Goldstream Mining 06 Jun, 2007

Seeking Value Recognition

GDM; Buy up to 63 cents

Goldstream provides investors with exposure to a diverse range of interests. This includes direct involvement in the advanced Cairn Hill iron ore-copper-gold project in South Australia, joint venture participation in Tanzanian platinum and base metal exploration activity funded by Lonmin Plc and investment holdings including a significant shareholding in uranium explorer Uranex.

The company is currently undertaking a spin out of its Nachingwea nickel-copper property in Tanzania, into a TSX listed vehicle Continental Nickel Limited, with a priority entitlement offering to its shareholders. The IPO in the Canadian market will provide a strong level of funding to accelerate exploration activity, as well as contributing to better “value recognition” in relation to Goldstream’s non-Australian assets.

“Goldstream is steadily advancing its diverse portfolio of assets. This includes near term cash flow from the Cairn Hill project, as well as exposure to a high level of exploration activity.”

Continental Nickel Limited
Goldstream has lodged a prospectus for Continental Nickel Limited with the TSX, aimed at raising up to C$15.4m (after costs). The company is based on the spin off of its 100% owned Nachingwea nickel-copper property in Tanzania. Existing Goldstream shareholders will have priority application rights for up to A$3m Continental shares.

Goldstream will retain an effective 51% equity interest in Continental on a diluted basis. In addition it has a direct free carried interest in the Nachingwea project. The free carry will be at the 30% level for the first C$8m of exploration (over 2 years), will reduce to 25% through to completion of a bankable feasibility study and reduces to 20% on the completion of C$15m expenditure.

Management of Continental includes a number of ex-Falconbridge employees with nickel experience in Africa.

Nachingwea is located in southeastern Tanzania, around 100km north of the border with Mozambique, and 180 km west of the coastal port city of Mtwara. The project consists of numerous granted licences and applications covering some 7,340 sq km. The project is regarded as covering a completely new nickel sulphide province and Goldstream’s drilling results during 2006 included some impressive results, such as:

- 3m at 11.23% nickel and 1.74% copper including
- 1.70m at 15.87% nickel and 2.61% copper

Indeed, Goldstream's first pass drilling at one prospect, Ntaka, recorded mineralisation of 0.5% nickel or better in 11 of 14 drill holes, including several wide zones of mineralisation. The forward plan by includes a series of geophysical surveys in July/August (VTEM and ground EM), ahead of recommencement of drilling in August. This program will continue until the onset of the wet season in October/November.

Location Plan

Source: Company

Cairn Hill, (100% GDM)

The Cairn Hill iron ore (magnetite)-copper-gold project feasibility study is close to completion. Members are referred to earlier reports for background information on the project. Since our last report in February the company has indicated that its preferred development option is for direct shipping of ore from site, with subsequent processing in China (although it continues to cost the alternative of on-site processing to produce magnetite and copper-gold concentrates).

Recapping, Goldstream has delineated an Inferred Resource of 11.3mt at 50.3% Fe, 0.4% Cu and 0.1g/t Au at Cairn Hill using likely open pit mining parameters. This estimate will be upgraded to an Indicated Resource as part of the current feasibility study by including additional infill and eastern extension drilling undertaken since the end of 2006.

It is envisaged that the initial project will involve mining of 1.4mtpa of ore, with modest upgrading of this ore on site (via magnetic separation) ahead of shipping to

China for processing. The on-site upgrade is likely to lift the Fe content to between 52% and 58%.

The refocus on the "China option" reflects the realities of that country's lower capital and operating costs, as well as a shorter development time for the project. It also provides the opportunity for Goldstream to introduce a Chinese partner to the project, with a trade-off to be undertaken between project funding and equity.

While a partner is yet to be selected it is proposed that the incoming party would fund all of the capital costs associated with the development in exchange for equity in a joint venture company to own the project (potentially up to 49% equity would be available for a Chinese partner). Capital costs are believed to be in the order of US$45m under this option (subject to finalisation of the feasibility study). By comparison the capital cost associated with the Australian based processing option was previously estimated at around A$90m.

