rated capacity of 100,000 cubic meters per month the operation is anticipated to recover 2,500 carats per month.

Etruscan Diamonds is presently undertaking a pre-feasibility study on the project to determine the viability of expanding production to 260,000 cubic meters per month. The pre-feasibility study is being led by MDM Engineering of South Africa and is scheduled to be completed in the second quarter of 2008. Upon successful completion of the pre-feasibility study, a public offering is planned together with an application for a stock exchange listing in order to fund the project expansion.

We look forward to reporting on the progress of our various development and exploration projects in the months ahead.

On behalf of the Board of Directors

Gerald J. McConnell  
Chairman of the Board and Chief Executive Officer

April 14, 2008



## General

This Management Discussion and Analysis (MD&A) of Etruscan Resources Inc. (Etruscan or the Company) is dated February 29, 2008 and provides an analysis of the financial operating results for the year ended November 30, 2007 as compared to the previous two years. This MD&A should be read in conjunction with Etruscan's 2007 audited consolidated financial statements including the related note disclosure, all of which are prepared in accordance with generally accepted accounting principles (GAAP) in Canada. All amounts are in Canadian dollars unless otherwise specified. The financial statements and additional information, including the Company's Annual Information Form, Certifications of Annual and Interim Filings and press releases, are available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) under the Company's name.

## Gold Development and Exploration

### Youga Gold Project, Burkina Faso

Etruscan's most advanced project is the Youga Gold Project located in Burkina Faso. This project was acquired from Ashanti Goldfields Company Limited and Echo Bay Mines Limited in early 2004 for \$8.5 million. The Youga Gold Project is owned 90% by Etruscan and 10% by the Government of Burkina Faso. Since the purchase, the Company has incurred an additional \$10.4 million in exploration costs on the Youga Gold Project and surrounding exploration permits. Most of the Youga exploration expenditures were incurred in conjunction with the completion of an updated feasibility study for the project, including a detailed drilling program undertaken to update the reserve base.

A definitive feasibility study was completed in January 2005, which forecast Youga would produce an average of 88,000 ounces of gold per year over an initial 5.5 year mine life. The feasibility study was based on reserves of 5.5 million tonnes of ore, with an average grade of 2.9 grams per tonne, calculated at a gold price of US\$400 per ounce. An update to the feasibility study was completed in October 2006, which increased the reserves to 6.6 million tonnes at an average grade of 2.7 grams per tonne, increasing the project mine life to 6.6 years calculated at a gold price of US\$525 per ounce.

Management believes that the potential to extend the Youga mine life beyond the initial 6.6 year period is excellent. In addition to the current mineable reserves, six other additional mineralized zones have been identified on the Youga mining permit by drilling and trenching and all are within a three kilometer distance of the central milling facility. These additional zones will be systematically upgraded into resource and reserve categories as mining progresses in the first five open pits.

Etruscan holds or has under application a strategic land position covering 1,026 square kilometers of contiguous ground in the Youga Gold Belt in Burkina Faso and an additional 580 square kilometers of the continuation of the belt into Ghana. Regional exploration on the exploration permits has identified target areas at Zerbogo (25 kilometers southwest of Youga), Bougré (13 kilometers southwest of Youga) and Bitou (25 kilometers northeast of Youga). Three

historic mining sites are known on the Ghanaian side of the border at Nangodi, Dusi and Zug. Etruscan has on-going exploration programs covering all these targets and is evaluating the potential to develop stand alone and/or satellite mining operations from these areas.

Development costs incurred on the Youga Gold Project to the end of February 2008 aggregate \$80 million including capital costs, preproduction costs, working capital and financing costs. These costs were funded in part by a US\$35 million senior ranking debt facility and a US\$7.5 million subordinated debt facility both of which were provided by RMB Australia Holdings Limited, a member of the FirstRand Group, and Macquarie Bank Limited of Australia. The debt facilities were arranged by RMB Resources Limited of Melbourne, Australia.

The senior debt facility is structured as a full recourse loan to Etruscan until economic and technical completion conditions have been satisfied, upon which the debt facility converts and becomes non-recourse to Etruscan and is secured by all of Etruscan's interests in the Youga Gold Project. Standard project finance security provisions apply. The loan is repayable on a quarterly basis over a 4-year term and bears interest at LIBOR plus 3% pre-completion and LIBOR plus 2.5% post completion. The facility was fully drawn down during 2007.

During the first quarter of 2008, the Company completed and drew down the US\$7.5 million subordinated debt facility. The subordinated loan is repayable in two equal quarterly installments following the repayment of the senior debt facility and bears interest at LIBOR plus 3.5%. The terms of the subordinated debt included the issuance to the lenders of 1,452,222 financier warrants. Each warrant entitles the holder to purchase one common share of Etruscan Resources Inc. at a price of \$2.56 until November 30, 2012.

Initial draw down under the senior debt facility was subject to the Company satisfying a number of conditions precedent including the implementation of a gold price protection program. In January 2007, the Company implemented a gold price protection program for the Youga Gold Mine comprised of a combination of bought put options and sold call options whereby 100% of gold production for the first 60 months (456,102 ounces) is price protected at a minimum price of US\$629 per ounce. The put options were funded by writing call options covering 246,306 ounces over the same 60 month duration having a strike price of US\$700 per ounce. The fixed monthly ratio of call options to put options is 0.54 to 1 (246,306 ounces / 456,102 ounces) with the put option volumes matched to the production schedule in the October 2006 Youga Feasibility Study Update. The program requires Etruscan to post no cash or other margin as gold prices rise.

The monthly delivery obligations under the call option contracts commenced at the end of September 2007. For the six month period ended February 29, 2008 the Company settled for cash delivery obligations aggregating 21,672 ounces at a net cost of US\$2.64 million. During the same period put options aggregating 40,140 ounces expired unexercised. With initial gold production commencing in March 2008, the March delivery obligation has been rolled forward to April and is expected to be settled with physical delivery of gold.



FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008

The following table details the option contracts as at February 29, 2008:

Year	Bought Put		Sold Call	
	Options (number of ounces)	Price per ounce	Options (number of ounces)	Price per ounce
2008	63,354	US\$629	34,212	US\$700
2009	109,512	US\$629	59,142	US\$700
2010	93,846	US\$629	50,682	US\$700
2011	90,276	US\$629	48,750	US\$700
2012	58,974	US\$629	31,848	US\$700
	<b>415,962</b>	<b>US\$629</b>	<b>224,634</b>	<b>US\$700</b>

The Company has recorded an unrealized loss for the period of \$34.2 million and recorded the related increase in the financial derivative liability on the balance sheet. The marked to market valuation of the Youga gold derivative is summarized as follows:

	As at Mar 31, 2008	As at Feb 29, 2008	As at Nov 30, 2007	As at Feb 28, 2007
Spot gold price (US\$)	917	974	797	669
Youga gold financial derivative liability (Cdn\$ millions)	55.7	67.6	33.5	15.5

Milling of ore at the Youga Gold Project commenced in February 2008 and the first gravity gold pour occurred in March. In excess of 2,600 ounces were recovered in March of which approximately 1,800 ounces were poured.

The initial mining operation is comprised of five open pits with the ore being processed through a conventional gravity-CIL (carbon-in-leach) plant with a design capacity of one million tonnes per annum. The initial ore reserve is estimated at 6.6 million tonnes, allowing for a mine life of 6.6 years at the proposed processing rate. All of the ore and waste will be mined from the open pits using conventional mining equipment.

Drilling and blasting is required prior to mining. All of the pits contain hard-rock (ore and waste) material, with minimal free digging areas. Following blasting, the ore is excavated and transported by conventional mining gear. The main fleet consists of a 120 tonne excavator and 100 tonne haul trucks. The drilling and blasting is being undertaken under contract with Nitrochimie SNC and the mining (load/haul) under contract with PW Mining International Limited.

The treatment plant includes direct-dump ore receiving followed by three stages of crushing and one stage of milling. The ground ore is fed to a bank of cyclones where the over size is fed to the gravity circuit, consisting of a centrifugal concentrator and a shaking table. The under size is fed to the leaching circuit. A total of six tanks are being used to leach and recover the non-gravity recoverable gold on activated carbon. The gold is then extracted from the activated carbon and deposited using electrowinning. The recovered gold is heated in a smelting furnace and then poured into gold dore bars. Based on the Youga Feasibility Study test work, the overall gold recovery is anticipated to be 93%.

The primary water supply for the plant is pumped from the nearby Nakambe River via an 11 kilometer pipeline to a raw water storage

pond. The tailings area is designed to maximize water recovery in an effort to minimize the primary water demand.

Permanent power supply will be by way of grid power from the nearby Ghanaian national power grid operated by the Volta River Authority. A 15 kilometer power line is being built from the town of Zebila in Ghana directly to site. The capacity of the line is designed for a minimum transmission of 10 megawatts. Full on site power generation capacity (8 mega watts) is provided via diesel generators. The diesel generators are presently being utilized until grid power is available and thereafter will ensure that milling operations continue uninterrupted should there be any periodic load shedding during the summer months. The power plant was supplied and commissioned by SDMO of France.

Employment on the Youga Gold Project during production is approximately 350 full time employees of which over 85% are Burkina nationals and the balance are expatriates. There is a program of extensive training of the local work force for the management and skilled positions. In the longer term, it is anticipated that Burkina Faso nationals will fill the majority of the operating and management positions within BMC.

## Agbaou Exploration Permit, Côte d'Ivoire

The Agbaou Gold Project is located on the Agbaou gold belt in Côte d'Ivoire, approximately 200 kilometers northwest of the port city of Abidjan. Following positive results from the drill program completed at Agbaou in 2005, a second drill campaign was initiated in the third quarter of 2006 in order to further test the depth and strike extensions of the deposit. This program was completed at the end of the third quarter of 2007 and provided sufficient drilling to bring the current resource into National Instrument (NI) 43-101 compliance.

The resource calculation was recently completed by Coffey Mining Pty. Ltd. of Perth, Australia in February 2008. Using a 1.0 gram per tonne cut-off, Coffey Mining concluded that the Agbaou property contains indicated resources of 10.5 million tonnes at an average grade of 2.6 grams per tonne (871,000 ounces) of gold and inferred resources of 2.8 million tonnes at an average grade of 2.5 grams per tonne (218,000 ounces) of gold.

In addition to the successful definition drill program, reconnaissance diamond drilling in proximity to the Agbaou gold deposit identified three satellite discoveries. These three satellite discoveries are all within trucking distance of the current resources and will be the focus of further exploration.

A feasibility study on the Agbaou Gold Project is underway. Etruscan has assembled a feasibility team comprised of a number of internationally recognized consulting firms. The main consultants include MDM Engineering of South Africa, who will address the plant and infrastructure design and costing as well as the supervision of the metallurgical program which was completed at the Mintec laboratories, and Coffey Mining who will complete the (NI) 43-101 compliant reserve calculation as well as the mine costing and design.

Other consultants include Knight Piesold of South Africa (tailings dam design and hydrology), African Mining Consultants (AMC) of Botswana (environmental study) and Golder and Associates (Golder) of the United States (mine geo-tech). The local Ivorian consulting group CECAF is carrying out the environmental baseline work for the environmental impact study. MDM will serve as the overall coordinator of the feasibility study which is scheduled for completion in the third quarter of 2008.



In the first quarter of 2008, the Company incurred \$840,000 on its exploration and feasibility activities bringing the total investment in the Agbaou Gold Project to \$9.4 million. In 2007 and 2008 the Company upgraded its exploration vehicle fleet purchasing 32 new vehicles for West Africa and Namibia including nine new vehicles for Côte d'Ivoire. The Company has also requisitioned a new multi-purpose (auger, rotary air blast and reverse circulation) drill rig for its exploration in Côte d'Ivoire. Under the terms of the Agbaou permit, the Company agreed to reimburse SODEMI, a mining agency of the Government, for its deemed exploration expenditures of US\$1,247,104. A portion thereof amounting to \$489,660 has been paid to SODEMI and the balance is due within 10 days of the granting of a mining permit for the property.

The Company believes that Côte d'Ivoire has been historically under-explored relative to other West African countries and Etruscan has submitted applications for additional gold exploration permits in the country. The Company has applied for nine exploration permits in other areas of Côte d'Ivoire covering 8,538 square kilometers. Significant progress has been made in support of securing these additional applications and the first stage exploration programs are being undertaken in early 2008.

Management is of a view that the political situation in Côte d'Ivoire continues to improve such that investment toward the development of Agbaou and its expanded exploration efforts in the country are warranted. Mining development and exploration activities in Côte d'Ivoire have increased significantly over the past 12 months. Randgold Resources recently announced a production decision for the Tongon Project, in northern Côte d'Ivoire, which is the largest gold resource discovered in Côte d'Ivoire to date (4.4 million ounces). Equigold's Bonikro Project, located 22 kilometers northwest of Agbaou, is a 2 million tonne per annum CIL gold processing plant and mine with initial gold production scheduled for June 2008. Cluff Gold's Angovia Gold Mine, located in central Côte d'Ivoire, commenced heap leach operations in January 2008 and is expected to produce 40,000 ounces per annum.

