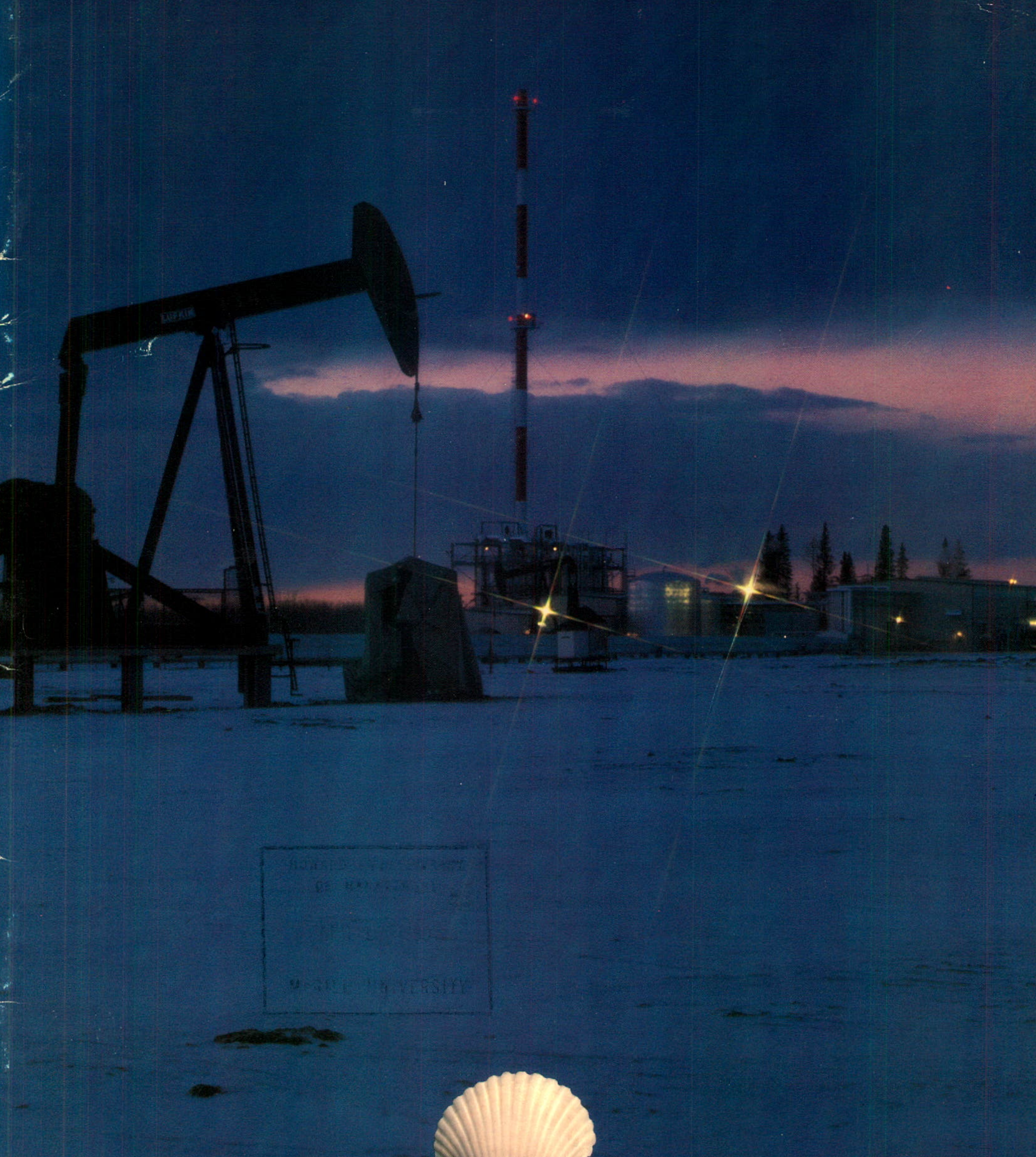


SHELL CANADA
1979 ANNUAL REPORT

Contents

Unless the context indicates otherwise, the terms 'Shell', 'Shell Canada', 'Company', 'Corporation', 'we', 'our' and 'its' are used interchangeably in this report to refer to Shell Canada Limited and its consolidated subsidiaries.

