



BEACON ROCK RESEARCH

JANUARY 30, 2007
RESEARCH NOTE

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Etruscan Resources Inc. (TSX: EET, C\$4.00)

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Etruscan to Spin Off Diamond Assets

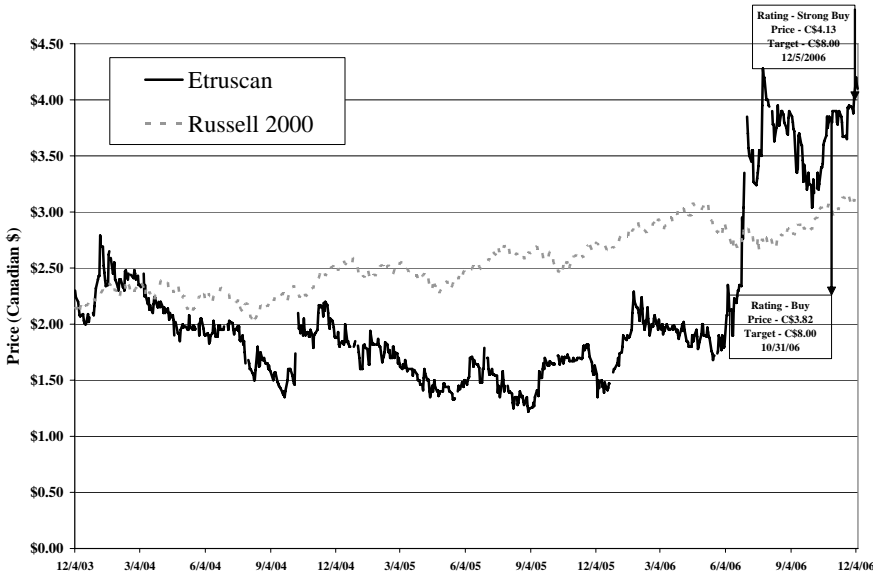
Etruscan Resources Inc. (TSX: EET) is spinning off its South African diamond interests into Etruscan Diamonds Limited. They will hold a 62% interest in the new entity, scheduled for completion this March, in which they will raise C\$10 million to complete a feasibility study and upgrade an exploration plant capable of processing 50,000 m³ per month. The spin off is intended to consolidate ownership and establish a team with resources capable of focusing and advancing the opportunity. The company intends to bring its resource to production, complete a public offering, and list on the Toronto and Johannesburg exchanges.

Etruscan's diamond resources are located in the Ventersdorp Alluvial Diamond District approximately 150 km west of Johannesburg, South Africa. Etruscan holds two mining permits, 16 prospecting permits, and applications for an additional five permits. While its land position is less than 10% of the 5,000 km² district, management believes it may hold the most prospective targets in the district. Exploration has determined economic diamondiferous gravels concentrating in sinkholes as opposed to ancient streambeds. Currently the most advanced deposit is located on the Hartbeestlaagte property (the "Blue Gum" deposit) which covers about 4,000 hectares.

The Blue Gum deposit has a NI 43-101 compliant referred resource estimate of 16.2 million m³ of diamondiferous gravels, containing 3.18 carats per hundred cubic meters, yielding 500,000 carats. At US\$400 per carat this would imply an in situ resource of approximately US\$200 million. The Ventersdorp District produced 667,000 carats from 1926 to 1984. We suspect this was primarily from less productive ancient streambeds near the surface as opposed to concentrations in sinkholes.

Speculation of the continuity of diamonds persists as the deposit formation is water based. The company suspects that homogeneous concentrations formed during expansive flooding opposed to settling in streambeds. If management is correct in their understanding of how concentrations in sinkholes came to be, the Blue Gum may be one of several sizeable targets within their land holdings worth investigating.

We have not included Etruscan's diamond assets in our valuation. The spin off should provide additional value to shareholders while allowing management to remain focused on its gold mining and exploration projects in West Africa. We maintain our 12-month price target of **C\$8.00** per share and **Strong Buy** recommendation. We also maintain a **High** risk assessment characteristic with companies in the mining industry which are exposed to significant levels of company and market risk.



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