



ETRUSCAN RESOURCES INC. (EET:TSX)

INTERIM REPORT TO SHAREHOLDERS

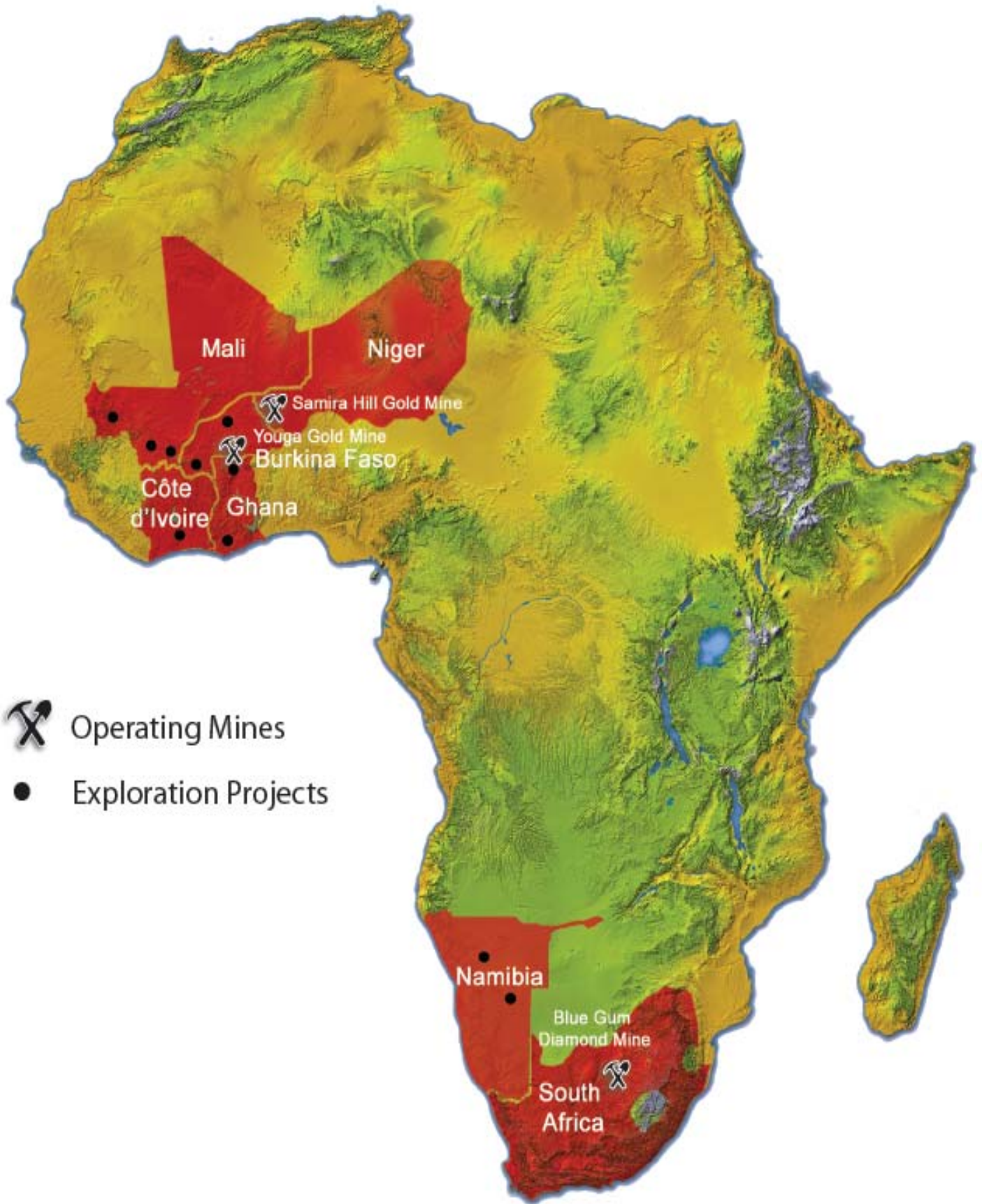
MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008

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INTERIM REPORT TO SHAREHOLDERS



FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008

We are pleased to report the results of operations for the interim period ended May 31, 2008 and to provide shareholders with an update on the Company's activities.

Youga Gold Project, Burkina Faso

Etruscan achieved a major milestone in the second quarter of 2008 with the first gold pour at its Youga Gold Project, located 180 kilometers southeast of Ouagadougou, the capital city of Burkina Faso. Approximately 7800 ounces of gold were recovered in the second quarter with in excess of 6,200 ounces poured. At design capacity the Youga Gold Mine will be processing 83,000 tonnes per month and recovering an average of 6,700 ounces of gold per month. Mining operations ramped up during the second quarter and provided for a run-of-mine ore stockpile at the end of May of approximately 45,000 tonnes.

A total of 4,756 ounces of gold were sold during the second quarter for gross sales receipts of \$3.35 million. The Youga Gold Mine had not reached commercial production as at May 31, 2008 accordingly the operating, finance and other costs for the quarter, net of gold receipts, were capitalized as preproduction costs. Commercial production was subsequently achieved in early July with the mill throughput for the 30 day period ended July 7, 2008 totaling 53,764 tonnes which represents 65% of the design throughput and 4,094 ounces of gold being produced during this period which represents 61% of the forecast amount. Production statistics continue to show steady improvements and the gold recovery plant continues to operate at projected efficiency with an average gold recovery of over 93%. Gold production is scheduled to increase during July as plant throughput and mill feed grades reach forecast levels.

Current mineable reserves at Youga are 6.6 million tonnes with an average grade of 2.7 grams per tonne containing 580,000 ounces of gold, which is contained in five separate pits. The mill feed to date has come from the A2 Main pit which has mineable reserves of 4.1 million tonnes with an average grade of 3.1 grams per tonne and a strip ratio of 6.8 to 1. Mining operations have recently commenced at the A2 West Zone 1 pit which contains mineable reserves of 0.5 million tonnes at an average grade of 3.0 grams per tonne with a very low strip ratio of 1.3 to 1. A number of potential satellite gold deposits have already been identified on the Youga mining permit within a three kilometer radius of the existing plant and are being evaluated for conversion into reportable resources and reserves.

During the six months ended May 31, 2008 the Company invested a total of \$17.3 million in development activities related to the Youga Gold Project.

Bitou Exploration Permits, Burkina Faso

Exploration activities carried out during the second quarter on the Bitou permits, which cover the northeastern extension of the Youga Gold Belt, identified significant mineralization with a resource potential extending over a strike length of two kilometers. The Bitou area is located 35 kilometers northeast of the Youga Gold Mine. The objective of this drill program is to determine the resource potential of a previously known zone at Ouaré with reverse circulation ("RC") drilling, and to test three new gold targets with auger drilling. Highlights from the results of the first 1,500 meters of a planned 5,000 meter RC drill program are listed below:

- 22 meters at 2.8 g/t (including 6 meters at 6.5 g/t)
- 14 meters at 2.6 g/t (including 4 meters at 9.2 g/t)
- 12 meters at 2.6 g/t (including 4 meters at 6.2 g/t)
- 2 meters at 41.6 g/t
- 2 meters at 25.6 g/t

A gold resource at Bitou would have the potential to provide substantial additional mill feed for the Youga gold operation.

Other Gold Exploration

Etruscan is exploring over 3,300 km² in Burkina Faso on three major greenstone belts referred to as the Youga project area, the Boulounga project area and the Banfora project area.

In Mali the Company is exploring in two major areas. In Mali South, the Company is exploring over 2,300 km² with its most strategic land package along the Syama Gold Belt, which includes an area under joint venture with Resolute Mining Limited of Australia. In Mali West, the Company holds over 1,200 km² with the largest land package strategically situated immediately south and southwest of the 14 million ounce Sadiola Mine that is operated by AngloGold Ashanti and IAMGOLD.

In Ghana, Etruscan has increased its property interests to over 2,200 km². The Company is exploring the southwestern extension of the Youga Gold Belt into Ghana on the Nangodi-Bolgatanga project area and has been building a strategic land package in southern Ghana.

Etruscan's most important project in Côte d'Ivoire is the Agbaou Gold Project which is currently undergoing a feasibility study to determine the economics of developing a one million tonne per annum mine, similar in size to the Company's recently commissioned Youga Gold Mine in Burkina Faso (90,000 oz per annum). Etruscan considers Côte d'Ivoire to be one of the most prospective countries for new discoveries in West Africa.

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008



Etruscan has applications in progress for nine new permits in different gold belts throughout the country, three of which have been granted prospecting authorizations which allows the Company to undertake preliminary reconnaissance work on the ground. These programs were just initiated over the past two months.

Etruscan is exploring almost 9,000 km² in the country of Namibia. The Company was first attracted to the country primarily because it had not received extensive, gold-focused exploration however Etruscan is also cognizant of the potential for other mineral commodities and its licences are not restricted to precious metals. Drilling is underway on the first four priority areas to test a variety of targets including copper-gold, copper-gold-silver and rare earth element deposits.

A comprehensive update on the Company's exploration activities in these five countries was issued during the quarter; refer to the Company's news release dated May 6, 2008.

During the six month period ended May 31, 2008 the Company invested a total of \$9.2 million in exploring its African exploration property portfolio.

Blue Gum Diamond Project, South Africa

Etruscan's subsidiary company, Etruscan Diamonds Limited, 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.

During the first quarter of 2008, 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 Etruscan Diamonds regained control of late in 2007, and through four 16 foot pan plants which have recently been installed near the DMS plant. The objective is to achieve a monthly throughput of 100,000 cubic meters of gravel per month from the two facilities with 40,000 cubic meters coming from the DMS plant and 60,000 cubic meters from the pan plant.