Front Cover:
Investing in the future . . . Shell looks to Alberta's oil sands for major new sources of crude oil in Canada. At Peace River, about 500 kilometres northwest of Edmonton, Shell's $150 million in-situ pilot project began operations in November. The project is evaluating the economics of bitumen recovery from deeply-buried oil sands.

HIGHLIGHTS OF THE YEAR

Financial ($ millions except per share amounts)	**1979**	1978
Earnings attributable to common shares	**$ 243**	$ 150
Average capital employed	**$2,291**	$1,875
Return on average capital employed	**12.0%**	8.8%
Per Class "A" Common Share:		
Earnings	**$ 2.42**	$ 1.49
Percentage change in earnings	**+62%**	−5%
Dividends paid	**$ 0.72**	$ 0.58
Income taxes charged against income	**$ 193**	$ 80
Cash from operations (before exploration expense)	**$ 535**	$ 393
Cash reinvested in exploration, production facilities and other working capital	**$ 451**	$ 426

Operating	**1979**	**Increase over 1978**
Crude oil and natural gas liquids produced — gross (cubic metres daily)	**12 100**	**16%**
Natural gas produced and sold — gross (thousands of cubic metres daily)	**18 000**	**6%**
Sulphur sales (tonnes daily)	**3 251**	**3%**
Crude oil intake to distilling units (cubic metres daily)	**44 700**	**7%**
Petroleum product sales (cubic metres daily)	**43 200**	**6%**
Chemical sales (tonnes daily)	**1 296**	**21%**

Approximate Metric Conversion Factors

1 cubic metre of liquids	= 6.29 barrels
1 cubic metre of gases	= 35.3 cubic feet
1 tonne	= 2205 pounds or 0.984 long ton
1 kilometre	= 0.621 mile
1 hectare	= 2.47 acres

PRESIDENT'S MESSAGE

The decade closed for Shell Canada with a marked upturn in profits, an improved return on capital employed and a continuation of heavy investment. The Company is seeing solid results from the strategy for growth developed in the 1970s.

