



Public Disclosure Document

for the proposed

**JAPAN CANADA OIL SANDS
HANGINGSTONE
SAGD PROJECT**



May 7th, 2008

I. INTRODUCTION

Japan Canada Oil Sands Limited (JACOS) continues to evaluate the development potential of oil sands leases 58 and 70 in the Hangingstone area, situated approximately 50 kilometers southwest of Fort McMurray, Alberta, in Township 84, Ranges 10, 11 & 12 W4M. JACOS is the Operator with a 75% interest in 72 sections of land that make up the leases with Nexen Inc. as lessee of the remainder.

JACOS currently operates a Steam Assisted Gravity Drainage (SAGD) demonstration project on the northeast portion of lease 70. This project is in its tenth year of operation of a projected 20 to 25 year lifespan. It started producing bitumen in July 1999 and production has increased to its current level of 8,000 barrels per day with a licensed maximum capacity of 11,000 barrels per day. JACOS has gained valuable technical and operational expertise from the demonstration project which provides the basis for JACOS to proceed with this proposed project expansion as outlined in this document.

The development plans are based on extensive resource delineation and research work dating to the mid 1970's. JACOS has completed 91 km² of 3D seismic and has drilled or examined 161 wells in the evaluation of the bitumen resource for this expansion. A further 70 to 80 cored delineation wells are planned for the 2008/09 drilling season. This will give a drilling density of more than 3 wells per section over the entire 72 sections and a density of up to 16 wells per section over the prospective project area. Based on recent resource estimates of recoverable bitumen, JACOS believes that the Hangingstone operations can be expanded by up to 35,000 barrels per day with a production life of 25 to 30 years. Final project capacity will be determined after full assessment of the 2008/2009 delineation program results and engineering design.



Phase 1 Demonstration facility.

II. CORPORATE PROFILE AND PROJECT HISTORY

JACOS is a 100% owned Canadian subsidiary of Canada Oil Sands Co. Ltd. (CANOS), a Japanese subsidiary of Japan Petroleum Exploration Co., Ltd. (JAPEX). JAPEX is a petroleum exploration and production company traded on the Tokyo Stock Exchange (Securities Code Number 1662).

JACOS has a 30-year history in Canada of involvement in various in-situ oil sands research and development efforts including participation in the Underground Test Facility (UTF project) from 1992 to 1997 by affiliated company JAPEX Oil Sands Ltd. The PCEJ consortium undertook an “Electric Pre-Heat” test (1979 to 1983) and a Cyclic Steam Stimulation (CSS) pilot test (1983 to 1992). JACOS continued the CSS pilot test independently from 1992 to 1994. The PCEJ consortium consists of Petro-Canada, Nexen Inc. (formerly Canadian Occidental Petroleum Ltd.), Imperial Oil Resources Ltd. (formerly Esso Resources) and JACOS.

In 1997, JACOS proposed a phased SAGD demonstration project in order to test the applicability of SAGD technology in the reservoir conditions encountered in the PCEJ held oil sands leases on the site of the previous CSS tests. JACOS received its first operating approvals in January of 1998. Start-up of the initial phase, which included 2 SAGD well pairs, occurred in the spring of 1999.