The ramp up at the Tirisano DMS plant and the new pan plants continued enduring the second quarter and the facility is targeted to achieve the forecast production rate of 100,000 cubic meters per month in the third quarter of 2008. Pre-screening capacity during the second quarter was limited to 1,000 cubic meters per day which limited the pan plant throughput. The installation of a larger pre-screening unit is now nearing completion and will improve plant throughput by increasing pre-screening capacity from 1,000 cubic meters per day to 10,000 cubic meters per day.

For the six month period ended May 31, 2008 processing operations recovered 5,465 carats from 209,231 cubic meters of gravel with an average rough tender value of US\$613 per carat for an aggregate diamond value of US\$3,350,000.

During the six months ended May 31, 2008 the Company invested a total of \$4.3 million in development activities related to the Blue Gum Diamond Project and \$0.2 million in exploration activities related to other diamond properties.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'G. McConnell', written over a faint background watermark of a person's legs.

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



General

This Management Discussion and Analysis (MD&A) of Etruscan Resources Inc. (Etruscan or the Company) is dated July 11, 2008 and provides an analysis of the financial operating results for the period ended May 31, 2008 as compared to November 30, 2007 and the previous quarters. This MD&A should be read in conjunction with Etruscan's unaudited consolidated financial statements for the period ended May 31, 2008 and the 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 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 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 1,076 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.

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. A second fleet (three 60 tonne trucks and an excavator) was mobilized to site in May and June this year to allow concurrent mining of the West pit (Zone 1) starting in July. 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%, and this recovery rate has been largely achieved during the initial operations.

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 22 kilometer power line is being built from the town of Zebila in Ghana directly to site and is planned to be completed later in 2008. 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 400 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.



FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008

The Youga Gold Mine recovered approximately 7,800 ounces of gold and poured in excess of 6,200 ounces during the initial three month (March to May) ramp up period. Production statistics and solution grades subsequent to quarter end are showing steady improvements and the gold recovery plant is operating at projected efficiency with an average gold recovery of over 92%. Gold production is scheduled to increase during third quarter as plant throughput and grades reach forecast levels. At design capacity the Youga Gold Mine is forecast to process 83,000 tonnes per month and recover on average 6,700 ounces of gold per month.

The following table summarizes the operating results during the initial three month ramp up period:

	March	April	May
Tonnes Crushed	63,158	67,199	55,514
Tonnes Milled	52,136	57,429	54,935
Head Grade (g/t)	1.67	1.43	1.70
Gold Poured (oz)	1,804	1,747	2,670
Gold Recovered (oz)*	2,605	2,335	2,860

* Gold poured plus gold in circuit.

Mill throughput for the three month ramp up period totaled 164,500 tonnes which was lower than forecast, primarily as a consequence of mill downtime due to power interruptions and related downtime on crushing. Both of these issues have subsequently been rectified.

Mining operations have ramped up during the initial three-month period and have provided for a run-of-mine ore stockpile at the end of May of approximately 45,000 tonnes. Lower grades than the life-of-mine average forecast grade of 2.7 grams per tonne were experienced during the ramp up period due to a combination of the planned low grade feed during commissioning and subsequent dilution that occurred in the upper benches during development of the initial ore blocks. Mining has now progressed into full ore block faces and as of late May the feed grade has been steadily increasing to in excess of 2.0 grams per tonne and is expected to approach the life of mine average grade in the coming weeks.

A total of 4,756 ounces of gold were sold during the second quarter for gross sales receipts of \$3,355,680. The Youga Gold Mine had not reached commercial production as at May 31, 2008, accordingly the operating, finance and other costs for the quarter, net of gold receipts, were capitalized as preproduction costs. Commercial production has been achieved in early July with the effective application date for accounting purposes being July 1, 2008.

Development costs incurred on the Youga Gold Project to the end of May 2008 aggregate \$88.5 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 commencing in April 2008 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 May 31, 2008 the Company settled for cash delivery obligations aggregating 17,462 ounces at a net cost of \$3.24 million. For the three month period ended November 30, 2007 the Company settled for cash delivery obligations aggregating 10,554 ounces at a net cost of \$630,000. During the nine month period ended May 31, 2008 put options aggregating 60,696 ounces expired unexercised.

The following table details the option contracts as at May 31, 2008:

Year	Bought Put		Sold Call	
	Options (number of ounces)	Price per ounce	Options (number of ounces)	Price per ounce
2008	42,798	US\$629	23,112	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
	395,406	US\$629	213,534	US\$700

The Company has recorded an unrealized loss of \$14.9 million for the six months ended May 31, 2008 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 May 31, 2008	As at Feb 29, 2008	As at Nov 30, 2007	As at May 31, 2007
Spot gold price (US\$)	886	974	797	660
Youga gold financial derivative liability (Cdn\$ millions)	48.4	67.7	33.5	14.5

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 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.

A feasibility study on the Agbaou Gold Project is continuing. 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 are addressing 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 after which the Company will apply for the mining permit and establish the exploitation company.

In the first two quarters of 2008, the Company incurred \$2 million on its exploration and feasibility activities bringing the total investment in the Agbaou Gold Project to \$10.6 million. In 2007 and 2008 the Company upgraded its exploration vehicle fleet in Côte d'Ivoire purchasing 10 new vehicles. The Company has also requisitioned a new multi-purpose 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.

Exploration Permits, Côte d'Ivoire

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 presently holds three exploration permits in eastern Côte d'Ivoire covering 3,000 square kilometers and has applied for an additional six exploration permits covering 5,538 square kilometers.

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 activities have been initiated on the three new permits in eastern Côte d'Ivoire on the geological extensions of the Sefwi Belt and the Sunyani Basin, which host important gold deposits in Ghana including the Ahafo (13 million ounces), Bibiani (5 million ounces) and Chirano (2 million ounces) projects. Two project areas are at early grassroots stage and one permit (Allangoua) has seen significant historical exploration that has identified a number of favourable targets.

On the Allangoua Permit, regional soil geochemistry carried out by the previous permit holder has delineated a series of gold anomalies running for over 60 kilometers that are coincident with a northeast trending shear zone. More detailed soil geochemical surveys over three of the target areas confirmed the regional anomalies and one target was rotary air blast (RAB) drilled. The best result was 2.2g/t over 21 meters (including 5.7 g/t over 5 meters). Five of the regional soil anomalies have not been followed up and Etruscan will initiate systematic sampling (4,500 soil samples) over these areas while the initial three detailed grids will be evaluated for further drilling.

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 two quarters of 2008, the Company incurred \$2.9 million on its acquisition and exploration activities in Mali bringing the total investment in the country to \$14.1 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 its 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 (Resolute half year report – February 29, 2008). 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 calculated 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, Resolute and Etruscan 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. Six of the eight deeper exploration holes intersected significant mineralization at vertical depths up to 300 meters (14 meters of 3.4 g/t gold and 14 meters of 3.1 g/t gold). Significant mineralization was also encountered from the in-fill drilling (44 meters of 11.6 g/t and 16 meters of 16.2 g/t) demonstrating that additional high grade shoots can be expected with more closely spaced drilling. Reverse circulation drill results have also been received for 11 exploration holes drilled in the Porphyry Zone where significant mineralization was also encountered (9 meters of 2.2 g/t, 4 meters of 2.0 g/t and 7 meters of 2.4 g/t).

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 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 deposit occurs within a geochemical anomaly covering an area measuring 2.5 kilometers in length and 300-500 meters in width. The most significant gold mineralization is in the southern part of the anomaly and is hosted by arkosic sediments and minor conglomerates. Lower grade mineralization in the northern part of the anomaly is associated with intrusive diorites and granodiorites.

Recent exploration efforts have stepped out five kilometers to the northwest, and three kilometers to the north of the original discovery to

test all remaining weaker geochemical anomalies with no significant results. The remaining exploration holes are targeting the intrusive rocks where low grade mineralization was encountered during reconnaissance drilling. To date, the most important mineralization has been restricted to the southwestern drilling area.

Two high priority geochemical targets at Keniebandi, located 30 kilometers south of Diba have not been drill tested. These targets measure 1.4 kilometers by 300 meters with a maximum value of 1.1 g/t gold and 1.2 kilometers by 300 meters with a maximum value of 1.5 g/t gold. Once the permit is finalized both targets will be drill tested. One of the newly purchased multi-purpose (auger, rotary air blast and RC) 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 also begun to develop a land position in the Boromo Gold Belt located in northern Burkina Faso.

Exploration efforts outside the exploitation permit, in the Youga Gold Belt are currently focused on the Bitou area, and in particular on the Ouaré Zone which is located 35 kilometers northeast of the Youga Gold Mine. Previous work at Ouaré, including trenching and RC drilling, had identified significant mineralization with resource potential over a strike length of 575 meters. Results from the Company's first 1,500 meters of a planned 5,000 meter RC drill program, at Ouaré, are highlighted to date by: 2.8 g/t over 22 meters (including 6.5 g/t over 6 meters), 2.6 g/t over 14 meters (including 9.2 g/t over 4 meters), 2.6 g/t over 12 meters (including 6.2 g/t over 4 meters), 41.6 g/t over 2 meters and 25.6 g/t over 2 meters.

Outside the Youga Belt the Company has options to acquire a 100% interest in five permits covering 889 square kilometers in the region. Reconnaissance auger drilling on a 250 x 50 meter grid spacing has picked up significant gold anomalies in a north-south corridor extending for three kilometers north of the Alga Northwest gold digging site. The most significant auger anomaly returned a three-point line anomaly of 5.4 g/t, 0.3 g/t and > 10.0 g/t and has not yet been tested. Reconnaissance RAB drilling and limited trenching have been carried out in four areas: Alga Main, Alga Northwest, Momne and Kamgoro.

In the first two quarters of 2008, the Company incurred \$2.2 million on the acquisition and exploration of these other properties in Burkina Faso bringing its total investment to \$4.5 million. The Company has also recently purchased seven new vehicles for its exploration activities in Burkina Faso and two new multi-purpose (auger, rotary air blast and RC) drill rigs which have been deployed to Burkina Faso.

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 Nangodi-Bolgatanga Project Area 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 has tested the initial targets.