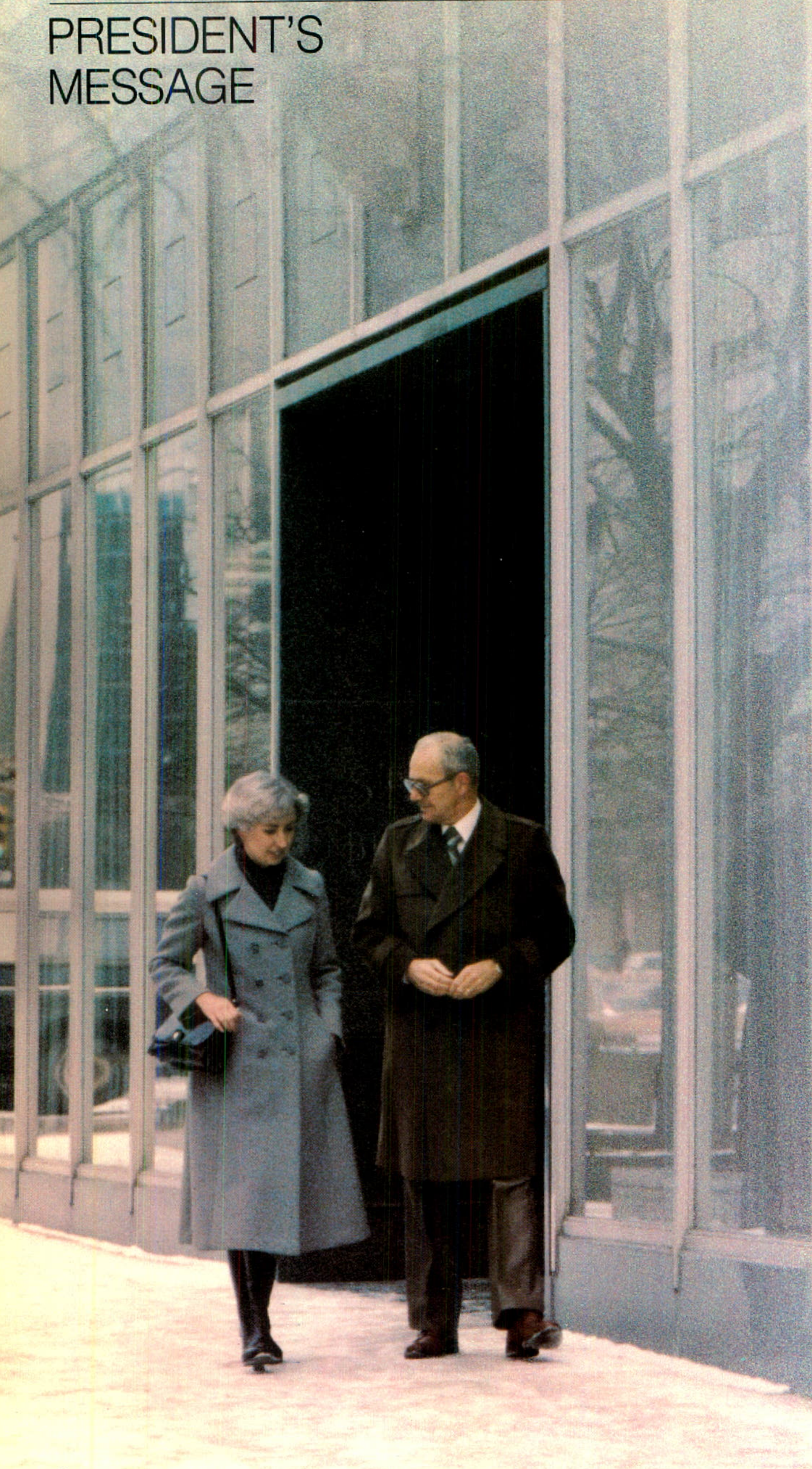
These achievements were posted against a background of considerable uncertainty for the petroleum industry.

Foreign oil supplies were cut back by some OPEC members during a year in which the price of imported crude oil coming into this country increased by 70 per cent. In Canada, major areas of government energy policy still remained unresolved, including the price of domestic crude oil — which rose only eight per cent — and the question of revenue-sharing between the federal and provincial governments and industry.

On the positive side, the federal government approved National Energy Board recommendations for additional exports of natural gas. This is an important move that will encourage a continuing high level of exploration activity and help to offset the country's growing balance of payments deficit on imported oil.

Canada's economic health is tightly linked to energy strategy, and in particular to our success or failure in attaining crude oil self-sufficiency. The energy potential in this country is enormous, but we are not yet capable of producing enough of our own oil to meet present and future needs. Until we are, we remain vulnerable.

For the years ahead, the global prospect is for further crude oil shortages and higher prices. The Canadian prospect is for declining production from existing conventional reserves in the West, leaving the East



C. William Daniel, President and Chief Executive Officer of Shell Canada, talking with Elaine Proulx, Administrator, Corporate Contributions, outside the Head Office building in Toronto.

more dependent than ever on imported oil for much of its supply.

It is evident that Canada must act urgently in several areas if the country is to achieve oil self-sufficiency in the longer term — if not by 1990, hopefully soon after. Clearly, it should be a top priority for the federal government and the provinces to achieve a workable agreement on energy policy that will enable the industry to get on with the job.

Canada must escalate efforts to conserve energy; accelerate the substitution of natural gas for oil; agree on the "mega-projects" required to develop the oil sands, heavy oil reserves and frontier areas; and encourage enhanced recovery programs to squeeze more resources from conventional deposits. Unfortunately, we are still moving far too slowly in all of these areas.