## Exploration Permits, Mali

Over the past five years, Etruscan has assembled a strategic portfolio of properties on several gold belts in Mali, including the Finkolo Gold Project and the Keniebandi Gold Project. In the first quarter of 2008, the Company incurred \$1.6 million on its acquisition and exploration activities in Mali bringing the total investment in the country to \$12.7 million. Expenditures have been incurred on a countrywide assessment of the potential of the Mali properties held by Etruscan. This assessment included the use of regional soil geochemical surveys and auger drill sampling to identify gold anomalies for future exploration. Etruscan continues to advance development of its considerable land packages in Mali South and Mali West.

The Company's most advanced exploration project in Mali is the Finkolo permit, located in Mali South, near the border with Côte d'Ivoire. This project is 60% held by Resolute Mining Limited (Resolute) and 40% by Etruscan. Resolute is managing and funding the exploration program at Finkolo. With Resolute earning it 60% interest prior to completing a feasibility study, Resolute is required to fund Etruscan's share of the feasibility study preparation costs and Etruscan will repay Resolute from one half of Etruscan's production cash flow arising from any mining operation on the permit. The Finkolo option agreement contemplates that the parties will negotiate a

formal production joint venture agreement once a decision is made to commence mining operations.

The Finkolo permit is contiguous with the Syama holdings of Resolute, which hosts the 6.4 million ounce Syama gold deposit. During 2007 Resolute completed the necessary drilling to form the basis for an updated resource estimate on the Tabakoroni Zone which was completed in November, 2007. At a one gram per tonne cutoff, Resolute has reported 4.62 million tonnes of measured and indicated resource at 2.6 grams per tonne (382,000 ounces) and a further 4.54 million tonnes of inferred resource at 2.5 grams per tonne (364,000 ounces). It has been demonstrated that the Tabakoroni Zone has depth potential below the 130 meter level which has been drilled to date and that the high grade shoots in particular hold potential for future underground mine development. Given the growing potential of the Tabakoroni deposit at depth, the Finkolo Joint Venture partners have undertaken a 6,100 meter drilling program to test the potential of the Tabakoroni deposit at vertical depths of approximately 150 to 300 meters below surface. The new drill program also includes infill and extension drilling on the near surface resource, especially at the junction of the Tabakoroni Main Shear Zone and the adjacent Porphyry Zone. The drilling program is underway and results are pending.

In Mali West, much of the Company's effort has been focused on a number of regional gold geochemical targets, known as the Keniebandi Gold Project, located 15 kilometers south of the Sadiola Gold Mine. Four significant gold-in-soil anomalies (Diba, Kobokotosou and two at Keniebandi) have been delineated over strike lengths of one to two kilometers. The anomalies are spread out along a distance of 25 kilometers and the focus of work carried out to date has been on the northernmost target at Diba. The mineralized zone at Diba was defined by single sample auger drilling followed by deeper multi sample augering and later by rotary air blast (RAB) drilling. The entire Diba deposit area has also been covered by a systematic and detailed geophysical survey which identified drill targets.

The Diba gold discovery covers an area measuring 2.5 kilometers in length and 300-500 meters in width. The mineralized zone has been defined by single sample auger values in saprolite/bedrock exceeding 0.1 grams per tonne gold with the highest sample returning 49.6 grams per tonne gold. Deeper drilling with augers subsequently confirmed the widespread mineralization and in some holes high grades were intersected (up to 114 grams per tonne). The best intercept to date returned 12 meters of 12.6 grams per tonne gold and the hole ended at 30 meters depth in mineralization with 10 grams per tonne gold over the last 1.5 meters. A subsequent RAB program was designed to test the width, grade and depth extent of the mineralization on the southern end of the anomaly over a distance of 650 meters within the 2.5 kilometer strike length of the anomaly. The RAB drilling was highlighted by 51 meters of 11.8 grams per tonne gold, including 4.5 meters of 112.8 grams per tonne gold and 48 meters of 5.2 grams per tonne gold, including six meters of 23.8 grams per tonne gold. Following the positive RAB results a core/diamond drill rig was mobilized to the Diba property. The subsequent core drilling intersected exceptionally high grade mineralization, assaying up to 900.5 grams per tonne, 49.5 grams per tonne, 33.4 grams per tonne, 27.9 grams per tonne, 20.8 grams per tonne, 17.8 grams per tonne and 17.5 grams per tonne over one meter core widths within a broadly disseminated envelop of lower grade gold mineralization such as 22.3 grams per tonne over 10 meters, 2.0 grams per tonne over 33 meters and 3.9 grams per tonne over 10 meters.



These results from drilling on the southern extension of the Diba gold anomaly show the deposit to be open in all directions and at depth. Furthermore, RAB drill results over the northwestern extension of the Diba anomaly confirm that the mineralized system extends into bedrock along the entire 2.5 kilometer strike length of the anomaly. In light of the positive results, the Company is drill testing (auger, RAB and RC) the strike extensions of Diba and other exploration targets identified on the other permits that make up the Keniebandi Project.

In 2007 the Company upgraded its exploration vehicle fleet purchasing four new vehicles for Mali. One of the newly purchased multi-purpose (auger, rotary air blast and reverse circulation) drill rigs has been mobilized to the Keniebandi Gold Project to test the advanced targets.

## **Exploration Permits, Burkina Faso**

In addition to the permits held along the Youga Gold Belt, the Company also holds seven exploration permits in western Burkina Faso located in the Banfora and Houndé Gold Belts covering 1,622 square kilometers. Recently, the Company has begun to develop a land position in the Boromo Gold Belt located in northern Burkina Faso. The Company has options to acquire a 100% interest in three permits covering 582 square kilometers in the region. A 5,000 meter reconnaissance drill program is planned for the Boulounga permit in north central Burkina Faso to test four areas of active gold digging sites.

In the first quarter of 2008, the Company incurred \$920,000 on the acquisition and exploration of these other properties in Burkina Faso bringing its total investment to \$3.2 million. In 2007 and early 2008 the Company upgraded its exploration vehicle fleet purchasing seven new vehicles for Burkina Faso. One of the newly purchased multi-purpose (auger, rotary air blast and reverse circulation) drill rigs has been mobilized to the Boulounga permit.

## **Exploration Permits, Ghana**

In January 2006, the Company concluded an option agreement to acquire a 100% interest in licenses located in Ghana, West Africa. The licenses cover 580 square kilometers contiguous with Etruscan's land holdings in the Youga Gold Belt of Burkina Faso. In late 2006 detailed soil geochemistry was carried out over six targets. Additionally, a number of existing trenches were cleaned and re-sampled. This work has confirmed earlier results and outlined targets for reconnaissance auger and/or RAB drilling. One of the new multi-purpose drill rigs has been delivered to Ghana and is now testing the initial targets. In 2007 the Company also upgraded its exploration vehicle fleet purchasing seven new vehicles for Ghana.

In January, 2007 the Company entered into a joint venture with Haber Mining Ghana Ltd. (Haber Ghana) to explore 1,331 square kilometers of gold concessions in the prolific gold belts of southwestern Ghana. These gold concessions are located in the Sefwi Volcanic Belt and the Kumasi Sedimentary Basin. Under the terms of the joint venture, Etruscan immediately acquired a 50% interest in four prospecting licences and two reconnaissance licences for a cash payment of \$825,000 with an option to increase its interest in the joint venture to 75% by investing US\$2.5 million in exploration on the concessions over a period of three years. Etruscan Ghana is designing and managing the exploration programs on behalf of the joint venture. Haber Ghana retains the right to explore, mine and process all alluvial gold on the concessions provided such activities do not interfere with the joint venture mining objectives.

The newly acquired licenses in Ghana are all considered to be grassroots projects and as such the Company has undertaken regional stream-sediment and road-side soil sampling programs to quickly evaluate the properties. Areas with position results will be covered by more detailed grid sampling and auger drilling.

During 2007, the Company also concluded option agreements with three licence holders to acquire a 100% interest (subject to a net smelter return royalty) in one prospecting licence and two reconnaissance licences in southwestern Ghana covering an additional 326 square kilometers.

In the first quarter of 2008 the Company incurred \$450,000 on its acquisition and exploration activities in Ghana bringing the total investment in Ghana to \$4 million. In 2007, the Company incurred \$2.7 million including \$825,000 for the acquisition of the Company's 50% interest in the Haber Ghana properties and an additional \$825,000 to record the fair value of Haber's 50% interest in the joint venture. This additional amount was recorded to the non-controlling interest of the Etruscan Haber Joint Venture.

## **Exploration Permits, Namibia**

Namibia, located in Southern Africa, is one of the newest countries in the Company's portfolio. The exploration strategy in Namibia is somewhat different than in the West African countries. In West Africa, there is a clear focus on the Birimian-age greenstone gold belts and in particular in establishing land positions around existing deposits. Interest in Namibia arose from an independent doctoral thesis that concluded that certain areas have a high potential for the discovery of iron oxide copper gold (IOCG) deposits and possible relationships to copper deposits of the Zambian Copper Belt.

Following preliminary reconnaissance and extensive data compilation, the Company applied for regional land packages in two areas in northern and central Namibia. Licences covering approximately 10,000 square kilometers have been granted and the Company has undertaken detailed satellite imagery analyses over both areas to assist in identifying prospective targets within these large land packages.

The Company is working towards initiating its first drill programs in Namibia in the second quarter of 2008. In support of these initiatives, Etruscan has established administrative and logistical support in Windhoek, the capital city of Namibia, and is building an in-country exploration team. In the first quarter of 2008, the Company incurred \$280,000 on its acquisition and exploration activities on its properties in Namibia bringing its total investment to \$2.4 million. In 2007, the Company upgraded its exploration vehicle fleet purchasing five new vehicles for exploration in Namibia.

## ***Diamond Exploration and Development***

### **Restructuring of Diamond Assets**

Over the last six years, the Company, through its subsidiary, Etruscan Diamonds (Pty) Limited (Etruscan Diamonds), has acquired strategic properties in the Ventersdorp and Lichtenberg alluvial diamond districts, located approximately 150 kilometers and 200 kilometers respectively west of Johannesburg, South Africa.

Until the first quarter of 2007, Etruscan Diamonds was effectively owned 51% by Etruscan, 25% by Mountain Lake Resources Inc. (Mountain Lake) and 24% by various other third parties. In the first quarter of 2007, Etruscan and Mountain Lake together with the other shareholders formed a new Canadian company, Etruscan Diamonds Limited, to hold their respective interests in the diamond assets in South Africa. In the first two quarters of 2007, these parties transferred all of their interests (both debt and equity) in Etruscan Diamonds to Etruscan Diamonds Limited in exchange for shares. Upon completion of the restructuring, Etruscan and Mountain Lake owned 62% and 21%, respectively of Etruscan Diamonds Limited, with the balance being held by various third parties.

In March 2007, Etruscan Diamonds Limited completed an \$11 million private placement financing. CIBC World Markets Inc. acted as the private placement agent in relation to the financing. The proceeds of the private placement are being used primarily to continue the exploration program and undertake a pre-feasibility study on the Blue Gum Project described below. The March private placement offering consisted of common shares of Etruscan Diamonds Limited offered at a price of \$2.00 per share. With the completion of the private placement financing Etruscan and Mountain Lake owned 50.9% and 17.2% respectively of Etruscan Diamonds Limited.

The restructuring and financing were undertaken to realize the value of the diamond assets and to allow Etruscan Diamonds to more aggressively pursue the exploration and development of the diamond assets while Etruscan focuses on the exploration and development of its gold properties in West Africa.

## Blue Gum Project

Etruscan Diamonds holds one mining permit and three prospecting permits over three adjacent properties in the Ventersdorp alluvial diamond district (Nooitgedacht, Hartbeestlaagte and Zwartrand properties) known as the Blue Gum Project.

A National Instrument 43-101 compliant independent technical report dated January 30, 2008 prepared by Dr. Tania Marshall of Explorations Unlimited estimated the in situ indicated diamond resource on the Blue Gum property to be 20.5 million cubic meters and the in situ inferred diamond resources on the property to be 17 million cubic meters at an average grade of between 1.77 and 2.85 carats per hundred cubic meters.

The Tirisano Diamond Mine (Tirisano), located on the Nooitgedacht property, represented the first phase of development for the Blue Gum Project. Tirisano was initially operated by Etruscan Diamonds. In May 2004, Etruscan Diamonds entered into an agreement with Mvelaphanda Exploration (Pty) Ltd. (Mvelaphanda Exploration) to facilitate the expansion of Tirisano and Mvelaphanda Exploration became the operator of the Mine. In June 2005, Mvelaphanda Exploration earned a 50% interest in Tirisano by commissioning a plant with a design capacity of 300 cubic metric tons per hour throughput and a 50/50 joint venture between Etruscan Diamonds and Mvelaphanda Exploration was formed with Mvelaphanda Exploration continuing as operator.

In November, 2005, as a result of the period over period operating losses and the unfavourable South African Rand / US dollar exchange rate, the operation was placed on care and maintenance. Total diamond production from the Tirisano Diamond Mine up to the end of November 2005 was in excess of 23,000 carats.

