

The Ormetal Report

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Clifton Star Resources (CFO.TVX; C\$2.75) <http://www.cliftonstarresources.com/>

It is very hard to find a company whose stock price has not collapsed with the kind of market environment we have had during the last 4 weeks. There is at least one: Clifton Star. When we first mentioned Clifton to you at the end of June, the stock had closed the previous week at C\$2.85. It closed this past week at C\$2.75, which is not bad given that seniors and mid-tier gold stock are still down 30-40% from that date. There is a good reason which explains this contrary behaviour— some market participants, including other newsletter writers, are starting to recognize the hidden value in Clifton and buying.

Last week, Bruce and I went to Duparquet, Quebec (north of Rouyn-Noranda) to visit Clifton's Beattie project, look at core from the current exploration programs and meet with management. We expected to confirm our initial opinions on this project, but instead we had a great trip that exceeded our expectations to a point that justifies this lengthy report. Clifton Star has the three "Ps" (People, Properties and Phinancing). In our humble opinion, Clifton could become a Star!

The People.

Clifton's managers include Harry Miller, CFO's President and Fred Archibald, VP Exploration, which we both met in Duparquet. Mr. Miller is a company-maker and, although he is not from the mining sector, he has delivered success to shareholders in his companies several times, including in the medical sector. The story that was repeated while we were walking the outcrops on the Beattie property was that he took public a small company at US\$0.10 a share in 2000 and he then made a deal with a bank in Texas. The stock eventually rose to US\$13.75 in 2005. Mr. Archibald, a professional geologist, is the son of Chuck Archibald, a professional mining engineer who worked at the Beattie Mine as a consultant during the 1940s. Chuck and Fred have worked on a part time basis for the family who owned the properties currently under option by Clifton since the 1970s. Fred has also done other work as a geologist for various companies in Ontario. We also met with the owners of the properties on our visit and they seem to be very good people and part of the team. They will do all they can to make sure this project works out.

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XAU:	137.38	-	29.2 %
S&P\$C-Au	257.4	-	28.3 %
GoldGrams:	25.27	-	18.5 %
Gold(oz)	786.00	-	18.5 %
Silver:	12.70	-	32.6 %
Platinum:	1357.0	-	32.8 %
Palladium:	281.0	-	37.4 %
Copper:	3.37	-	12.0 %
Zinc:	0.76	-	15.7 %
Nickel:	8.37	-	13.3 %

Clifton Star has 18.9 million shares outstanding for a market valuation net of cash of C\$46 million (US\$43 million). There are approximately 7.4 million warrants and options exercisable at prices between C\$0.77 and C\$2.95. These expire between March 2009 and June 2010. The company has C\$6 million in the bank. If the options and warrants are exercised, the company would raise another C\$15 million as the average exercise price is slightly above C\$2.00. Thus, there are no large numbers of cheap options outstanding on CFO.

In the last two years, the company has signed two option agreements on two groups of properties:

1)The Duquesne Mine: CFO can acquire a 100% interest by paying the optionor ("Duquesne Gold Mines") C\$1.8 million, issuing 10,000 shares and spending C\$4 million on the property. As of today, C\$900,000 has been paid, the shares have been issued and more than C\$2 million has been spent in exploration expenditures. The balance remaining is payable over the next two years. The optionor also retains a 3% NSR (Net Smelter Royalty) which can be purchased for C\$6 million in tranches of \$1 million per 0.5% NSR interest. This deal was signed in February 2007.

2)The Beattie-Donchester-Dumico Mine group and the Hunter Mine, both in Quebec, and the Cat Lake property In Manitoba: CFO can acquire a 100% interest in this package by paying C\$50 million: one million upon signature (already paid), C\$9 million on December 1, 2008, and the balance on December 1, 2009. A provision allows for an additional payment of C\$12 million if the company sells control of the gold properties to another party or if the company delineates four million ounces of gold on these properties. The deal was signed in May 2008.

The Story.

