Canadian Oil Sands Announces Fourth Quarter Results, $0.05 per Share Dividend and Cost Reductions at Syncrude

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All financial figures are unaudited and in Canadian dollars unless otherwise noted.

Canadian Oil Sands Ltd. ("COS") (TSX: COS) generated cash flow from operations of $1,106 million ($2.28 per Share) in 2014 and $207 million ($0.43 per Share) during the fourth quarter of the year. Cash flow from operations in the fourth quarter was down about 47 per cent compared with the same period of 2013, largely reflecting lower crude oil prices and higher operating expenses. The decline in crude oil prices has continued into 2015 with West Texas Intermediate ("WTI") benchmark prices to date averaging US$47 per barrel. While the decline in oil prices has been significant, a weaker Canadian dollar has offset some of the impact.

In response to the price environment, Syncrude is undertaking a comprehensive review of costs. An effort was already underway at Syncrude to reduce the cost structure, but this work has intensified to identify near-term opportunities. The initial efforts have identified potential cost reductions in 2015, net to COS, of $260 million to $400 million, or about 10 to 15 per cent, in operating, development and capital costs relative to the budget COS released on December 3, 2014. COS has revised its Outlook for 2015 to incorporate $294, net to COS, of these potential cost reductions. COS does not anticipate these reductions to have an impact on production or reliability initiatives underway at Syncrude, and we are maintaining our production range of 35 million to 40 million barrels net to COS for 2015.

COS is reducing its quarterly dividend to $0.05 per Share for the first quarter of 2015. COS had previously indicated its intention to reduce the quarterly dividend, based on the 2015 Budget assumptions released on December 3, 2014, to $0.20 per Share; however, crude oil prices have declined materially from the Budget assumptions, requiring a further reduction in the dividend to better align with the current price environment and as a prudent step to preserve balance sheet strength in the short and medium term.

"We entered the current period of low crude oil prices with a strong balance sheet, and by reducing our dividend and cutting costs at Syncrude, COS is well positioned to manage its business through a prolonged period of low oil prices and retain its long-term value," said Ryan Kubik, President and Chief Executive Officer. "Syncrude has the flexibility to respond to market conditions without affecting projections for 2015 production."

"While the potential cost savings announced today are substantial, Syncrude is continuing to examine the longer-term opportunities to achieve a sustainable, lower cost structure. Syncrude and its owners strongly believe the competitiveness of the business can be enhanced through the full oil price cycle," said Mr. Kubik.

COS is in a strong financial position with net debt of approximately $1.9 billion at December 31, 2014, representing long-term debt-to-total capitalization of 30 per cent. With a long-term debt-to-total capitalization covenant of 55 per cent, a significant increase in debt or decrease in equity would be required to negatively impact our financial flexibility. Our earliest Senior Note maturity is in 2019 and COS has about $1.4 billion of unutilized credit facilities, which mature in 2018. With the cost and dividend reductions announced to date, COS has sufficient liquidity and balance sheet strength.

More detail on COS' Outlook for 2015 is provided at the end of this press release, and further information on our fourth quarter 2014 results is provided in the fourth quarter Management's Discussion and Analysis ("MD&A"), available on our website at www.cdnoilsands.com.

Highlights for the three months and year ended December 31, 2014:

- Cash flow from operations for the quarter was $207 million ($0.43 per Share) compared with $391 million ($0.81 per Share) in the same quarter of 2013. The decline in cash flow from operations is mainly the result of a lower realized selling price and higher operating expenses, partially offset by lower current taxes. On an annual basis, cash flow from operations decreased to $1,106 million from $1,347 million in 2013, as lower sales volumes and higher operating expenses were partially offset by lower current taxes.
- Net income was $25 million ($0.05 per Share) for the quarter compared with $192 million ($0.40 per Share) in the fourth quarter of 2013. On an annual basis, net income was $460 million in 2014 compared with $834 million in 2013. The decrease in net income reflects the same factors that impacted cash flow from operations. Additionally, foreign exchange losses and depreciation and depletion expense were higher in 2014 compared with 2013.
- Sales volumes for the quarter averaged about 108,100 barrels per day compared with about 112,100 barrels per day in the comparative 2013 quarter. On an annual basis, sales volumes averaged about 94,600 barrels per day in 2014 compared with 98,000 barrels per day the prior year.
- Operating expenses were $438 million in the fourth quarter of 2014 compared with $388 million in the same quarter of 2013. The increase mainly reflects additional maintenance costs associated with unplanned outages on upgrading units, and higher natural gas and diesel costs. Per-barrel operating expenses also rose to $44.04 in the fourth quarter of 2014 compared with $37.60 in the comparative 2013 period, reflecting lower sales volumes in the 2014 period. Operating expenses in 2014 were $1.7 billion, which were in line with our expectations for the year, but higher on a per-barrel basis as a result of lower sales volumes.
- COS is reducing its quarterly dividend to $0.05 per Share, payable on February 27, 2015 to shareholders of record on February 20, 2015. The Corporation paid dividends totaling $678 million, or $1.40 per Share, in 2014.

