

Farallon Mining

(FAN - \$0.54)

Drilling Confirms North Zone Extension & Possible Precious Metal Zone

Financial Summary (C\$)

(end-Dec)	Revenue (m)	CFPS	P/CF (x)	EPS	P/E (x)
2007	0.1	-0.02	nm	-0.03	nm
2008	35.9	-0.01	nm	-0.03	nm
2009e	97.3	0.03	18.0	0.01	nm
2010e	219.2	0.24	2.3	0.18	3.0

All figures in C\$ unless otherwise noted

- ▶ Farallon announced results from its current exploration program that indicate further extensions to both the Abajo and North Zones.
- ▶ Upper North Zone drill results show impressive precious metal grades of 19.67 g/t gold and 1700 g/t silver over 13.42 metres and 19.51 g/t gold and 1004 g/t silver over 8.44 metres.
- ▶ We are leaving our \$0.74 NAV and \$0.75 target price unchanged at this time. We maintain our Buy recommendation.

2009/10 Exploration Returns First Assay Results

Yesterday, Farallon Mining Ltd. announced results from the recently restarted surface and underground exploration drilling program. Two surface drills and one underground drill were deployed to focus on mineral resource definition drilling around G-9 to extend the mine's life and to test for extensions of the G-9 Abajo zone and North zones.

The best reported zinc intercept was in the North West North Zone area that cut 10.20 metres grading 27.73% zinc, 0.97% lead 2.41% copper, 73 g/t silver and 1.25 g/t gold in underground hole 120. Included within this intercept was a shorter section grading 36.09% zinc, 1.13% lead, 2.90% copper, 83 g/t silver and 1.64 g/t gold over 4.98 metres. Drill results from the North West North Zone were in line with our expectations and indicate further potential to increase the current mine life and for additional high grade zones at G-9. Additionally, the Upper North Zone did return some impressive precious metal grades of 19.67 g/t gold and 1700 g/t silver over 13.42 metres and 19.51 g/t gold and 1004 g/t silver over 8.44 metres. These areas of high grade precious metals certainly deserve some focus and we expect further drilling will better define the Upper North zone and whether or not a significant precious metal zone resides at G-9.

Stock Rating:

Buy

12- target (C\$)	\$0.75
Potential ROR	39%

Company Profile

Sector	Base Metals
Ticker	FAN-T
Shares O/S, basic (m)	471.2
Shares O/S, diluted (m)	490.5
Mkt cap, basic (C\$)	\$254.4
Mkt cap, FD (C\$)	\$264.9

Key Metrics

NAV/sh (C\$)	\$0.74
Cash (US\$)	\$21.2m
Debt (US\$)	\$26.7m

Research Team

David Davidson
 Analyst 416.360.3462
 ddavidson@paradigmcap.com

Michael Bandrowski
 Associate 416.360.1397
 mbandrowski@paradigmcap.com

Jeff Woolley, CFA
 Associate 416.361.9557
 jwoolley@paradigmcap.com

Sales

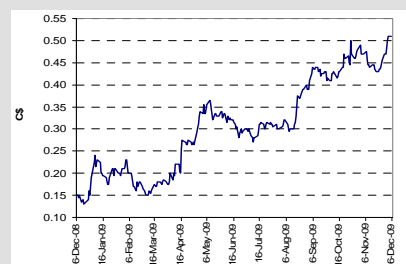
Toronto	416.361.1064
Calgary	877.513.1025

Paradigm Capital research is available on First Call, Reuters or at www.paradigmcap.com

Refer to last page for official disclaimer

Issued by Paradigm Capital Inc.

1-Year Stock Chart



11/18/09 FY09-10 EPS and target lowered (\$0.75)
 06/23/09 Target raised (\$0.80)
 03/24/09 Target lowered (\$0.65)
 11/21/08 Target lowered (\$0.75)
 03/14/07 Initiating target price (\$1.10)

