



Note: This release is a summary of the Japanese-language original

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Start of Production Operations in Oil Sands Project at Hangingstone in the Province of Alberta, Canada, and Decision not to Re-start SAGD Operations in the 3.75 Section Area

Japan Petroleum Exploration Co., Ltd. (JAPEX), through its consolidated subsidiary, Japan Canada Oil Sands Limited (JACOS) has been pursuing development of an Oil Sands Project (hereinafter “the Hangingstone Oil Sands Project”) at the Hangingstone leases in the province of Alberta, Canada, and started operations of bitumen (ultra-heavy crude oil extracted from oil sands) production on August 3, 2017, using SAGD method (*1). Additionally, the decision not to re-start operations of bitumen production using SAGD method in the 3.75 Section Area (hereinafter “the DEMO Area”) was taken at the Board of Directors Meeting held today.

The details of each topic are as follows:

1. Start of Production Operations in the Hangingstone Oil Sands Project

The Hangingstone Oil Sands Project is a joint project between JACOS having a participating interest of 75% and acting as the operator and NEXEN Energy ULC (a wholly owned subsidiary of CNOOC Limited) with a participating interest of 25% aiming to produce 20,000 barrels of bitumen per day. Having commenced on-site construction in February 2013, the drilling of wells required for bitumen production using the SAGD method (bitumen production wells and steam injection wells) was completed in February 2015, followed by the completion of construction of the Central Processing Facility (CPF) in February this year. As a final preparation step for startup of production operations, in order to raise the temperature and pressure of the oil sands layer located 300m underground, JACOS started injecting steam (steam circulation mode) into the wells at the end of April (*3).

Following that, after confirmation of sufficient rise in temperature and pressure of the oil sands layer, JACOS switched the first well from steam circulation mode to production mode thereby starting production operations. The current bitumen production volume is more than 1,000 barrels per day and it will rise gradually as all the wells get switched to full on production mode. By the second half of 2018, production volume is expected to reach 20,000 barrels per day.

Furthermore, in order to strengthen the competitiveness and ensure value maximization of the Hangingstone Oil Sands Project, JACOS will continue to optimize operating expenses, general administrative expenses and future capital investments as cost reduction measures, along with optimization of the SAGD method itself with improved production efficiency, thereby improving the economics of the project.

Please refer to the "Notice of Financial Forecasts Revision and Recognition of Non-operating Expenses, Extraordinary Losses, Income Taxes - Deferred" announced separately today for the impact of the start of production on the company's consolidated results for the fiscal year ending March, 2018.

2. Suspension of Production Operations in the DEMO Area

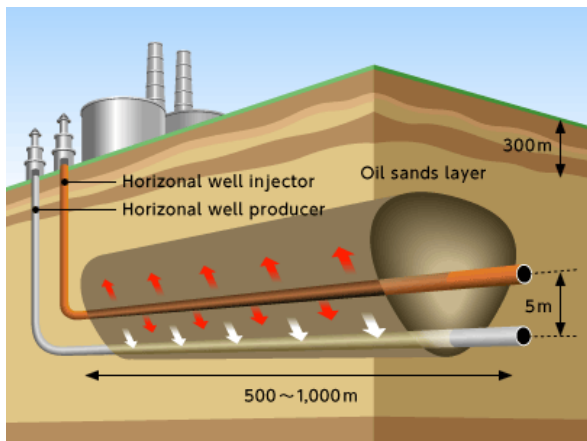
Since the start of the pilot production using SAGD method in the DEMO Area in 1999, JACOS has produced a cumulative total of 35 million barrels of bitumen. However, the wildfires in May 2016 forced suspension of operations, and aiming at improvement of our financial results under the stagnating oil prices environment, we decided to leave the operations suspended rather than re-start later that year.

We have been evaluating the possibility to re-start operations but in the continuing severe business environment including low oil prices and the increasing technical risks of a re-start due to declining temperature and pressure of the oil sands layer, we have decided not to re-start production operations using SAGD method in the DEMO Area.

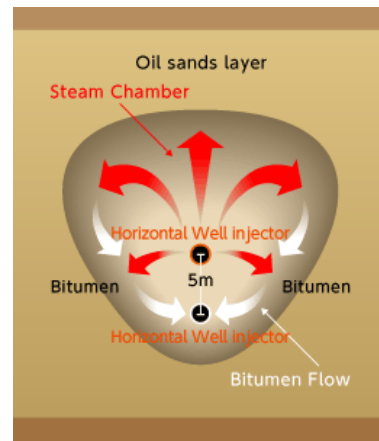
As a result of this decision, in regard to the consolidated financial results for the fiscal year ending March 2018, JAPEX plans to post the whole amount of US\$69 million (Approximately JPY 7.6 billion, 110¥/US\$ rate) of property, plant and equipment for the DEMO Area as non-operating expenses using the unit-of-production method in this fiscal year.

Please refer to the "Notice of Financial Forecasts Revision and Recognition of Non-operating Expenses, Extraordinary Losses, Income Taxes - Deferred" announced separately today for the impact of this decision on the company's consolidated results for the fiscal year ending March, 2018.

*1 : In SAGD, two wells with horizontal sections of between 500m and 1,000m in length are drilled with a spacing of approximately 5m between the upper and lower wells in the oil sands layer located at 300m underground. The extraction process involves heating the oil sands layer by continuously injecting high-temperature, high-pressure steam into the upper well to provide liquidity to the bitumen, which in turn flows down to the lower well and is recovered along with hot water. JACOS has been achieving operational efficiencies that minimize freshwater consumption by recycling at least 90% of the hot water produced. Heading in to the start-up process, steam is injected into both production well and steam injection well (steam circulation mode) and once sufficient rise in temperature and pressure of the oil sands layer occurs, the wells are switched to full scale use mode (Semi SAGD/SAGD mode).



Conceptual Diagram of SAGD Method



Sectional View of SAGD Method

*2: Press Release by JAPEX, May 12, 2016, “Temporary Suspension of the Production Operation at the Hangingstone Demonstration Project area in the Province of Alberta, Canada”

*3: Press Release by JAPEX, May 2, 2017 “Steam injection starts in Hangingstone Oil Sands Project at Hangingstone leases in the Province of Alberta, Canada”

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