In October, 2007, Mvelaphanda Exploration transferred its 50% interest in the Tirisano Diamond Mine Joint Venture back to Etruscan Diamonds in consideration for the payment of R25 million and the delivery to Mvelaphanda Exploration of 1,184,848 shares of Etruscan Resources Inc. Total consideration approximated \$7.2 million. The shares of Etruscan Resources Inc. were issued in consideration for the issuance to Etruscan of 1,810,750 shares of Etruscan Diamonds Limited. As a result of these transactions, Etruscan Resources Inc. now holds a 53.65% ownership interest in Etruscan Diamonds Limited, Mountain Lake holds a 16.2% ownership interest and the balance is held by third parties including employees of Etruscan and their affiliates and associates who own an aggregate of 5.5% of Etruscan Diamonds Limited.

In the first quarter of 2008, Etruscan Diamonds concluded an agreement with Mogopa Minerals (Pty) Ltd. (Mogopa) transferring a 26% interest in Tirisano to Mogopa. Mogopa replaces Mvelaphanda Exploration as the Black Economic Empowerment (BEE) partner for the mine as required by South African mineral legislation. Mogopa is also Etruscan Diamonds' BEE partner on the Hartbeestlaagte and Zwartrand properties. The Mogopa Community is located on the Blue Gum property and is actively participating in the development of the Blue Gum Project by providing a large portion of the workforce.

Mogopa received funding from the Industrial Development Corporation of South Africa Limited (IDC) to facilitate the Blue Gum transactions. At the same time, Etruscan Diamonds also negotiated a R15 million credit facility with the IDC to fund the continued development of the Blue Gum Project. Subsequent to February 29, 2009, the Company has drawn down R7.5 million of this credit facility.

Reacquiring a 74% interest in the Tirisano Diamond Mine operation and surrounding Nooitgedacht property, together with the consolidation of the development of the diamond resources on the Nooitgedacht property with those on the adjacent Hartbeestlaagte and Zwartrand properties, has allowed Etruscan Diamonds to develop an economic project model for the Blue Gum Project.

In the first quarter of 2008, Etruscan Diamonds recommenced mining at Tirisano. The gravel from the mine is being processed at the Tirisano plant, which can efficiently treat 50,000 cubic meters of gravel per month. Etruscan Diamonds has recently commissioned four 16 foot pan plants, which add an additional 50,000 cubic meters per month capacity to the Tirisano operations.

Etruscan Diamonds is presently undertaking a pre-feasibility study on the Blue Gum Project to determine the viability of expanding production to 260,000 cubic meters of gravel per month from the current production rate of 100,000 cubic meters. The pre-feasibility study is scheduled to be completed in April 2008. The pre-feasibility study is being led by MDM Engineering of South Africa. Upon successful completion of the pre-feasibility study, a public offering is planned together with an application for a stock exchange listing in order to advance the Blue Gum Project to full scale production of 260,000 cubic meters of gravel per month.

As at February 29, 2008, the Company has invested \$22.1 million in its Blue Gum Project. This includes its previous 50% equity investment of \$5.6 million in the Tirisano Diamond Mine Joint Venture, its acquisition of Mvelaphanda Exploration's 50% interest in the Joint Venture for the net amount of \$6.9 million, Hartbeestlaagte exploration costs of \$2.3 million and Blue Gum development costs of \$7.3 million.



## Other Diamond Permits

In addition to the permits comprising the Blue Gum Project, Etruscan Diamonds presently holds one mining permit and ten prospecting permits covering approximately 2,000 square kilometers in the Ventersdorp District, with an additional two prospecting permits under application. The mining permit is located on the Klipgat property located approximately 40 kilometers east of the Blue Gum Project. This property was mined intermittently by contract operators from February 2002 to March 2007 when mining operations ceased and rehabilitation

commenced. Exploration is ongoing on the remaining prospecting permits.

In the first quarter of 2008, the Company incurred \$50,000 (2007 - \$400,000) in exploration costs on its other diamond properties. In 2007, the Company abandoned six exploration permits writing-off the associated carrying value of \$545,000. This results in a net investment in other diamond assets of \$2.2 million at the end of the first quarter of 2008.

## Consolidated Statement of Operations – for the quarters ended

	Feb 29, 2008 (\$)	Nov 30, 2007 (\$)	Aug 31, 2007 (\$)	May 31, 2007 (\$)	Feb 28, 2007 (\$)	Nov 30, 2006 (\$)	Aug 31, 2006 (\$)	May 31, 2006 (\$)
Gain (loss) on sale of investments	(10,600)	700,795	59,803	947,051	-	-	163,560	-
Interest and other income	346,410	221,849	33,679	207,111	101,262	235,389	328,748	137,130
Total revenue	335,810	922,644	93,482	1,154,162	101,262	235,389	492,308	137,130
General and administrative expenses	766,448	667,207	923,520	713,478	363,435	577,450	492,367	407,303
Foreign currency (gain) loss	(724,139)	(1,474,011)	(411,546)	(678,337)	115,672	32,149	(103,485)	(241,794)
Interest on long-term debt	22,798	2,396	21,759	18,100	35,444	32,687	32,926	38,363
Professional fees	186,196	239,907	93,976	134,613	260,641	326,683	190,874	216,438
Wages and benefits	589,227	598,277	614,280	596,742	536,432	478,885	513,469	458,074
Stock based compensation	56,400	2,000	42,500	2,215,000	-	215,000	-	185,000
Property investigation and maintenance	12,284	24,964	45,022	29,886	22,581	4,443	3,967	366
Write-off of mineral property	-	91,297	453,802	-	-	231,952	-	-
Total expenses	909,214	152,037	1,783,313	3,029,482	1,334,205	1,899,249	1,130,118	1,063,750
Gain (loss) for the quarter	(573,404)	770,607	(1,689,831)	(1,875,320)	(1,232,943)	(1,663,860)	(637,810)	(926,620)
Unrealized gain (loss) on financial instrument	(34,200,000)	(19,500,000)	500,000	1,000,000	(15,500,000)	-	-	-
Realized loss on financial instrument	(1,998,589)	(629,721)	-	-	-	-	-	-
Net gain (loss) on the restructuring and financing of Etruscan Diamonds Limited	-	(29,042)	-	1,570,762	-	-	-	-
Non-controlling interest	280,313	336,189	366,466	121,240	-	-	-	-
Loss from equity investment in Tirisano Joint Venture	-	-	10,000	20,000	(70,000)	(10,000)	(25,000)	(100,000)
Loss from equity investment in African GeoMin	-	-	-	-	-	-	(1,104,643)	(2,500,000)
Net loss	(36,491,680)	(19,051,967)	(813,365)	836,682	(16,802,943)	(1,673,860)	(1,767,453)	(3,526,620)
Net loss per share	(0.30)	(0.17)	(0.01)	(0.01)	(0.17)	(0.02)	(0.02)	(0.04)



## Results of Operations

Etruscan's net loss for the first quarter of 2008 was \$36.5 million or \$0.30 per share compared to a net loss for the year ended November 30, 2007 of \$35.8 million or \$0.33 per share including a net loss in the first quarter of 2007 of \$16.8 million or \$0.17 per share. In the first quarter of 2008, the results include an unrealized loss on the financial derivative of \$34.2 million (\$0.28 per share) and a realized loss of \$2 million (\$0.016 per share). In 2007, the results include an unrealized loss on the financial derivative of \$34 million (\$0.32 per share) including a loss on financial derivative of \$15.5 (\$0.16 per share) million in the first quarter. In the fourth quarter of 2007, the Company also incurred a realized loss of \$630,000.

In early 2007, the Company entered into gold options contracts (bought put options and sold call options) solely for purpose of mitigating the risks associated with downward movements in the gold price, and to participate in higher market prices. The Company does not hold these options for trading purposes. It was a condition of the Youga debt financing that the downside risk be mitigated. The Company, in consultation with independent consultants, has determined that the Youga gold hedge constitutes an effective economic hedge that meets the designated objectives of providing 100% downside price protection for the Company's first gold mining operation while also providing significant upside participation in higher gold prices. The Company considers future gold prices (i.e. the potential for significantly lower gold prices over the period of operations) to be the single largest risk factor associated with the successful operation of the Youga Gold Project. Accordingly, the Youga gold hedge with its 100% downside price protection feature effectively mitigates this primary risk factor.

Recent accounting pronouncements require non-hedging financial derivative instruments, those which do not qualify for hedge accounting, to be recorded at fair value (marked to market) at the balance sheet date and the resulting gains or losses are to be included in earnings for the period. The Company and its independent advisors have determined that the Youga gold hedge constitutes an effective economic hedge for the Youga Gold Project however the hedge structure does not meet the requirements for hedge accounting under Canadian GAAP. The marked to market revaluation of the Youga gold hedge as at February 29, 2008 was negative \$67.7 million (Nov. 30, 2007 - \$33.5 million or \$0.31 per share). The Company has recorded an unrealized loss in the net loss for the first quarter of 2008 of \$34.2 million (\$0.28 per share) and correspondingly recorded an increase to the related liability on the balance sheet. The unrealized mark-to-market loss represents the theoretical value on cancellation of the gold option contracts based on market values as at February 29, 2008. As such it does not represent an estimate of future gains or losses nor does it represent an economic obligation for the Company as long as it is expected to meet its gold delivery obligations as they fall due.

The monthly delivery obligations under the call option contracts commenced at the end of September 2007. In the fourth quarter of 2007 the Company settled for cash, delivery obligations aggregating 10,554 ounces at a net cost of \$630,000. In the first quarter of 2008 the Company settled for cash, additional delivery obligations aggregating 11,118 ounces at a net cost of \$2 million. During the six month period ended February 29, 2008 put options aggregating 40,140 ounces expired unexercised. With initial gold production commencing in March 2008, the March delivery obligation has been rolled forward to April and is expected to be settled with physical delivery of gold.

Effective for 2007, new accounting recommendations under Canadian GAAP require the Company to present a statement of comprehensive income, which is comprised of net income, changes in unrealized gains or losses related to available-for-sale securities and net unrealized foreign exchange gains or losses recorded in the cumulative translation adjustment. On December 1, 2006, the Company re-measured its available-for-sale securities at fair value (market value) increasing the recorded value of the securities by \$2,143,523 with the net unrealized gain recorded in opening accumulated other comprehensive income. During 2007, the Company recorded an additional net unrealized loss of \$191,364 while a gain of \$1,707,649 was transferred to net income. The Company realized this gain on the sale of 170,000 warrants and 15,000 shares of NovaGold Resources Inc. (NovaGold), 169,438 shares of Iberian Mineral Corp and 318,182 shares of Sabina Resources Inc. The Company liquidated most of its investments in the second and fourth quarters to fund its continued operations prior to its equity placement in the fourth quarter of 2007. In the first quarter of 2008, the Company recorded an unrealized gain of \$56,246 and transferred a loss of \$10,600 on the sale of 30,000 NovaGold warrants, to net income.

The Company has earned interest revenue of \$346,410 in the first quarter of 2008 as compared to \$563,901 in 2007 including \$101,262 in the first quarter. The interest revenue results from the investment of funds from the equity financings completed in the fourth quarter of 2007 and the Etruscan Diamonds Limited equity financing completed in the second quarter 2007.

In 2007, the Company has recorded a net gain of \$1,541,720 on the restructuring and financing of the diamond assets. In the first quarter of 2007, the financiers of the initial development of the Tirisano Diamond Mine and Mountain Lake Resources Inc. converted their respective equity and debt interests in the diamond assets to an equity interest in Etruscan Diamonds Limited. In the second quarter of 2007, the Company converted its equity and intercorporate debt with Etruscan Diamonds (Pty) Ltd. to equity in Etruscan Diamonds Limited. On the conversion of its debt, the Company acquired an additional 11% in the diamonds operations and incurred a loss of \$2,782,929 in restructuring of the subsidiary debt and equity. As a result of these transactions Etruscan Diamonds (Pty) Ltd. is now owned 100% by Etruscan Diamonds Limited. Later in the second quarter, Etruscan Diamonds Limited completed a private placement financing issuing shares representing a 17.95% equity interest for net proceeds of \$10,121,074. This transaction resulted in a dilution gain to the Company of \$4,324,649. The Company has recorded an adjustment of \$29,042 in the final reconciliation of its net gain on the restructuring and financing of Etruscan Diamonds Limited.

The net proceeds from the private placement of \$10.1 million have been recorded as a non-controlling interest in Etruscan Diamonds Limited. In 2007, the Company recorded \$823,895 as the non-controlling interest's share of the loss of the diamond operations including \$336,189 in the fourth quarter of 2007. In the first quarter of 2008, the Company recorded \$280,313 as the non-controlling interest's share of the loss of the diamond operations.

### Tirisano Diamond Mine

In the first quarter of 2007, the Tirisano Diamond Mine Joint Venture incurred a loss of \$140,000 and the Company recorded its share of the loss of \$70,000 as a reduction to the carrying value of its equity investment. Later in 2007, the joint venture recovered some of its loss reducing its total loss for the nine months ended August 31, 2007 to \$80,000 with Etruscan Diamond's share being \$40,000.

On October 5, 2007, the Company acquired Mvelaphanda Exploration's 50% interest in the Tirisano Diamond Mine Joint Venture for payment of \$3.6 million (R25 million) and the delivery of \$3.6 million (R25 million) worth of shares of Etruscan Resources Inc. Amounts owing to and from Mvelaphanda Exploration of \$325,000 were also eliminated. Total net consideration approximated \$6.9 million. As a result of these transactions, the Company now holds a 53.65% ownership interest in Etruscan Diamonds Limited.