The **Beattie-Donchester-Dumico Mine** group of properties covers a total of 8.4 kilometers of a parallel system of splay faults subsidiary to the Porcupine-Destor Deformation Zone (PDDZ). The PDDZ extends through Timmins, Ontario to an area to the east of Rouyn-Noranda, Quebec, hosts a number of large gold deposits such as the Dome Mine and is the focus of several current gold exploration programs. The Beattie Mine group produced, from 1933 to 1956, 1,116,869 ounces of gold from 10.7 million tons of ore. The mine was developed through a shaft and underground workings over a strike length of 352 meters to a depth of 381 meters. Gold recoveries were 84% using the recovery methods available at the time. The mine stopped producing in 1956 due to higher production costs and a low

gold price.

Mark Smerchanski, a geologist and mining engineer from Winnipeg, Manitoba (http://en.wikipedia.org/wiki/Mark_Smerchanski), bought the remaining interests in the property a few years after the mine closed, worked on it on a part time basis, paid the taxes and kept it in good standing for more than two decades. In the mid-1970s, Chuck Archibald came into the picture as a consultant on Mark's group of properties. Fred Archibald joined his father in working on the properties in 1987. Fred's father died in the mid-1990s. Mark Smerchanski died in 1989 and his daughters inherited the properties. Fred Archibald has been supervising and conducting work on the properties on behalf of the Smerchanski family since then. We understand that between C\$5 and C\$10 million have been spent in exploration, taxes and clean-up on the property by the family privately since the early sixties.

The **Hunter Mine** is a small copper mine located north of the Beattie complex. Some 391,000 tons averaging 1.09% Cu was mined up until 1957. A total of 329,000 drill-indicated and measured tons (not N43-101) at this grade exist down to the 4th level. The shaft was developed on the 2nd, 3rd and 4th levels.

The **Duquesne Mine**, which also lies on the PDDZ, produced 67,000 ounces of gold from 193,095 tonnes of ore with an average grade of 10.81 g/t Au from 1946 to 1952 and 1988 to 1992. The mine was developed through a shaft and underground workings over a strike length of 200 meters to a depth of 381 meters. The ore is non-refractory and is tied up within pyrite; metallurgical testing indicates a 96% recovery through cyanidation and flotation methods. The Duquesne mine property covers 2,000 acres and is located approximately 3,500 meters east-southeast of the eastern boundary of the Beattie-Donchester-Dumico properties.

Cat Lake is a small copper-nickel property with an historical resource (not N43-101) of 2,000,000 tons averaging 0.33% Ni and 0.75% Cu. Ore was stockpiled from four levels up until 1957. A 1,000 ton/day concentrator was installed on the property but never operational at time of closing in 1957.

Clifton- A Good Start

According to the N43-101 qualifying reports filed by Clifton and accepted by the TVX in February 2007 for the Duquesne Property and August 2008 for Beattie Property, the total resources for each as calculated from these reports are:

Beattie & Donchester

Measured & Indicated:

- 1,676,731 tonnes @ 4.096 g/t Au for 220,810 ounces

Inferred:

- 3,720,844 tonnes @ 3.495 g/t Au for 418,049 ounces

Tailings (inferred):

- 9,629,244 tonnes @ 0.92 g/t Au for 220,042 ounces

Total Beattie & Donchester: 858,901 ounces

Duquesne

Measured & Inferred:

- 1,540,511 tonnes @ 6.03 g/t Au for 298,732 ounces

Total Duquesne: 298,732 ounces

Total Beattie group and Duquesne **before** any drilling by Clifton: **1,157,633 ounces of gold in all categories.**