Source: Bloomberg

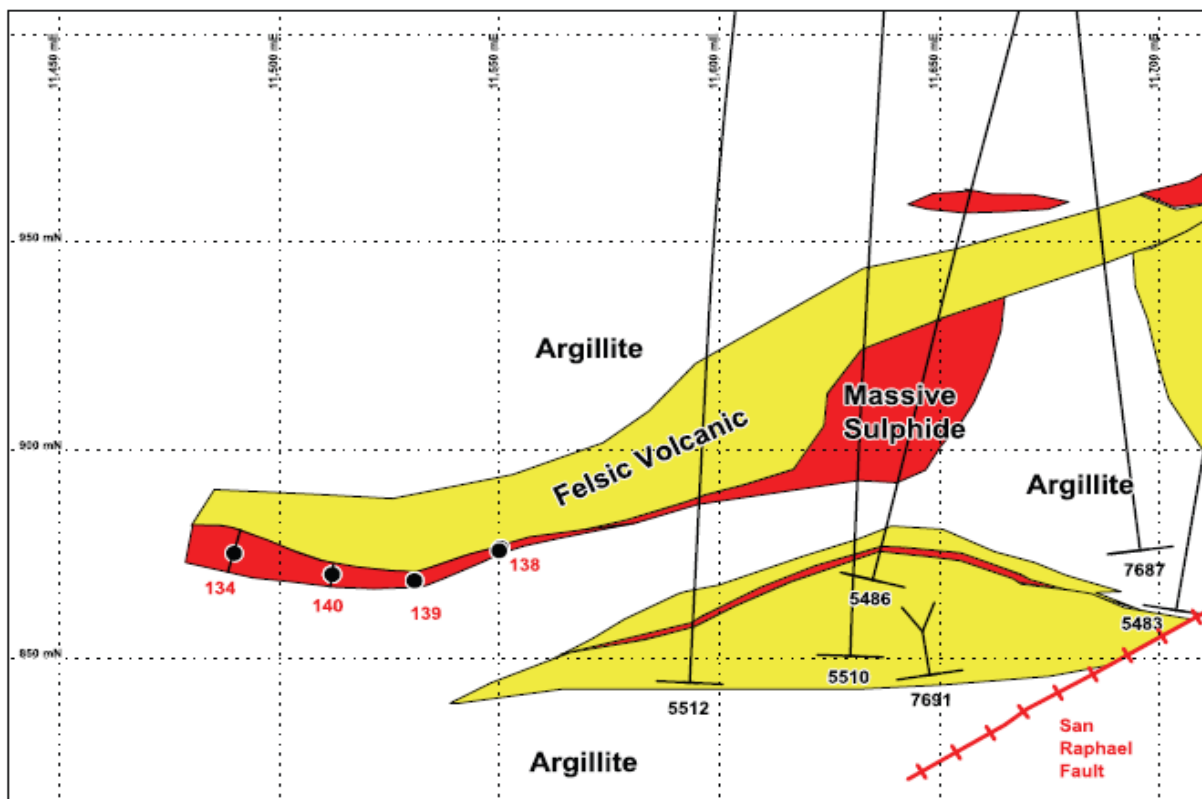
Abajo & North Zone Extension

Underground hole 134, in the South East North Zone cut 10.70 metres grading 12.52% zinc, 1.50% lead, 1.46% copper, 154 g/t silver and 1.98 g/t gold including an intercept grading 16.02% zinc, 1.24% lead, 1.67% copper, 169 g/t silver and 2.32 g/t gold over 6.44 metres. These results highlight the newly discovered extension of the North Zone to the southeast, Figure 1. The company's exploration plan to test for extensions of the G-9 Abajo and North zones was a success and should lead to further step out drilling to define the extent of both the Abajo and North zones. The North zone extension remains open in two directions, ongoing analysis will show the extent of the lens and its potential as a significant addition to the G-9 mine life.

Maintain Buy Recommendation

While the latest set of drill results point to a possible precious metal zone in the Upper North zone and extensions to the Abajo & North zones, further drilling and assay results will define the extent of these zones (so far it has been a good start). As the current exploration program is early stage (3rd month of a 15 month \$5.5m exploration program) we are leaving our numbers unchanged at this time. Our target price remains \$0.75 based on approximately 1.0x our \$0.74 NAV. We maintain our Buy recommendation.

Figure 1:



Source : Company, Paradigm Capital

Disclaimer Section

1. David Davidson does not have an ownership position in Farallon Resources (FAN-T).
2. Michael Bandrowski does not have an ownership position in Farallon Resources (FAN-T).
3. Jeff Woolley does not have an ownership position in Farallon Resources (FAN-T).
4. Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to Farallon Resources (FAN-T) during the past 12 months.
5. Paradigm's disclosure policies and research distribution procedures can be found on our website at www.paradigmcap.com.

Research Rating System

Paradigm Capital uses the following rating recommendations in its research:

Speculative Buy – Expected returns of 10% or more over the next 6-12 months on high-risk development or “pre-revenue” companies, such as junior mining and early stage biotech companies. (14% of Paradigm's coverage list consists of Speculative Buy recommendations).

Buy – Expected returns of 10% or more over the next 6-12 months. (69% of Paradigm's coverage list consists of Buy recommendations).

Hold – Expected returns of +/-10% over the next 6-12 months. (15% of Paradigm's coverage list consists of Hold recommendations).

Sell – Expected returns of -10% or more over the next 6-12 months. (2% of Paradigm's coverage list consists of Sell recommendations).

About Paradigm Capital Inc.

Paradigm Capital is a research-driven, independent, institutional equity investment dealer focused on sectors and companies that have attractive long-term secular growth prospects. Paradigm Capital's research is available on our website at www.paradigmcap.com. Please speak to your Sales or Trading Representative if you require access to the website

The analyst (and associate) certify that the view expressed in this report accurately reflect their personal views about the subject securities or issuers; No part of their compensation was, is, or will be directly or indirectly, related to specific recommendations expressed in this research report.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is determined by revenues generated directly or indirectly from various departments including Investment Banking, based on a system that includes the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and investment guidance and client feedback. Analysts are not directly compensated for specific Investment Banking transactions.

The opinions, estimates and projections contained herein are those of Paradigm Capital Inc. (“PCI”) as of the date hereof and are subject to change without notice. PCI makes every effort to ensure that the contents herein have been compiled or derived from sources believed reliable and contain information and opinions, which are accurate and complete. However, PCI makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any loss arising from any use of, or reliance on, this research report or its contents. Information may be available to PCI, which is not reflected herein. This research report is not to be construed as an offer to sell, or solicitation for or an offer to buy, any securities. PCI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. PCI may act as financial advisor and/or underwrites for certain of the corporations mentioned herein and may receive remuneration for same. Paradigm Capital Inc. is a member of The Toronto Stock Exchange, The TSX Venture Exchange and The Investment Industry Regulatory Organization of Canada (IIROC).

Any products or services mentioned on this website are made available only in accordance with local law (including applicable securities laws) and only where they may be lawfully offered for sale. Paradigm Capital Inc. will not open accounts except in jurisdictions in which it is registered.

To U.S. Residents: This report was prepared by Paradigm Capital Inc. which is not subject to the U.S. rules with regard to the preparation of research reports and the independence of analysts. Paradigm Capital U.S. Inc, affiliate of PCI, accepts responsibility for the contents herein, subject to the terms as set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so through Paradigm Capital U.S. Inc.