

Equity Research – Diversified Industries  
October 30 2008

## **AEROQUEST INTERNATIONAL LTD.**

### **STRONG BUY**

(AQL – TSX \$0.60)

**12-mo. Target Price: \$2.10**

**Market Capitalization (Basic): \$20.8 Million**

**Risk Profile: HIGH**

**Potential ROR: 250%**

### **AQL Releases Revenue for Q4FY2008**

- On October 30, 2008 Aeroquest announced its preliminary revenues for Q4FY2008 / FY2008 and gave guidance for Q1FY2009. Aeroquest expects to report revenues of \$16.0 million for Q4FY2008, compared with our estimate of \$16.8 million. This will result in revenues of \$55.8 million for FY2008. AQL had provided Q4FY2008 guidance for revenues from \$16 to \$18 million, with results coming in at the low end due to inefficiencies in AQL's helicopter survey operations and the volatility of the US dollar. The company has provided guidance for Q1FY2009, during which it expects revenues to be between \$13 and \$15 million.
- AQL's backlog for its Airborne Survey group fell slightly to \$16 million from \$17 million; however this can be attributed to seasonality rather than lack of demand for surveys. Both company guidance and backlog levels indicate that Aeroquest is not overly concerned with the difficulties junior mining companies are facing in raising cash. We understand that junior mining firms are responsible for about 30% of AQL's overall business. Given that AQL's outlook remains healthy we suspect that additional exposure to larger mining conglomerates is helping to offset a downturn in activity levels for juniors. Moreover, the company's oil and gas airborne survey business is growing and the size of the individual contracts is larger than for mining exploration.
- Due to continued uncertainty in the financial markets, AQL has reduced its plans for growing its fleet. Originally targeting one new system per month, AQL now plans to add one net new helicopter system and one new fixed wing system in Q1FY2009. We note that the company has more than \$15 million in cash and no long-term debt on the balance sheet. The company will report its audited FY2008 results on December 5, 2008. The previously announced agreement with Anglo-American regarding Spectrem Air is also expected to close by the end of December 2008.
- **We will be updating our financial model following a discussion with management. We continue to rate AQL a STRONG BUY with a \$2.10 price target.**

Paul Bradley – 416-955-4777 x244 – [pbradley@frasermackenzie.com](mailto:pbradley@frasermackenzie.com)

John Mould – 416-955-4777 x253 – [jmould@frasermackenzie.com](mailto:jmould@frasermackenzie.com)

## Equity Research Disclosures

### Analyst Certification

The Fraser Mackenzie Limited ("Fraser Mackenzie") research analyst whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about the company and the securities that are the subject of this report and all other companies and securities mentioned in this report and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by the research analyst in this report.

### Analyst Ethics

As a condition of employment, analysts are required to adhere to the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

### Analyst Trading

Fraser Mackenzie permits analysts to own and trade in the securities and/or derivatives of those companies under their research coverage, subject to the following restrictions. No trades can be executed in anticipation of the initiation of coverage or a change in recommendation, until 48 hours after the dissemination of such information to our clients. A transaction against an analyst's recommendation can only be executed for a reason unrelated to the outlook for the stock and with the prior approval of the Director of Research.

### Conflicts of Interest

The research analyst and/or associates who prepared this report are compensated based on the overall profitability of Fraser Mackenzie, which includes the overall profitability of investment banking and related services. In the normal course of its business, Fraser Mackenzie or its affiliates may provide financial advisory and/or investment banking services for the issuers mentioned in this report in return for remuneration and may seek to become engaged for these services from any of the issuers mentioned in this report. Fraser Mackenzie may buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. Fraser Mackenzie, and/or its respective officers, directors or employees may from time to time acquire, hold or sell the securities discussed herein, or in related securities or in options, futures or other derivative instruments based thereon.

### Dissemination of Research

Fraser Mackenzie uses its best efforts to disseminate its equity research to all clients on a timely and effective basis in electronic form, via fax, mail and through its website ([www.frasermackenzie.com](http://www.frasermackenzie.com)). Please contact your Fraser Mackenzie institutional sales or trading representative for more information

### Equity Research Rating System

The rating system is based on the stock's expected absolute total return over the next 6 to 12 months. STRONG BUY is expected to produce a total return of 25% or more, BUY a total return of 10% to 25%, MARKET PERFORM a total return of 0% to 10%, and UNDERPERFORM a negative total return.

**We assign a risk rating to the subject companies of our research reports.** The risk rating is a summary measure of the analyst's subjective assessment of the underlying fundamental risks of the company and the business environment in which it operates. In general, we regard large capitalization stocks with a consistent dividend history as being at the low end of the risk continuum and small capitalization early stage companies as speculative. Our rating system has four categories: LOW, MEDIUM, HIGH and SPECULATIVE.

### Distribution of Ratings



### General Disclosures

The opinions, estimates and projections contained in this report are those of Fraser Mackenzie as of the publication date of this report and are subject to change without notice. Fraser Mackenzie endeavours to ensure that its research reports are compiled or derived from sources that it believes are reliable and contain information and opinions that are accurate and complete. However, Fraser Mackenzie makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. This report is not to be construed as an offer or solicitation to buy or sell any security.

### Report Specific Disclosures

*At the time of publication, the analyst who prepared this report did not hold a position in the securities of AEROQUEST INTERNATIONAL LTD.*

*Fraser Mackenzie has not received investment banking related compensation from AEROQUEST INTERNATIONAL LTD. within the past 24 months.*

*The analyst who prepared this report has visited the material operations of AEROQUEST INTERNATIONAL LTD. and the costs of the visit were paid by Fraser Mackenzie Limited.*