

# BEACON ROCK RESEARCH

OCTOBER 2, 2007  
**RESEARCH UPDATE**

[www.beaconrockresearch.com](http://www.beaconrockresearch.com)

Disclosures 1,2,3,4

5956 N.W. 213th, Portland, Oregon 97229

## Etruscan Resources Inc. (TSX: EET, C\$3.01)

Mike Niehuser, 503-307-3188

[mniehuser@beaconrockresearch.com](mailto:mniehuser@beaconrockresearch.com)

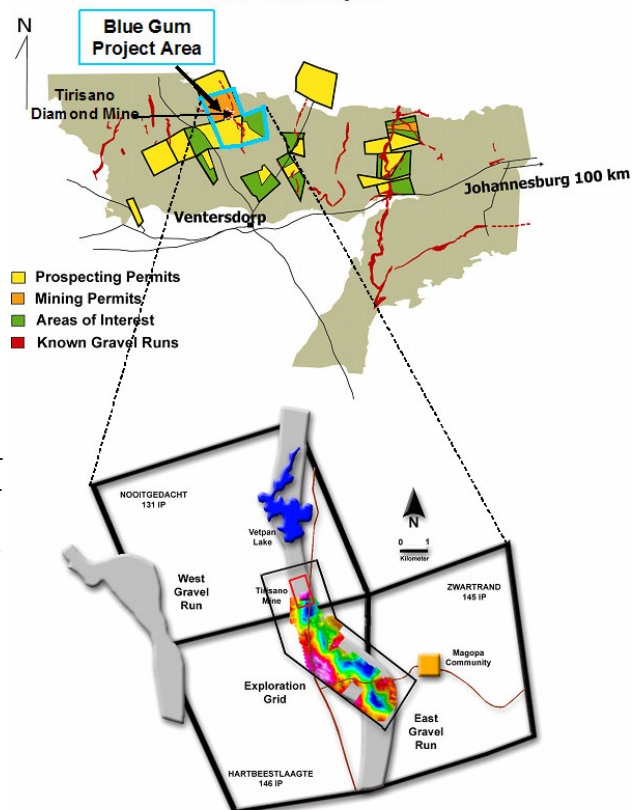
### Etruscan Resources to Double Diamond Production

Etruscan Resources Inc. (TSX: EET) owns 53.6% of Etruscan Diamonds Ltd. (ED). ED has acquired the remaining 50% of the Tirisano Diamond Mine, providing complete ownership of a facility with production capacity of 50,000 m<sup>3</sup> per month. ED was nearing completion of a separate pilot project on the adjacent Hartbeestlaagte Property for completion of a resource upgrade with capacity of 50,000 m<sup>3</sup> per month. ED will now install this facility at the Tirisano site as a second circuit. The acquisition doubles previously estimated capacity. With additional processing capabilities at Tirisano, ED management sees potential to optimize production at about 100,000 m<sup>3</sup> per month. We see initiating production as an early catalyst for several potentially positive events for Etruscan Resources, Inc.

The acquisition of the Tirisano Diamond Mine with the Nooitgedacht property will be consolidated with ED's Hartbeestlaagte and Zwarttrand properties into what is now referred to the "Blue Gum Project." Currently the Hartbeestlaagte property has a NI 43-101 compliant Inferred resource of 16.2 million m<sup>3</sup> of diamondiferous gravels, containing 3.18 carats per hundred m<sup>3</sup> and yielding about 515,000 carats. The Nooitgedacht property (Tirisano Mine Project) has NI 43-101 compliant Inferred resources of 12.3 million m<sup>3</sup> at 2.8 carats per hundred m<sup>3</sup> containing about 345,000 carats. ED had planned to begin production at Hartbeestlaagte and complete a pre-feasibility study to upgrade the Inferred resource to Indicated status. With the consolidation of the Blue Gum Project, the study will be expanded to include the Tirisano facility and resource.