On December 5, 2007, Etruscan Diamonds concluded an agreement with Mogopa Minerals (Pty) Ltd. (Mogopa) to transfer a 26% interest in the Tirisano Diamond Mine to Mogopa. Mogopa replaces Mvelaphanda Exploration as the Black Economic Empowerment (BEE) partner for the mine as required by South African mineral legislation. Mogopa is also Etruscan Diamonds' BEE partner on the Hartbeestlaagte and Zwartrand properties which, together with the Tirisano Diamond Mine, constitute Etruscan Diamonds' Blue Gum Diamond Project. In the first quarter of 2008, Mogopa and Etruscan Diamonds have each contributed its share of these properties, 26% and 74% respectively, to Blue Gum Diamonds (Pty) Ltd. Etruscan has recorded the Mogopa \$3.9 million contribution as a non-controlling interest of Blue Gum Diamonds (Pty) Ltd.

Mogopa accepted a financing in the form of a preference share investment of R25.35 million from the Industrial Development Corporation of South Africa Limited (IDC) to facilitate the Blue Gum transactions. On December 5, 2007 Mogopa received the proceeds from the issuance of the preference shares. These proceeds have been contributed to the Blue Gum Project. Etruscan Diamonds also negotiated a R15 million credit facility with the IDC to fund continued development of the Blue Gum project. Subsequent to February 29, 2009, the Company has drawn down R7.5 million of this credit facility.

Etruscan Resources Inc. has provided a completion guarantee to the IDC guaranteeing the performance of Mogopa under the preference share subscription agreement including redemption of the R25.35 million of preference share on the fifth anniversary of the date of issue and payment of dividends yielding a real after tax interest rate of return of 8%, in accordance with the terms set out in preference share subscription agreement. The guarantee remains in place until the Blue Gum Project achieves project completion as defined in the completion guarantee and until Etruscan Diamonds arranges sufficient funding for the expansion of the Blue Gum Project to 250,000 cubic meters per month.

As at November 30, 2005, the Company established a provision for reclamation costs in the amount of \$850,000 for the Tirisano Diamond Mine. The reclamation costs were the responsibility of the Tirisano Joint Venture however in the third quarter of 2007, the South African Department of Mines and Energy required the Company to post bonding of R2.3 million (\$320,000) for estimated reclamation costs of R11.3 million (\$1.7 million) for the Tirisano Diamond Mine.

The fair value of this future reclamation liability has been calculated by adjusting this amount out to 2014 for a projected South African rate of inflation of 7% which results in an undiscounted amount of R18 million (\$2.7 million). To complete the fair value calculation this amount must be discounted back to its present value by applying a discount rate of 9% resulting in a fair value of future reclamation liability in the amount of R10.1 million (\$1.45 million) at the end of 2007. The fair value will be accreted over the projected life of the mine to accumulate the estimated liability of R18 million (\$2.7 million) in 2014. During the first quarter of 2008 and the fourth quarter of 2007, accretion expense

accretion expense of \$30,000 per quarter was recorded increasing the fair value of the future reclamation liability to \$1.51 million.

As at November 30, 2007, the Company also recorded a provision for reclamation costs in the amount of \$150,000 for the Hartbeestlaagte property, using the same inputs as above. During the first quarter of 2008, accretion expense of \$3,000 was recorded increasing the fair value of the future reclamation liability to \$153,000.

## Samira Hill Gold Mine

In April 2000, the Company concluded its agreement for the disposition of a 50% interest in its wholly owned subsidiary, African GeoMin, to Semafo Inc. and since that date, the Company has recorded its share of accounting losses in the amount of \$8.9 million with the corresponding reductions in the carrying value of its equity investment in African GeoMin. In 2006, the Company recorded its share of African GeoMin's loss at \$4.5 million and for accounting purposes this effectively eliminated the carrying value of the Company's equity investment in African GeoMin. African GeoMin has recorded a loss of US\$20.9 million in 2007 compared to a loss of US\$18.2 million in 2006.

In 2003, the Company also recorded a cumulative translation adjustment (CTA) associated with its equity investment in African GeoMin. Using the current rate translation method gives rise to the CTA on converting the Company's share of African GeoMin's foreign currency exposure to the Canadian/US dollar exchange rate fluctuations. The CTA amounted to \$1.85 million at the end of 2006. The CTA has been recorded retroactively to 2006 as a component of the accumulated other comprehensive loss and a corresponding reduction in the carrying value of the equity investment in African GeoMin.

## Consolidated Statement of Expenses

General and administrative expenses increased to \$766,448 in the first quarter of 2008 as compared to \$2,667,640 in 2007 including \$363,435 in the first quarter of 2007. General and administration expenses are more comparable with the last three quarters of 2007. In 2007, the Company incurred increased office and administrative expenditures in its corporate office as well as its office for the diamond operations in South Africa. Late in 2006, the Company relocated its corporate office in Nova Scotia from Windsor to Halifax and in mid 2007 the Company increased the size of this office by 25%. In the first quarter of 2008, the Company has expensed financing costs of \$172,000 (last three quarters of 2007 - \$486,000) for the Youga Gold Project. No such costs were incurred in the first quarter of 2007. In 2007 the Company incurred director's fees in the amount of \$120,000.

In the last two years Etruscan has incurred amounts on promotion and investor relations with its engagement of investor relations firms and the registration and travel costs for several mining investment conferences. These increased costs have continued in the first quarter of 2008. Travel costs in the first quarter of 2008 were \$110,000 as compared to \$513,000 in 2007 including \$106,000 in the first quarter of 2007. Promotional costs in the first quarter of 2008 were \$140,000 as compared to \$400,000 in 2007 including \$60,000 in the first quarter of 2007. In the first quarter of 2008 the Company also sponsored a conference with AMIRA International which is an independent association of mineral companies which develops, brokers and facilitates collaborative research projects with industry members.

Consistent with its corporate philosophy, Etruscan has funded various social initiatives in both South and West Africa contributing \$22,000 in the first quarter of 2008, \$97,000 in 2007 and \$100,000 in 2006. In the first quarter of 2008, the Company continued funding many of its social programs including donations and supplies to a medical clinic in Niger and the BMC medical centre located with the Youga Gold Project as well as supplies to its educational programs. Other projects included the purchase and shipment of malaria medication to Burkina Faso and donations to an orphanage in Burkina Faso. Etruscan Diamonds also funded education and upliftment projects directly related to the betterment of its employees within the diamond industry.

In the fall of 2007, RMB Resources Ltd. of Australia, the arranger of the debt financing for the Youga Gold Project, generously donated US\$50,000 to be used for the Village of Youga. The Company has allocated these funds to assist with upgrading the supply of potable water to the existing medical clinic and a newly constructed maternity clinic that has been funded by the Rotary Club of Dartmouth, Nova Scotia. The Company's social projects in 2007 also were funded by a generous individual contribution of \$15,000 and the Company funded an additional \$97,000. In 2007, the Company constructed two new classrooms at the school in the village of Youga, located adjacent to the Company's Youga Gold Project in Burkina Faso and provided the school with stationary supplies and food supplements. The Company continued to ship medication to the Youga clinic and funded and organized a meningitis vaccination campaign at an orphanage outside of Ouagadougou.

In 2006, the Company donated ten sewing machines to assist in the training of the women of the Youga village to become seamstresses and built an outdoor market. In Mali, the Company completed repairs to the water wells on the Finkolo permit, contributed funds to a health clinic and two ambulances for two villages. In light of the success of its first pilot micro credit program, the Company has renewed this initiative.

The Company experienced a net foreign currency exchange gain of \$724,139 in the first quarter of 2008 as compared to a gain of \$2,448,222 in 2007 including a gain of \$1,474,011 in the fourth quarter and a loss of \$115,672 in the first quarter. These foreign currency gains and losses are summarized as follows:

	Feb 29, 2008 (3 mos) (\$)	Nov 30, 2007 (12 mos) (\$)	Nov 30, 2007 (3 mos) (\$)
<b>Youga Gold Project</b>			
<b>Loss (gain) on foreign currency</b>			
Long-term debt	(1,045,054)	(3,858,885)	(1,922,415)
Bank accounts US\$ and Euro	209,759	1,472,120	625,498
	(835,295)	(2,386,765)	(1,296,917)
<b>Etruscan Diamonds</b>			
<b>SA Rand exchange loss (gain)</b>			
Bank accounts	305,486	152,926	10,831
Reclamation deposits and receivables	179,772	182,793	138,227
Long-term debt	(97,546)	35,478	16,896
	387,712	371,197	165,954
<b>Company loss (gain) on foreign denominated payables</b>			
	(276,556)	(432,654)	(293,330)
	(724,139)	(2,448,222)	(1,474,011)

In the first quarter of 2008, the Company experienced a net foreign currency exchange gain primarily with the strengthening of the Canadian dollar from par to .98 against the US dollar. As a result the Company recorded significant gains on the translation of its Youga Gold Project senior debt facility which is denominated in US dollars. During 2007, the Company also incurred significant foreign currency gains and losses associated with the strengthening Canadian dollar against the US dollar. The initial debt of US\$35 million was drawn down at an average exchange rate of 1.11 however by the end of November the Canadian dollar was virtually at par with the US dollar. As a result of drawing down the facility, the Company, at times, held significant US\$ cash balances during the same period. This resulted in a loss on holding the foreign currency in 2007. The Company also recorded foreign currency gains on its Youga Gold Project payables as well as gains on other payables.

During the first quarter of 2008, the SA rand weakened significantly against the Canadian dollar with the rate going from 6.8 to 7.9. With the receipt of proceeds of R26 million in early December from Mogopa regarding its acquisition of 26% of the Tirisano Diamond Mine, the Company was holding large SA rand denominated cash balances during the quarter. In addition to its cash accounts the Company also incurred losses on its reclamation deposits and other SA rand amounts receivable. These losses have been offset by gains on SA rand denominated debt and amounts payable. In addition the Company has recorded gains on its foreign denominated amounts payable due to the strengthening Canadian dollar.

The interest on long-term debt relates to a mortgage for a residence in South Africa in the fourth quarter of 2007. Late in the final month of 2007 the Company obtained financing for its acquisition of two front end loaders for its diamond operations in South Africa. This increased the interest on long-term debt from \$2,396 in the fourth quarter to \$22,798 in the first quarter of 2008. The Company expensed interest on long-term debt of \$77,699 in 2007. The balance of the second IDC loan was repaid in the first quarter of 2007.

Professional fees were \$186,196 in the first quarter of 2008 compared with \$729,137 in 2007 including \$260,641 in the first quarter. The Company continues to incur increased legal fees associated with its expanded corporate structure and property acquisitions. The Company has incurred increased auditing fees in both Canada and South Africa as a result of complying with the new regulatory and filing requirements. Legal fees, including the corporate fees for Canadian and offshore registrations, have also increased. Professional fees of \$130,000 were incurred in the first half of 2007 associated with the restructuring of the Company's diamond assets. Early in 2006, the Company retained CIBC World Markets Inc. to assist the Company in formulating and executing its growth strategy including merger and acquisition initiatives. This retainer terminated effective January 31, 2007.

Etruscan's wages and benefits were \$589,227 in the first quarter of 2008 which was comparable to previous quarters. Wages increased in 2007 to \$2,345,731 including \$536,432 in the first quarter. At the beginning of 2007 the Compensation Committee of the Board of Directors reviewed and approved salary increases and stock option grants for the employees of the Company. The Company has hired additional personnel over the past few years with the corporate office being 17 people in 2005 to 22 people in early 2008.

As a result of applying the Black-Scholes option-pricing model, the Company has recorded stock-based compensation expense of \$56,400 in the first quarter of 2008 as compared to \$2,259,500 in 2007. In the first quarter of 2008, the Company has recorded additional stock based compensation of \$105,600 (2007 - \$700,500) of which \$84,600 (2007 - \$448,000) was charged to mineral properties and \$21,000 (2007 - \$241,500) was charged to the cost of the Youga Gold Project. In 2007, an additional \$11,000 was charged to property investigation. In the second quarter of 2008, the Company has issued an additional 1,435,000 stock options to senior employees. The majority of these options will be expensed in the second quarter.

The Company cautions that the Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded, thus the Black-Scholes model may overestimate the actual value of the options that the Company has granted. Further, the Black-Scholes model also requires an estimate of expected volatility. The Company uses historical volatility rates of the Company to arrive at an estimate of expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore do not necessarily provide a reliable measure of the fair value of the Company's stock options.

The Company incurred property investigation costs of \$12,284 in the first quarter of 2008 as compared to \$122,453 in 2007 including \$22,581 in the first quarter. The Company continues to investigate new property acquisition targets in the West Africa countries of Mali, Côte d'Ivoire, Burkina Faso and Ghana, as well as, the Southern African countries of Namibia and South Africa. The Company is also investigating the exploration potential in the West African country of Benin.

In 2007, during its reviews of its mineral properties, the Company wrote off its expenditures on six diamond properties in South Africa for a total write-off of \$545,099. At the end of 2006, the Company wrote off its expenditures on five properties in Mali South and one property in Mali West for a total write-off of \$231,952.