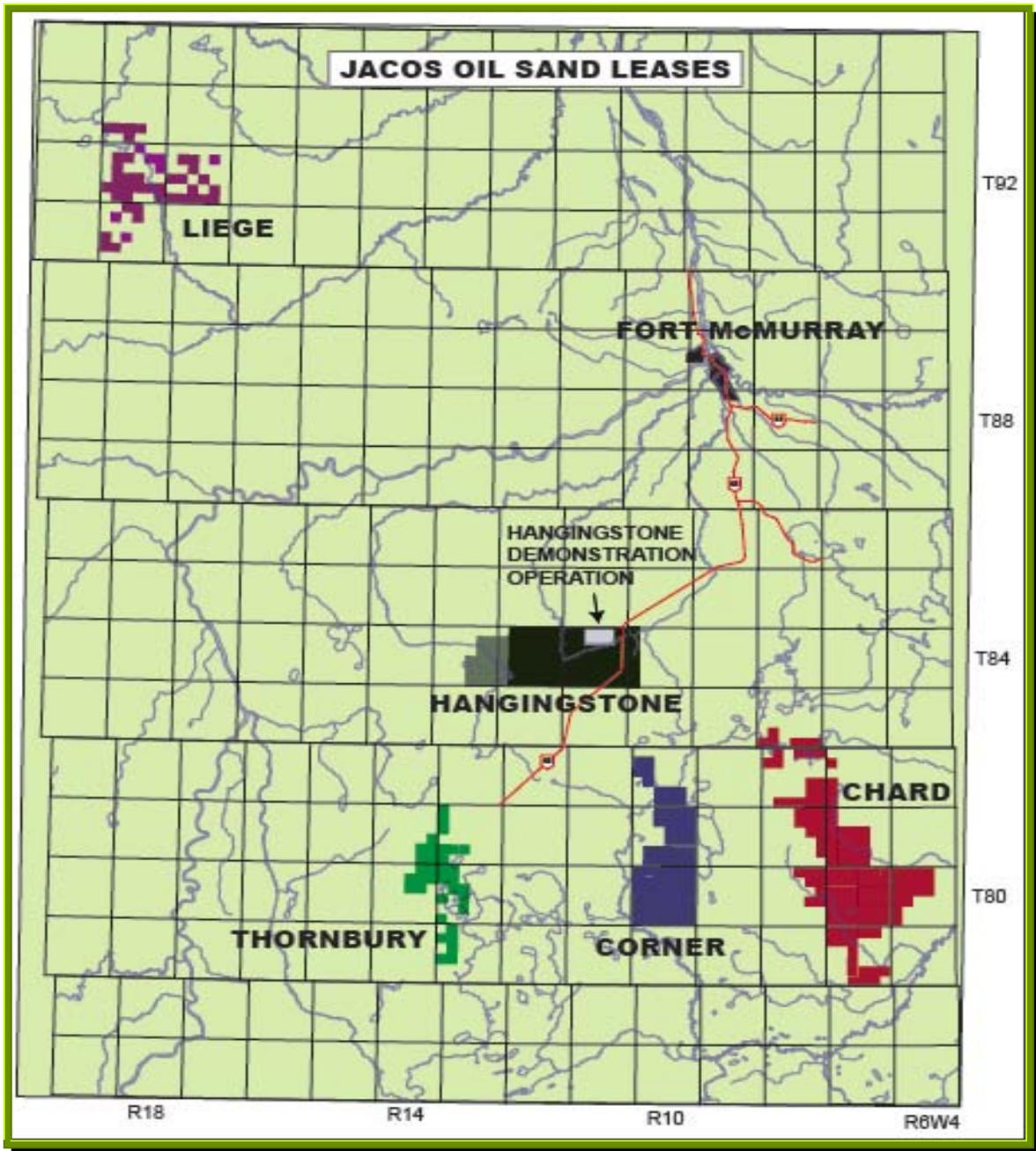
Current operations at the Hangingstone demonstration project site consist of 17 SAGD well pairs at various stages of depletion. Some 45 employees operate and maintain these well pairs and the associated production facilities. A further 30 personnel are employed in JACOS’ corporate office in Calgary.



Aerial View of the Demonstration Project

JACOS holds the rights to leases covering approximately 46,000 net hectares in the Athabasca region for future development. These leases include the Hangingstone, Chard, Corner, Liege and Thornbury areas.

In 2001, JACOS disclosed a proposed development project for the same Hangingstone project area and commenced Environmental Impact Assessment work and conceptual engineering. This project was put on hold prior to filing for approval while the company underwent a significant change in its ownership structure. Although the 2008 project disclosure is similar to the 2001 project disclosure, much has been learned over the intervening period regarding the bitumen resource on the lease and the SAGD technology required to extract it.