### ETRUSCAN RESOURCES INC.

Figure 1  
September 19, 2007  
Blue Gum Project

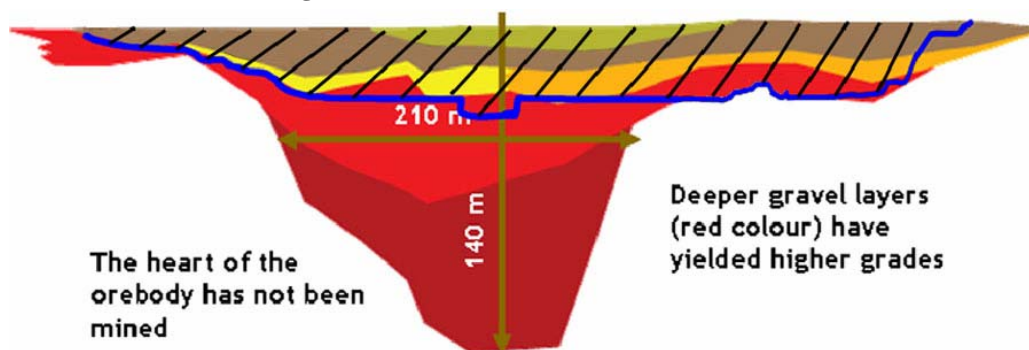


Source: Etruscan

An earlier technical report estimated average sales at the Hartbeestlaagte property with a value of \$400 per carat. The Tirisano Diamond Mine realized an average of \$489 per carat from operations from 2003 to 2005, increasing to \$566 per carat in its last year of operation. This would suggest an in-situ value of the combined deposits to total close to \$350 million at \$400 per carat and \$430 million at \$500 per carat. At the potential combined annual processing capacity of 1.2 million m<sup>3</sup>, the combined resources of 28.5 million as presently identified would have a mine life of over 23 years. We assume production at this level would generate revenues of \$18 million with a profit of roughly \$6 million per year.

ED anticipates that the combined production at 100,000 m<sup>3</sup> per month will help accelerate completion of the pre-feasibility study by the Spring of 2008. Their goal of the feasibility is to make possible the second phase of development, which will include an initial public offering and a new plant with processing capacity of 260,000 m<sup>3</sup> per month. While the potential increase in production is significant relative to past production results at Tirisano, ED's hypothesis is that diamonds deposited are concentrated in sinkholes rather than being limited to streambeds as previously thought. This may lead to development of several concentrated deeper targets rather than chasing shallow deposits along the surface. As seen in Figure No. 2, the blue line represents the pit outline at Tirisano cut into deeper, higher grade gravels in the center, valued at \$566 per carat. These were the latest gravels extracted prior to the project being placed on care and maintenance, and the highest to date. This suggests that the potential for improved operations at Tirisano may be realized beyond prior operations and ahead of the previously established resource.