## Related Party Transactions

The Company has recorded the following amounts due from employees and charges by (revenue from) related parties during the periods ended:

	Feb 29, 2008 (3 months) (\$)	Nov 30, 2007 (year) (\$)	Feb 28, 2007 (3 months) (\$)
Amount due from employees	-	-	184,867
Interest charged to employees	-	-	-
Business development expenses	-	36,800	-

The Company loaned amounts to certain employees in 1997 and 1998 to enable the employees to purchase the Company's shares. The Company has been collecting these amounts receivable on an annual basis and in the second quarter of 2007 these amounts were fully retired.

The Company rents a fishing lodge, located in northern New Brunswick, for one week annually for business development purposes. An affiliate of Mr. Gerald McConnell, the President and CEO of Etruscan, owns a 20% interest in the fishing lodge.

## Liquidity and Capital Resources

Etruscan has financed its acquisition, exploration and development of mineral properties and its ongoing operating costs with proceeds from equity subscriptions, debt financing, as well as funding arrangements with other companies. The Company's working capital surplus at the end of February 2008 decreased to \$9.8 million as compared to a working capital surplus of \$16.2 million at the end of 2007.

In the fourth quarter of 2007, the Company completed a public offering of common shares for net proceeds of \$32.8 million. Pursuant to the financing a total of 11,700,000 units were issued at a price of \$3.00 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant with each warrant entitling the holder to acquire a common share at a price of \$4.00 for a period of three years. The Company has assessed the fair value of these warrants and allocated gross proceeds of \$0.44 to each warrant. In addition the Company issued an additional 877,500 over-allotment warrants to the underwriters. The net proceeds allocated to the warrants is \$2,735,929. The warrants have been listed on the Toronto Stock Exchange and trade under the symbol EET.WT.

During the first quarter of 2008, the Company issued 2,212,963 common shares on the exercise of warrants for net proceeds of \$3,872,686 and 260,000 shares on the exercise of stock options for proceeds of \$315,800. In 2007, the Company issued an additional 6,885,655 common shares on the exercise of warrants for net proceeds of \$12,017,480 and 1,041,500 shares on the exercise of stock options for proceeds of \$1,045,650.

In the first quarter of 2008, the Company issued 1,452,222 financier warrants to the lenders of the subordinated debt. These warrants have an exercise price of \$2.56 and expire in November 2012. The fair value of these warrants, in the amount of \$1.8 million, has been recorded as deferred financing costs. In the second quarter of 2007, the Company issued one million common share purchase warrants with an exercise price of \$3.50 and an expiry date in March 2009. The fair value of these warrants, in the amount of \$1.5 million, was also been recorded as deferred financing costs.

In 2007, the Company issued 1,184,848 common shares for the acquisition from Mvelaphanda Exploration of the remaining 50% of the Tirisano Diamond Mine Joint Venture. In 2007, subsidiaries of Etruscan Resources Inc., acquired 488,000 common shares of the Company at a cost of \$297,129. These shares are held as portfolio investments; however, as required by Canadian GAAP, have been recorded as a reduction to capital stock.

During the second quarter of 2007, a subsidiary, Etruscan Diamonds Limited, completed a private placement equity financing for net proceeds of \$10.2 million. The funds are being used for the continued development of the Hartbeestlaage property.

Etruscan is using the proceeds from its debt and equity financings and sale of investments to fund its development of the Youga Gold Project, its preliminary feasibility work at the Agbaou Gold Project and its ongoing gold exploration in Mali, Burkina Faso, Ghana, Namibia and Côte d'Ivoire as well as for general corporate purposes.

## Outstanding Share Data

As at April 4, 2008, the Company had 123,653,126 (February 29, 2008 – 123,638,126) issued and outstanding common shares. Since the end of February, the Company has issued 25,000 common shares on the exercise of stock options for proceeds of \$31,250. The Company continues to have 9,179,722 common share purchase warrants outstanding.

As at April 4, 2008, the Company has 8,199,500 (February 29, 2008 – 6,764,500) stock options outstanding at a weighted average price of \$2.19 with exercise prices ranging from \$0.26 to \$4.45 and a weighted average remaining contractual life of 6.3 years. After the end of the first quarter of 2008, the Company has issued 1,435,000 stock options with a weighted average exercise price of \$2.44 and 25,000 stock options were exercised.

As at April 4, 2008, the Company has 830,000 Etruscan Diamonds Limited (February 29, 2008 – 630,000) stock options outstanding. In late 2007 the Company established a stock option plan for its diamond subsidiary, Etruscan Diamonds Limited and issued 630,000 stock options with an exercise price of \$2.00, an estimated vesting period of 18 months and an expiry date of November 21, 2017. Subsequent to the first quarter of 2008, the Company has issued an additional 200,000 stock options.

## Long-term Debt and other Financial Instruments

The aggregate amount of principal repayments required in each of the next five years, based on February 29, 2008 exchange and interest rates, to meet retirement provisions on long-term debt, is summarized as follows:

	\$
Year ending February 28, 2009	9,925,000
2010	17,292,500
2011	5,066,000
2012	9,943,000
2013	11,000

The Company has executed a debt facility agreement for US\$35 million with RMB Australia Holdings Limited and Macquarie Bank Limited for purposes of developing the Youga Gold Mine. The Youga debt facility is structured as a full recourse facility to the Company until certain economic and technical completion conditions are achieved when it becomes non-recourse to Etruscan and is secured by all of Etruscan's interests in the Youga Gold Project. Standard project finance security provisions apply. Initial draw down under the facility was subject to the Company satisfying a number of conditions precedent including the implementation of a gold price protection program. The loan is repayable on a quarterly basis over a 4-year term and bears interest at LIBOR plus 3% pre-completion and LIBOR plus 2.5% post completion. This debt facility was fully drawn down in 2007.

In the first quarter of 2008, the Company completed and drew down subordinated project debt financing of US\$7.5 million from RMB Australia Holdings Limited and Macquarie Bank Limited. The net proceeds were used to fund the completion of the Youga Gold Project. The subordinated loan is repayable in two equal quarterly instalments following the repayment of the senior debt facility and bears interest at LIBOR plus 3.5%.

## Internal control over Financial Reporting

Management has designed, established and is maintaining a system of internal control over financial reporting to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with Canadian GAAP. The Company's system of internal control is designed to address identified risks that threaten the reliability of its external financial reporting. However, due to the inherent limitations in any system of internal control, material misstatements may not be prevented or detected on a timely basis. During fiscal 2007, there were no changes in the Company's internal control over financial reporting that occurred that had materially affected or is reasonably likely to materially affect its internal control over financial reporting.

## Disclosure Controls and Procedures

Disclosure controls and procedures have been designed by the Company to ensure that financial information disclosed by the Company in the MD&A, the consolidated financial statements and the related annual filings of the Company is properly recorded, processed, summarized and reported to its Officers and the Board of Directors. Management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

## Recent Accounting Pronouncements

Effective for interim and annual financial statements relating to years beginning on or after October 1, 2007, the Company adopted the following new CICA accounting standards regarding accounting changes, capital disclosures and financial instruments disclosures and presentation. These standards were adopted on a prospective basis without restatement of prior periods.

### Accounting Changes – section 1506

Section 1506 - Accounting Changes, prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information. In addition, this Section requires entities to disclose the fact that they did not apply a primary source of GAAP that have been issued but not yet effective. The adoption of this new standard has had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008.

### Capital disclosures – section 1535

Section 1535 - Capital Disclosures, establishes disclosure requirements regarding an entity's capital, including (i) an entity's objectives, policies, and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The adoption of this new standard has had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008.

## **Financial instrument – sections 3862 and 3863**

Sections 3862, Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while leaving presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The adoption of this new standard has had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008.

## **International Financial Reporting Standards**

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## ***Critical Accounting Estimates***

The Company's most critical accounting principle, involving accounting estimates, is its accounting treatment of the costs relating to its exploration and development costs associated with its mineral properties, related deferred charges and property plant and equipment as discussed in the Company's 2007 Management Discussion and Analysis which is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.etruscan.com](http://www.etruscan.com).

## ***Risk and Uncertainties***

Under Canadian reporting requirements, management of the Company is required to identify and comment on significant risks and uncertainties associated with its business activities. For a summary of potentially significant inherent risks and uncertainties that management considers to be particularly unique to its operations and business plans in the upcoming years please refer to the Company's 2007 Management Discussion and Analysis, which is available on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.etruscan.com](http://www.etruscan.com).

## **Caution on Forward-Looking Statements**

This Management Discussion and Analysis contains certain forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements may include statements regarding exploration results and budgets, mineral reserve and resource estimates, work programs, capital expenditures, mine operating costs, production targets and timetables, future commercial production, strategic plans, market price of precious metals or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Various factors that may affect future results include, but are not limited to: fluctuations in market prices of precious metals; foreign currency exchange fluctuations; risks relating to mining exploration and development including reserve estimation and costs and timing of commercial production; requirements for additional financing; political and regulatory risks, and other risks and uncertainties. Accordingly, readers should not place undue reliance on forward-looking statements.

# UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008

## *Notice to Reader*

The management of Etruscan Resources Inc. is responsible for the preparation of the accompanying interim consolidated financial statements. The interim consolidated financial statements have been prepared in accordance with accounting principles generally

accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company. These interim financial statements have not been audited or reviewed by an auditor.



Gerald J. McConnell  
President and CEO



Glenn A. Holmes  
Chief Financial Officer

# UNAUDITED CONSOLIDATED BALANCE SHEETS

AS AT FEBRUARY 29, 2008 AND NOVEMBER 30, 2007 (IN CANADIAN DOLLARS)

	<b>February 29, 2008</b>	<b>November 30, 2007</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	28,322,427	31,926,710
Amounts receivable	1,168,340	1,239,840
Inventory of diamonds	763,400	365,902
Deposits and prepaid expenses	475,097	301,532
Available-for-sale securities (note 3)	428,027	376,180
	<b>31,157,291</b>	<b>34,210,164</b>
<b>Property, plant and equipment</b> (note 4)	<b>125,695,333</b>	<b>114,811,521</b>
<b>Reclamation deposits</b>	<b>921,743</b>	<b>997,270</b>
<b>Mineral properties and related deferred costs</b> (note 5)	<b>33,931,300</b>	<b>29,794,553</b>
	<b>191,705,667</b>	<b>179,813,508</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	11,455,514	11,404,302
Current portion of long-term debt (note 6)	9,925,000	6,647,318
	<b>21,380,514</b>	<b>18,051,620</b>
<b>Long-term debt</b> (note 6)	<b>26,660,787</b>	<b>25,675,861</b>
<b>Financial derivative instrument</b> (note 7)	<b>67,700,000</b>	<b>33,500,000</b>
<b>Non-controlling interest in subsidiary company</b> (note 8)	<b>12,200,139</b>	<b>8,580,452</b>
<b>Provision for reclamation</b> (note 9)	<b>1,663,000</b>	<b>1,630,000</b>
	<b>129,604,440</b>	<b>87,437,933</b>
<b>Commitments</b> (note 10)		
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 11)	<b>249,438,948</b>	<b>245,250,462</b>
<b>Warrants</b> (note 11)	<b>6,058,061</b>	<b>4,258,061</b>
<b>Contributed Surplus</b> (note 11)	<b>5,872,000</b>	<b>5,710,000</b>
<b>Accumulated other comprehensive loss</b> (note 12)	<b>(1,538,644)</b>	<b>(1,605,490)</b>
<b>Deficit</b>	<b>(197,729,138)</b>	<b>(161,237,458)</b>
	<b>62,101,227</b>	<b>92,375,575</b>
	<b>191,705,667</b>	<b>179,813,508</b>

# UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS, DEFICIT AND COMPREHENSIVE LOSS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

	Three months ended February 29, 2008 \$	Three months ended February 28, 2007 \$
<b>Income</b>		
Loss on sale of investments	(10,600)	-
Interest and other	346,410	101,262
	<u>335,810</u>	<u>101,262</u>
<b>Expenses</b>		
General and administrative	766,448	363,435
Foreign currency exchange loss (gain)	(724,139)	115,672
Interest on long-term debt	22,798	35,444
Professional fees	186,196	260,641
Property investigation and maintenance	12,284	22,581
Wages and benefits	589,227	536,432
Wages and benefits – stock based compensation	56,400	-
	<u>909,214</u>	<u>1,334,205</u>
	(573,404)	(1,232,943)
Unrealized loss on financial derivative instrument (note 7)	(34,200,000)	(15,500,000)
Realized loss on financial derivative instrument (note 7)	(1,998,589)	-
Non-controlling interest in loss of subsidiary company (note 8)	280,313	-
Loss from equity investment in the Tirisano Joint Venture	-	(70,000)
	<u>(36,491,680)</u>	<u>(16,802,943)</u>
<b>Net loss for the period</b>	(36,491,680)	(16,802,943)
<b>Deficit – Beginning of period</b>	(161,237,458)	(125,405,865)
<b>Deficit – End of period</b>	(197,729,138)	(142,208,808)
<b>Loss per share - Basic and diluted</b>	(0.30)	(0.17)
<b>Weighted average number of shares outstanding</b>	123,225,966	101,537,128
<b>Statement of Comprehensive Loss</b>		
<b>Net loss for the period</b>	(36,491,680)	(16,802,943)
<b>Other comprehensive loss</b> (note 12)		
Net change in unrealized gain on available for sale securities	66,846	925,575
<b>Comprehensive loss</b>	<u>(36,424,834)</u>	<u>(15,877,368)</u>

# UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

	Three months ended February 29, 2008 \$	Three months ended February 28, 2007 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(36,491,680)	(16,802,943)
Charges (credits) to income not affecting cash		
Loss on sale of investments	10,600	-
Amortization and accretion	77,838	31,123
Foreign exchange loss (gain) on revaluation of long-term debt and reclamation deposits	(995,036)	268,595
Unrealized (gain) loss on financial derivative instrument	34,200,000	15,500,000
Loss from equity investment in the Tirisano Diamond Mine Joint Venture	-	70,000
Non-controlling interest in loss of subsidiary – Etruscan Diamonds Limited	(280,313)	-
Compensation expense on stock-based compensation	56,400	170,000
	(3,422,191)	(763,225)
Net change in non-cash working capital balances related to operations		
Increase in accounts receivable and deposits and prepaid expenses	(102,065)	(393,203)
Increase in inventory of diamonds	(397,498)	-
Increase (decrease) in accounts payable and accrued liabilities	(1,203,793)	(4,671,472)
	(5,125,547)	(5,827,900)
<b>Financing activities</b>		
Proceeds from issuance of capital stock - net	4,188,486	3,134,958
Proceeds from long-term debt	7,658,532	-
Repayment of long-term debt	(32,105)	-
Increase in deferred financing costs	(421,219)	(478,412)
Net proceeds from sale of 26% in the Tirisano Diamond Mine	3,900,000	-
	15,293,694	2,656,546
<b>Investing activities</b>		
Acquisition of other assets	-	(211,591)
Proceeds on sale of marketable securities	4,400	-
Acquisition of property, plant and equipment	(10,199,817)	(7,098,438)
Reclamation deposits	(72,036)	(46,396)
Expenditures on mineral properties and related deferred costs – net	(3,504,977)	(2,988,344)
	(13,772,430)	(10,344,769)
<b>Net change in cash and cash equivalents during the periods</b>	(3,604,283)	(13,516,123)
<b>Cash and cash equivalents – Beginning of periods</b>	31,926,710	16,656,910
<b>Cash and cash equivalents – End of periods</b>	28,322,427	3,140,787

Supplemental cash flow information (note 13)

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 1. Nature of Operations

The Company is in the business of exploring and developing gold and diamond properties, primarily in Africa, through its subsidiaries and its investment in joint ventures. The recoverability of the amounts shown for the investment in the Tirisano Diamond Mine, property, plant and equipment, and mineral properties and related deferred and development costs is, among other things, dependent upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the companies to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

The Company is in the final stages of commissioning of the Youga Gold Mine and believes it has sufficient cash to complete the commissioning and commence commercial production. Continuing operations at the Youga Gold Mine will be funded from net recoveries from the sale of gold.

In the fourth quarter of 2007, the Company completed a \$33 million equity financing. In the future the Company will periodically have to raise additional funds to complete exploration, development and mine construction. While the Company has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. The Company's ability to continue as a going concern is ultimately dependent on its ability to generate positive cash flows from mining operations.

The amounts shown as property, plant and equipment, mineral properties and related deferred and development costs represent costs net of recoveries to date, less amounts amortized and/or written off, and do not necessarily represent present or future values.

## 2. Contents of Financial Statements

### Consolidation

These consolidated financial statements include the accounts of Etruscan Resources Incorporated and its subsidiaries, Cayman Burkina Mines Limited (100%), Burkina Mining Company (90%), Etruscan Resources Burkina Faso S.A. (100%), Etruscan Resources Côte d'Ivoire SARL (100%), Etruscan Resources Bermuda Ltd. (100%), Etruscan Resources Bermuda (Mali) Ltd. (100%), Etruscan Resources Mali SARL (100%), Etruscan Resources Namibia (Pty) Ltd. (100%), Etruscan Resources Ghana Ltd. (100%), Etruscan Haber Joint Ventures Limited (50%), Etruscan Diamonds Limited (53.65%), Etruscan Diamonds Bermuda Ltd. (53.65%), Etruscan Diamonds (Pty) Ltd. (Etruscan Diamonds) (53.65%), Blue Gum Diamonds (Pty) Limited (40%), Secor GeoMin Mining Development Corporation Incorporated (Secor GeoMin) (90%), Hackett River Resources Inc. (100% excluding 10 Class B non-voting shares), 2313057 Nova Scotia Limited (100%), 2454056 Nova Scotia Limited (100%), and 3001635 Nova Scotia Limited (100%).

### Financial Statements

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim reporting. The accounting policies followed by the Company are set out in note 2 to the audited consolidated financial statements for the year ended November 30, 2007 and have been consistently followed in the preparation of these interim financial statements. These interim financial statements should be read in conjunction with the 2007 audited consolidated financial statements.

In the opinion of management, the unaudited consolidated financial statements present fairly, in accordance with Canadian generally accepted accounting principles, the Company's financial position as at February 29, 2008 and the results of its operations and its cash flows for the three months ended February 29, 2008. The results of operations and cash flows are not necessarily indicative of the future results of operations or cash flows.

### Canadian accounting pronouncements effective for 2008

Effective for interim and annual financial statements relating to years beginning on or after October 1, 2007, the Company adopted the following new CICA accounting standards accounting changes, capital disclosures and financial instruments disclosures and presentation. These standards were adopted on a prospective basis without restatement of prior periods.

### Accounting Changes – section 1506

Section 1506, Accounting Changes, prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section allows for voluntary changes in accounting policies only if they result in the financial statements providing reliable and more relevant information. In addition, this Section requires entities to disclose the fact that they did not apply a primary source of GAAP that has been issued but not yet effective. The adoption of this Section had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008.

### Capital disclosures – section 1535

Section 1535, Capital Disclosures, establishes disclosure requirements regarding an entity's capital, including (i) an entity's objectives, policies, and processes of managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new standard has had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008.

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS



FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## Financial instrument – sections 3862 and 3863

Sections 3862, Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while leaving presentation requirements unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new standard has had no impact on the consolidated financial position or results of operations for the period ended February 29, 2008. Refer to the additional sensitivity disclosure in notes 6 and 7.

## International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB's strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## 3. Available-for-sale securities

	February 29, 2008 Market value \$	February 29, 2008 Cost \$	November 30, 2007 Market value \$	November 30, 2007 Cost \$
5,000 shares of NovaGold Resources Inc. (NovaGold)	55,750	3,250	48,600	3,250
Warrants (2007 – 30,000 warrants) of NovaGold allowing the Company to purchase one common share of NovaGold at a price of \$12.10 until January 7, 2008	-	-	15,000	15,000
101,976 shares of Etruscan Resources Incorporated held by an agent of which the Company has the rights to proceeds from the sale	238,624	43,567	223,327	43,567
185,000 shares of Mountain Lake Resources Inc.	129,500	65,700	85,100	65,700
Shares of other companies	4,153	4,153	4,153	4,153
	428,027	116,670	376,180	131,670



# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 4. Property, plant and equipment

			As at February 29, 2008
	Cost \$	Accumulated amortization \$	Net \$
Youga Gold Project production plant, related equipment under construction, related deferred development and exploration costs	98,638,630	-	98,638,630
Blue Gum Diamond Project production plant, related deferred development and exploration costs	22,078,012	-	22,078,012
Exploration equipment – drills	2,202,301	60,535	2,141,766
Heavy equipment	675,757	51,741	624,016
Motor vehicles	1,349,050	297,733	1,051,317
Land and buildings	374,259	58,161	316,098
Office equipment and Leaseholds	1,741,526	896,032	845,494
	<b>127,059,535</b>	<b>1,364,202</b>	<b>125,695,333</b>

			As at November 30, 2007
	Cost \$	Accumulated amortization \$	Net \$
Youga Gold Project production plant, related equipment under construction, related deferred development and exploration costs	90,103,672	-	90,103,672
Blue Gum Diamond Project production plant, related deferred development and exploration costs	19,839,018	-	19,839,018
Exploration equipment – drills	2,154,406	14,833	2,139,573
Heavy equipment	675,757	22,834	652,923
Motor vehicles	1,170,145	249,297	920,848
Land and buildings	374,259	55,498	318,761
Office equipment and Leaseholds	1,682,127	845,401	836,726
	<b>115,999,384</b>	<b>1,187,863</b>	<b>114,811,521</b>

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 5. Mineral properties and related deferred cost

For the period ended February 29, 2008	Balance November 30, 2007	Acquisitions and expenditures during the period	Transfer to development costs or write-down	Balance February 29, 2008
Property description	\$	\$	\$	\$
<b>Gold properties, Africa</b>				
<b>Burkina Faso</b>				
Burkina Faso gold exploration permits	2,295,276	920,354	-	3,215,630
<b>Côte d'Ivoire</b>				
Agbaou gold exploration permit	8,597,966	837,885	-	9,435,851
<b>Mali</b>				
Djelimangara, Kolomba and Sanoukou gold exploration permits	2,319,041	117,076	-	2,436,117
Mali West gold exploration initiatives	5,716,694	517,549	-	6,234,243
Finkolo gold exploration permit	1,691,910	650,629	-	2,342,539
Mali South gold exploration initiatives	1,414,388	307,666	-	1,722,054
<b>Ghana</b>	3,559,975	454,830	-	4,014,805
<b>Namibia</b>	2,076,229	282,204	-	2,358,433
<b>Diamond properties, South Africa</b>				
Hartbeestlaagte permit	-	-	-	-
Various diamond properties	2,123,074	48,554	-	2,171,628
	29,794,553	4,136,747	-	33,931,300

For the year ended November 30, 2007	Balance November 30, 2006	Acquisitions and expenditures during the year	Transfer to development <sup>(1)</sup> costs or write-down <sup>(2)</sup>	Balance November 30, 2007
Property description	\$	\$	\$	\$
<b>Gold properties, Africa</b>				
<b>Burkina Faso</b>				
Youga Gold Project and gold exploration permits	18,851,242	84,823	(18,936,065) <sup>(1)</sup>	-
Burkina Faso gold exploration permits	833,512	1,461,764	-	2,295,276
<b>Côte d'Ivoire</b>				
Agbaou gold exploration permit	4,434,448	4,163,518	-	8,597,966
<b>Mali</b>				
Djelimangara, Kolomba and Sanoukou gold exploration permits	2,126,613	192,428	-	2,319,041
Mali West gold exploration initiatives	2,054,767	3,661,927	-	5,716,694
Finkolo gold exploration permit	1,510,476	181,434	-	1,691,910
Mali South gold exploration initiatives	1,014,242	400,146	-	1,414,388
<b>Ghana</b>	894,753	2,665,222	-	3,559,975
<b>Namibia</b>	1,057,860	1,018,369	-	2,076,229
<b>Diamond properties, South Africa</b>				
Hartbeestlaagte permit	1,362,832	971,913	(2,334,745) <sup>(1)</sup>	-
Various diamond properties	2,265,457	402,716	(545,099) <sup>(2)</sup>	2,123,074
	36,406,202	15,204,260	(21,815,909)	29,794,553

### Mineral Properties and related deferred costs

For a detailed discussion regarding the carrying value of mineral properties, diamond properties in South Africa, as well as a detailed description of all significant mineral

properties, please refer to the November 30, 2007 audited consolidated financial statements.

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 6. Long-term debt

Note	As at Feb 29, 2008 \$	As at Nov 30, 2007 \$
RMB Australia Holdings Limited and Macquarie Bank Limited		
Debt facility (a)	34,293,000	35,028,022
Subordinated debt facility (b)	7,348,500	-
	41,641,500	35,028,022
Deferred financing costs (c)	(5,662,243)	(3,441,024)
	35,979,257	31,586,998
Wesbank (d)	548,817	667,622
Nedbank Limited (e)	57,713	68,559
	36,585,787	32,323,179
Less: Current portion of long-term debt	(9,925,000)	(6,647,318)
	26,660,787	25,675,861

a) On November 30, 2006, the Company executed a debt facility agreement for US\$35 million with RMB Australia Holdings Limited (RMB) and Macquarie Bank Limited (Macquarie) for purposes of developing the Youga Gold Mine. The Youga debt facility is structured as a full recourse facility to the Company until certain economic and technical completion conditions are achieved when it becomes non-recourse to Etruscan and is secured by all of Etruscan's interests in the Youga Gold Project. Standard project finance security provisions apply. The loan is repayable on a quarterly basis over a four year term and bears interest at LIBOR plus 3% pre-completion and LIBOR plus 2.5% post completion. Initial draw down under the facility was subject to the Company satisfying a number of conditions precedent including the implementation of a gold price protection program. This debt facility was fully drawn down in 2007.

b) In the first quarter of 2008, the Company completed and drew down subordinated project debt financing for US\$7.5 million from RMB and Macquarie. The subordinated loan is repayable in two equal quarterly instalments following the repayment of the senior debt facility and bears interest at LIBOR plus 3.5%. The net proceeds have been used to fund the completion of the Youga Gold Project.

c) With the implementation of the financial instruments standards in 2007, deferred financing costs are netted against the related long-term debt. The Company has incurred financing costs of \$5,662,243 associated with the senior and subordinated debt facilities. These financing costs include \$2,339,955 in banking fees and \$1,522,132 which represents the calculated fair value, based on the Black-Scholes method, of one million common share purchase warrants exercisable at \$3.50 per warrant issued to RMB Resources Limited. These

warrants were issued as partial consideration for arranging the Youga debt facility. The terms of the subordinated debt facility also included the issuance to the lenders of 1,452,222 financier warrants. The exercise price of the warrants is \$2.56 and the warrants expire on November 30, 2012. The fair value of these warrants in the amount \$1.8 million has been recorded as deferred financing costs in the first quarter of 2008.

