

## MARKET SNAPSHOT

INDEX	Close	% Change	COMMODITIES	Close	% Change
S&P 500	1147.7	0.49%	Gold – London AM (US\$/oz) *	1307.50	1.44%
S&P/TSX Composite	12278.88	0.72%	Silver – London AM (US\$/oz) *	21.87	3.33%
S&P/TSX Venture	1703.11	0.50%	Crude Oil – WTI (US\$/bbl)	76.18	-0.44%
Dow Jones	10858.14	0.43%	Crude Oil – Brent (US\$/bbl)	78.33	0.72%
NASDAQ	2379.59	0.41%	Natural gas –AECO (C\$/GJ)	3.43	6.85%
Canadian Dollar	0.9712	-0.04%	Henry Hub (US\$/Mmbtu)	3.81	0.26%

\* Priced as of this morning

## COMPANIES UNDER COVERAGE

**AEROQUEST INTERNATIONAL (AQL:TSX, \$0.62) Mkt. Cap \$22.9M**  
**Strong Buy, Target \$1.00, Potential ROR 61%**

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### *Aeroquest Announces Contract with the US Army*

- Last night following market close Aeroquest announced that it has been awarded an Architect-Engineer Services Contract from the US Army. The contract is for a five year period and for a maximum of US\$10.0 million in orders for mapping and aerial services. Aeroquest's expects to commence its first work under the contract in October 2010 with delivery in 2011.
- We view this news as encouraging for the company. However under the terms of the contract it is difficult to ascertain the final amount and timing of work to be completed. Of note, Aeroquest will not include the entire amount of such contracts in its publicly reported Contract Backlog numbers except for those orders which have been duly executed.
- Also of interest, yesterday Metals Economics Group put out its preliminary estimates pertaining to 2010 exploration budgets which points to a 44% increase year-over-year. More specifically, junior companies are up about 60% over 2009 suggesting that there is more money available to spend on early stage exploration. This plays very well into the hands of companies like Aeroquest and Energold (EGD-TSXV).
- We continue to recommend the stock with a STRONG BUY rating and a \$1.00 target price. We believe that Aeroquest remains well positioned to demonstrate strong operational improvement with the stabilization of the global economy and a return of exploration spending in the mining industry. So far Aeroquest's share price has lagged the performance of junior gold companies. Our target values the company at a 4.0x EV/EBITDA multiple against our 2011 projections. The shares currently trade at a large discount to net book value (\$1.05/share) and have downside support from tangible book value (\$0.39/share). The company also has \$0.15/share in cash with no long-term debt.

**DIVESTCO (DVT:TSX, \$0.92) Mkt. Cap \$37.3M**  
**Under Review (from Strong Buy), Target U/R (from \$1.65), Potential ROR N/A**

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### *Sale of Seismic Data Library to Pulse Seismic Approved – Placing Rating and Target Under Review Pending Payment of Shares and Cash to Shareholders*

- This morning, SEDAR filings show that Divestco shareholders overwhelmingly approved the sale of Divestco's 2D and 3D seismic data library to Pulse Seismic. An official release from Pulse Seismic has yet to be issued however we anticipate the transaction was similarly approved. This result sets the stage for the transaction to close as soon as today. Post-arrangement, a Divestco shareholder will be entitled to approximately 0.34 of a Pulse Seismic share (PSD-TSX, \$1.41) assuming that the convertible debenture holders did not convert. As well, Divestco shareholders will receive a cash dividend of approximately \$0.25 per share under this scenario.
- We reiterate that while the sale of this asset takes away upside potential in the long-term, we view this transaction as a positive development for Divestco shareholders in the short-term. Divestco shareholders have benefited from a bid for the assets which exceeded the company's enterprise value of \$57 million just prior to the announcement. Also, there is additional upside potential from Pulse Seismic shares which we view as significantly undervalued. We have a STRONG BUY rating on Pulse Seismic shares and a \$2.50 target price.

- We are placing our rating and target UNDER REVIEW pending the close of the transaction and the payment of cash and Pulse Seismic shares to Divestco shareholders. Upon completion, we expect that Divestco shares will trade somewhere between the company's pro-forma net working capital (~\$0.25/share) and its pro-forma net book value (~\$0.60/share). We expect to reintroduce a target price in-line with Divestco's net book value and a rating consistent with where the shares are trading versus this target price.
- Worthy of mention, on September 23, 2010, Divestco announced that it intends to delist from the TSX and commence trading on the TSX Venture within the first week of October 2010. The company expects to announce the dividend record date and date of payout in mid October 2010.