At the Zupeliga target, mineralization was intersected over a 250 meter strike length within zones of silicification with pyrite along a volcanoclastics/mafic volcanic contact. Significant intercepts include 3.6 g/t over 16.5 meters, 2.3 g/t over 21 meters and 1 g/t over 10.5 meters. At the Pelungu target two RAB holes intersected a stockwork zone in hornblende granodiorite. Best intercepts included 2.4 g/t over 13.5 meters and 4.6 g/t over 6 meters. On the Bolgatanga Reconnaissance Licence three areas have been selected for reconnaissance drilling based on significant gold-in-soil anomalies and rock sampling. Historic trenches at Gonse were re-sampled and returned significant results over a strike length of 170 meters. Highlights include 7.0 g/t over 12 meters and 5.0 g/t over 10 meters. Historic trenches at Widinaba were also re-sampled and returned 5.7 g/t over 8 meters and 2.1 g/t over 10 meters. Application has been made to convert the Bolgatanga Reconnaissance Licence into three separate prospecting licences to allow these areas to be drill tested.

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.

During 2007 and 2008, the Company also concluded option agreements with five licence holders to acquire a 100% interest (subject to a net smelter royalty) in two prospecting licences and three reconnaissance licences in southwestern Ghana covering an additional 552 square kilometres.

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 positive results will be covered by more detailed grid sampling and auger drilling. These programs are ongoing.

In the first two quarters of 2008 the Company incurred \$1.1 million on its acquisition and exploration activities in Ghana bringing the total investment in Ghana to \$4.6 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. The Company has also recently purchased seven new vehicles for its exploration activities in Ghana.

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 9,000 square kilometers have been granted and the Company has undertaken satellite imagery analyses, prospecting, soil geochemistry and trenching over both areas to assist in identifying prospective targets within these large land packages. Exploration has resulted in the definition of ten targets in northern Namibia on the Company's Kamanjab Project. RC and RAB drilling is currently underway and targeting a variety of commodities including gold, silver, base metals and rare earth elements.

The most promising target to date is the old Lofdal Copper Mine where a small amount of copper was mined from three adits and three shafts back in the early 1960s. Grab rock samples collected around the old workings from the surficial copper mineralization returned values as high as 0.9 g/t Au, 65.5 g/t Ag and 5.3% Cu, however narrow quartz-veins hosted within a mica-schist south of the old workings reported assays up to 15.7 g/t Au, 19 g/t Ag and 1% Cu. Both targets have been RC drilled to test the down-dip potential and results are pending.

RAB drilling has commenced on the Noute-AK target, which is the most promising IOCG target identified to date. The area is characterized by an extensive zone of iron enrichment, within carbonate and meta-pelitic sediments, which covers an area roughly two kilometers long and 700 meters wide. Soil sampling over the area has identified a low-grade gold anomaly over the north-eastern end of the target which is currently being tested by RAB drilling. RAB and RC drilling is planned to test four additional targets on the Lofdal Carbonatites, Noute-S, Lofdal-J and Copper Valley while the other targets will be covered by detailed mapping, prospecting and trenching. Regional stream sediment sampling over the Witvlei permits, in central Namibia, will also commence.

In the first two quarters of 2008, the Company incurred \$920,000 on its acquisition and exploration activities on its properties in Namibia bringing its total investment to \$3 million. In 2007 and 2008 the Company also upgraded its exploration vehicle fleet in Namibia purchasing eight new vehicles.

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. Since that date, the Company has recorded its share of accounting losses with the corresponding reductions in the carrying value of its equity investment in African GeoMin, which for accounting purposes, effectively eliminated the carrying value of the Company's equity investment in African GeoMin.

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.

For the most recent reporting quarter being the three months ended March 31, 2008, Semafo Inc., as operator of the Samira Hill Gold Mine, reported gold production of 16,300 ounces at a cash operating cost of US\$586 per ounce and a total cash cost of US\$645 per ounce. A total of 15,300 ounces of gold were sold for the three-month period at an average selling price of US\$910 per ounce. Gold production for prior year three month comparative period was 20,400 ounces at a total cash cost of \$US479 per ounce. The decrease in gold production was forecasted and was primarily due to a decrease in the recovery rate from 84% to 66% as a result of the high levels of graphite present in the ore from the main pit.

Before the Company records any amounts associated with its investment in African GeoMin, its cumulative share of operating losses must be recovered. These losses are substantial and the Company does not anticipate that it will recover the cumulative losses from the Samira Hill Gold Mine in the foreseeable future.

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. held a 53.65% ownership interest in Etruscan Diamonds Limited, Mountain Lake held a 16.2% ownership interest and the balance was held by third parties.

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. The Company has drawn down the full amount of this credit facility.



Subsequent to May 31, 2008, Etruscan Diamonds Limited completed a rights offering to its shareholders granting each shareholder of Etruscan Diamonds Limited the right to acquire one common share of Etruscan Diamonds Limited for every 15 common shares held by the shareholder at a price of \$2.00 per common share. Gross proceeds of \$1,967,284 were raised by the rights offering. As a result of the rights offering, Etruscan Resources Inc. now holds a 52.07% ownership interest in Etruscan Diamonds Limited, Mountain Lake Resources Inc. has a 16.07% ownership interest and the balance is held by third parties including employees and their affiliates and associates who own an aggregate of 5.8% of Etruscan Diamonds Limited.

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.

During the first quarter of 2008, 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 Etruscan Diamonds regained control of late in 2007, and through four 16 foot pan plants which have recently been installed near the DMS plant. The objective is to achieve a monthly throughput of 100,000 cubic meters of gravel per month from the two facilities with 40,000 cubic meters coming from the DMS plant and 60,000 cubic meters from the pan plant.

Production at the Blue Gum Diamond Project for six month period ended May 31, 2008 was 209,231 cubic meters yielding 5,465 carats for an overall grade of 2.61 carats per hundred cubic meters and a rough tender average value of \$613 per carat. A total of 3,880 carats were sold on rough tender and, consistent with the objective of creating a vertically integrated company, 763 carats were delivered to Etruscan Diamonds' strategic partner, African Romance of South Africa, for cutting and polishing. African Romance is the first wholly Black-owned South African diamond cutting and polishing company and recently opened its new diamond cutting and polishing facility in Johannesburg. Cutting, polishing, certification and sale of the Etruscan Diamond stones is presently underway. Based on industry experience, we believe diamond cutting and polishing can add substantial value to the rough tender diamond prices.

The ramp up at the Tirisano DMS plant and the new pan plants is continuing and the facility is targeted to achieve the forecast production rate of 100,000 cubic meters per month in the third quarter of 2008. The last major component, a commercial scale pre-screening unit, is presently being installed. Current pre-screening capacity is limited to 1,000 cubic meters per day which limits the pan plant throughput. The installation of the larger pre-screening unit will increase the pre-screening capability to 10,000 cubic meters per day. This installation is critical to ensuring ramp up of the pan plants to the steady state production rate of 60,000 cubic meters per month. The forecast production rate of 100,000 cubic meters per month is anticipated to recover approximately 2,500 carats per month.

The Blue Gum Diamond Project had not reached commercial production as at May 31, 2008. Accordingly the operating, finance and other costs for the quarter, net of diamond receipts, were capitalized as preproduction costs. Commercial production is expected to be declared in the third quarter.

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 August 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 May 31, 2008, the Company has invested \$24.1 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 \$9.3 million.

Other Diamond Permits

In addition to the permits comprising the Blue Gum Project, Etruscan Diamonds presently holds one mining permit and eleven prospecting permits covering approximately 2,200 square kilometers in the Ventersdorp District, with one additional prospecting permit 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 two quarters of 2008, the Company incurred \$150,000 (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 \$2.3 million at the end of the second quarter of 2008.

Reclamation provisions - Youga Gold Project & Blue Gum Diamond Project

In May 2008, the Company assessed the reclamation liability for the Youga Gold Project at \$1.1 million. The feasibility study established the reclamation amount at \$1.5 million at the end of the mine life. The Company estimates that a reclamation liability of \$1.1 million has been incurred as at May 31, 2008. The fair value of this future reclamation liability has been calculated by adjusting for a Burkina Faso rate of inflation and discounted resulting in a fair value of future reclamation liability in the amount of \$1 million. Under the Burkina Faso mining legislation the Company will be required to begin funding reclamation deposits in January 2009.

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. As at November 30, 2007, the Company also recorded a provision for reclamation costs in the amount of \$150,000 for the Hartbeestlaagte property.

In April 2008 the Company reassessed the reclamation liability for the Hartbeestlaagte and the Tirisano Diamond Mine which together with the Zwartrand property, constitute the Blue Gum Diamond Project. The reclamation amount of R15 million (\$2 million) has been submitted to the South African Department of Mines and Energy.

The fair value of this future reclamation liability has been calculated by adjusting for a projected South African rate of inflation and discounted resulting in a fair value of future reclamation liability in the amount of R13.2 million (\$1.76 million) at the beginning of April 2008. For the

two first two quarters of 2008 accretion expense of \$64,000 has been recorded to increasing the future fair value of Blue Gum to \$1.78 million.

Under South African mining legislation the Company continues to increase its reclamation deposits which are applicable to all exploration and development properties. These deposits amount to \$1,018,750 as compared to \$997,270 at the end of November 2007.