I urged in last year's annual report that 1979 should be the year of decision for the Alsands project, in which Shell has a major interest. After months of negotiation with governments and with agreement in sight the federal government was defeated, leaving this $6.7 billion oil sands mining venture without final approval. Nonetheless, in an attempt to keep the project on schedule, some preliminary site work went ahead this winter thereby adding to the considerable financial risk already incurred in the absence of project approval. If the Alsands plant is to start up as planned in late 1986, commercial terms must be settled with governments within the next few months.

The drawn-out discussion about the price of domestic crude oil is another example of continued indecision and consequent uncertainty. The domestic price will have to move much closer to world levels in the next few years if conservation is to be encouraged and if industry's cash flow is to be strong enough to help finance the energy projects Canada so badly needs. Yet at the end of 1979 there was still no price structure or revenue-sharing agreement in place for the crucial years ahead.

However, despite the regrettably slow pace at which energy policy has been developed, Shell Canada is looking ahead with confidence that practical solutions will soon be found.

Based on that view, I announced in October a $6 billion investment program over a seven-year period to the end of 1986. This is $2 billion more than the amount I referred to in my shareholders' address last April. The increase reflects our desire to pursue recent successful exploration results and a range of opportunities which can become economic with higher returns to producers.

An important part of this total effort will be to maintain Shell's position as Canada's leading natural gas producer. With our excellent discovery record, our aggressive development program, increasing demand and higher prices, natural gas will continue to contribute significantly to the Company's growth.

About 70 per cent of the $6 billion will be spent on expanded exploration and development in existing producing regions, and on oil sands. Close to 30 per cent will be directed towards emerging investment opportunities in the Oil Products and Chemical segments.

The total investment program will absorb more than 100 per cent of Shell's cash income, and will require supplemental financing. But as I have already noted, this program is dependent upon the establishment of government policies that will allow us to move ahead.

We are also re-evaluating our holdings in the frontier regions. If the results are encouraging, further major investment would be needed in addition to our $6 billion program.

Shell's efforts and accomplishments during 1979 have set the tone and pace for corporate growth in the 1980s. Sales volumes increased, margins on oil and chemical products recovered from severely depressed levels, and benefits flowed through from our ongoing heavy investment.

At the same time, we have continued to place a high priority on improving our social performance. We view such activities as environmental protection, health and safety, and community involvement as essential to our continuing success.

The Company's results reflect the substantial contribution made by Shell employees, who are carrying out our largest investment program ever, while operating within an increasingly complex environment. One sure indication of their efforts is the fact that operating costs in 1979 rose less than inflation.

In the tough and challenging decade ahead, it will be our employees, and our dealers and agents, who will continue to give Shell its competitive edge. Their hard work and diligence are sincerely appreciated.

On behalf of the Board,

C. W. Daniel

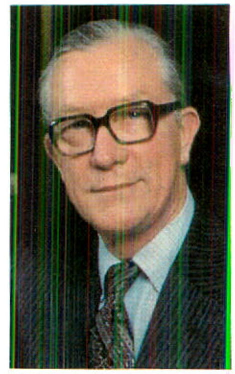
C. William Daniel
President and Chief Executive Officer
Toronto, Ontario
March, 1980

BOARD OF DIRECTORS

■ Peter J. G. Bentley
President and Chief Executive Officer, Canadian Forest Products Ltd.

D. de Bruyne
President and Managing Director, Royal Dutch Petroleum Company. Managing Director of The Shell Petroleum Company Limited and Principal Director of Shell Petroleum N.V.

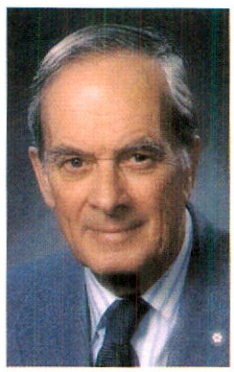
■ Hon. Donald S. Macdonald*
Partner, McCarthy & McCarthy (lawyers), Toronto.



C. C. P. Pocock
Chairman and Managing Director, The "Shell" Transport and Trading Company, Limited. Chairman and Managing Director of The Shell Petroleum Company Limited and Principal Director of Shell Petroleum N.V.

□ C. William Daniel
President and Chief Executive Officer, Shell Canada Limited.