**ALTER NRG (NRG:TSX, \$1.74) Mkt. Cap \$108M**  
**▲ Strong Buy (from Buy), Target ▲\$2.50 (from \$2.00), Potential ROR 44%**

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### ***Ongoing Project Milestones Raise Likelihood of a Near-term Equipment Order; Increasing Target Price to \$2.50***

- Alter NRG announced yesterday that a plasma project in Minnesota has received US\$2.5mm of State funding. The project is set in the town of International Falls and would be owned by Koochiching Development Authority and developed by Coronal LLC, a small developer in Minnesota. The facility would process municipal waste, biomass and sludge, and would derive revenues from tipping fees, energy sales and slag sales.
- The US\$2.5mm State funding is expected to be matched by funding from the US Department of Energy, and will be used for preliminary design, permitting and pre-construction services. Alter NRG has already provided initial engineering and has now been engaged for US\$250,000 of additional engineering. Further detailed engineering is expected in mid-2011, with an equipment order targeted for late 2011 to mid-2012. The facility would require a smaller US\$12mm plasma gasifier to handle the expected throughput of around 150 tpd.
- The project is unique in that the local government is involved in its ownership, which could reduce the risk of regulatory approval. It also shares a site with an existing paper mill, which could ease the permitting process and provides a natural offtake partner.
- The project is yet another opportunity that should lead to a large equipment order for Alter NRG in the 2011/2012 timeframe, and plays into a theme we have highlighted – that Alter NRG's pipeline of opportunities is maturing along the 3-5yr development cycle, which should lead to long-awaited equipment orders in the near term. Below we summarise the recently-announced milestones for various projects that we believe are good candidates for an equipment order in 2011/2012.

Project	Developer	Recent Milestone	Potential Equipment Order (2011/2012)
Milwaukee, WI	AFE	7-Sep	\$11.4mm license agreement
St. Lucie, FL	Geoplasma	16-Sep	\$0.3mm engineering services
Teesside, UK	Air Products	20-Sep	\$0.5mm license agreement
Madison, PA	Coskata	22-Sep	\$4.1-5.6mm testing services
International Falls, MN	Coronal LLC	28-Sep	\$0.25mm engineering services

All figures in USD

Source: Fraser Mackenzie, the company

- Alter NRG's recent stream of positive news announcements confirms that various opportunities are progressing along their milestones, giving us increased confidence in our financial forecast. As a result, we have lowered the near-term discount rate used in our DCF model from 20% to 15%, and consequently raise our target price for the shares from \$2.00 to \$2.50. We see potential upside of a further \$1.30 to our valuation if the company performs at the higher end of our expectations for equipment sales and geexchange results. With a 44% projected return, we rate the shares a STRONG BUY (previously a BUY).

### **Note to Follow**

#### **Utica Shale weekly Update**

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- WTI crude oil was up 3.5% over the past week, closing at US\$76.11/bbl yesterday. Natural gas at the Henry Hub was down 2.1%, closing at US\$3.84/mmbtu. The Fraser Mackenzie Shale Gas Index was down 9.8% over the past week at 870.

Please select from the following shale gas updates:

1. [Utica Shale Leverage Comparables](#)
2. [Utica Shale Drilling Schedule](#)
3. [Utica Shale Drilling Locations \(map\)](#)

**FM Shale Gas Index (GMR, QEC, JNX, ATI, EPS, CQM.H, PCQ)  
Market Cap Weighted**



**CROCODILE GOLD (CRK:TSX, \$1.10) Mkt. Cap \$231M**  
Strong Buy, Target \$1.75, Potential ROR 59%

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***Diamond Drill Results from Cosmo Project***

- Crocodile Gold released drill results from the Cosmo Deposit located in the Northern Territory of Australia. The results illustrate that the mineralization continues northward and at depth beyond the current resource and also toward the south.
- Results from the northward extension include 3.99 g/tonne gold over 4.3 metres in hole CP006W1. Extensions toward the south include 3.43 g/tonne gold over 3.9 metres, 4.17 g/tonne gold over 3.0 metres and 8.38 g/tonne gold over 2.1 metres all from hole CP009W1. Hole CP009W1 is located 100 metres south and 400 metres down-dip of existing mineralization in the West Lodes.
- We expect the latest round of drill results to add to the current 670,000 oz Indicated and 570,000 oz Inferred Resources. The company plans a new resource estimate in early 2011. We expect the news to be neutral to CRK shares and expect the next major catalyst to be positive news that production is back on track to meet or exceed anticipated guidance of 85,000 oz for 2010.

**THE FM BULLETIN IS AVAILABLE ON BLOOMBERG AT <MACK GO>  
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