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Farallon Mining Ltd.

FAN-TSX

A Golden Opportunity

Event

Farallon announced a preliminary Inferred mineral resource estimate for three high-grade gold zones at its G-9 mine.

Action

We recommend buying Farallon Mining's shares. We maintain our OUTPERFORM rating and C\$0.75 target price.

Analysis

- **Gold zones at G-9** – Farallon has identified three high-grade gold zones at its G-9 mine with a preliminary Inferred mineral resource estimate of 225,000 tonnes at 8.6 g/t gold, 407 g/t silver, 3.3% zinc, and 0.7% copper (5 g/t gold cut-off). The results are based on drilling up to Dec-31-09, and are incremental to the G-9 resource update announced on Mar-29-10.
- **Encouraging potential** – At this stage the resource for the gold zones is small, but in our view it is encouraging for potential value that could be added to the G-9 mine. The gold zones are not currently in the mine plan, however, they are close to the current working areas at the G-9 mine. Farallon's drilling campaign at G-9 is ongoing, including in the proximity of these gold zones, with the intention of adding to the resource base. The company is initiating a metallurgical program to evaluate the most favourable method to process the gold and silver resources through the G-9 mill. These test results are expected later in 2010.
- **1Q10 financial results** – Farallon intends to release its 1Q10 results on Wednesday, May 12th before market open with a conference call on Thursday, May 13th (call-in details to be determined). We are forecasting 1Q10E EPS of US\$0.01.

Valuation

Farallon's shares trade at a P/NAV of 0.56x. This compares to the weighted average of base metal producers of 0.68x. Our target price of C\$0.75 is based on a 0.70x multiple applied to our NAV of C\$1.03 per share (in-line with risk and liquidity-adjusted historic producer multiples).

RATING & TARGET

RATING	OUTPERFORM 2 =
Target Price (6-12 mths) (C\$)	0.75 =
Closing Price (C\$)	0.58
Total Return to Target	29%

MARKET DATA

Market Capitalization (US\$mIn)	262
Current Net Debt (US\$mIn) (2010E)	(43)
Enterprise Value (US\$mIn) (2010E)	219
Basic Shares Outstanding (mIn)	473
Avg Daily Dollar Volume (3mo, mIn)	n/a
52 Week Range (C\$)	\$0.25 - \$0.65

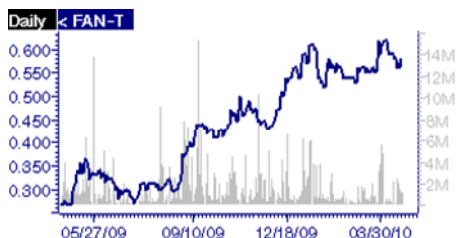
KEY FINANCIAL METRICS

FY-Dec 31	2009A	2010E	2011E
EPS (US\$)	(0.04)	0.15	0.21
P/E (x)	nmf	3.6	2.6
EPS - 1Q (US\$)	(0.02)	0.01	0.05
EPS - 2Q (US\$)	(0.02)	0.04	0.05
EPS - 3Q (US\$)	(0.00)	0.05	0.05
EPS - 4Q (US\$)	0.00	0.05	0.05
NAVPS (C\$)		1.03	
P/NAV(x)		0.56	
Revenue (US\$mIn)	nmf	208	208
EBITDA (US\$mIn)	nmf	102	158
Zn Prod'n (000's MT)	32.3	46.9	52.7
Zn Cash Cost (US\$/lb)	0.43	0.17	(0.08)

* After by-product credits

COMPANY DESCRIPTION

Farallon Mining Ltd. (FAN-TSX) owns 100% of the high-grade polymetallic mineral concessions at the Campo Morado property in Mexico. The company's G-9 mine at Campo Morado is ramping-up production, and uses conventional flotation to produce zinc, copper, and lead concentrates with significant gold and silver content.