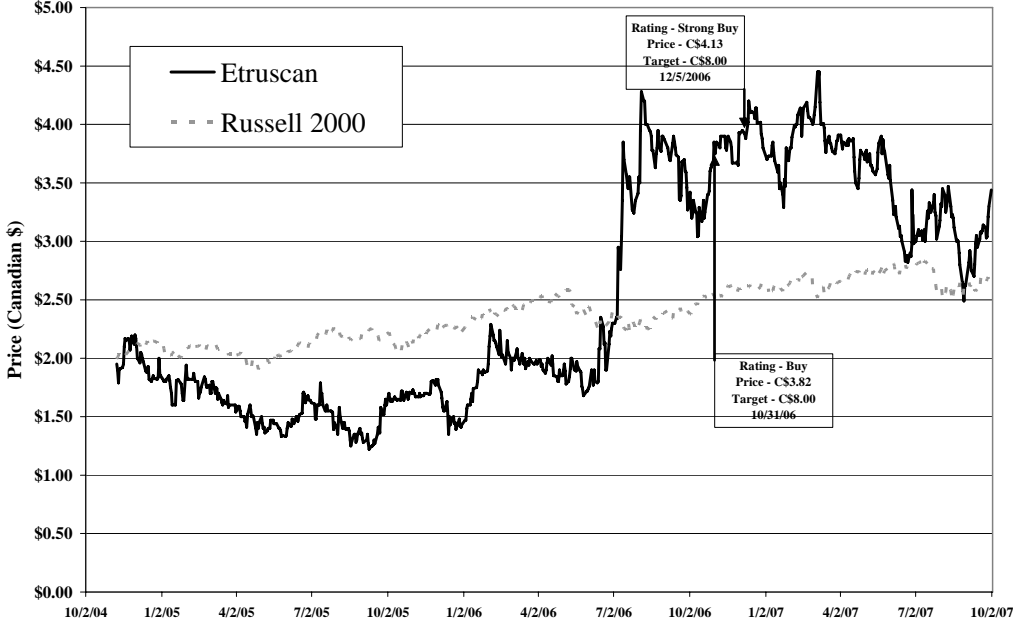
Figure No. 2 –Tirisano Pit Outline



Source: Etruscan

We see several benefits by initiating production at Blue Gum at a rate of 100,000 m<sup>3</sup> per month. It would appear that the project would soon become profitable and generate cash flow for accelerating exploration and development. The data gathered for the pre-feasibility should upgrade Inferred resources to an Indicated classification. In addition, additional data from operations should lead to a substantial addition and increase in the current Inferred resource. Also, there would appear to be an immediate opportunity to develop other deposits and targets at Blue Gum, including the Hartbeestlaagte and Zwartrand properties. If successful at Tirisano, the company sees good opportunity to reproduce similar operations at other targets in permitted areas, as well as throughout the district. Any of these results should offer support for shares of Etruscan Resources Inc. While ED is at some risk of a rush to stake properties not included under its permits, we believe they have tied up key areas and hold the best data on the area to increase permitting should exploration activity increase.

ED holds two mining permits, 17 prospecting permits, and applications for an additional five permits, which is roughly 10% of the 5,000 km<sup>2</sup> Ventersdorp Alluvial Diamond District. The district is approximately 150 km west of Johannesburg, South Africa. Management reports the district produced 667,000 carats between 1926 and 1984. The potential exists for ED to expand production significantly within one of the world's greatest diamond producing areas. With successful completion of an initial public offering and production experience, Etruscan Resources Inc. will have effectively brought to market and monetized one of its hidden assets. We reiterate our **Strong Buy** rating of Etruscan Resources, Inc.



This Information is obtained for sources believed to be reliable, but its accuracy and completeness are not guaranteed. Copying, faxing, replicating, or quoting from this report without permission is in direct violation of copyright laws. Beacon Rock employees and affiliates may have positions and effect transactions in the securities or options of the issuers reported herein. Please refer to the company index in the back of this issue for additional disclosures.

**DISCLOSURES:**

Beacon Rock Research, LLC provides information and analysis on selected companies, with a focus on small-cap and micro-cap companies.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Chartered Financial Analyst Institute (CFAI). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

Key to disclosures:

1. The research analyst or a member of the research analyst's household has a financial interest in the securities of the Subject Company in the form of a long position.
2. The Subject Company is paying an annual fee totaling \$50,000 to SLB Equity Research, LLC., one of its affiliates, for research coverage, institutional introductions, and other awareness building services.
3. The research analyst principally responsible for preparing this research report received compensation based upon various factors, including SLB Equity Research, LLC total revenue.
4. This report was prepared exclusively for the benefit of institutional investors and may or may not receive compensation directly or in soft dollar arrangements.

The analyst, Mike Niehuser, hereby certifies that the research conclusions and recommendation contained herein accurately reflects his personal views about the industry, company and shares and also hereby certifies that no part of his research compensation was or will be directly or indirectly related to the earnings estimates, target price or recommendation about the security.

The research provided herein should not be considered a complete analysis of every material fact regarding the companies, industries or securities named above. The opinions expressed herein reflect the analysis and judgment of the author on the date of publication and are subject to change without notice. Facts have been obtained from sources considered reliable but should not be construed as complete and are not guaranteed to be accurate. Beacon Rock Research, LLC; its members; employees and their families may have positions in the securities covered within the research material above and may make purchases or sales while this report is in circulation. Additional information on the subject companies is available upon request.

**EQUITY RECOMMENDATION SYSTEM:**

- Buy** Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
- Hold** Holding the stock is recommended because the share price's appreciation potential is less than or equal to the market.
- Sell** The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

**EQUITY RISK SYSTEM:**

- High** The security is more volatile than the market and/or the company is more leveraged than its peer group.
- Moderate** The security has about the same volatility as the market and/or the company carries a level of leverage in line with its peer group.
- Low** The security is less volatile than the market and/or the company is less leveraged than its peer group.

**DISTRIBUTION OF RECOMMENDATIONS:**

At this time, there are an insufficient number of companies under coverage to generate usable distribution information or draw any conclusions regarding bias about the research methodology. Prospective companies are screened and evaluated by sales personal and research analysts with the investment thesis and overall research recommendation developed before the commission is established.