d) Two Etruscan Diamonds loans with Wesbank, a division of FirstRand Limited totalling R4,338,449, bearing interest at South African prime (as at February 29, 2008 – 14.5%) and repayable over 45 months with a blended monthly instalment of R61,976 (\$7,840). Two front-end loaders are pledged as security for these loans.

e) Etruscan Diamonds loan with Nedbank Limited in the amount of R456,225 bearing interest at South African prime less 1%, repayable over thirteen years with a blended monthly instalment of R8,885 (\$1,124) and is secured by a first mortgage bond over land and buildings.

e) The RMB/Macquarie debt facilities are denominated in US\$. The South African amounts are denominated in SA rand. As a result, the Company translates this debt at the foreign exchange rates at the balance sheet dates with the exchange loss (gain) recorded in the corresponding period. Changes in the exchange rates can have a significant effect on operating results. The following table summarizes the sensitivity of changes in the US\$ / Cdn\$ exchange rate:

US\$/Cdn\$ exchange rate	0.950	0.975	0.9798	1.000	1.025	1.050
Debt in US\$ millions	\$42.5	\$42.5	\$42.5	\$42.5	\$42.5	\$42.5
Translated to Cdn\$ millions	\$40.4	\$41.4	\$41.6	\$42.5	\$43.6	\$44.6
Foreign exchange (gain) loss	(2.1)	(1.1)	(0.9)	0.0	1.1	2.1

f) The aggregate amount of principal repayments required in each of the next five years, based on February 29, 2008 exchange and interest rates to meet retirement provisions on the long-term debt, is as follows:

	\$
Year ending February 28, 2009	9,925,000
2010	17,292,500
2011	5,066,000
2012	9,943,000
2013	11,000

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 7. Financial derivative instrument

The Company has implemented a gold price protection program for the Youga Gold Project which was a requirement under the US\$35 million debt facility. The gold price protection program is comprised of a combination of bought put options and sold call options whereby 100% of forecast gold production for the first five years of the project (initially 456,102 ounces) is price-protected at a minimum price of US\$629 per ounce. The put options were funded by writing call options covering 45% of the feasibility study life-of-mine production (initially 246,306 ounces) having a strike price of US\$700 per ounce. Consequently, 100% of production is available to be sold at spot prices up to US\$700 per ounce with 55% of the feasibility study life-of-mine gold production (approximately 298,000 ounces) uncapped and fully exposed to any upward increase in the gold price above US\$700 per ounce. The program required no cash or other margin.

The monthly delivery obligations under the call option contracts commenced at the end of September 2007. For the first quarter of 2008 the Company settled for cash delivery obligations aggregating 11,118 ounces at a net cost of \$2 million. For the last quarter of 2007 the Company settled for cash delivery obligations aggregating 10,554 ounces at a net cost of \$630,000. During the same six month period ended February 29, 2008 put options aggregating 40,140 ounces expired unexercised. With initial gold production commencing in March 2008, the March delivery obligation has been rolled forward to April and is expected to be settled with physical delivery of gold.

The fixed monthly ratio of call options to put options is 0.54 to 1 with the put option volumes matched to the production schedule from the October 2006 Youga Feasibility Study Update. The following table details the options contracts as at February 29, 2008:

Year	Bought Put Options (number of ounces)	Price per ounce	Sold Call Options (number of ounces)	Price per ounce
2008	63,354	US\$629	34,212	US\$700
2009	109,512	US\$629	59,142	US\$700
2010	93,846	US\$629	50,682	US\$700
2011	90,276	US\$629	48,750	US\$700
2012	58,974	US\$629	31,848	US\$700
	415,962	US\$629	224,634	US\$700

The Company entered into these gold options contracts when the spot price of gold was approximately US\$639 per ounce for purposes of mitigating the risks associated with downward movements in the gold price and to benefit from higher market prices. The Company does not hold these options for trading

purposes. The Company has determined that this put-call structure constitutes an effective economic hedge for the Youga Gold Project however it does not meet the requirements for hedge accounting under current Canadian generally-accepted accounting principles (Canadian GAAP). Non-hedging financial derivative instruments, those which do not qualify for hedge accounting, are required under Canadian GAAP to be recorded at fair value (marked to market) at the balance sheet date and the resulting gains or losses are to be included in earnings for the period.

The Company has recorded an additional unrealized loss in first quarter of 2008 of \$34.2 million and recorded the related increase in the financial derivative liability on the balance sheet. The marked to market valuation of the Youga gold financial derivative liability is summarized as follows:

	As at Mar 31, 2008 (\$)	As at Feb 29, 2008 (\$)	As at Nov 30, 2007 (\$)	As at Feb 28, 2007 (\$)
Spot gold price (US\$)	917	974	797	669
Youga gold financial derivative liability (Cdn\$ millions)	55.7	67.7	33.5	15.5

The following table summarizes the approximate valuation of the Youga gold financial derivative liability at varying gold prices. The results in this table are calculated using the end of February 2008 option volumes and volatility as well as the yearend exchange rate.

Spot gold price (US\$)	700	800	900	1,000	1,100	1,200
Youga gold financial derivative liability (Cdn\$ millions)	4.2	28.2	51.4	74.2	96.8	119.2

The following table summarizes the approximate valuation of the Youga gold financial derivative liability at varying US\$ exchange rates. The results in this table are calculated using the gold price of US\$974 and the end of February 2008 option volumes and volatility.

US\$/Cdn\$ exchange rate	0.950	0.975	1.000	1.025	1.050
Youga gold financial derivative liability (Cdn\$ millions)	64.2	65.9	67.6	69.3	71.0

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 8. Investment in subsidiary company and non-controlling interest

### Composition of non-controlling interest

	As at Feb 29, 2008 \$	As at Nov 30, 2007 \$
Etruscan Diamonds Limited	7,475,139	7,755,452
Blue Gum Diamonds (Pty) Ltd.	3,900,000	-
Etruscan Haber Joint Ventures Limited	825,000	825,000
	12,200,139	8,580,452

### Restructuring and financing of diamond assets

In the first quarter of 2007, the financiers of the initial development of the Tirisano Diamond Mine and Mountain Lake Resources Inc. (Mountain Lake) converted their respective equity and debt interests in Etruscan Diamonds (Pty) Ltd. to an equity interest in Etruscan Diamonds Limited (EDL). In the second quarter of 2007, the Company converted its equity and inter-corporate debt with Etruscan Diamonds (Pty) Ltd. to an equity interest in EDL. On the conversion of its debt of \$21,641,218 the Company acquired an additional 11% in EDL and as a result of previous impairment charges, the Company incurred a loss of \$2,782,929 on restructuring of the subsidiary debt and equity. Etruscan Diamonds (Pty) Ltd. became a 100% owned subsidiary of EDL. Later in the second quarter of 2007 EDL completed a private placement financing issuing shares representing a 17.95% equity interest for net proceeds of \$10,121,074. This transaction resulted in a dilution gain to the Company of \$4,324,649. The net proceeds from the private placement have been recorded as a non-controlling interest in EDL.

In the fourth quarter of 2007, the Company acquired an additional 2.75% of EDL bringing its ownership interest to 53.65%. The non-controlling interests have equity investments in EDL which are being reduced by the non-controlling interests' share of losses in EDL. The March 2007 private placement investors hold 16.95%, the financiers of the initial development of the Tirisano Diamond Mine hold 13.15% and the remaining 16.25% is held by Mountain Lake.

In the first quarter of 2008, the Company recorded \$282,793 as the non-controlling interests' share of the loss of the diamond operations. In the last three quarters of 2007, the Company recorded \$823,895 as the non-controlling interests' share of the loss of the diamond operations.

## Etruscan Diamonds Limited

The composition of the non-controlling interest in Etruscan Diamonds Limited is as follows:

	As at Feb 29, 2008 \$	As at Nov 30, 2007 \$
Equity investment in Etruscan Diamonds (Pty) Ltd.	10,038,513	1,459,156
Equity investment in Etruscan Diamonds Limited – net	-	10,121,067
Net gain on restructuring and financing of diamond assets	-	(1,541,720)
	10,038,513	10,038,513
Accumulated non-controlling interest in loss – Beginning of period	(2,283,061)	(1,459,156)
Non-controlling interest in loss for the period	(280,313)	(823,895)
Accumulated non-controlling interest in loss – End of period	(2,563,374)	(2,283,061)
Non-controlling interest	7,475,139	7,755,452

## Blue Gum Diamonds (Pty) Ltd - Tirisano Diamond Mine

On December 5, 2007, Etruscan Diamonds concluded an agreement with Mogopa Minerals (Pty) Ltd. (Mogopa) to transfer a 26% interest in the Tirisano Diamond Mine to Mogopa. Mogopa replaces Mvelaphanda Exploration as the Black Economic Empowerment (BEE) partner for the mine as required by South African mineral legislation. Mogopa is also Etruscan Diamonds' BEE partner on the Hartbeestlaagte and Zwartrand properties which, together with the Tirisano Diamond Mine, constitute Etruscan Diamonds' Blue Gum Project.

Mogopa accepted a financing in the form of a preference share investment of R25.35 million from the Industrial Development Corporation of South Africa Limited (IDC) to facilitate the Blue Gum transactions. Subsequent to November 30, 2007, Mogopa received the proceeds from the issuance of the preference shares. Mogopa has contributed R26 million (Cdn\$3.9 million) and these proceeds have been recorded as non-controlling interest in Blue Gum Diamonds (Pty.) Ltd.

Etruscan Resources Inc. has provided a completion guarantee to the IDC guaranteeing the performance of Mogopa under the preference share subscription agreement including redemption of the R25.35 million of preference share on the fifth anniversary of the date of issue and payment of dividends yielding a real after tax interest rate of return of 8%, in accordance with the terms set out in preference share

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

subscription agreement. The guarantee remains in place until the Blue Gum Project achieves project completion as defined in the completion guarantee and until Etruscan Diamonds arranges sufficient funding for the expansion of the Blue Gum Project to 250,000 cubic meters per month.

Etruscan Diamonds also completed a financing with the IDC to provide an additional R15 million credit facility to fund development of the Blue Gum project. Subsequent to February 29, 2009, the Company has drawn down R7.5 million of this credit facility.

## Etruscan Haber Joint Ventures Limited

In 2007, the Company entered into a joint venture agreement with Haber Mining Ghana Ltd. (Haber) to explore six permits of gold concessions in southwestern Ghana. Etruscan Ghana acquired its 50% interest in the joint venture for cash payments of \$825,000 establishing a fair value of \$1.65 million for the concessions contributed to the joint venture. As a result, the Company has recorded the fair value of concessions with \$825,000 recorded as non-controlling interest. This represents the fair value of the 50% of the concessions contributed by Haber.

Etruscan Ghana has the option to increase its interest in the joint venture to 75% by investing US\$2.5 million in exploration on the concessions over a period of three years.

## 9. Provision for reclamation

		As at Feb 29, 2008	As at, Nov 30, 2007
	Note	\$	\$
Tiriano Diamond Mine	(a)	1,510,000	1,480,000
Hartbeestlaagte	(b)	153,000	150,000
<b>Total</b>		<b>1,663,000</b>	<b>1,630,000</b>

a) A provision for reclamation costs in the amount of R4.7 million (\$850,000) for the Tiriano Diamond Mine was recorded at November 30, 2005. This amount was adjusted for foreign exchange rate fluctuations and as a result was reduced to \$700,000. In the third quarter of 2007, the South African Department of Mines and Energy required the Company to post bonding of R2.3 million (\$320,000) for estimated reclamation costs of R11.3 million (\$1.7 million) for the Tiriano Diamond Mine.

The fair value of this future reclamation liability has been calculated by adjusting this amount out to 2014 for a projected South African rate of inflation of 7% which results in an undiscounted amount of R18 million (\$2.7 million). This amount has been discounted by applying a discount rate of 9% resulting in a fair value of future reclamation liability in the amount of R10.1 million (\$1.45 million) at the end of 2007.

The fair value amount will be accreted over the projected life of the mine to accumulate the estimated liability of R18 million (\$2.7 million) in 2014. During the first quarter of 2008, accretion expense of \$30,000 was recorded increasing the fair value of the future reclamation to \$1.51 million.

b) During the quarter ended February 29, 2008, the Company recorded accretion expense of \$3,000 increasing its fair value of the future reclamation liability for the Hartbeestlaagte property to \$153,000.

## 10. Commitments and contingencies

### Executive employment arrangements

The Company has an employment arrangement with the President and CEO of the Company which provides that, in the event of a sale of at least 50% in fair market value of all assets of the Company to an arms length third party or the acquisition by a party of 25% or more of the outstanding shares of the Company (change in control) then the President may elect to terminate his employment with the Company in which event the Company is required to pay the President a lump sum payment equal to three times his annual salary.

The Company also has employment arrangements with other officers and employees of the Company which provide that, in the event of a change of control of the Company and if, among other things, there is a change in job responsibilities, location or remuneration then such officer or employee may elect to terminate their employment with the Company in which event the Company is required to pay such officer or employee a lump sum payment equal to their annual salary.