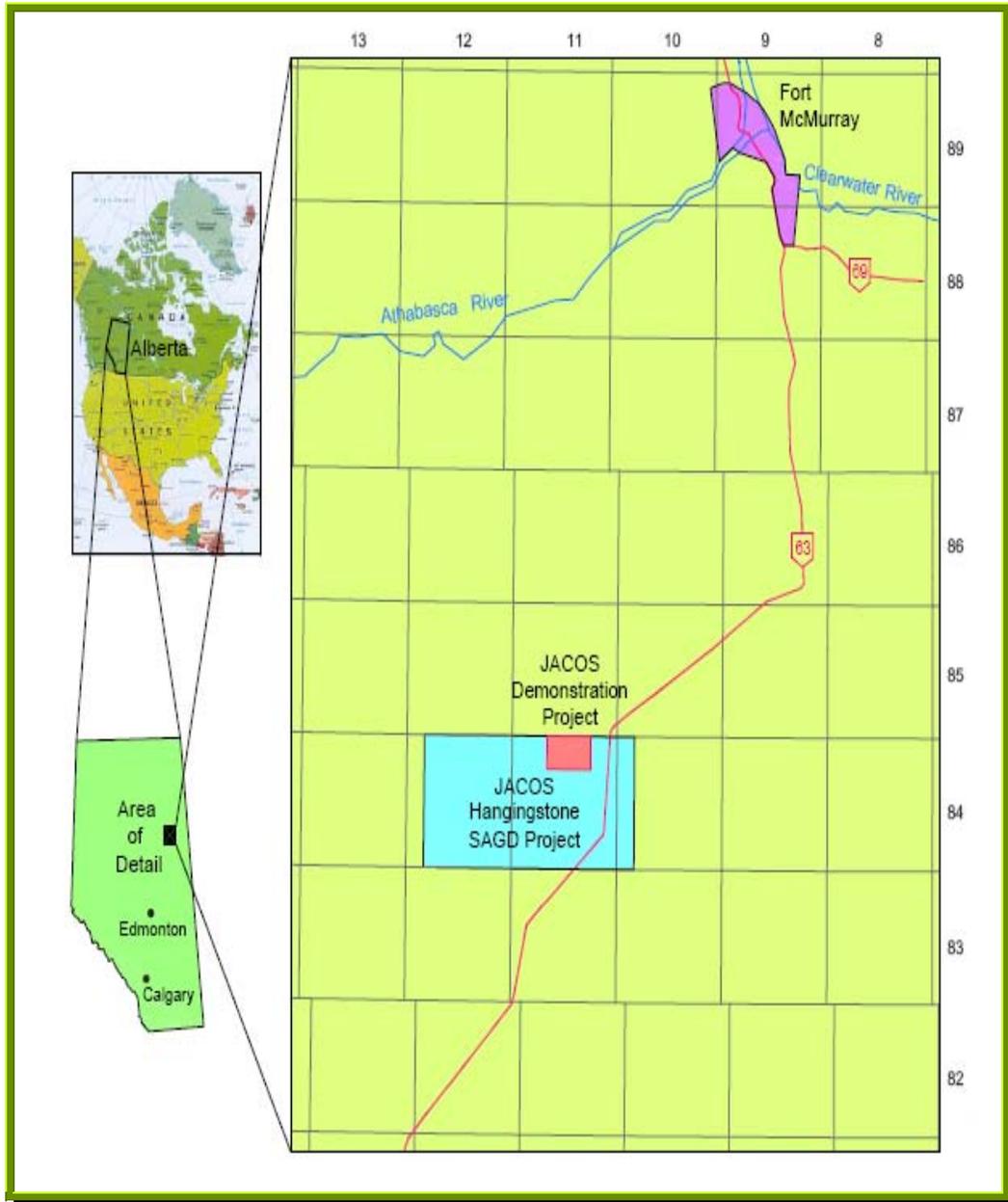


Japan Canada Oil Sands Leases Map

III. PRELIMINARY PROJECT DESCRIPTION

The Hangingstone Area

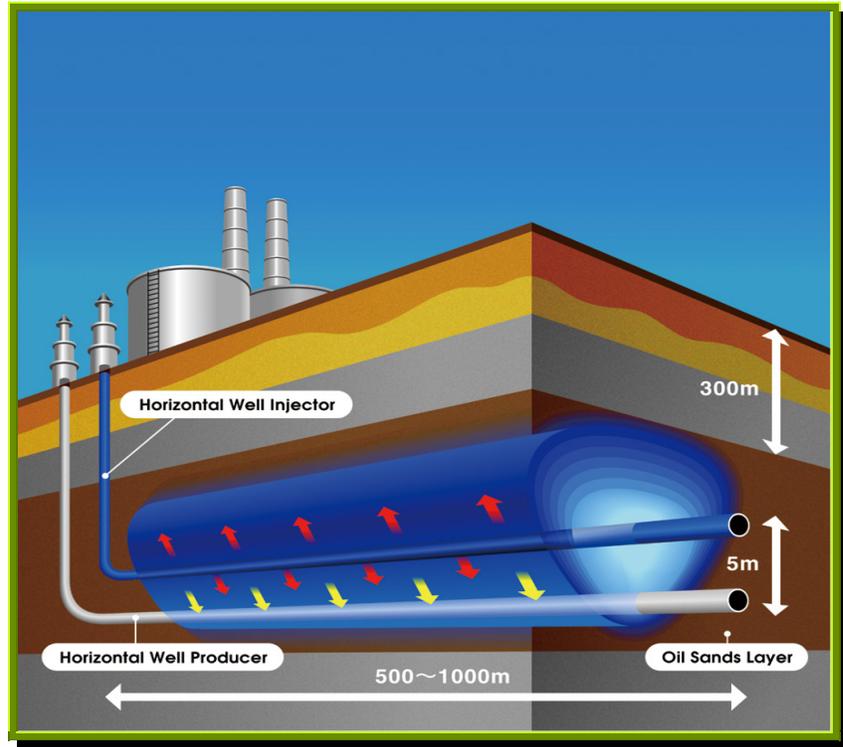
The proposed Hangingstone SAGD Project lies within the Athabasca Oil Sands area of northeastern Alberta, at Township 84 Ranges 10, 11 & 12 W4M. JACOS also holds rights to 18 sections (Lease 43) immediately west of the proposed project area. Further exploration will be conducted in the future to determine the timing of expansion to this area. The entire Athabasca Oil Sands deposit covers an area of approximately 4 million ha or 