Consolidated Statement of Operations – for the quarters ended

	May 31, 2008 (\$)	Feb 29, 2008 (\$)	Nov 30, 2007 (\$)	Aug 31, 2007 (\$)	May 31, 2007 (\$)	Feb 28, 2007 (\$)	Nov 30, 2006 (\$)	Aug 31, 2006 (\$)
Gain (loss) on sale of investments	-	(10,600)	700,795	59,803	947,051	-	-	163,560
Interest and other income	170,700	346,410	221,849	33,679	207,111	101,262	235,389	328,748
Total revenue	170,700	335,810	922,644	93,482	1,154,162	101,262	235,389	492,308
General and administrative expenses	1,152,640	766,448	667,207	923,520	972,290	363,435	577,450	492,367
Foreign currency (gain) loss	730,889	(724,139)	(1,474,011)	(411,546)	(937,149)	115,672	32,149	(103,485)
Interest on long-term debt	22,132	22,798	2,396	21,759	18,100	35,444	32,687	32,926
Professional fees	196,817	186,196	239,907	93,976	134,613	260,641	326,683	190,874
Wages and benefits	938,181	589,227	598,277	614,280	596,742	536,432	478,885	513,469
Stock based compensation	1,485,600	56,400	2,000	42,500	2,215,000	-	215,000	-
Property investigation and maintenance	28,485	12,284	24,964	45,022	29,886	22,581	4,443	3,967
Write-off of mineral property	-	-	91,297	453,802	-	-	231,952	-
Total expenses	4,554,744	909,214	152,037	1,783,313	3,029,482	1,334,205	1,899,249	1,130,118
Gain (loss) for the quarter	(4,384,044)	(573,404)	770,607	(1,689,831)	(1,875,320)	(1,232,943)	(1,663,860)	(637,810)
Unrealized gain (loss) on financial instrument	19,300,000	(34,200,000)	(19,500,000)	500,000	1,000,000	(15,500,000)	-	-
Realized loss on financial instrument	(1,243,809)	(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	237,165	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)
Loss from equity investment in African GeoMin	-	-	-	-	-	-	-	(1,104,643)
Net income (loss)	13,909,312	(36,491,680)	(19,051,967)	(813,365)	836,682	(16,802,943)	(1,673,860)	(1,767,453)
Net income (loss) per share	0.11	(0.30)	(0.17)	(0.01)	0.01	(0.17)	(0.02)	(0.02)

Results of Operations

Etruscan's net loss for the first two quarters of 2008 was \$22.6 million or \$0.18 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 two quarters of 2007 of \$16 million or \$0.16 per share. In the first two quarters of 2008, the results include an unrealized loss on the financial derivative of \$14.9 million (\$0.12 per share) and a realized loss of \$3.25 million (\$0.026 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 \$14.5 (\$0.142 per share) million in the first two quarters.

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 May 31, 2008 was negative \$48.4 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 two quarters of 2008 of \$14.9 million (\$0.12 per share) and correspondingly recorded an increase to the related liability on the balance sheet. This unrealized loss for the first half of 2008 included a loss of \$34.2 million in the first quarter followed by a gain of \$19.3 million in the second quarter. The unrealized mark-to-market loss represents the theoretical value on cancellation of the gold option contracts based on market values as at May 31, 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. In the second quarter of 2008 the company settled for cash, additional delivery obligations aggregating 6,344 ounces at a net cost of \$1.25 million. In the two months ended May 31, 2008, the Company also delivered 4,756 ounces realizing \$700 per ounce for total proceeds of \$3.36 million. During the

nine month period ended May 31, 2008 put options aggregating 60,696 ounces expired unexercised.

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 two quarters of 2008, the Company recorded an unrealized gain of \$29,983 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 \$517,110 in the first two quarters of 2008 as compared to \$563,901 in 2007 including \$308,373 in the first two quarters. 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. In the fourth quarter of 2007, 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 two quarters of 2008, the Company recorded \$517,478 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. The Company has drawn down the full amount 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 shares 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.

Consolidated Statement of Expenses

General and administrative expenses increased to \$1,919,088 in the first two quarters of 2008 as compared to \$2,667,640 in 2007 including \$1,335,725 in the first two 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 two quarters of 2008, the Company has expensed financing costs of \$404,000 (first two quarters of 2007 - \$259,000) for the Youga Gold Project. In May 2008, the Company also incurred mine opening expenses at the Youga Gold Mine in the amount of \$110,000. During the first two quarters of 2008, the Company has also recorded increased depreciation and accretion expense of \$60,000 and \$64,000, respectively.

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 two quarters of 2008. Travel costs in the first two quarters of 2008 were \$288,000 as compared to \$513,000 in 2007 including \$286,000 in the first two quarters of 2007. Promotional costs in the first two quarters of 2008 were \$284,000 as compared to \$400,000 in 2007 including \$194,000 in the first two quarters of 2007.

Consistent with its corporate philosophy, Etruscan has funded various social initiatives in both South and West Africa contributing \$100,000 in the first two quarters of 2008, \$97,000 in 2007 and \$100,000 in 2006. In 2008 the Company has continued funding many of its social programs including the construction of two new classrooms at the Bossey Bangou school in Niger, the provisions of 80 school desks and playground equipment at the Youga school in Burkina Faso as well as donations and supplies to a medical clinic in Niger and the BMC medical centre located with the Youga Gold Project. Other projects included the purchase and shipment of antibiotics to Burkina Faso and food donations to an orphanage in Burkina Faso. Etruscan Diamonds also funded education and upliftment projects directly related to the betterment of its employees.

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. 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.

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008

The Company experienced a net foreign currency exchange loss of \$730,889 in the second quarter of 2008 as compared to a gain of \$724,139 in the first quarter. In 2007, the Company experienced a net exchange gain of \$2,448,222 including a gain of \$821,477 in the first two quarters. These foreign currency gains and losses are summarized as follows:

	May 31, 2008 (6 mos) (\$)	May 31, 2008 (3 mos) (\$)	Feb 29, 2008 (3 mos) (\$)	Nov 30, 2007 (12 mos) (\$)
Youga Gold Project Loss (gain) on foreign currency				
Long-term debt	(396,014)	649,040	(1,045,054)	(3,858,885)
Bank accounts US\$ and Euro	241,441	31,682	209,759	1,472,120
Subtotal Youga	(154,573)	680,722	(835,295)	(2,386,765)
Etruscan Diamonds SA Rand exchange loss (gain)				
Bank accounts	270,477	(35,009)	305,486	152,926
Reclamation deposits and receivables	146,602	(33,170)	179,772	182,793
Long-term debt	(61,940)	35,606	(97,546)	35,478
Subtotal Diamonds	355,139	(32,573)	387,712	371,197
Company loss (gain) on foreign denominated payables				
	(193,816)	82,740	(276,556)	(432,654)
Total	6,750	730,889	(724,139)	(2,448,222)

In the second quarter of 2008, the Company experienced a net foreign currency exchange loss primarily due to a weakening of the Canadian dollar against the US dollar which weakened from .98 to .994. In the first quarter of 2008, the Company experienced an offsetting exchange gain with the strengthening of the Canadian dollar from par to .98 against the US dollar. As a result of these movements in the Canadian/US exchange rates, the Company recorded significant gains and losses 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 second quarter of 2008, the South African rand strengthened slightly against the Canadian dollar with the rate going from 7.9 to 7.66. During the first quarter of 2008, the South African 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 South African rand denominated cash balances during the quarter. In addition to its cash accounts the Company also incurred losses on its reclamation deposits and other South African rand amounts receivable. These losses have been offset by gains on South African 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 \$22,000 in each of the first two quarters in 2008. The Company expensed interest on long-term debt of \$77,699 in 2007. The balance of a previous IDC loan was repaid in the first quarter of 2007. Interest in the first half of 2008 of \$1,050,000 has been capitalized to the Youga Gold Project. In the second quarter of 2008 interest of \$20,000 on the new IDC loan has been capitalized to the Blue Gum Diamond project.

Professional fees were \$383,013 in the first two quarters of 2008 compared with \$729,137 in 2007 including \$395,254 in the first two quarters. 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. In the first half of 2008 the Company incurred additional audit and accounting fees of \$40,000 associated with its separate audit of its subsidiary Etruscan Diamonds Limited. 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 \$1,527,408 in the first two quarters of 2008 compared with \$2,345,731 in 2007 including \$1,133,174 in the first two quarters. At the beginning of 2008 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 23 people in the second quarter of 2008.

As a result of applying the Black-Scholes option-pricing model, the Company has recorded stock-based compensation expense of \$1,542,000 in the first two quarters of 2008 as compared to \$2,259,500 in 2007 including \$2,215,000 in the first two quarters. In the first two quarters of 2008, the Company has recorded additional stock based compensation of \$521,000 (2007 - \$700,500) of which \$192,000 (2007 - \$448,000) was charged to mineral properties, \$191,000 (2007 - \$241,500) was charged to the cost of the Youga Gold Project and \$138,000 was charged to Blue Gum Diamond Project. In 2007, an additional \$11,000 was charged to property investigation.

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 \$40,769 in the first two quarters of 2008 as compared to \$122,453 in 2007 including \$52,467 in the first two quarters. The Company continues to investigate new property acquisition targets in the West Africa countries of Mali, Côte d'Ivoire, Burkina Faso, Ghana and Benin, as well as, the Southern African countries of Namibia and South Africa. As a result of previous property investigation expenditures, the Company has established an exploration office in Benin acquiring three new permits. The Company is also investigating the exploration potential in other West African countries.

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 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. In the first two quarters of 2008, the Company incurred business development rental expense of \$38,759. In 2007, the Company incurred rental expenses of \$36,800 including \$33,600 in the first two quarters.

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 has a working capital deficiency at the end of May 2008 of \$11.1 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 two quarters of 2008, the Company issued 2,212,963 common shares on the exercise of warrants for net proceeds of \$3,872,686 and 290,000 shares on the exercise of stock options for proceeds of \$352,300. 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 Hartbeestlaagte 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, Benin and Côte d'Ivoire as well as for general corporate purposes.

Outstanding Share Data

As at July 11, 2008, the Company had 124,206,126 (May 31, 2008 – 124,156,126) issued and outstanding common shares. For financial statement presentation, the Company nets 488,000 common shares of the Company held by subsidiaries. These shares are held as portfolio investments; however, as required by generally accepted accounting principles, have been recorded as a reduction to capital stock in the financial statements. Since the end of May, the Company has issued 50,000 common shares on the exercise of stock options for proceeds of \$61,500. As at July 11, 2008, the Company has 8,129,500 (May 31, 2008 – 8,179,500) stock options outstanding at a weighted average price of \$2.20 with exercise prices ranging from \$0.26 to \$4.45 and a weighted average remaining contractual life of 6.2 years. The Company continues to have 9,179,722 common share purchase warrants outstanding.