The Current Work Program

Clifton is currently spending approximately C\$750,000 per month in exploration on the Beattie group of properties and the Duquesne property. As we walked the Beattie property ~~on Saturday August 9th~~, we observed 4 or 5 drill rigs installed at various locations as well as several dozen drill hole collars from completed holes. In total, 7 rigs are operating all together on CFO's properties. As of last week, Clifton had drilled a total of 64 holes on the Duquesne property and 48 holes on the Beattie group of properties. We were told that all of these holes have hit mineralization. None of these holes have been included in the current resource estimate. As much as 80% of the core samples taken to date from the drilling are still at the analytical labs waiting to be assayed, but this should change as the company is currently negotiating an agreement with the labs to speed up the process. In an old mine building we observed 2 geologists logging core and 2 technicians splitting core samples from the various properties. Outside of the building, we noticed hundreds of stacked core boxes that were waiting to be logged and processed and hundreds more stacked in storage. We were able to look at a few holes selected by Fred from the current program on each project which contained representative mineralization. There is clearly a lot of action on the properties. **The company website has maps, photos and videos available showing what is going on.**

Among the few holes that came back from this current program, here are some of the best result results:

Beattie: 11.8 meters @ 12.2 g/t Au.

Duquesne: 4.1 meters @ 18.74 g/t Au
3.6 meters @ 113.8 g/t Au.

These are of course some of the best numbers and are not representative of the overall grades. The Beattie-Donchester-Dumico group of properties cover a 7 km long series of splay faults cutting through a syenite porphyry complex which includes up to nine parallel mineralized zones. Original mining widths on the main ore zone of the Beattie Property have been as large as 18.2 meters and even up to 76.3 meters. The current mineralized drill intersections are averaging 11 to 18 meters in width. These mineralized widths are for the mineralization envelope that averages approximately 4.0 g/t Au. Outside of this envelope are larger mineralization widths containing 0.5 to 1.0 g/t Au. We had a chance to walk over some outcrops of the mineralized zones within the syenite body for a distance of few hundred meters. We saw several channel samples which were extracted at regular intervals across these outcrops. The mineralized fault zones cover an area which is a few hundred meters wide by as much as 7 kilometers in strike. All of this material which surrounds a core of higher grade mineralization is expected to run at 0.5 to 1.0 g/t Au. Within this mineralized envelope of the system smaller sections of 2 to 4 meters are averaging 8.0 to 12.5 g/t Au.

Diamond drilling on the southeast extension of the Beattie and the Donchester north zone has reported that DHB08-22 has intersected continuous mineralization from 302.80 meters (m) to 423.25 m depth over a core length of 120.45 m. DHD08-01 has intersected continuous mineralization from 233.0 m to 356.0 m depth over a core length of 123.0 m and with two other sections included there is a total of 167.25 m of mineralization within this hole. Assays are pending on both holes.

The Beattie-Donchester mine has historically averaged approximately 4.0 g/t Au and the company is finding this grade consistently at surface with values and widths increasing at depth below 300 to 400 meters. Clifton is assuming that all of the mineralized fault zones will merge into one large feeder zone at depth. The Beattie project has shown it has a comparable average gold grade and widths of mineralization to those of the La Ronde (Agnico-Eagle) and Doyon (Iamgold) mines of Quebec. More drilling and time will tell if they are comparable in size.

Dumico, which is to the far east of the group, is being drilled for the first time. Hole DUM08-01 intersected two well-mineralized zones beginning at 3 m to 35 m and from 54 m to 107.60 m of depth. These zones are along strike with the Donchester South zone about 3,500 meters north-northwest

of the Duquesne project. Assays are pending.

As far as infrastructure goes, the property is just next to the town of Duparquet. We drank a coffee at the restaurant just 5 minutes by car from the mine. The underground development goes down well below the areas mined in the past and is connected to the different parts of the property by the 3rd and 6th level. These are large workings which are serviced by a 6-compartment shaft which mean large tonnages can be mined and hauled without present-shaft sinking costs. The workings were bulk-headed which means dewatering should not be a problem. The water has been tested and is clean.

The potential at the Beattie complex is clearly for more than two million ounces of gold.

Importantly, there are approximately 260,000 ounces of gold in the surface tailings around the old Beattie old mill. The company has started pilot testing of the tailings and their recoveries and are doing a small bulk test. Future pilot tests should increase tonnage and could reach 100 tons. Both tailings and mill cleanup could allow some cash flow.