10 million acres. It is the McMurray formation that contains the significant bitumen reserves that make up the Athabasca Oil Sands area.



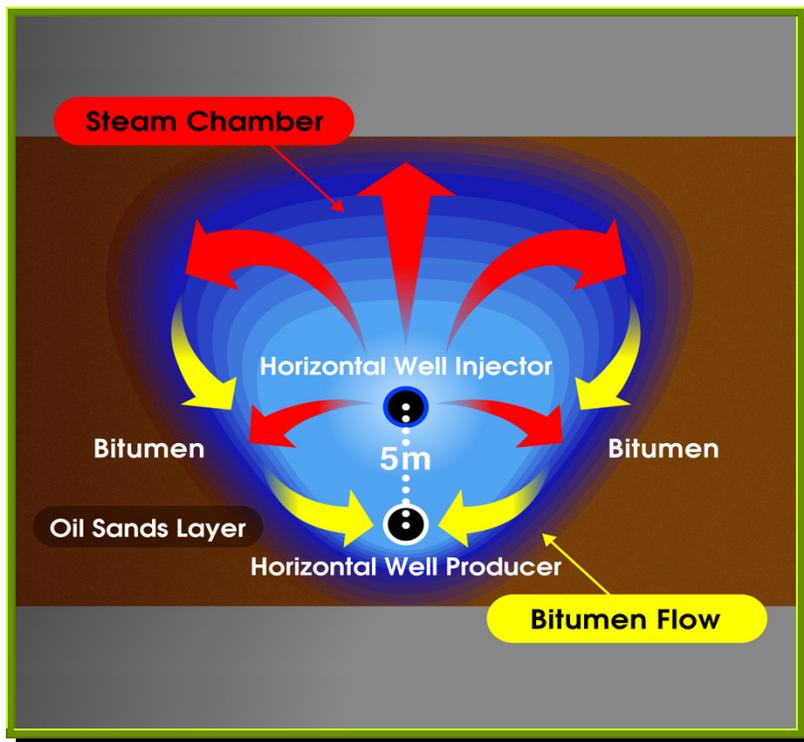
Japan Canada Oil Sands Hangingstone Project Area Map

The SAGD Process

The McMurray formation, which contains the oil sands in the Hangingstone area, is too deep for surface mining. As a result, the crude oil (bitumen) must be recovered in place (*in-situ*). Based on experience from the demonstration project, JACOS intends to utilize “Steam Assisted Gravity Drainage” or SAGD to recover bitumen from this expansion project.