J. M. MacLeod
Senior Vice-President, Shell Canada Limited.



□ A. Davidson Dunton
Professor and Fellow of the Institute of Canadian Studies, Carleton University, Ottawa.

□ Louis Rasminsky*
Corporate Director

■ Jacques de Billy
Partner, Gagnon, de Billy, Cantin, Dionne, Martin, Beaudoin & Lesage (lawyers), Quebec.

D. W. Menzel
Senior Vice-President, Shell Canada Limited.

Shell Canada was very saddened by the sudden death on October 12 of Mr. C. C. P. Pocock, a member of the Board of Directors since 1976. His international perspective, wisdom and support will be greatly missed.

The vacancy on the Board was filled by Mr. Peter B. Baxendell, who was appointed a Director effective January 1, 1980. Mr. Baxendell is Chairman of the Board of The "Shell" Transport and Trading Company, Limited, Chairman and Managing Director of The Shell Petroleum Company Limited and Principal Director of Shell Petroleum N.V.

The Honourable Donald S. Macdonald resigned from the Board effective January 21, 1980, to avoid any possible conflict that might arise because of his renewed involvement in politics. Mr. Macdonald's resignation was accepted with understanding and with sincere appreciation for his considerable contribution to the Board.

Committees of the Board of Directors

□ Management Resources and Compensation
■ Audit
* Mr. Louis Rasminsky replaced the Hon. Donald S. Macdonald on the Audit Committee effective February 1, 1980.

FINANCIAL REVIEW

Shell Canada's 1979 earnings attributable to common shares, after preferred share dividends of $16 million, were $243 million or $2.42 per Class "A" Common Share. This represents a 12-per-cent return on average capital employed and a 62-per-cent increase over 1978 restated earnings of $150 million or $1.49 per share.

The 1979 and restated 1978 earnings figures reflect changes in accounting for exploration and development expenditures that were adopted retroactively in 1979. These changes conform with evolving industry practice and have not materially affected the earnings of either period.

The increase in earnings for 1979 was largely a result of improved margins in the Oil Products and Chemical segments, together with higher sales volumes in all segments of the business. The earnings increase follows four years during which earnings grew at an average annual rate of only two per cent and return on average capital employed declined from more than 13 per cent in 1974 to less than nine per cent in 1978.

Although the average return obtained since 1974 has been slightly above that in the manufacturing sector of the economy, Shell Canada does not believe that returns have yet reached a level consistent with the risks inherent in the petroleum industry.

Further comments on the financial and operating results for each segment of the business are in the Operating Review, beginning on Page 9. A summary of earnings and capital employed by industry segment is shown in the table on this page while detailed financial results by industry segment are reported on Page 29.

Cash Flow and Reinvestment

Cash from operations before exploration expense amounted to $535 million, up $142 million over 1978. This 36-per-cent improvement reflects increased cash generation in all segments of the business. The Company also received $20 million from the sale of assets. In addition, $24 million was received from gas transmission companies which delayed taking delivery, as permitted in the sales contracts, of certain volumes of natural gas. These proceeds will be taken into income when delivery is effected.

Investments in the Resources segment, reflecting a continuation of the Company's aggressive exploration and development program, increased by $50 million or 19 per cent over 1978 levels and amounted to $313 million. Capital spending in the Oil Products, Chemical and Other segments, at $53 million, decreased by $67 million from 1978, due mainly to the completion of the final stages of the chemical manufacturing plants in Sarnia in mid-1979. Total capital and exploration expenditures amounted to $366 million in 1979 compared with $383 million in 1978.

Working capital employed in the business rose by $85 million as higher crude and product costs increased investment in inventories and trade receivables.

Over the last five years, $1.8 billion (equivalent to 98 per cent of the cash generated from operations) has been reinvested in the business, principally in the Resources segment.

Financing

As a result of improved cash flow and the private placement of $250 million of Floating Rate Preferred Shares in December, 1978, the Company ended 1979 in a strong cash position. These funds, together with cash from 1980 operations, will be required to help finance the record $550 million investment which is planned for 1980.