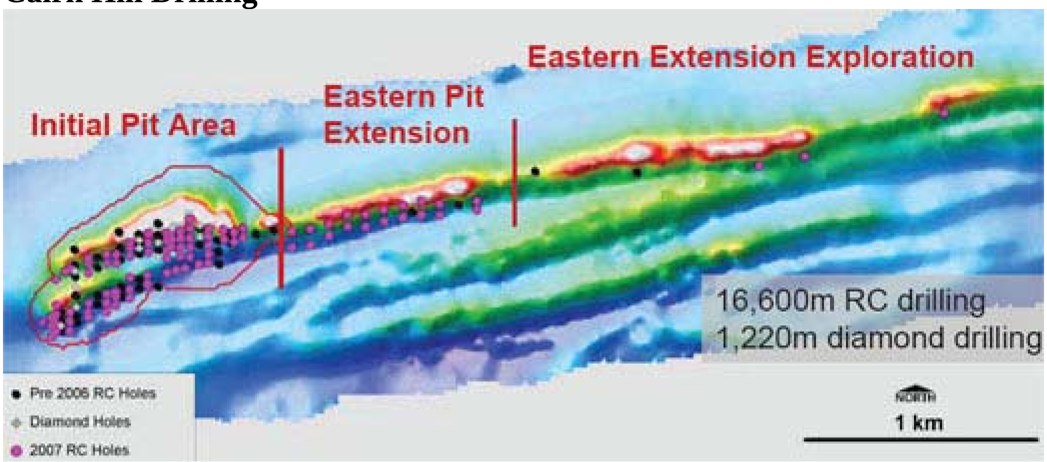
Assuming a partner can be selected in the near term the forward plan for Cairn Hill is:

- completion of feasibility study – end June 2007
- mining lease approvals – early Q3 2007
- trial mining – early Q3 2007
- completion of all approvals – Q4 2007
- initial ore shipments – early 2008

At current spot pricing levels Cairn Hill could be expected to generate surplus cash flow in the order of $25m to $30m per annum. However, it will not be a low cost producer and margins will diminish at lower commodity price levels.

A number of longer term opportunities exist to reduce the operating cost structure; particularly through economies of scale associated with higher production rates (the aim is to double production) and reduced port/transport costs.

Cairn Hill Drilling

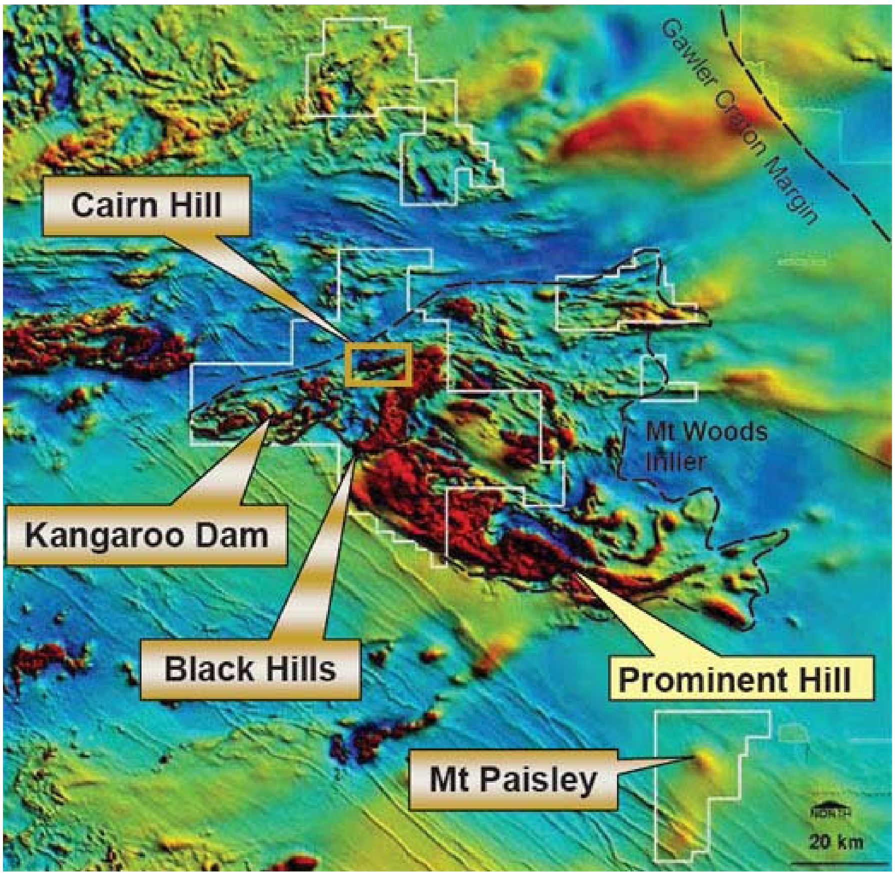


Source: Company

In this regard the ongoing exploration effort within the broader Mt Woods leases remains critical in expanding the resource base of the project. This includes opportunities to delineate immediate extensions to the Cairn Hill system and recent drilling of the Eastern Extension is expected to add several million tonnes to project resources. Overall some 16km of the magnetic structure that hosts the Cairn Hill deposit remains only sparsely tested.

More generally the Mt Woods tenements are prospective for IOCG targets which are prevalent in the region (most notably Prominent Hill, Carrapateena and Olympic Dam). Drilling of these targets is expected to resume in Q3 2007.

