

Farallon Resources Ltd. (FAN-T, \$0.34 intraday)

Recommendation: Buy

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All values in C\$ unless otherwise noted.

Current Price	\$0.34
Target Price (12-Month)	\$0.45
Target Return	32%

Changes

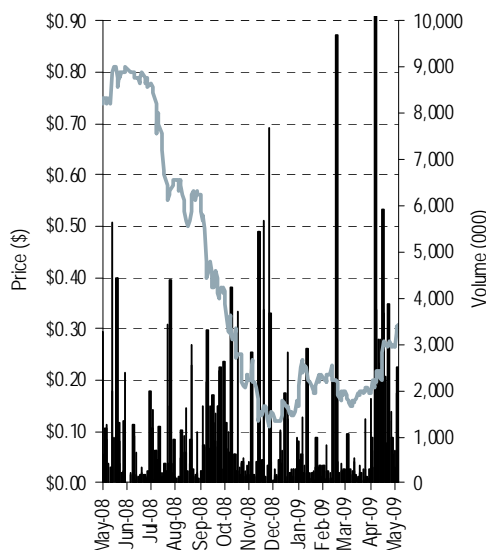
	Old	New
Recommendation	Buy	Unchanged
Target	\$0.45	Unchanged
CFPS 2009E	US\$0.01	Unchanged
CFPS 2010E	US\$0.07	Unchanged

Company Profile

Farallon Resources is a Canadian-listed mineral development company that owns 100% of the Campo Morado zinc-rich volcanogenic massive sulphide (VMS) mine in Mexico.

www.farallonresources.com

Price Chart



Source: Thomson ONE

Addresses Debt Management - 4-Year Term Loan for US\$30mm Cushions Balance Sheet

- Secures US\$30mm 4-yr term loan to repay 15% notes due Sept/09.**
As expected (albeit sooner), FAN addresses short-term debt overhang by securing longer-term facility with a marked drop in borrowing costs.
- De-risked balance sheet improves visibility on production re-rating.**
Debt reduction helps ensure FAN navigates ramp-up at G-9; full re-rating and takeout optionality to come w/ demonstrable increase in met results.
- Recent re-rating of emerging producers bodes well for FAN shares.**
With the peers trading at ~5.2x CF and 4.0x EV/EBITDA for FY10 vs. FAN at 4.1x and 2.3x, there is still substantial scope for valuation bump.
- Maintain Buy rating and \$0.45 target price.**
Target ascribes an equal weighting to 0.85x our NAV est. of \$0.60/sh (unchanged) and 5.0x our FY10 CFPS est. of US\$0.07 (unchanged).

Financial Summary

Shares Out (mm)	405.3	52-Week Range	\$0.10 - \$0.84
Market Cap (mm)	\$135.8	Avg Weekly Volume	5,045,725
Shares, FD (mm)	422.2	Fiscal Year End	Dec-31
Working Capital (mm)	\$21.4	NAV/Share, FD	\$0.60
Enterprise Value (mm)	\$115.6	P/NAV	0.6 x
Key Properties:		Status:	
	Campo Morado, Mexico (100%)	Annual Zn production - payable (000 lbs)	75,094
	Polymetallic zinc-rich VMS deposit	Annual Au production - payable (oz)	9,702
		Total Cash Costs (US\$/lb, after credits) (1)	0.22
		Total Cash Costs (US\$/lb, after credits) (2)	0.31
Key Management:		Key Shareholders:	
Dick Whittington	President and CEO	Management (5%)	
Greg McCunn	Chief Financial Officer		
Ronald Thiessen	Chairman and Director		

(1) Life of mine average - includes amortization of pre-sold silver.

(2) Life of mine average - includes Ag at US\$3.90/oz

Source: WWCM Estimates, Company Reports

Please see disclaimers on the last two pages of this report.

Appendix: Summary Cash Flow Statement

	Units	FY08A	FY09E	FY10E	FY11E
Zn Price (calendar)	US\$/lb	0.86	0.55	0.65	0.80
Zn Price (fiscal)	US\$/lb	1.17	0.55	0.65	0.80
US\$/C\$ (fiscal)	US\$/C\$	0.94	0.85	0.85	0.85
Payable Zn sales	mm lbs	na	96.3	104.1	106.5
Total cash costs (1)	US\$/lb	na	0.33	0.11	0.05
Total cash costs (2)	US\$/lb	na	0.43	0.22	0.14
Net Income	US\$, mm	(41.1)	(11.0)	23.9	41.5
Depreciation	US\$, mm	0.0	23.3	18.3	18.1
Amort. of Ag sales	US\$, mm	0.0	(9.0)	(11.2)	(10.1)
Deferred income tax	US\$, mm	0.0	0.0	0.0	0.0
Other	US\$, mm	2.0	1.0	0.0	0.0
Operating cash flow	US\$, mm	(39.0)	4.4	31.0	49.6
EPS, f.d.	US\$/sh	(0.12)	(0.03)	0.06	0.10
CFPS, f.d.	US\$/sh	(0.12)	0.01	0.07	0.12
Basic shares out		327.7	405.3	420.2	420.2
F.d. shares out		329.7	407.3	422.2	422.2

(1) Total cash costs, net of by-product credits & amortization of pre-sold silver

(1) Total cash costs, net of by-product credits with Ag at US\$3.90/oz

Source: Company Reports, WWCM Estimates

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Company Name	Ticker Symbol	Applicable Disclosure
Farallon Resources	FAN-T	2, 11

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