The Duquesne Mine has historically averaged 9.5 to 11.5 g/t Au and current drill results are presently averaging around the 8.0 g/t Au overall. The widths within this mineralized system historically on this property and the neighbouring properties are approximately 2.2 to 2.5 meters. The Duquesne West and Normabec-Pitt that belong to other companies are part of the same mineralized structure and have 43-101 tonnage calculations which show an average grade of approximately 8.3 to 8.5 g/t Au overall. In 1992 a deep drill hole 935 meters below surface averaged 76.6 g/t Au over 1.5 m. No other drill holes have tested such depths. More recently, hole D08-50 returned 113.8 g/t Au over 3.6 m at 365 meters below surface. The hole was located 1,150 meters west of the old Duquesne shaft. We had the pleasure to look at visible gold in a small split-core section of this hole. As of today, more than 1,200 meters of the 3,000-meter structure along the Porcupine-Destor Deformation Zone within the property has been tested with drilling. All holes drilled to date by Clifton have encountered mineralization with a number of holes, still with pending assays, showing visible gold in the core.

Duquesne looks like it contains a higher grade and narrower mineralization than Beattie. However, we cannot provide an estimate of its size, but we would be very surprised if this does not go above the 1 million ounces of gold mark.

The Company Plan.

The Clifton people are not miners. They are business people and explorers. They are in this deal to prove ounces and sell them to the highest bidder, hopefully in 2009, so that the major that will buy these properties will take care of the final payment to the Smerchanski family. As of today, Clifton has had discussions with one major who will be interested in taking a closer look as soon as 2 million ounces are defined and confirmed in a 43-101 report. The company intends to hire Roscoe-Postle to complete this work before year end. We believe that with the current aggressive work program in place the odds are excellent that CFO will exceed this threshold before year end.

On the financing side, the short term plan is to raise just enough money in the coming months to complete the option payment in December and to continue exploration in early 2009. Most likely another financing may come later in 2009. We feel that Clifton could raise in the order of C\$20 million within the next 16 months as some options and warrants are exercised and additional private placements are completed. For the better part of the current program, Clifton has had excellent financial support from the Mineralfields Group since day one and we expect this to continue.

Following some discussions I had with Harry Miller, we also believe that the company is well-connected in the financial circles. At first glance, it seems to us that Clifton should not have problem obtaining additional financing.

Valuation

How much is an ounce of gold in the ground worth in Canada? This is probably the question we should start with given recent examples of what gold ounces are worth in countries like Venezuela and Ecuador. A better question would be: How much is an ounce of gold in the ground in Duparquet, Quebec, worth? The Beattie is located in a mining area that is already fully developed with a large shaft and existing underground workings, excellent infrastructure and furthermore, located not far from modern mills that are currently almost idle and waiting for ore.

Well let us calculate the numbers on three recent takeovers in this part of Canada: Cumberland Resources, Virginia Gold and Gold Eagle. Also lets look at Comaplex and Eastmain Resources.

Cumberland Resources was taken over by Agnico-Eagle at a price tag of US\$710 million in February 2007 when gold was US\$675. At that time, Cumberland had proven and probable reserves of 21.3 million tonnes, grading 4.2 grams gold per tonne, or 2.9 million ounces for a price per

ounce of \$244.82. Initial gold production is anticipated by Agnico-Eagle in early 2010 at an average 350,000 ounces per year.

Virginia Gold was taken over by Goldcorp at a price tag of US\$420 million in December 2005 when gold was US\$525. At that time, Virginia had an unknown resource at Eleonore. Most analysts were talking an initial 1.5-2 million ounces at a grade near 10 grams gold per tonne. Goldcorp latest resource calculation on Eleonore is dated June 2007 and stands at an initial indicated gold resource of 1,834,900 ounces at an average grade of 7.4 grams gold per tonne and an initial inferred gold resource of 929,100 ounces at an average grade of 7.1 grams gold per tonne, for a total 2,764,000 ounces. It is fair to say that in December 2005, Virginia's Eleonore was taken over at US\$210 per ounce.