### Legal Action

On July 17, 2007, Semafo (Barbados) Limited served one of the Company's subsidiaries, Etruscan Resources (Bermuda) Limited, with a notice of arbitration regarding the obligation of Etruscan Resources (Bermuda) Limited to reimburse Semafo (Barbados) Limited for advances of approximately US\$11 million made by Semafo (Barbados) Limited to African GeoMin Mining Development Corporation Limited and its subsidiary, Société des Mines du Liptako in respect of the Samira Hill mine in Niger. The Company has responded to Semafo (Barbados) Limited indicating that Semafo (Barbados) Limited has not served proper notice of arbitration in accordance with the shareholders' agreement between the parties. The Company is of the opinion that this claim is without merit. The outcome of this claim is not determinable at this time and no provision has been recorded in the accounts of the Company.

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 11. Capital stock

### Authorized capital stock

250 million common shares without nominal or par value.

	Number of shares	Ascribed value \$
<b>Issuance of common shares</b>		
<b>Balance – November 30, 2006</b>	100,841,160	198,661,209
Issued in 2007		
For cash, net of issue costs	11,700,000	30,111,752
For cash, pursuant to warrant agreements, net of costs	6,885,655	12,017,480
For cash pursuant to stock option plan	1,041,500	1,045,650
Stock option exercises transferred from contributed surplus	-	90,000
For the acquisition of the remaining 50% of the Tirisano Diamond Mine Joint Venture	1,184,848	3,621,500
Treasury stock	(488,000)	(297,129)
<b>Balance – November 30, 2007</b>	121,165,163	245,250,462
Issued in 2008		
For cash, pursuant to warrant agreements, net of costs	2,212,963	3,872,686
For cash pursuant to stock option plan	260,000	315,800
<b>Balance – February 29, 2008</b>	123,638,126	249,438,948

### Treasury stock

During the year ended November 30, 2007, subsidiaries of Etruscan Resources Inc., acquired 488,000 common shares of the Company at a cost of \$297,129. These shares are held as portfolio investments; however, as required by generally accepted accounting principles, have been recorded as a reduction to capital stock.

## Warrants

	Number of warrants	Ascribed value \$
<b>Issuance of warrants</b>		
<b>Balance – November 30, 2006</b>	9,273,618	-
Issued as consideration for arranging the senior debt facility	1,000,000	1,522,132
Exercised during the year	(6,885,655)	-
Issued with the October 2007 public offering	6,727,500	2,735,929
<b>Balance – November 30, 2007</b>	10,115,463	4,258,061
Issued as consideration for arranging the subordinated debt facility	1,452,222	1,800,000
Exercised during the period	(2,212,963)	-
Expired during the period	(175,000)	-
<b>Balance – February 29, 2008</b>	9,179,722	6,058,061

A summary of the Company's common share purchase warrants outstanding is as follows:

Expiry Date	Exercise price \$	As at Feb 29, 2008	As at Nov 30, 2007
December 2007	1.75	-	2,387,963
March 2009	3.50	1,000,000	1,000,000
November 2010	4.00	6,727,500	6,727,500
November 2012	2.56	1,452,222	-
		9,179,722	10,115,463

### Stock options plans

The Company has two stock option plans. The Company has a stock option plan for the parent company Etruscan Resources Inc. and in late 2007 the Company established a stock option plan for its diamond subsidiary, Etruscan Diamonds Limited. The details of these two option plans are described below.

### Etruscan Resources Inc.

Etruscan Resources Inc. has a stock option plan providing for the issuance of options equal to up to 10% of the outstanding shares. The Company may grant options to its directors, officers, employees and service providers. The exercise price of each option cannot be lower than the market price of the shares at the date of grant of the option. The number of shares optioned to insiders may not exceed 10% of the issued and outstanding shares at the date of grant. The options are exercisable immediately for a ten-year period from the date of grant.

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FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

A summary of Etruscan Resources Inc.'s stock option plan and changes during the periods is as follows:

	Number of stock options	Weighted average exercise price \$
<b>Balance November 30, 2006</b>	6,486,000	1.38
Granted during the year	1,580,000	4.40
Exercised during the year	<u>(1,041,500)</u>	1.00
<b>Balance November 30, 2007</b>	7,024,500	2.05
Exercised during the period	<u>(260,000)</u>	1.21
<b>Balance February 29, 2008</b>	<u>6,764,500</u>	2.14

The following table summarizes information about the stock options outstanding and exercisable at February 29, 2008:

Range of prices \$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.26 – 0.50	785,000	2.3	0.34
0.51 – 0.75	79,500	4.0	0.55
0.76 – 1.24	395,000	4.8	1.01
1.25	1,555,000	1.2	1.25
1.48 – 1.90	745,000	6.8	1.67
1.98	1,225,000	8.0	1.98
2.00 – 3.93	480,000	8.2	3.15
4.45	1,500,000	9.0	4.45
	<u>6,764,500</u>	5.6	2.14

The fair value of options recognized in the consolidated statements of operations and deficit, have been estimated at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for the periods, are as follows:

	2007
Risk free interest rate	4.6%
Expected life	5 years
Expected volatility	56%
Expected dividend yield	Nil
Weighted average fair value at the date of grant	1.66

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can significantly affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

## Etruscan Diamonds Limited

Etruscan Diamonds Limited has a stock option plan providing for the issuance of options equal to up to 10% of the outstanding shares. The company may grant options to its directors, officers, employees and service providers. The exercise price of each option cannot be lower than the market price of the shares at the date of grant of the option. The number of shares optioned to insiders may not exceed 10% of the issued and outstanding shares at the date of grant. The initial options issued under this plan are exercisable one year after completion of the initial public offering and for a ten-year period from the date of grant.

Etruscan Diamonds Limited's stock option plan and information related to the stock options outstanding at February 29, 2008 is summarized as follows:

	Number of stock options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
Granted in late November 2007	630,000	2.00	9.7

The fair value of options recognized in the consolidated statements of operations and deficit, have been estimated at the grant date using the Black-Scholes option pricing model and will be amortized over the vesting period. No stock based compensation was recorded in the year ended November 30, 2007. The Company has calculated the fair value of these options at \$850,000 which will be amortized over an estimated vesting period of 18 months. In the first quarter of 2008, the Company has recorded \$141,000 in stock based compensation which is included in contributed surplus. The weighted average assumptions used in the pricing model for the period are as follows:

	2007
Risk free interest rate	4.28%
Expected life	10 years
Expected volatility	50%
Expected dividend yield	Nil
Weighted average fair value at the date of grant	1.57

Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Since there is no volatility data for Etruscan Diamonds Limited, as a non-public entity, Canadian GAAP requires that the expected volatility is calculated based on volatility data from similar public companies. Changes in assumptions can significantly affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## Contributed surplus

	As at Feb 29, 2008	As at Nov 30, 2007
	\$	\$
<b>Balance-beginning of period</b>	5,710,000	2,840,000
Exercise of options	-	(90,000)
Stock based compensation	162,000	2,960,000
<b>Balance - end of period</b>	<b>5,872,000</b>	<b>5,710,000</b>

## Stock-based compensation relating to stock options

In the first quarter of 2008 the Company recorded \$56,400 of stock-based compensation which has been expensed during the period. The Company has also recorded \$105,600 of stock-based compensation of which \$21,000 has been allocated to the Youga Gold Project and \$84,600 to mineral properties.

In 2007 the Company recorded \$2,259,500 of stock-based compensation which has been expensed during the period. The Company has also recorded \$700,500 of stock-based compensation of which \$241,500 has been allocated to the Youga Gold Project, \$448,000 to mineral properties and \$11,000 to property investigation.

## Shareholder rights plan

On January 13, 2006, the Company adopted a shareholder rights plan (Rights Plan). The Rights Plan has been adopted to ensure the fair treatment of shareholders in connection with any take-over offer for the Company and is not intended to prevent take-over bids that treat shareholders fairly. The Rights Plan will also provide the Board with more time to fully consider any unsolicited take-over bid and to pursue, if appropriate, other alternatives to maximize shareholder value in the event of a takeover bid. The Rights Plan was not adopted in response to any proposal to acquire control of the Company.

Under the Rights Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be Permitted Bids. Permitted Bids must be made by way of a take-over circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for sixty days. In the event a take-over bid does not meet the Permitted Bid requirements of the Rights Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market value at the time.

The Rights Plan was presented for ratification by the shareholders at Etruscan's 2006 Annual General Meeting held on May 25, 2006. The shareholders approved the Rights Plan and the plan has an initial term of three years. The Rights Plan

is available on the Canadian System of Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) under the Company's name.

## 12. Accumulated other comprehensive loss

In 2007, the Company has adopted the new CICA handbook sections which establish standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available for sale securities and foreign currency translation adjustments, in a statement of comprehensive loss. These sections establish standards for the presentation of equity and changes in equity as a result of the new requirements. The guidelines allow retroactive treatment of the cumulative translation adjustment; however, the section does not allow retroactive treatment for unrealized gains.

On December 1, 2006, the Company re-measured its available-for-sale securities at fair value (market value) as appropriate. A net unrealized gain of \$2,143,523 was recorded in opening accumulated other comprehensive loss. The change in accumulated other comprehensive loss is as follows:

	As at Feb 29, 2008	As at Nov 30, 2007
	\$	\$
<b>Balance-beginning of the period</b>	(1,605,490)	(1,850,000)
Cumulative effect of adopting new accounting policy as at December 1, 2007	-	2,143,523
Other net comprehensive loss for the period	56,246	(191,364)
Other comprehensive income recognized in net income for the period	10,600	(1,707,649)
<b>Balance-end of the period</b>	<b>(1,538,644)</b>	<b>(1,605,490)</b>

The components of accumulated other comprehensive loss is as follows:

	As at Feb 29, 2008	As at Nov 30, 2007
	\$	\$
Accumulated unrealized gains on other assets	311,356	244,510
Cumulative translation adjustment	(1,850,000)	(1,850,000)
	<b>(1,538,644)</b>	<b>(1,605,490)</b>

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED FEBRUARY 29, 2008 (IN CANADIAN DOLLARS)

## 13. Supplemental cash flow information

During the quarter ended February 29, 2008, the Company incurred expenditures on mineral properties for \$455,000 (quarter ended February 28, 2007 - \$500,000) and capital assets for \$800,000 (quarter ended February 28, 2007 - \$3 million) all of which were recorded as accounts payable at the end of February. During the current period the Company recorded the issuance of warrants at a calculated fair value of \$1.8 million. During the quarter ended February 28, 2007, the Company recorded an increase in the amount recoverable of \$252,089 from Mvelaphanda Exploration. These items are non-cash transactions and have been excluded from the statements of cash flows.

## 14. Segmented information

The Company's two main operating segments are diamond and gold property exploration and development. The Company's geographic information is as follows:

	<u>Mining Assets</u>	
	February 29, 2008 \$	November 30, 2007 \$
<b>Diamond exploration and development in South Africa</b>		
Inventory of diamonds	763,400	365,902
Land and buildings	316,098	702,397
Motor vehicles	263,399	224,103
Heavy equipment	624,016	652,923
Office equipment	116,373	99,034
Development	22,078,009	19,455,382
Mineral properties and related deferred costs	2,171,629	2,123,074
Reclamation deposits	921,743	997,270
<b>Gold development in Burkina Faso</b>	98,638,630	90,103,672
<b>Gold exploration</b>		
Canada		
Office equipment and Leaseholds	587,110	603,463
Mali, West Africa	13,256,721	11,682,567
Côte d'Ivoire, West Africa	10,092,940	9,156,447
Burkina Faso, West Africa	4,437,827	3,471,043
Ghana, West Africa	4,608,116	4,177,834
Namibia, Southern Africa	2,435,756	2,154,134
	161,311,767	145,969,245

The Company's only source of revenue is interest and investment income in Canada and South Africa. Interest revenue generated for the quarter ended February 29, 2008 includes interest income of \$314,997 in Canada and \$31,413 in South Africa as compared to Canadian revenue for the year ended November 30, 2007 of \$2,271,550, including \$101,262 in the first quarter. In the first quarter of 2008, the Company also incurred a loss on the sale of investments in Canada of \$10,600.

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VP Exploration

Glenn Holmes C.A.  
VP Finance, CFO & Treasurer

Janice Stairs LL.B, M.B.A.  
VP, General Counsel & Corporate  
Secretary

**Directors**

Gerald McConnell  
Halifax, Nova Scotia

Joel D. Schneyer  
Parker, Colorado

Rick Van Nieuwenhuysse  
Vancouver, British Columbia

William Young  
Ottawa, Ontario

Walt Tyler  
Lakewood, Colorado

Eddie Lui  
Hong Kong

**Stock Listing**

Toronto Stock Exchange  
Trading Symbol: EET  
Warrants: EET.WT

**Register and Transfer Agent**

CIBC Mellon Trust Company  
Halifax, Nova Scotia

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Halifax, Nova Scotia

PricewaterhouseCoopers Inc.  
Johannesburg, South Africa

**Legal Counsel**

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**Bankers**

TD Canada Trust  
Halifax, Nova Scotia

Nedbank  
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Bank of Africa  
Burkina Faso, Côte d'Ivoire and  
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