	Three Months Ended December 31 2014	2013	Year Ended December 31 2014	2013
Cash flow from operations[1] ($ millions)	$ 207	$ 391	$ 1,106	$ 1,347
Per Share[1] ($/Share)	$ 0.43	$ 0.81	$ 2.28	$ 2.78
Net income ($ millions)	$ 25	$ 192	$ 460	$ 834
Per Share, Basic and Diluted ($/Share)	$ 0.05	$ 0.40	$ 0.95	$ 1.72
Sales volumes[2]				
Total (mmbbls)	9.9	10.3	34.5	35.8
Daily average (bbls)	108,139	112,092	94,557	98,037
Realized SCO selling price ($/bbl)	$ 81.32	$ 91.47	$ 99.24	$ 99.55
West Texas Intermediate ("WTI") (average $US/bbl)	$ 73.20	$ 97.61	$ 92.91	$ 98.05
SCO premium (discount) to WTI (weighted average $/bbl)	$ (3.23)	$ (10.84)	$ (2.55)	$ (1.10)
Average foreign exchange rate ($US/$Cdn)	$ 0.88	$ 0.95	$ 0.91	$ 0.97
Operating expenses ($ millions)	$ 438	$ 388	$ 1,686	$ 1,494
Per barrel ($/bbl)	$ 44.04	$ 37.60	$ 48.86	$ 41.75
Capital expenditures ($ millions)	$ 170	$ 292	$ 930	$ 1,342
Dividends ($ millions)	$ 169	$ 169	$ 678	$ 678
Per Share ($/Share)	$ 0.35	$ 0.35	$ 1.40	$ 1.40

[1] Cash flow from operations and cash flow from operations per Share are additional GAAP financial measures and are defined in the "Additional GAAP Financial Measures" section of our MD&A.
[2] The Corporation's sales volumes differ from its production volumes due to changes in inventory, which are primarily in-transit pipeline volumes. Sales volumes are net of purchases.

Syncrude Operations

During the fourth quarter of 2014, Syncrude produced 26.9 million barrels, or 292,600 barrels per day, reflecting an unplanned outage in Syncrude's largest sour water treatment unit, which limited upgrading capacity. In the fourth quarter of 2013, Syncrude produced 28.3 million barrels, or 307,600 barrels per day.

On an annual basis, Syncrude produced 94.2 million barrels, or 258,100 barrels per day, in 2014 compared with 97.5 million barrels, or 267,000 barrels per day, in 2013. Production in 2014 was reduced by unplanned outages in Coker 8-1, sulphur processing units and a sour water treatment unit, whereas in 2013, delays completing scheduled turnarounds, as well as unplanned outages in extraction units, impacted production.

In 2014, Syncrude formed a Cost Analysis and Strategy Taskforce to identify more efficient and effective ways to conduct its business.The aim is to reduce the cost structure at Syncrude and improve profitability. Efforts under the taskforce intensified with the substantial decline in crude oil prices over the fourth quarter of 2014. As a result of this work, we are estimating reductions in 2015 of $160 million to $250 million in operating and development expenses and $100 million to $150 million in capital expenditures, net to COS. The cost savings represent efficiencies in work scope, deferrals of discretionary projects, and workforce initiatives. The reductions are not ianticipated to impact production or reliability initiatives underway at Syncrude. As a long-term initiative, the taskforce will continue to explore further opportunities to establish a sustainable, lower-cost structure at Syncrude.

As well, Syncrude continues to focus on improving reliability. In 2014, Syncrude completed improvements in mining, froth treatment and upgrading to address the root causes of previous unplanned outages. The work included the recapitalization of all of Syncrude's primary bitumen mining facilities with the relocation and refurbishment of the Aurora North mine trains in 2013 and the replacement of the Mildred Lake mine trains in 2014. In bitumen froth treatment, Syncrude retrofitted bitumen centrifuges to improve the quality of bitumen feed and increase throughput rates to the upgrader. In upgrading, Syncrude replaced the heat exchangers in its hydrogen plants to prevent production losses as a result of unplanned hydrogen plant outages. Syncrude has a number of initiatives planned for 2015.