Unlike Clifton's properties, both the above properties are located in very remote regions of Northern Quebec and Nunavut where no infrastructure was available.

More recently, Agnico-Eagle purchased 14.5% of Comaplex from Troy Resources for US\$47 million cash. This is equivalent to US\$324 million for the entire company. Comaplex's asset is the Meliadine West gold deposit located in Nunavut. The deposit has 3.1 million ounces at an average grade near 8 grams gold per tonne. This comes up to US\$104 per ounce, but it is likely that it will cost Agnico a lot more than that if it tries to acquire the remaining stock of Comaplex.

Finally, last month Goldcorp offered C\$1.5 billion for Gold Eagle which is exploring the Bruce Channel gold discovery in Red Lake. The resources are still unknown at Bruce Channel but Gold Eagle has suggested a concept that could deliver between 9 and 13 million ounces of gold. This implies a possible price tag of between US\$115 and US\$166 per ounce. If the concept remains unproven, then it could mean that Goldcorp's bid was for a much higher price per ounce.

There is another company we can compare with in our evaluation of Clifton. Eastmain Resources is one of our favourites which we suggested when it had a market value of C\$56 million based on the Eau Claire deposit in the Bay James area. Eau Claire has one million ounces in resources of which 319,000 ounces of gold are indicated and 680,000 ounces are inferred. Eastmain now has a market value of C\$102 million after some good drill holes were reported this summer. Eau Claire is a very narrow high grade vein system. This equates to C\$102 per ounce of gold.

These bids are far above the current bid of C\$735 million (based on current market price) made by Kinross for Aurelian Resources 14 million ounces of gold at its FDN deposit in Ecuador. This offer comes up to US\$52 per ounce.

Even based on Kinross stock price of a few weeks ago, the offer is only US\$85 per ounce.

Can we say that majors are eager for good ounces in good locations? Can we say that Duparquet, near Rouyn-Noranda in Quebec is among one of the best places on earth to operate a gold mine? Yes we can!

So Clifton has a product in high demand. The final question is how big the resource will be once fully delineated by CFO's seven drill rigs. We know we already have more than a million ounces defined and very likely at least two million. Bruce and I have concluded that Beattie-Donchester-Dumico alone could be another Doyon (owned by Iamgold) as it is located within the same stratigraphic package in a similar type of mineralization with similar grades and widths. Doyon had 35 million tonnes or so at an average grade near 5 grams gold per ton for an excess of 5 million ounces of gold. Will Clifton achieve this target? Only the drill will tell what Mother Nature has hidden in this ground. It could more! It could be less!

The ounces on Clifton's properties should be valued at somewhere between US\$100 per ounce and US\$250 per ounce based on recent takeover action and other comparables. Given the above average infrastructure at Duparquet and the already existing underground workings, we can figure that Clifton's ounces will deserve a premium. Clifton is currently selling at US\$36 per ounce of gold base on current resources as established before the current drill program started. It seems to us that there is already a discount in Clifton's market value.

You can do the math as well. Clifton's stock prices can go a lot higher. Assuming that Clifton delineates 3 million ounces of gold, we get a possible market value of between US\$300 million using \$100 per ounce and US\$750 million using \$250 per ounce. Assuming also that Clifton issues another 10 million shares in addition to the options and warrants and reaches a still very reasonable 36 million shares fully diluted, we get a price target of anywhere between C\$8.33 and C\$20.83. Folks, this is not a forecast or a prediction. This is simply an exercise based on some facts (recent takeovers) and some potential exploration successes. Nobody would bet the house on this. Clifton may find more ounces and may issue less shares. Time will tell. Our opinion is that it sure looks like an excellent speculation for a junior gold investor.

We are adding Clifton Star to our list of favourite stocks and we are buying the stock at current prices even in this market environment.