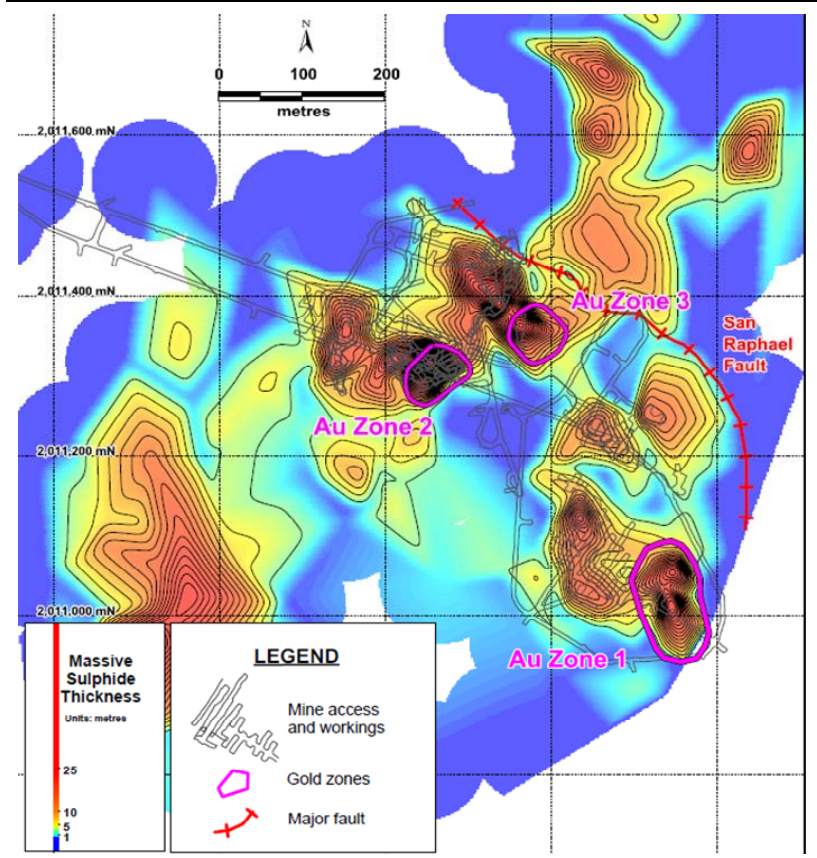


Sources: Raymond James Ltd., Thomson ONE

Gold Zones at G-9

The three gold zones identified at G-9 are not currently in the mine plan, but we note that they are close to the current working areas of the mine (refer to Exhibit 1). Gold Zone 1 is in the Southeast Zone's Area 8, and Gold Zones 2 & 3 are in the North Zone's Areas 4 & 9, respectively.

Exhibit 1: Location of Gold Zones at the G-9 Mine



Source: Company reports

Catalysts for the Shares

- **Exploration potential** – We expect drill results sometime in 2Q10 from the ongoing exploration program at the G-9 deposit.
- **Scoping study for the satellite deposits at G-9** – Farallon has started preparing a study to determine the economic viability of processing material from the El Largo, El Rey, Naranjo, and Reforma deposits at the G-9 mill. This study is expected to be completed in 2Q10.
- **Increasing production by expanding the mill** – The operating team at the G-9 mill is reviewing the mine plan and a new scope for the expansion to throughput greater than 2,000 tonnes/day. We expect more clarification from management regarding the expansion in 2Q10.

Risks

Some of the risk factors that pertain to the projected 6-12 month stock price target for mining companies in our universe are as follows: Mining companies are subject to a range of risks, including, but not limited to: environmental risk, political risk, operational risk, financial risk, hedging risk, commodity price fluctuation risk, and currency risk. Any difference between our metal price forecasts and realized metal prices will likely have an impact on our earnings and valuation estimates for the mining companies in our research coverage universe. The operation of mines, and mills is complex and is exposed to a number of risks, most of which are beyond the company's control. These include: environmental compliance issues, personnel accidents, metallurgical/other processing problems, unexpected rock formations, ground or slope failures, flooding or fires, earthquakes, rock bursts, equipment failures, consultant errors and, interruption due to inclement weather conditions, road closures, and/or local protests. Other risks include, but are not limited to: uncertainties surrounding reclamation costs, aging equipment and facilities which could lead to increased costs, strikes, and transportation disruptions.

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STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. **OUTPERFORM 2:** the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. **MARKET PERFORM 3:** the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. **UNDERPERFORM 4:** the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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COMPANY	SYMBOL	EXCHANGE	DISCLOSURES
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