In late 2007 the Company established a stock option plan for its diamond subsidiary, Etruscan Diamonds Limited. As at July 11, 2008, there are 755,000 Etruscan Diamonds Limited stock options outstanding with an exercise price of \$2.00, an estimated vesting period of 18 months and an expiry date of November 21, 2017. Since the end of May there have been no changes this stock option plan.

Long-term Debt and other Financial Instruments

The aggregate amount of principal repayments required in each of the next five years, based on May 31, 2008 exchange and interest rates, to meet retirement provisions on long-term debt, is summarized as follows:

	\$
Year ending May 31, 2009	12,525,000
2010	14,038,000
2011	7,102,000
2012	9,016,000
2013	126,000

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. In the second quarter of 2008, the company repaid US\$2 million which results in a balance owing of US\$33 million at May 31, 2008. 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%.

In the second quarter of 2008, the Company Etruscan Diamonds loan with the Industrial Development Corporation of South Africa (IDC) in the amount of R15 million bearing interest at South African prime (as at May 31, 2008 – 15%) plus 0.5% and is repayable in quarterly instalments of R882,350 (\$115,150) plus interest commencing on August 1, 2008. The loan is secured by a notarial bond over all of moveable property and effects of Blue Gum Diamonds (Pty) Limited as well as a pledge of the Company's shares of Etruscan Diamonds Limited.

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 and the six month period ended May 31, 2008, 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. For a summary of these new accounting standards and the resulting effects thereof, please refer to note 3 in the consolidated financial statements. This note also summarizes future new accounting standards which may be applicable to the Company.

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.

Mineral Properties, Related Deferred Costs and Property Plant and Equipment

The Company's recorded amount of its mineral properties is accumulated based upon costs incurred to date, net of recoveries and provisions. This approach to recording mineral properties is consistent with industry standards and the Company believes that this represents its best estimate of the appropriate carrying amount for each property. The economic feasibility of each property is assessed regularly by management based upon current geological exploration and results thereof, independent geological reports, surrounding exploration and development activities, ongoing assessment of the political environment in the countries where properties are held and the availability of funding. When a property is deemed economically unfeasible, the cost thereof is written off.

Exploration and development costs relating to mineral properties are deferred until the properties are brought into commercial production, at which time they are amortized on the unit of production basis, or until the properties are abandoned or sold or management determines that the mineral property is not economically viable, at which time the deferred costs are written off. The Company has maintained title to certain properties that have been written off. Any proceeds relating to these properties will be recorded in income as received. The units-of-production amortization is calculated based on proven and probable reserves following commencement of commercial production.

Management's estimate of mineral prices, recoverable proven and probable reserves and operating and capital costs are subject to certain risks and uncertainties that may affect the recoverability of mineral properties and related deferred costs. Although management has made its best estimate of these factors, it is possible that material changes could occur which may adversely affect management's estimate of the net cash flows to be generated from its properties.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, according to the industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior undetected agreements or transfers and title may be affected by such defects.

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 the financial instrument risks please refer to note 15. For a summary of other 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 and the Company's website at 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 SIX MONTH PERIOD ENDED MAY 31, 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

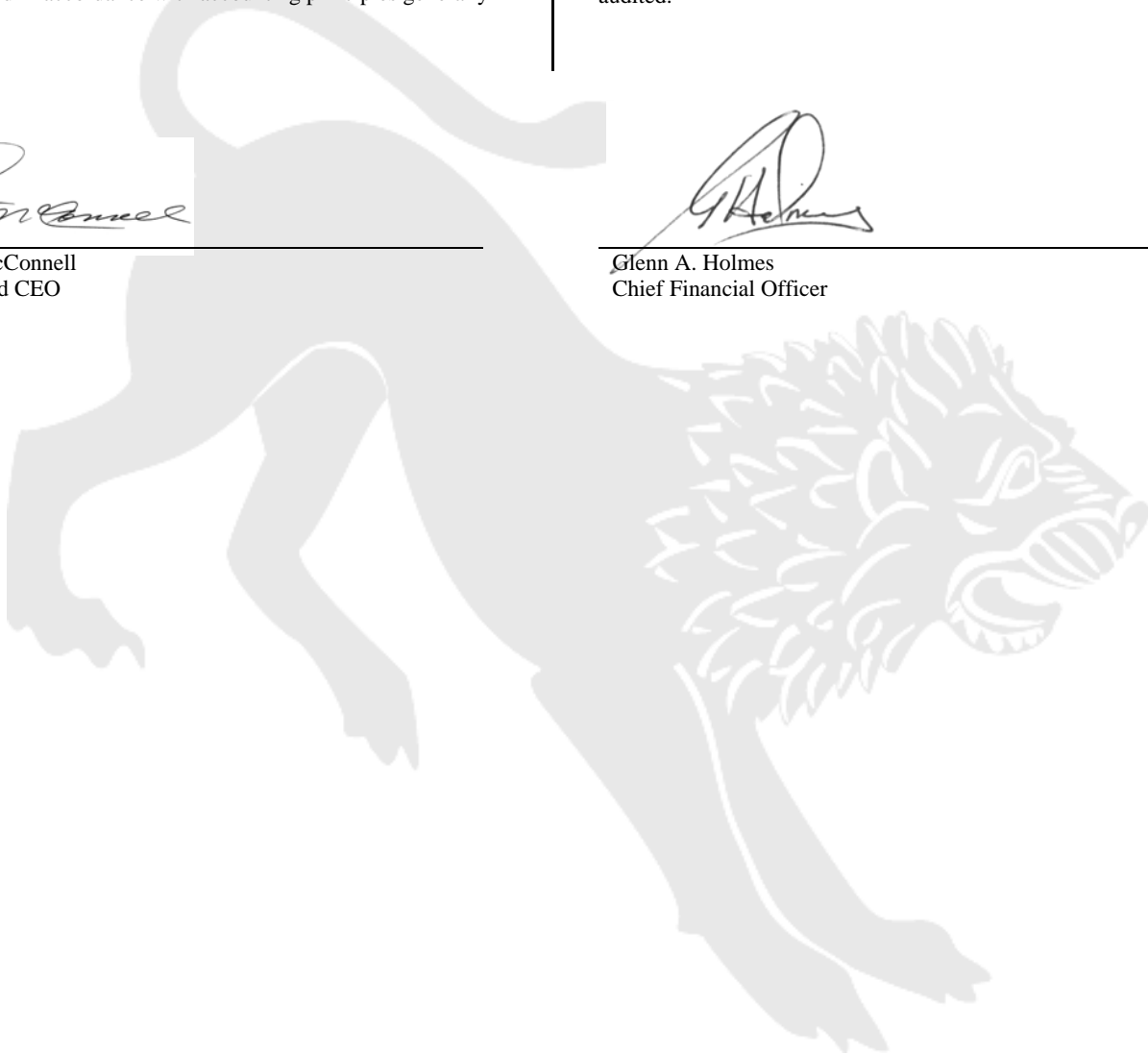
accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company. These interim financial statements have not been audited.



Gerald J. McConnell
President and CEO



Glenn A. Holmes
Chief Financial Officer



UNAUDITED CONSOLIDATED BALANCE SHEETS

AS AT MAY 31, 2008 AND NOVEMBER 30, 2007 (IN CANADIAN DOLLARS)
(NOTE 1)

	May 31, 2008 \$	November 30, 2007 \$
Assets		
Current assets		
Cash and cash equivalents	13,059,412	31,926,710
Amounts receivable	1,514,253	1,239,840
Inventory of diamonds	796,610	365,902
Deposits and prepaid expenses	736,454	301,532
Available-for-sale securities (note 4)	341,799	376,180
	16,448,528	34,210,164
Property, plant and equipment (note 5)	136,616,178	114,811,521
Reclamation deposits	1,018,750	997,270
Mineral properties and related deferred costs (note 6)	39,146,285	29,794,553
	193,229,741	179,813,508
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	15,067,722	11,404,302
Current portion of long-term debt (note 7)	12,525,000	6,647,318
	27,592,722	18,051,620
Long-term debt (note 7)	24,631,234	25,675,861
Financial derivative instrument (note 8)	48,400,000	33,500,000
Non-controlling interest in subsidiary company (note 9)	11,962,974	8,580,452
Provision for reclamation (note 10)	2,780,000	1,630,000
	115,366,930	87,437,933
Commitments (note 11)		
Shareholders' Equity		
Capital stock (note 12)	249,478,448	245,250,462
Warrants (note 12)	6,058,061	4,258,061
Contributed Surplus (note 12)	7,771,000	5,710,000
Accumulated other comprehensive loss (note 13)	(1,624,872)	(1,605,490)
Deficit	(183,819,826)	(161,237,458)
	77,862,811	92,375,575
	193,229,741	179,813,508

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS, DEFICIT AND COMPREHENSIVE LOSS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)
(NOTE 1)