At year end, debt represented 13.6 per cent of the capital employed by the Company. While the proportion of debt will rise in the future as a consequence of the seven-year $6 billion investment program announced in October, this will not impair the Company's sound financial position and excellent credit rating.

Dividends

Dividends on Common Shares were $72 million or 30 per cent of earnings attributable to common shareholders, compared with 1978

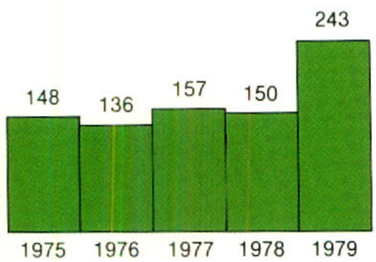
Financial data by industry segment ($ millions)

	Capital employed		Earnings	
Segments	**1979**	1978	**1979**	1978
Resources	**$ 945**	$ 788	**$140**	$135
Oil Products	**878**	776	**105**	20
Chemical Products	**280**	322	**17**	4
Other	**317**	276	**13**	6
Interest on long term debt	**—**	—	**(16)**	(15)
Preferred share dividends	**—**	—	**(16)**	—
Total Company	**$2,420**	$2,162	**$243***	$150*

*Earnings attributable to common shares.

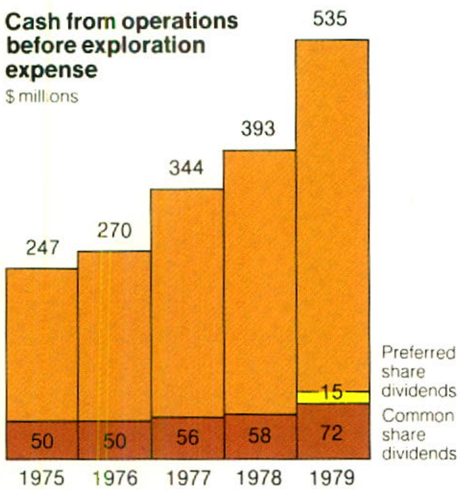
Earnings attributable to common shares

$ millions



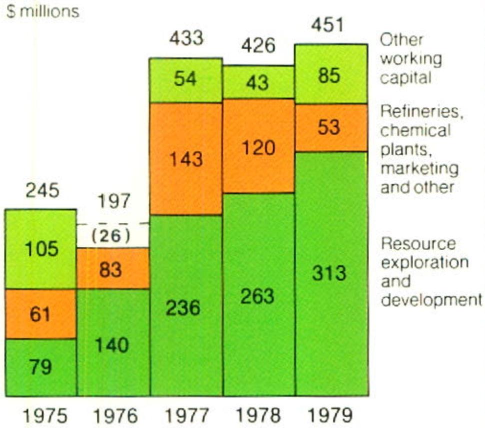
Cash from operations before exploration expense

