

Farallon Resources

FAN-C\$0.18

Provides a G9 Operational Update

Financial Summary (C\$)

(end-Dec)	Revenue (m)	CFPS	P/CF (x)	EPS	P/E (x)
2007	0.1	-0.03	nm	-0.02	nm
2008e	35.9	-0.00	nm	-0.03	nm
2009e	166.2	0.18	1.0	0.16	1.1
2010e	227.8	0.30	0.6	0.29	0.6

All figures in C\$ unless otherwise noted

- ▶ Farallon reported an operational update for its G9 mine. The company has been receiving payments from Trafiguara on a regular basis.
- ▶ The company expects to be mining and milling at the designed rate of 1,500 tonnes per day this month.
- ▶ Our NAV and target are unchanged at \$1.04 and \$0.75 and we maintain our Buy recommendation.

G9 Operational Update

Yesterday, Farallon provided an operational update from its G9 mine. In general, the company's initial production targets have been met. The mill has been producing zinc, copper and lead concentrates which are being trucked to the port of Manzanillo. The company has been receiving advance payments for the concentrates from Trafigura under existing off-take agreements on a regular basis. Farallon anticipates that the first shipments of concentrates, totalling some 6,500 tonnes, will be shipped in early February. To date, no major obstacles have developed that would cause the company to materially adjust its production targets and goals.

During November and December, the company produced 9,810 tonnes of zinc concentrate grading approximately 50% zinc at recoveries of about 80%. This is particularly impressive given that concentrates were only first produced in September. Copper recoveries have been disappointing to date and averaged approximately 37%. We expect that copper recoveries will continue to gradually improve and ultimately reach over 70%. The company expects to be mining and milling at the designed rate of 1,500 tonnes per day this month. The company is now starting to mine in the Southeast zone. The company stated that as of December 31st, it had approximately US\$14.1 million in cash on hand.

Stock Rating:

Buy

12- target (C\$)	\$0.75
Potential ROR	317%

Company Profile

Sector	Base Metals
Ticker	FAN-T
Shares O/S, basic (m)	352.8
Shares O/S, diluted (m)	394.1
Mkt cap, basic (C\$m)	63.5
Mkt cap, FD (C\$m)	70.9

Key Metrics

NAV/sh (C\$)	\$1.04
Cash (C\$)	\$17.8
Debt (C\$)	32.75

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1-Year Stock Chart

Source: Bloomberg



Maintain Buy, Target Price Unchanged

We are pleased to see that the G9 mine is progressing towards commissioning. In the press release, Farallon stated it expects to mine 550,050 tonnes in 2009 grading 11.7%, 1.57% copper, 1.23% lead, 206.2 g/t silver and 2.95 g/t gold, which is in line with what we have modelled. We expect zinc recoveries to increase to reach 90%, which would equal production of 128m pounds of zinc in concentrate. Copper recoveries should trend higher and reach approximately 75%. For 2009, our EPS and CFPS estimates are \$0.16 and \$0.18 using a \$0.75 zinc price and \$2.25 for copper. If zinc and copper were to average \$0.60 and \$1.50, our cash flow estimate would be approximately \$0.10 per fully diluted share, or \$40m. For now, we are leaving our estimates unchanged along with our NAV and target.

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2. David Davidson does not have an ownership position in Farallon Resources (FAN-T).
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