	Three months ended May 31, 2008 \$	Three months ended May 31, 2007 \$	Six months ended May 31, 2008 \$	Six months ended May 31, 2007 \$
Income				
Gain (loss) on sale of investments	-	947,051	(10,600)	947,051
Interest and other	170,700	207,111	517,110	308,373
	170,700	1,154,162	506,510	1,255,424
Expenses				
General and administrative	1,152,640	972,290	1,919,088	1,335,725
Foreign currency exchange loss (gain)	730,889	(937,149)	6,750	(821,477)
Interest on long-term debt	22,132	18,100	44,930	53,544
Professional fees	196,817	134,613	383,013	395,254
Property investigation and maintenance	28,485	29,886	40,769	52,467
Wages and benefits	938,181	596,742	1,527,408	1,133,174
Wages and benefits – stock based compensation	1,485,600	2,215,000	1,542,000	2,215,000
	4,554,744	3,029,482	5,463,958	4,363,687
	(4,384,044)	(1,875,320)	(4,957,448)	(3,108,263)
Unrealized gain (loss) on financial derivative instrument (note 8)	19,300,000	1,000,000	(14,900,000)	(14,500,000)
Realized loss on financial derivative instrument (note 8)	(1,243,809)	-	(3,242,398)	-
Net gain on the restructuring and financing of Etruscan Diamonds Limited (note 9)	-	1,570,762	-	1,570,762
Non-controlling interest in loss of subsidiary company (note 9)	237,165	121,240	517,478	121,240
Loss from equity investment in the Tirisano Joint Venture	-	20,000	-	(50,000)
Net income (loss) for the period	13,909,312	836,682	(22,582,368)	(15,966,261)
Deficit – Beginning of period	(197,729,138)	(142,208,808)	(161,237,458)	(125,405,865)
Deficit – End of period	(183,819,826)	(141,372,126)	(183,819,826)	(141,372,126)
Income (loss) per share - Basic and diluted	0.11	0.01	(0.18)	(0.16)
Statement of Comprehensive Income (Loss)				
Net income (loss) for the period	13,909,312	836,682	(22,582,368)	(15,966,261)
Other comprehensive loss (note 13)				
Net change in unrealized gain on available for sale securities	(86,229)	(1,712,948)	(19,383)	(787,373)
Comprehensive income (loss)	13,823,083	(876,266)	(22,601,751)	(16,753,634)



UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

	Three months ended May 31, 2008 \$	Three months ended May 31, 2007 \$	Six months ended May 31, 2008 \$	Six months ended May 31, 2007 \$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	13,909,312	836,682	(22,582,368)	(15,966,261)
Charges (credits) to income not affecting cash				
Loss (gain) on sale of investments	-	(947,051)	10,600	(947,051)
Amortization and accretion	88,011	37,500	165,849	68,623
Foreign exchange loss (gain) on revaluation of long-term debt and reclamation deposits	519,828	(1,840,569)	(475,208)	(1,571,974)
Unrealized (gain) loss on financial derivative instrument	(19,300,000)	(1,000,000)	14,900,000	14,500,000
Net dilution gain on restructuring and financing of Etruscan Diamonds Limited	-	(1,570,762)	-	(1,570,762)
Loss from equity investment in the Tirisano Diamond Mine Joint Venture	-	(20,000)	-	50,000
Non-controlling interest in loss of subsidiary – Etruscan Diamonds Limited	(237,165)	(121,240)	(517,478)	(121,240)
Compensation expense on stock-based compensation	1,485,600	2,065,000	1,542,000	2,235,000
	(3,534,413)	(2,560,440)	(6,956,605)	(3,323,665)
Net change in non-cash working capital balances related to operations				
Increase in accounts receivable and deposits and prepaid expenses	(607,270)	(381,645)	(709,335)	(774,848)
Increase in inventory of diamonds	(33,210)	9,800	(430,708)	9,800
Increase (decrease) in accounts payable and accrued liabilities	807,212	2,985,213	(396,581)	(1,686,259)
	(3,367,681)	52,928	(8,493,229)	(5,774,972)
Financing activities				
Proceeds from issuance of capital stock - net	36,500	7,919,775	4,224,986	11,054,733
Proceeds from long-term debt	1,957,509	23,106,500	9,616,041	23,106,500
Repayment of long-term debt	(2,054,454)	(1,696)	(2,086,559)	(480,108)
Increase in deferred financing costs	-	(391,363)	(421,219)	(391,363)
Net proceeds from Etruscan Diamonds Limited financing	-	10,150,109	-	10,150,109
	(60,445)	40,783,325	11,333,249	43,439,871
Investing activities				
Acquisition of other assets	-	(211,591)	-	(211,591)
Proceeds on sale of marketable securities	-	1,398,730	4,400	1,187,139
Acquisition Of property, plant and equipment	(8,475,917)	(20,248,093)	(18,675,734)	(27,346,531)
Net proceeds from sale of 26% in the Tirisano Diamond Mine	-	-	3,900,000	-
Reclamation deposits	50,556	15,950	(21,480)	(30,446)
Expenditures on mineral properties and related deferred costs – net	(3,409,527)	(4,186,919)	(6,914,504)	(7,175,263)
	(11,834,888)	(23,231,923)	(21,707,318)	(33,576,692)
Net change in cash and cash equivalents during the periods	(15,263,015)	17,604,330	(18,867,298)	4,088,207
Cash and cash equivalents – Beginning of periods	28,322,427	3,140,787	31,926,710	16,656,910
Cash and cash equivalents – End of periods	13,059,412	20,745,117	13,059,412	20,745,117

Supplemental cash flow information (note 16)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

1. Nature of Operations and going concern

The Company is in the business of exploring and developing gold and diamond properties, primarily in Africa, through its subsidiaries and its investment in other ventures. As at May 31, 2008, the Company had not reached commercial production and is considered a development stage enterprise. 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. The recoverability of the amounts shown for the investment in the 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.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as the liabilities come due. For the six months ended May 31, 2008 the Company reported a loss of \$22.6 million and an accumulated deficit of \$184 million at that date. As at May 31, 2008, the Company had a working capital deficit of \$11.1 million. In addition to its on-going working capital requirements, the Company must secure sufficient funding for existing commitments, including construction and commissioning costs of the Youga Gold Project and long-term debt repayments. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

As at May 31, 2008, the Company has cash and cash equivalents of \$13.1 million. These cash resources, while substantial, are not sufficient in and of themselves to enable the Company to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Company's operations so it can continue as a going concern. Management expects that the Company will be able to secure the necessary financing through a combination of additional debt and equity financing. While the Company has been successful raising additional financing 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 dependent upon its ability to achieve commercial production at the Youga Gold Project, securing and maintaining title and beneficial interest in the properties and generate positive cash flows from future production. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

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%), ER Burkina Exploration (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 Resources Benin SARL (100%), 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, except as described in note 3. 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 May 31, 2008 and the results of its operations and its cash flows for the three and six months ended May 31, 2008. The results of operations and cash flows are not necessarily indicative of the future results of operations or cash flows.

3. Changes in Accounting Policies

The Company adopted, effective December 1, 2007, new accounting standards mandated by the Canadian Institute of Chartered Accountants (CICA) relating to accounting changes, capital disclosures and financial instruments disclosures and presentation. These standards were adopted on a prospective basis without restatement of prior periods.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

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 Section has no impact on the consolidated financial statements.

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 disclosure requirements relating to this section are provided in note 14.

Financial instruments – 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 sections require entities to disclose quantitative and qualitative information that enable users to evaluate (i) the significance of financial instruments for the Company's financial performance, and (ii) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The Company is required to disclose the measurement bases used, and the criteria used to determine classification of financial instruments. The Company has included disclosures recommended by the new Handbook section in note 15 to these interim consolidated financial statements and refer to the additional sensitivity disclosure in notes 7 and 8.

Future Accounting Changes

Inventories – section 3031

Section 3031, on inventories, eliminates last in-first out accounting for inventories. Certain items (insurance and capital spares) previously carried in inventory are classified with property, plant and equipment. Other changes include the ability to reverse previous write-down's to net realizable value when there is a subsequent increase in the value of inventories and requirements for additional disclosure. We are currently evaluating the impact of adopting this standard in 2009.

Goodwill and Intangible Assets – section 3064

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets," and CICA Section 3450, "Research and Development Costs," and amendments to Accounting Guideline (AcG) 11, "Enterprises in the Development Stage," and EIC-27, "Revenues and Expenditures During the Pre-operating Period" and CICA Section 1000, "Financial Statement Concepts." The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of CICA Section 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing assets that do not meet the definition and recognition criteria are eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. This standard will be effective for fiscal years beginning on or after October 1, 2008. We are currently evaluating the impact of adopting this standard in 2009.

Going Concern – section 1400 amendments

Section 1400 "General Standards of Financial Statement Presentation" modifies the existing section 1400 to include requirements aimed at assessing and disclosing an entity's ability to continue as a going concern and disclosing any material uncertainties that may cast significant doubt upon an entity's ability to continue as a going concern. We are currently evaluating the impact of adopting this standard in 2009.

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. Accordingly, the Company will be required to adopt IFRS on December 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

4. Available-for-sale securities

	May 31, 2008 Market value \$	May 31, 2008 Cost \$	November 30, 2007 Market value \$	November 30, 2007 Cost \$
5,000 shares of NovaGold Resources Inc. (NovaGold)	41,500	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	190,696	43,567	223,327	43,567
185,000 shares of Mountain Lake Resources Inc.	105,450	65,700	85,100	65,700
Shares of other companies	4,153	4,153	4,153	4,153
	341,799	116,670	376,180	131,670

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

5. Property, plant and equipment

			As at May 31, 2008
	Cost \$	Accumulated amortization \$	Net \$
Youga Gold Project production plant, related equipment under construction, related deferred development and exploration costs	107,435,332	-	107,435,332
Blue Gum Diamond Project production plant, related deferred development and exploration costs	24,112,079	-	24,112,079
Exploration equipment – drills	2,202,301	106,236	2,096,065
Heavy equipment	675,756	80,937	594,819
Motor vehicles	1,547,864	376,626	1,171,238
Land and buildings	374,259	60,851	313,408
Office equipment and Leaseholds	1,826,445	933,208	893,237
	138,174,036	1,557,858	136,616,178
			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
	115,999,384	1,187,863	114,811,521