$ millions



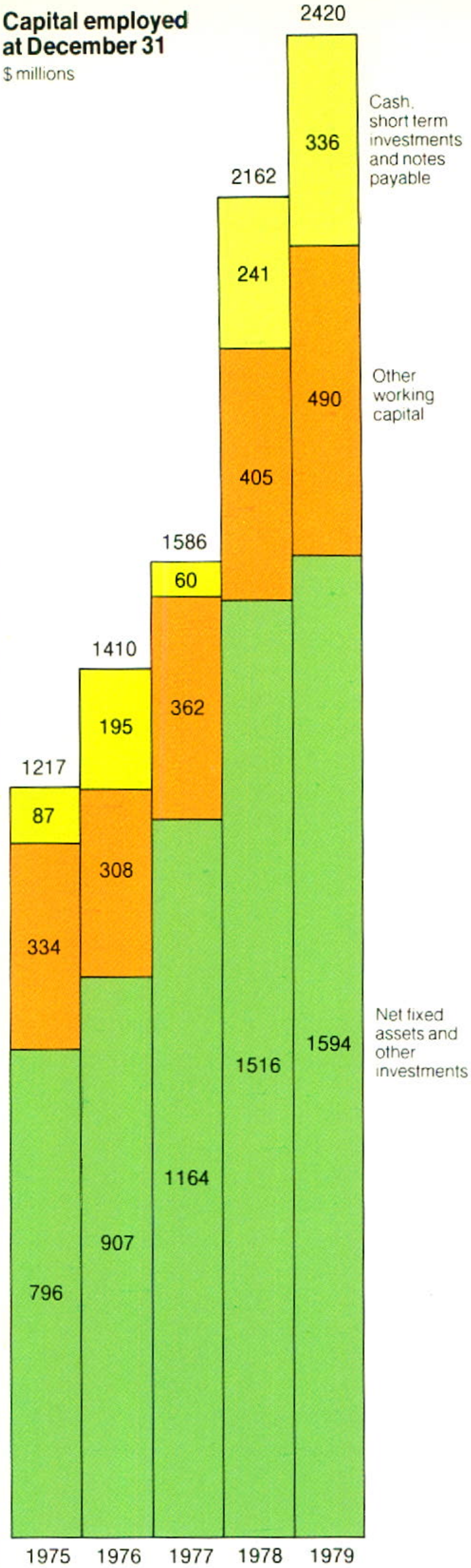
Capital, exploration expenditures and other working capital

$ millions



Capital employed at December 31

$ millions



payments of $58 million. During the last five years, the dividend payout has averaged close to 35 per cent of earnings.

In addition, $15 million in dividends was paid on the Floating Rate Preferred Shares issued in December, 1978.

Income Taxes

Income taxes charged against earnings amounted to $193 million in 1979, of which $140 million are currently payable. As a result of high investment spending, $53 million has been deferred until future years in accordance with Canadian accounting requirements.

The 1979 income tax provision of $193 million represented 42.7 per cent of pre-tax earnings compared with the 1978 provision of $80 million or 34.7 per cent of pre-tax earnings. The higher effective tax rate for 1979 is a result of the increased proportion of earnings from the manufacturing and marketing of oil and chemical products, where government tax allowances for resource exploration and development are not applicable.

The table on this page summarizes the differences between the composite 1979 tax rate for Shell of 42.7 per cent and the combined federal and provincial statutory tax rates of 48.1 per cent. These differences result primarily from federal and provincial government tax measures developed to stimulate economic growth, to direct investment towards specific economic sectors and geographic regions, and to maintain a competitive position vis-a-vis the tax regimes of other countries.

For example, depletion allowances are provided by governments to improve investment prospects in resource exploration and development. These allowances attract capital which would not otherwise be forthcoming for this high risk, long lead-time sector. Because of the need for security of future energy supply, this sector has been identified by governments as being of significant national interest. Such allowances, which have a long history in Canadian income tax law, can be earned only by conducting defined exploration and development activities.

Inflation Accounting

The strong inflationary pressures which prevailed throughout the 1970s show no signs of diminishing and in fact have begun to increase again. Inflation distorts the measurement of financial performance because present accounting conventions are based on historical costs and make no provision for inflationary increases in the cost of replacing capital facilities and inventories. This distortion contributes to some misconceptions about industry profitability.

In order to depict earnings on an inflation-adjusted basis, Shell Canada has been supplementing its historical cost financial statements with a general price-level-adjusted statement since 1974. On this basis, which adheres to guidelines prescribed by the Canadian Institute of Chartered Accountants, Shell Canada's earnings per "Class A" Common Share for 1979 would be reduced from $2.42 to $1.59 and the return on average capital employed from 12 to 6.4 per cent. The chart on this page illustrates how inadequate returns have been over the last five years when the effects of inflation have been removed. Additional information on price-level-adjusted earnings is provided on Page 36 of this report.