Progress on Syncrude's major projects continued with the new Mildred Lake mine trains commencing operations in the fourth quarter of 2014 and completion of the Centrifuge Tailings Management project expected in 2015. With the completion of these major projects, the financing and execution risk of Syncrude's major capital program is largely behind us. The investment in this program provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from its Mildred Lake Extension ("MLX") project once approved.

Syncrude filed an application for regulatory approval of its MLX project in December 2014. If approved, this project is intended to extend the life of Syncrude's Mildred Lake mine operations by approximately 10 years. Project scoping is underway and a cost estimate has not yet been approved by Syncrude's owners. Pending regulatory approval, capital investment and construction would begin late this decade.

2015 Outlook

- COS is maintaining its estimate for annual Syncrude production to range from 95 to 110 million barrels with a single-point estimate of 103 million barrels.
- We are reducing our estimate for the average WTI crude oil price to US$55 per barrel. Assuming an $0.82 CAD:USD exchange rate and a $4 per barrel discount for synthetic crude oil ("SCO") relative to Canadian dollar WTI, our forecast annual realized SCO selling price is about $63 per barrel.
- The estimate for operating expenses has been reduced to $1,521 million, or about $40 per barrel, based on a production estimate of 103 million barrels at Syncrude and a natural gas price assumption of $3 per gigajoule, as well as the other assumptions outlined in our guidance. The decrease is comprised of $166 million in cost reductions and $45 million due to the lower natural gas price assumption.
- We have decreased our estimate for 2015 Crown royalties to $119 million.
- Based on our updated guidance assumptions, cash flow from operations is estimated at $368 million, or $0.76 per Share.
- The estimate for capital expenditures has also been reduced to $451 million, net to COS, which includes $104 million of remaining expenditures on the major projects and incorporates $110 million in cost reductions.

(millions of Canadian dollars, except volume and per barrel amounts)		As of January 29, 2015		As of December 3, 2014
Operating assumptions				
Syncrude production (mmbbls)		103		103
Canadian Oil Sands sales (mmbbls)		37.8		37.8
Sales, net of crude oil purchases and transportation	$	2,387	$	3,074
Realized SCO selling price ($/bbl)	$	63.08	$	81.23
Operating expenses	$	1,521	$	1,729
Operating expenses per barrel	$	40.19	$	45.69
Development expenses	$	151	$	169
Crown royalties	$	119	$	176
Current taxes	$	65	$	120
Cash flow from operations[1]	$	368	$	730
Capital expenditure assumptions				
Major projects	$	104	$	104
Regular maintenance	$	315	$	425
Capitalized interest	$	32	$	35
Total capital expenditures	$	451	$	564
Business environment assumptions				
Sales weighted average WTI crude oil (USD/bbl)	$	55.00	$	75.00
Sales weighted average premium/discount to CAD WTI ($/bbl)	$	(4.00)	$	(4.00)
Sales weighted average foreign exchange rate (CAD:USD)	$	0.82	$	0.88
Sales weighted average AECO natural gas (CAD/GJ)	$	3.00	$	4.00

[1] *Cash flow from operations is an additional GAAP financial measure and is defined in the "Additional GAAP Financial Measures" section of the MD&A.*

Changes in certain factors and market conditions could potentially impact Canadian Oil Sands' Outlook. More information on the Outlook and a sensitivity analysis of the key factors affecting the Corporation's performance is provided in our MD&A and the January 29, 2015 guidance document, which are available on our web site at www.cdnoilsands.com under "Investor Centre".

Forward-Looking Information

In the interest of providing the shareholders and potential investors of Canadian Oil Sands Ltd. (the "Corporation") with information regarding the Corporation, including management's assessment of the Corporation's future production and cost estimates, plans and operations, certain statements throughout this press release contain "forward-looking information" under applicable securities law. Forward-looking statements are typically identified by words such as "anticipate", "expect", "believe", "plan", "intend" or similar words suggesting future outcomes.