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

6. Mineral properties and related deferred cost

For the period ended May 31, 2008	Balance November 30, 2007	Acquisitions and expenditures during the period	Transfer to development costs or write-down	Balance May 31, 2008
Property description	\$	\$	\$	\$
Gold properties, Africa				
Burkina Faso				
Burkina Faso gold exploration permits	2,295,276	2,168,776	-	4,464,052
Côte d'Ivoire				
Agbaou gold exploration permit	8,597,966	2,019,155	-	10,617,121
Mali				
Djelimangara, Kolomba and Sanoukou gold exploration permits	2,319,041	283,561	-	2,602,602
Mali West gold exploration initiatives	5,716,694	1,059,519	-	6,776,213
Finkolo and N'Gokoli gold exploration permits	1,834,267	982,291	-	2,816,558
Mali South gold exploration initiatives	1,272,031	597,040	-	1,869,071
Ghana	3,559,975	1,070,085	-	4,630,060
Namibia	2,076,229	922,662	-	2,998,891
Benin	-	97,102	-	97,102
Diamond properties, South Africa				
	2,123,074	151,541	-	2,274,615
	29,794,553	9,351,732	-	39,146,285

For the year ended November 30, 2007	Balance November 30, 2006	Acquisitions and expenditures during the year	Transfer to development ⁽¹⁾ costs or write-down ⁽²⁾	Balance November 30, 2007
Property description	\$	\$	\$	\$
Gold properties, Africa				
Burkina Faso				
Youga Gold Project and gold exploration permits	18,851,242	84,823	(18,936,065) ⁽¹⁾	-
Burkina Faso gold exploration permits	833,512	1,461,764	-	2,295,276
Côte d'Ivoire				
Agbaou gold exploration permit	4,434,448	4,163,518	-	8,597,966
Mali				
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 and N'Gokoli gold exploration permits	1,510,476	181,434	-	1,691,910
Mali South gold exploration initiatives	1,014,242	400,146	-	1,414,388
Ghana	894,753	2,665,222	-	3,559,975
Namibia	1,057,860	1,018,369	-	2,076,229
Diamond properties, South Africa				
Hartbeestlaagte permit	1,362,832	971,913	(2,334,745) ⁽¹⁾	-
Various diamond properties	2,265,457	402,716	(545,099) ⁽²⁾	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 SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

7. Long-term debt

Note	As at May 31, 2008 \$	As at Nov 30, 2007 \$
RMB Australia Holdings Limited and Macquarie Bank Limited		
Debt facility (a)	32,808,600	35,028,022
Subordinated debt facility (b)	7,456,500	-
	40,265,100	35,028,022
Deferred financing costs (c)	(5,662,243)	(3,441,024)
	34,602,857	31,586,998
Industrial Development Corporation of South Africa (IDC) (d)	1,957,509	-
Wesbank (e)	537,548	667,622
Nedbank Limited (f)	58,320	68,559
	37,156,234	32,323,179
Less: Current portion of long-term debt	(12,525,000)	(6,647,318)
	24,631,234	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. In the second quarter of 2008, the company repaid US\$2 million which results in a balance owing of US\$33 million at May 31, 2008. The balance of the loan is repayable on a quarterly instalments commencing June 30, 2008 over a three 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.

The Company has also capitalized net interest costs of \$2,868,948 during the development phase which is included in the cost of the Youga Gold Project.

d) Etruscan Diamonds loan with the Industrial Development Corporation of South Africa (IDC) in the amount of R15 million bearing interest at South African prime (as at May 31, 2008 – 15%) plus 0.5% and is repayable in quarterly instalments of R882,350 (\$115,150) plus interest commencing on August 1, 2008. The loan is secured by a notarial bond over all of moveable property and effects of Blue Gum Diamonds (Pty) Limited as well as a pledge of the Company's shares of Etruscan Diamonds Limited.

e) Two Etruscan Diamonds loans with Wesbank, a division of FirstRand Limited totalling R4,121,125, bearing interest at South African prime and repayable over 42 months with a blended monthly instalment of R61,976 (\$8,087). Two front-end loaders are pledged as security for these loans.

f) Etruscan Diamond's loan with Nedbank Limited in the amount of R446,894 bearing interest at South African prime less 1%, repayable over thirteen years with a blended monthly instalment of R8,885 (\$1,159) and is secured by a first mortgage bond over land and buildings.

g) The RMB/Macquarie debt facilities are denominated in US dollars. The South African amounts are denominated in South African 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	0.95	0.975	0.994	1.0	1.025	1.05
Debt in US\$ millions	\$40.5	\$40.5	\$40.5	\$40.5	\$40.5	\$40.5
Translated to Cdn\$ millions	\$38.5	\$39.5	\$40.2	\$40.5	\$41.5	\$42.5
Foreign exchange (gain) loss	(2.0)	(1.0)	(0.3)	0.0	1.0	2.0

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

h) The aggregate amount of principal repayments required in each of the next five years, based on May 31, 2008 exchange and interest rates to meet retirement provisions on the long-term debt, is as follows:

	\$
Year ending May 31, 2009	12,525,000
2010	14,038,000
2011	7,102,000
2012	9,016,000
2013	126,000

8. 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. Since September, the Company has settled for cash delivery obligations aggregating 28,016 ounces and detailed as follows:

Period ended	Number of ounces	\$
November 30, 2007	10,554	629,721
February 29, 2008	11,118	1,998,589
May 31, 2008	6,344	1,243,809
Six months ended May 31, 2008	17,462	3,242,398
Total	28,016	3,872,119

In the two months ended May 31, 2008, the Company also delivered 4,756 ounces. During the nine month period ended May 31, 2008 put options aggregating 60,696 ounces expired unexercised.

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 May 31, 2008:

Year	Bought Put Options (number of ounces)	Price per ounce	Sold Call Options (number of ounces)	Price per ounce
2008	42,798	US\$629	23,112	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
	395,406	US\$629	213,534	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 the first two quarters of 2008 of \$14.9 million and recorded the related increase in the financial derivative liability on the balance sheet to \$48.4 million (November 30, 2007 - \$33.5 million). The marked to market valuation of the Youga gold financial derivative liability is summarized as follows:

	As at May 31, 2008 \$	As at Feb 29, 2008 \$	As at Nov 30, 2007 \$	As at May 31, 2007 \$
Spot gold price (US\$)	886	974	797	660
Youga gold financial derivative liability (Cdn\$ millions)	48.4	67.7	33.5	14.5

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 May 2008 option volumes and volatility as well as the year end exchange rate.

Spot gold price (US\$)	700	800	900	1,000	1,100	1,200
Youga gold financial derivative liability (Cdn\$ millions)	8.2	30.2	51.7	73.0	94.2	115.4

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

the gold price of US\$886 and the end of May 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)	46.3	47.5	48.7	49.9	51.1

9. Investment in subsidiary company and non-controlling interest

Composition of non-controlling interest

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Etruscan Diamonds Limited	7,237,974	7,755,452
Blue Gum Diamonds (Pty) Ltd.	3,900,000	-
Etruscan Haber Joint Ventures Limited	825,000	825,000
	11,962,974	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 two quarters of 2008, the Company recorded \$517,478 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 May 31, 2008 \$	As at Nov 30, 2007 \$
Equity investment in Etruscan Diamonds Limited	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	(517,478)	(823,895)
Accumulated non-controlling interest in loss – End of period	(2,800,539)	(2,283,061)
Non-controlling interest	7,237,974	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

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preference share subscription agreement, including redemption of the R25.35 million of preference shares 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.

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. These funds were fully drawn down in the second quarter of 2008.

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.

10. Provision for reclamation

		As at May 31, 2008	As at, Nov 30, 2007
	Note	\$	\$
Youga Gold Project	(a)	1,000,000	-
Blue Gum Diamond Project	(b)	1,780,000	1,630,000
Total		2,780,000	1,630,000

a) In May 2008 the Company assessed the reclamation liability for the Youga Gold Project at \$1.1 million. The feasibility study established the reclamation amount at \$1.5 million at the end of the mine life. The Company estimates that a reclamation liability of \$1.1 million has been incurred as at May 31, 2008.

The fair value of this future reclamation liability has been calculated by adjusting this amount out to 2014 for a projected Burkina Faso rate of inflation of 4% which results in an undiscounted amount of \$1.4 million. This amount has been discounted by applying a discount rate of 6% resulting in a fair value of future reclamation liability in the amount of \$1

million. The fair value amount will be accreted over the projected life of the mine to accumulate the estimated liability of \$1.4 million in 2015.

b) In April 2008 the Company reassessed the reclamation liability for the Hartbeestlaagte and the Tirisano Diamond Mine which together with the Zwartrand property, constitute the Blue Gum Diamond Project. The reclamation amount of R15 million (\$2 million) has been submitted to the South African Department of Mines and Energy.

The fair value of this future reclamation liability has been calculated by adjusting this amount out to 2015 for a projected South African rate of inflation of 7% which results in an undiscounted amount of R24.1 million (\$3.2 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 R13.2 million (\$1.76 million) at the beginning of April 2008. The fair value amount will be accreted over the projected life of the mine to accumulate the estimated liability of R24.1 million (\$3.2 million) in 2015. Prior to the reassessment of the future reclamation liability, accretion of \$11,000 was recorded. For the two months ended May 31, 2008, accretion expense of \$20,000 was recorded increasing the future fair value of Blue Gum to \$1.78 million.

11. Commitments and contingencies

Youga Gold Project

As at May 31, 2008, the Company has incurred \$87.5 million on the Youga Gold Project production plant and related equipment under construction and has made purchase commitments for equipment and services in the amount of \$2 million.

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.

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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.

12. Capital stock

Authorized capital stock

250 million common shares without nominal or par value.

	Number of shares	Ascribed value \$
Issuance of common shares		
Balance – November 30, 2006	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)
Balance – November 30, 2007	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	290,000	352,300
Stock option exercises transferred from contributed surplus	-	3,000
Balance – May 31, 2008	123,668,126	249,478,448

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 \$
Issuance of warrants		
Balance – November 30, 2006	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
Balance – November 30, 2007	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)	-
Balance – May 31, 2008	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 May 31, 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

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FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 (IN CANADIAN DOLLARS)

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.