SAGD Process Schematic Representation



Steam Chamber Cross-Sectional Representation

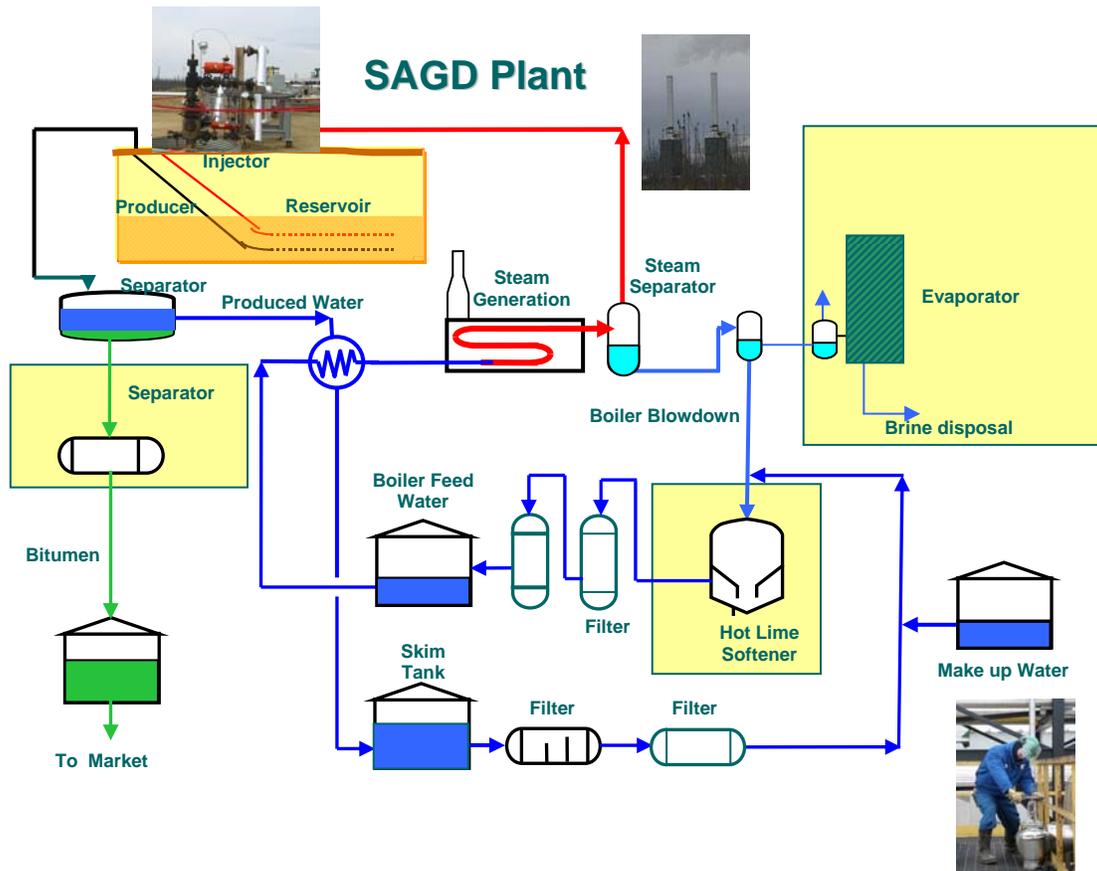
The SAGD process uses steam to heat the bitumen in the formation so that it is able to flow to the producing well and to surface. The technology incorporates horizontal well pairs with a production well (the producer), near the bottom of the oil sand zone and a parallel steam injection well, (the injector), located above the producer. Steam is injected into the injector where it contacts the oil sand and mobilizes the bitumen. The bitumen flows by gravity to the producer, where it is produced to surface.

Project Capacity and Duration

JACOS' current estimate of bitumen resource in the Hangingstone area is sufficient to support a project expansion of up to 35,000 barrels per day for a period of 25 to 30 years.

IV. FACILITIES

Conceptual Design



Well Pads and Field Piping

The construction of the well pads and drilling of horizontal well pairs is expected to take place in multiple phases with a productive duration of 6 to 8 years each. Initially it is estimated that approximately 60 well pairs will be drilled. Directional drilling technology will allow multiple wells to be drilled on a single pad, thus reducing the amount of surface disturbance. As the production from the initial wells declines, additional wells will be added as required to maintain plant capacity.

Interconnecting piping to the well pads will be on above ground pipe racks. A central corridor of main pipe headers will connect the well pad piping to the central plant facility. Details such as pipe rack height and routing will be carefully considered to minimize disturbance to wildlife movement.

Each well pad will have modules which house control and monitoring equipment. Remote control from the central facility will minimize operator traffic in the field.

Central Facility Plant

The location and size of a new central plant facility remains to be optimized. The ultimate location will depend on factors such as the distribution of the resource throughout the lease, the location of the well pads, terrestrial constraints, engineering considerations, and how best to integrate the proposed facilities with the existing demonstration project facilities.