Forward-looking statements in this press release include, but are not limited to, statements with respect to: the estimated potential cost reductions in operating and development expenses and capital expenditures identified through Syncrude's cost review and the belief that such cost reductions will not affect production, or reliability initiatives; all expectations regarding dividends; all expectations regarding net debt; all expectations regarding the Corporation's credit facilities; the timing of completion of the Centrifuge plant at the Mildred Lake Mine; the belief that the investment in the Syncrude major projects provides Syncrude with the infrastructure to produce the remaining ore at its two operating mines and improve its tailings management performance, as well as support new ore production from the Mildred Lake Extension project once approved; the belief that the Mildred Lake Extension project should extend the life of the Mildred Lake operations by approximately 10 years; the timing of capital investment and construction for the Mildred Lake Extension project; the 2015 annual Syncrude production range of 95 million barrels to 110 million barrels and the Corporation's 2015 budget assumption of 103 million barrels (37.8 million barrels net to the Corporation); the estimated sales, operating expenses, development expenses, Crown royalties, current taxes, capital expenditures, and cash flow from operations in 2015; the estimated price for crude oil and natural gas in 2015; the estimated foreign exchange rate in 2015; the anticipated impact of increases or decreases in oil prices, production, operating expenses, foreign exchange rates and natural gas prices on the Corporation's cash flow from operations; the estimated 2015 major project, regular maintenance and capitalized interest spending; the estimated realized selling price, which includes the anticipated differential to West Texas Intermediate ("WTI") to be received in 2015 for the Corporation's product; the belief that the Corporation is well positioned to manage its business through a prolonged period of low oil prices and the belief that, with the cost and dividend reductions announced to date, the Corporation has sufficient liquidity and balance sheet strength.

You are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Corporation believes that the expectations represented by such forward-looking statements are reasonable and reflect the current views of the Corporation with respect to future events, there can be no assurance that such assumptions and expectations will prove to be correct.

The factors or assumptions on which the forward-looking information is based include, but are not limited to: the assumptions outlined in the Corporation's guidance document as posted on the Corporation's website at www.cdnoilsands.com as of January 29, 2015 and as subsequently amended or replaced from time to time, including without limitation, the assumptions as to production, operating expenses and oil prices; the successful and timely implementation of capital projects; Syncrude's major project spending plans; the ability to obtain regulatory and Syncrude joint venture owner approval; our ability to either generate sufficient cash flow from operations to meet our current and future obligations or obtain external sources of debt and equity capital; the continuation of assumed tax, royalty and regulatory regimes and the accuracy of the estimates of our reserves and resources volumes.

Some of the risks and other factors which could cause actual results or events to differ materially from current expectations expressed in the forward-looking statements contained in this press release include, but are not limited to: volatility of crude oil prices; volatility of the synthetic crude oil ("SCO") to WTI differential; the impact that pipeline capacity and apportionment and refinery demand have on prices for SCO and the ability to deliver SCO; the impacts of regulatory changes especially those which relate to royalties, taxation, tailings, water and the environment; the impact of new technologies on the cost of oil sands mining; the impacts of rising costs associated with tailings and water management; the inability of Syncrude to obtain required consents, permits or approvals, including without limitation, the inability of Syncrude to obtain approval to release water from its operations; the impact of Syncrude being unable to meet the conditions of its approval for its tailings management plan under Directive 074; various events which could disrupt operations including fires, equipment failures and severe weather; unsuccessful or untimely implementation of capital or maintenance projects; the impact of technology on operations and processes and how new complex technology may not perform as expected; the obtaining of required owner approvals from the Syncrude owners for expansions, operational issues and contractual issues; labour turnover and shortages and the productivity achieved from labour in the Fort McMurray area; uncertainty of estimates with respect to reserves and resources; the supply and demand metrics for oil and natural gas; currency and interest rate fluctuations; volatility of natural gas prices; the Corporation's ability to either generate sufficient cash flow from operations to meet its current and future obligations or obtain external sources of debt and equity capital; the inability of the Corporation to continue to meet the listing requirements of the Toronto Stock Exchange; general economic, business and market conditions and such other risks and uncertainties described in the Corporation's AIF dated February 20, 2014 and in the reports and filings made with securities regulatory authorities from time to time by the Corporation which are available on the Corporation's profile on SEDAR at www.sedar.com and on the Corporation's website at www.cdnoilsands.com.

You are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this press release are made as of January 29, 2015, and unless required by law, the Corporation does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Additional GAAP Financial Measures

In this press release, we refer to additional GAAP financial measures that do not have any standardized meaning as prescribed by Canadian GAAP. Additional GAAP financial measures include: cash flow from operations, cash flow from operations on a per share basis, long-term debt-to-total capitalization and net debt. For more information on additional GAAP financial measures please refer to our Fourth Quarter MD&A which is available on the Corporation's website at www.cdnoilsands.com.

Shares Listed - Symbol: COS
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