

**Oil & Gas Producers**

Recommendation: BUY↑
Prior: HOLD
12-Month Target Price: C\$5.00
Unchanged
12-Month Total Return: 29.5%

Market Data (C\$)

Current Price	\$3.86
52-Wk Range	\$3.26-\$7.99
Mkt Cap (f.d.)(mm)	\$1,675.6
EV (\$mm)	--
Dividend per Share	--
Dividend Yield	--
Avg. Daily Trading Vol. (3mths)	2,928,995

Financial Data (C\$)

Fiscal Y-E	--
Shares O/S (f.d.)(mm)	434.1
Shares O/S (basic)(mm)	424.7
Float Shares (mm)	--
Net Debt (\$mm)	(\$86.1)
Net Debt/Tot Cap	--

Estimates (C\$)

Year	2005E	2006E	2007E	2008E
NAVPS (f.d.)	3.53	--	--	--

Valuations

Year	2005E	2006E	2007E	2008E
P/NAV	109.0%	--	--	--
P/NAV (futures)	71.0%	--	--	--

All figures in C\$, unless otherwise specified.

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(UTS-T) C\$3.86**Upgrading UTS Recommendation to BUY****Event**

We are upgrading our recommendation on UTS to a BUY.

Impact

Positive

Details

Clearly, UTS's stock price has been hit by more than just the negative sentiment that the oil sands group has experienced. There are two issues specific to UTS that have magnified its underperformance. Our belief is that although these issues have affected the stock's underlying value, the market has over-reacted (i.e. its reflected in its stock price, and then some).

1) Capital Cost Increase Concerns:

After SHC released their capex cost increases for AOSP (two months ago), the market began selectively 'guessing ahead' as to which oil sands project would be most vulnerable to future capital cost increases. Fort Hills, with its relatively dated and aggressive capex estimates of \$50,000 per barrel of production, was automatically assumed to be a primary candidate. At that time, we also increased our capex estimates for Fort Hills to \$95,000 per barrel of production for our \$60/bbl case, and \$75,000 per barrel of production for our \$45/bbl case.

Sure enough, PCA, the operator of the Fort Hills project, has indirectly signaled to the market that it has felt inflationary pressures and will likely guide future capex estimates upwards. While it will not be releasing DBM based estimates until late this year, PCA will likely provide investors with new direction next week (during the PCA analyst's day on October 3rd and 4th). We are guessing (and also believe that the market has priced into UTS' stock) that PCA provides capex intensity guidance for Fort Hills of \$80 - \$100,000 per bbl of production. Based on our NAV analysis, we think that a \$90,000 capex number is already built into UTS' stock price. So we are comfortable with upgrading the stock ahead of this event.

It is equally important to note that our target (and NAVs) on UTS are based on our risk adjusted NAVs. Given that the Fort Hills project does not come on-stream until 2010 at the earliest, Phase 1 of Fort Hills, and all future phases, are heavily risked. As such, we believe that we have an extra layer of

Company Profile

UTS Energy Corporation is an oil sands company with assets in the Athabasca mining area, 90 km north of Fort McMurray. Through a partnership with PCA and TCK.A, UTS is developing the Fort Hills mining project and has interests in a number of other oil sands leases.

Please see the final pages of this document for important disclosure information.