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 \$
Balance November 30, 2006	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
Balance November 30, 2007	7,024,500	2.05
Granted during the period	1,470,000	2.44
Exercised during the period	<u>(290,000)</u>	1.21
Expired during the period	<u>(25,000)</u>	3.21
Balance May 31, 2008	<u>8,179,500</u>	2.20

The following table summarizes information about the stock options outstanding and exercisable at May 31, 2008:

Range of prices \$	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$
0.26 – 0.50	785,000	2.0	0.34
0.51 – 0.75	79,500	3.8	0.55
0.76 – 1.24	390,000	4.6	1.01
1.25	1,530,000	1.0	1.25
1.48 – 1.90	745,000	6.5	1.67
1.98	1,225,000	7.8	1.98
2.00 – 2.43	95,000	7.1	2.17
2.44	1,435,000	9.8	2.44
3.21-3.93	395,000	8.3	3.31
4.45	1,500,000	8.8	4.45
	<u>8,179,500</u>	6.2	2.20

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:

	2008	2007
Risk free interest rate	3.8%	4.6%
Expected life	5 years	5 years
Expected volatility	54%	56%
Expected dividend yield	Nil	Nil
Weighted average fair value at the date of grant	1.23	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 May 31, 2008 is summarized as follows:

	Number of stock options	Weighted average exercise price \$	Weighted average remaining contractual life (years)
Balance November 30, 2007	630,000	2.00	9.7
Granted during the period	200,000	2.00	
Expired during the period	<u>(75,000)</u>	2.00	
Balance May 31, 2008	<u>755,000</u>	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 two quarters of 2008, the Company has recorded \$270,000 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:

	2008	2007
Risk free interest rate	4.55%	4.28%
Expected life	10 years	10 years
Expected volatility	50%	50%
Expected dividend yield	Nil	Nil
Weighted average fair value at the date of grant	1.33	1.57

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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.

Contributed surplus

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Balance-beginning of period	5,710,000	2,840,000
Exercise of options	(3,000)	(90,000)
Stock based compensation	2,064,000	2,960,000
Balance - end of period	<u>7,771,000</u>	<u>5,710,000</u>

Stock-based compensation relating to stock options

In the first two quarters of 2008 the Company recorded \$1,542,000 of stock-based compensation which has been expensed during the period. The Company has also recorded \$521,000 of stock-based compensation of which \$191,000 has been allocated to the Youga Gold Project, \$138,000 to the Blue Gum Diamond Project and \$192,000 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 under the Company's name.

13. 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:

	May 31, 2008 \$	Nov 30, 2007 \$
Balance-beginning of the period	(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	(29,983)	(191,364)
Other comprehensive income recognized in net income for the period	10,600	(1,707,649)
Balance-end of the period	<u>(1,624,872)</u>	<u>(1,605,490)</u>

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The components of accumulated other comprehensive loss is as follows:

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Accumulated unrealized gains on other assets	225,128	244,510
Cumulative translation adjustment	(1,850,000)	(1,850,000)
	(1,624,872)	(1,605,490)

14. Capital disclosures

The Company manages its capital to attempt to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements. The strategy remains unchanged from 2007. The capital structure consists of debt, cash and cash equivalents and shareholders' equity. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. There were no changes to the Company's approach to capital management during the six month period ended May 31, 2008 compared to the year ended November 30, 2007 which is summarized as follows:

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Total debt	42,818,477	35,764,203
Less: cash and cash equivalents	(13,059,412)	(31,926,710)
Net debt	29,759,065	3,837,493
Shareholders' equity	77,862,811	92,375,575
Total Capital	107,621,876	96,213,068

The Company is in compliance with its debt covenants.

15. Financial instruments

Financial assets, financial liabilities and derivative financial instruments are classified into one of five categories: held-to-maturity, available-for-sale, loans and receivables, other financial liabilities and held-for-trading.

All financial instruments classified as available-for-sale or held-for-trading, and derivative financial instruments are subsequently measured at fair value. Changes in the fair value of financial instruments designated as held-for-trading and recognized derivative financial instruments are charged or credited to the statement of operations for the relevant period, while changes in the fair value of financial instruments

designated as available-for-sale, excluding impairments, are charged or credited to other comprehensive income until the instrument is realized. All other financial assets and liabilities are accounted for at cost or at amortized cost depending upon the nature of the instrument. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

Financial Assets

The carrying amounts and fair values of financial assets are as follows:

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Cash and cash equivalents (a)	13,059,412	31,926,710
Amounts receivable (a)	1,514,253	1,239,840
Available for sale securities (b)	341,799	376,180

- The carrying amount is a reasonable approximation of estimated fair value due to the immediate or short-term maturities of these financial instruments.
- The available for sale securities are recorded at fair value as represented by quoted market prices in an active market.

Financial Liabilities

The carrying amounts and fair values of financial liabilities are as follows:

	As at May 31, 2008 \$	As at Nov 30, 2007 \$
Accounts payable and accrued liabilities (a)	15,067,722	11,404,302
Long-term debt (c)	37,156,234	32,323,179
Financial derivative instrument (d)	48,400,000	33,500,000

- The carrying amount is a reasonable approximation of estimated fair value as interest rates remain consistent with current rates available to the Company.
- The financial derivative instruments are recorded at fair value.

Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. Management approves and monitors the risk management processes. The types of risk exposure and the way in which such exposure is managed is provided as follows:

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Credit Risk

The Company's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents, restricted cash and deposits with high-credit quality financial institutions. The Company does not have financial assets that are invested in asset backed commercial paper.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company will have to raise additional debt or equity financing in order to meet its capital requirements.

Market Risk

The significant market risk exposures to which the Company is exposed are foreign exchange risk, interest rate risk and commodity price risk. These are discussed further below.

Foreign exchange risk

The Company's revenues from the production and sale of gold and diamonds are denominated in US\$. A significant portion of the Company's operating expenses, operating materials, supplies, services and equipment purchases are in non US\$ currencies. Accordingly, the results of the Company's operations are subject to currency transaction risk and currency translation risk. The operating results and financial position of the Company are reported in Canadian dollars in the Company's consolidated financial statements. The fluctuation of the Canadian dollar in relation to the US\$ and other non US\$ currencies will consequently have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity.

Interest rate risk

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash or cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates therefore impact on the value of cash equivalents and short term investments. With respect to financial liabilities, the long-term debt is subject to interest rate risk since they bear interest at a floating rate of interest.

Commodity price risk

The value of the Company's mineral resource properties is related to the price of gold and diamonds and the outlook for these minerals. Gold prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, central bank lending, forward sales by producers and speculators, levels of worldwide production, short-term changes in supply and demand because of speculative hedging activities, and other factors. The profitability of the Company's operations is highly dependent on the market price of gold. If gold prices decline for a prolonged period below the cost of production of the Company's mines, it may not be economically feasible to continue production. In order to mitigate this risk, The Company has entered into a gold price protection program (see note 8).

16. Supplemental cash flow information

During the six months ended May 31, 2008, the Company incurred expenditures on mineral properties of \$960,000 (six months ended May 31, 2007 - \$500,000) and capital assets for \$3.1 million (six months ended May 31, 2007 - \$4 million) all of which were recorded as accounts payable at the end of May. During the current period the Company recorded the issuance of warrants at a calculated fair value of \$1.8 million. The Company also recorded additional reclamation assets and liabilities in the amount of \$1.1 million. During the six months ended May 31, 2007, the Company recorded an increase in the amount recoverable of \$262,480 from Mvelaphanda Exploration. These items are non-cash transactions and have been excluded from the statements of cash flows.

17. Subsequent event

Subsequent to May 31, 2008, Etruscan Diamonds Limited completed a rights offering to its shareholders granting each shareholder of Etruscan Diamonds Limited the right to acquire one common share of Etruscan Diamonds Limited for every 15 common shares held by the shareholder at a price of \$2.00 per common share. Gross proceeds of \$1,967,284 were raised by the rights offering. As a result of the rights offering, Etruscan Resources Inc. now holds a 52.07% ownership interest in Etruscan Diamonds Limited, Mountain Lake Resources Inc. has a 16.07% ownership interest and the balance is held by third parties including employees and their affiliates and associates who own an aggregate of 5.8% of Etruscan Diamonds Limited.

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18. 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:

The Company's only source of revenue is interest and investment income in Canada and South Africa. Interest revenue generated for the period ended May 31, 2008 includes interest income of \$454,535 in Canada and \$62,575 in South Africa as compared to Canadian revenue for the year ended November 30, 2007 of \$2,271,550, including \$308,373 in the first two quarters. In the first quarter of 2008, the Company also incurred a loss on the sale of investments in Canada of \$10,600 compared to a gain of \$947,051 on the sale of investments in the first two quarters of 2007.

	<u>May 31,</u> 2008 \$	<u>November 30,</u> 2007 \$
Mining Assets		
Diamond exploration and development in South Africa		
Inventory of diamonds	796,610	365,902
Land and buildings	313,408	702,397
Motor vehicles	260,975	224,103
Heavy equipment	594,819	652,923
Office equipment	128,842	99,034
Development	24,112,079	19,455,382
Mineral properties and related deferred costs	2,274,616	2,123,074
Reclamation deposits	1,018,750	997,270
Gold development in Burkina Faso	108,657,701	90,103,672
Gold exploration		
Canada		
Office equipment and leaseholds	593,727	603,463
Mali, West Africa	14,567,449	11,682,567
Côte d'Ivoire, West Africa	11,252,211	9,156,447
Burkina Faso, West Africa	4,464,052	3,471,043
Ghana, West Africa	5,198,822	4,177,834
Benin, West Africa	146,189	-
Namibia, Southern Africa	3,197,573	2,154,134
	<u>177,577,823</u>	<u>145,969,245</u>

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VP Exploration

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Stock Listing

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

Register and Transfer Agent

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Bankers

TD Canada Trust
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Bank of Africa
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