Produced Fluids Separation Systems

Produced gas will be separated from liquids and recovered for use as fuel gas or re-injected downhole as lift gas. The bitumen and water will be separated either without diluent addition in a high-temperature separation process or in a conventional treater with the use of diluent. The water will go to a water deoiling system.

Water Deoiling System

Water from the oil/water separation system will contain small quantities of oil. The oil must be essentially eliminated (down to less than 10 milligram/litre) before the water can be processed for reuse. The process for removing oil from water is well established and JACOS has acquired considerable operating experience at the demonstration project with such technologies. Generally, the process will involve a series of gravity separation and filtration vessels, each able to remove a specific quantity of oil introduced into it.

Water Reuse System

Most of the produced water and boiler blowdown will be recycled and will be the primary sources of boiler feedwater. The remaining water demand will be made up by source water but that is expected to be a minor component of the total requirement. JACOS has demonstrated water recycle ratios in excess of 90% at the demonstration project. Produced water will be conditioned for boiler feedwater use in water recycle and treating systems that will remove silica, hardness minerals and other contaminants that are harmful to the steam generation systems. JACOS has evaluated the performance of warm caustic, warm lime and hot lime softening in the demonstration project and expects to utilize hot lime for this project.

Steam Generation

Under current plans, high-pressure steam will be generated using purchased natural gas and recovered produced gas. Scenarios for high-pressure steam generation, including possible cogeneration will be studied in a context which considers both existing and developing provincial and federal emission standards. In generating steam JAOCS will meet or exceed all air emission criteria including employing low NO_x boilers, undertaking sulphur recovery and ensuring the facility will be carbon capture ready.

Water Source

JACOS will evaluate the availability of under ground brackish/saline sources in the project vicinity. It is not anticipated that surface water will be utilized for process uses.

Wastewater Disposal

JACOS has employed wastewater reduction technology in its demonstration project. It is expected that some volumes of wastewater will be disposed into deep disposal wells or depleted bitumen steam chambers.

Product Transportation

Pipeline options to transport the bitumen to market are under consideration but have not been committed to at this time. Currently, bitumen production is trucked to terminalling points. Trucking is not considered a viable option at higher volumes.

Other Facilities

Other facilities such as ponds, storage containment, emergency flares, drains, instrument air, emergency generators, potable/utility water systems, sewage handling/treatment, solids handling/disposal, office and maintenance shops would be necessary to support the operations. Integration with the demonstration project will be a significant consideration.

Footprint

The specific location of the well pads and main facility site(s) remain to be determined. JACOS will identify environmental constraints, and minimize its footprint where possible. In addition, where practical, JACOS will consider accelerated reclamation practices to shorten the temporal footprint on the land.

VII. ENVIRONMENTAL PROTECTION

Environmental protection is a vital and integral component of JACOS' operations. In its current operations, JACOS has achieved one of the highest water recycle rates of any SAGD project. In addition, JACOS is actively sponsoring accelerated reclamation research and is participating in a number of reclamation trials. As an existing SAGD operator, JACOS undertakes stakeholder consultation on various aspects of its operation including environmental practices as appropriate.

JACOS has been an active member and participant in the Cumulative Effects Management Association (CEMA), since its inception in 2000. The Association is a multi-stakeholder initiative charged with identifying the anticipated cumulative environmental effects stemming from intensive regional development and carrying capacities within the region. Where warranted, management frameworks incorporating new standards for environmental protection are developed and referred to the responsible regulatory agencies.

VIII. ENVIRONMENTAL AND SOCIO-ECONOMIC IMPACT ASSESSMENTS

JACOS recognizes the important environmental and socio-economic issues surrounding oil sands development. As such, JACOS is committed to conducting the activities associated with the project in an environmentally and socially responsible manner.

Baseline environmental studies will be completed for the area including work on existing surface and groundwater conditions, fisheries habitat, vegetation and soil conditions, wildlife assessments and historical resources. JACOS will work with Alberta Environment and interested stakeholders to develop the draft Terms of Reference for the EIA. The final Terms of Reference will be established through a public review process. The issues identified in this process will in turn be fully addressed in the EIA.



Hangingstone Demonstration Project from the Northeast

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Hangingstone Demonstration Project from the Southwest