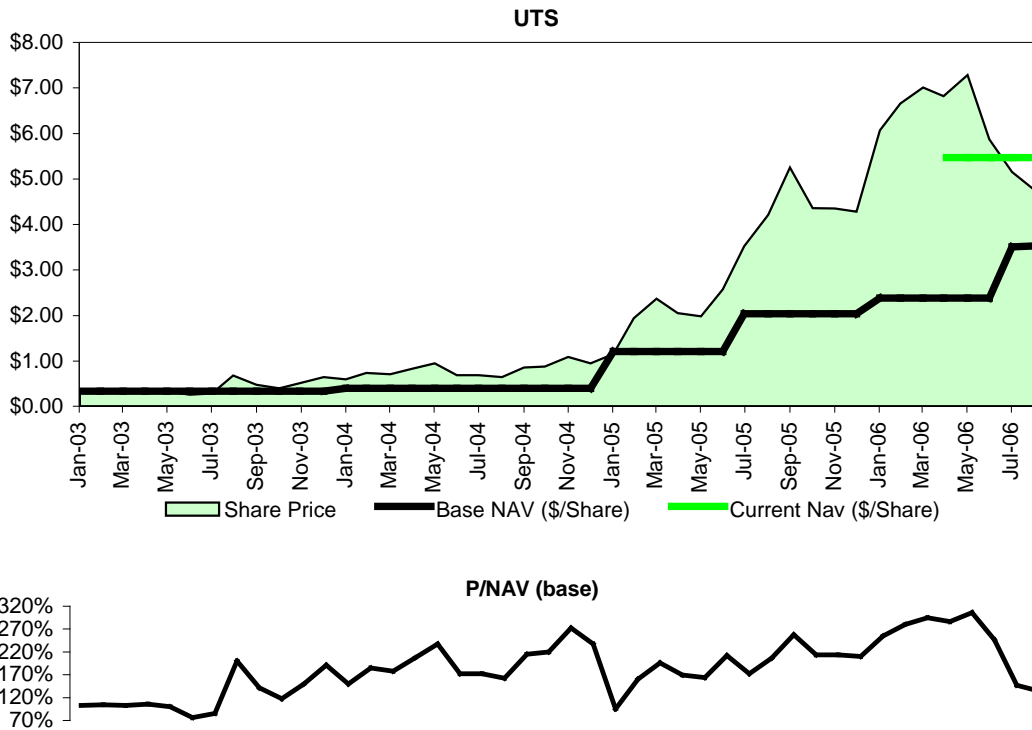
protection against further capex inflationary pressures.

2) Very High Leverage to Oil Prices:

UTS's NAV has one of the highest leverages to crude prices of all the oil sands plays (both large cap and pure plays). This is part of the reason that in a dropping commodity price environment, investors have shot first, and asked questions later.

From purely a valuation perspective, UTS's current stock price looks by far the most attractive to us that it has ever looked. As our P/NAV chart shows in Exhibit 1, over the course of the last 3 years, UTS had consistently traded at a significant premium to its NAV, and to its peer group.

Exhibit 1: UTS Historical P/NAV Chart



Source: Company disclosures, Bloomberg, TD Newcrest estimates

But once again, we think there has been an overreaction. In fact, according to our work, shown below, the stock has gone from a 3 year period of being extremely overvalued, to now being relatively undervalued.

Valuation

UTS trades at a risked P/NAV (\$45) of 109% versus the peer group at 102% and a risked P/NAV (\$60) of 71% versus the peer group at 67%.

Justification of Target Price

Our \$5.00 target price was derived by calculating the midpoint of our base NAV (using the TD price deck) and current case NAV (calculated using US\$60 WTI) and then adding our forecasted 2006 NAV growth rate.

**Key Risks to Target Price – Overall Risk Rating: HIGH**

Risks associated with this target price include those business risks of the company and industry, including but not limited to: loss of key employees, drilling success, volatile commodity prices, product supply and demand, capex overruns, government regulations and taxes, exchange rates, interest rates, environmental and weather concerns.

Investment Conclusion

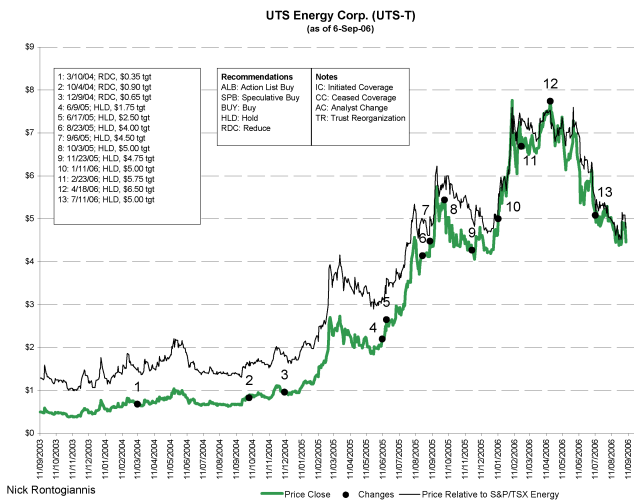
We are upgrading our recommendation on UTS to a BUY for a number of reasons. The recent pullback in UTS' share price, and in our opinion the overreaction of the market to future capex and oil sands names in general, has created one of the best opportunities to own UTS since its debut. While UTS does not look inexpensive, on a relative basis to itself and its peers, it has never looked this cheap before. Given the arguably great partners that UTS has within the Fort Hills project, and our long term positive view on the economics of the project, we are comfortable today upgrading our recommendation.



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Company	Ticker	Disclosures
UTS Energy Corp.	UTS-T	13

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

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