Mt Woods Tenements



Source: Company

Other Activity

Goldstream's other major activities are its association with Lonmin in Tanzania (the Luwumbu platinum project and the Mibango platinum-nickel project) and its investment in uranium junior Uranex (current market value of this investment is $55m).

As noted in earlier reports Goldstream's joint venture partner Lonmin is fully funding current exploration activity (GDM reducing to 27% at Luwumbu and 35% at Mibango).

Importantly, field activity is set to resume in Tanzania following the end of the wet season. At Luwumbu the 2007 exploration budget is US$4.2m and includes 15,000m of drilling. The aim is to define platinum resources within the current program (Members will recall that high grade platinum results were achieved in earlier drilling).

At Mibango geophysical programs are proposed in order to better define targets ahead of the next round of drilling. The 2007 budget is US$2.5m.

The Uranex investment continues to attract a high market value, in keeping with many uranium companies. At its key Thatcher Soak project in WA the company is currently undertaking further drilling to confirm and expand the historic BP resource estimates (pre JORC contained uranium was circa 6,000t). In Tanzania the company has defined two advanced targets, Bahi and Mkuju, in radiometric mapping and sampling programs, with follow-up drilling proposed in the current field season.

Capital Structure

We have updated our estimate of the capital structure of the company as follows:

Market Valuation	**Issued Shares (m)**	**Share Price (A$)**	**Market Cap (A$m)**
Fully paid shares	147.0	$0.60	$88.2
Options & PP	11.6	$0.60	$7.0
Cash from options			$4.7
Diluted Market Cap			$90.5
Cash			$8.5
Investments			$71.9
Debt			$0.0
Enterprise value			**$10.0**

This estimate assumes successful completion of the Continental IPO, although it makes no allowance for the value of the carried interest in the project.

The company has an enterprise value of around $10m, which appears very low when assessing the quality of the company’s assets. This can only be partially explained by the holding structure characteristics of the company.

Discussion and Recommendations

Goldstream is now close to finalising and funding its preferred development route for Cairn Hill, which should enable the company to achieve production from the end of the year. While there has been some slippage in timing since our last report, the preferred option provides low capital risk for shareholders.

At the same time the company is attracting new funding for the Nachingwea project that will catalyse an acceleration of exploration efforts – again with no medium term financial demands on the Goldstream shareholders.

Elsewhere in Tanzania Lonmin is about to recommence field activities at its Goldstream joint venture projects, including extensive drilling at advanced exploration properties.

At the same time the company’s investment in Uranex continues to be supported by rising uranium prices and the commencement of resource definition drilling at Thatchers Soak.

Overall, Goldstream will achieve exposure to some $19.5m of exploration activity in 2007, with only $1.5m being funded directly by the company. The company's management continue to examine ways to unlock value from the company's assets, providing shareholders with considerable exploration and production upside for minimal financial exposure. We believe this not yet adequately recognised by the stock market.

There will be a high level of news flow for the remainder of the year and **Stock Resource recommends Goldstream as a Buy up to 63 cents for Members with no current exposure.**

Share Price Graph

Related Articles

- Goldstream Mining 14 Feb 2007
- Goldstream Mining 11 Oct 2006
- Goldstream Mining 19 Jul 2006
- Goldstream Mining 03 May 2006

Disclaimer

Breakaway Investment Group Pty Ltd, and its authorised representative Stock Resource, have made every effort to ensure the reliability of the views and recommendations expressed in this report. Our research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication.

This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances. Not all investments will be appropriate for all subscribers.

To the extent permitted by law, Breakaway Investment Group Pty Ltd and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Breakaway Investment Group Pty Ltd hereby limits its liability, to the extent permitted by law, to the re-supply of the said information or the cost of the said re-supply.

As at the date at the top of this page, Directors and/or associates of Breakaway Investment Group Pty Ltd currently hold positions in Admiralty Resources (ADY), Alesco Corporation (ALS), Allco Equity Partners (AEQ), Allco Finance Group (AFG), Allco Hybrid Investment Trust (AHU), Anchor Resources (AHR), Bondi Mining (BOM), BMA Gold (BMO), CGA Mining (CGX), CBH Resources (CBH), Commander Communications (CDR), Echo Resources (EAR), Energy Metals (EME), Exco Resources (EXS), First Australian Resources (FAR), Icon Resources (III), Intec (INL), Jindalee Resources (JRL), National Australia Bank, (NAB), Orica Limited (ORI), Qantas Airways (QAN), Queensland Cotton (QCH), Southern Cross Exploration (SCX), Spotless Group (SPT), Strike Resources (SRK) and Terramin Australia (TZN). These may change without notice and should not be taken as recommendations.

Reference within the Stock Resource Report to the “Stock Resource Portfolio” is a reference to the hypothetical portfolio on the “Past Predictions” page, which includes details on the methodology used to derive the performance figures.