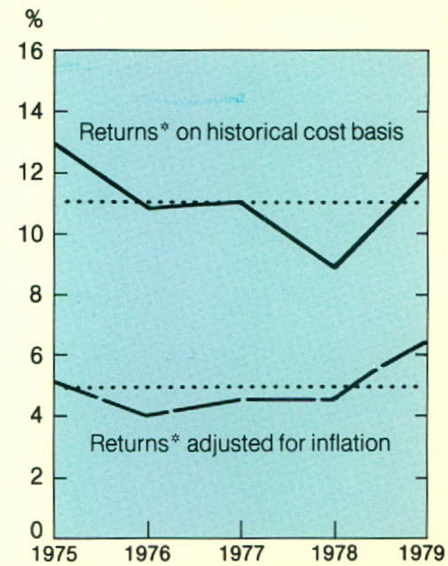
Reserve Recognition Accounting

The Company has experimented with a form of accounting for oil and gas producers known as Reserve Recognition Accounting, which has been prescribed by the Securities and Exchange Commission of the United States. However, it is felt that this information could be misleading because under this system current costs and prices are assigned to anticipated future production, and an arbitrary discount factor is used to determine the "present value" of future net revenues. Nevertheless, shareholders may obtain the data by writing to the Secretary's Office, 505 University Avenue, Toronto, Ontario, M5G 1X4.

Earnings attributable to common shares

($ millions)	**1979**	1978	1977
1st Quarter	**$ 42**	$ 37	$ 40
2nd Quarter	**56**	32	39
3rd Quarter	**64**	36	33
4th Quarter	**81**	45	45
Total Year	**$243**	$150	$157

Return on average capital employed



*Earnings before interest expense as a percentage of average capital employed.
.. Five year averages

Effective income tax rates	% of pre-tax earnings **1979**	1978
Statutory rate (weighted average)	**48.1**	47.8
Increase (decrease) resulting from:		
Non-deductibility of crown royalties and other payments to provinces	**27.6**	44.1
Resource allowance and other abatement measures to partially offset non-deductibility of crown royalties	**(19.4)**	(31.7)
Depletion earned by exploration and development expenditures	**(7.5)**	(13.9)
Frontier exploration allowance	**(1.6)**	(0.6)
Drilling and geophysical incentives	**(2.0)**	(3.6)
Inventory allowance (partially offsetting the effect of inflation)	**(1.3)**	(2.4)
Manufacturing and processing tax credit	**(0.8)**	(1.8)
Other	**(0.4)**	(3.2)
Effective tax rate reflected in earnings statement	**42.7**	34:7

OPERATING REVIEW

Exploration resulted in 12 natural gas discoveries and one crude oil discovery. The gas discoveries are expected to make a significant contribution to the Company's reserves and future earnings.

Resources earnings rose to $140 million. Exploration and development expenditures increased to $313 million.

Negotiations with governments on the Alsands oil sands mining project were suspended temporarily by the federal election. Winter preparatory work on site went ahead to avoid further delays in construction.

Contracts for thermal coal exports to Korea enabled development to begin on a $180 million coal mining project in British Columbia.

Oil Products recorded substantially higher earnings of $105 million in 1979, reflecting restoration of product margins from depressed levels.

Plans were announced for a new $350 million refinery near Edmonton to use synthetic crude from the oil sands as feedstock.

Chemical earnings improved significantly to $17 million. Major new manufacturing facilities for polypropylene and isopropyl alcohol went into operation at Sarnia.

A new $16 million research facility in Alberta will be built to support expanding resource exploration and development activities.

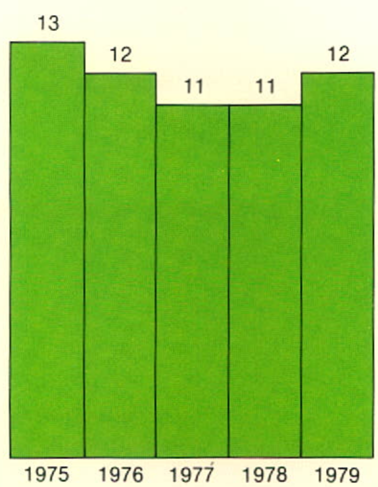
RESOURCES

Earnings in 1979 from Resources activities were $140 million compared with $135 million in 1978. The increase resulted from higher sales volumes of crude oil, natural gas and natural gas liquids, and improved oil and gas prices.

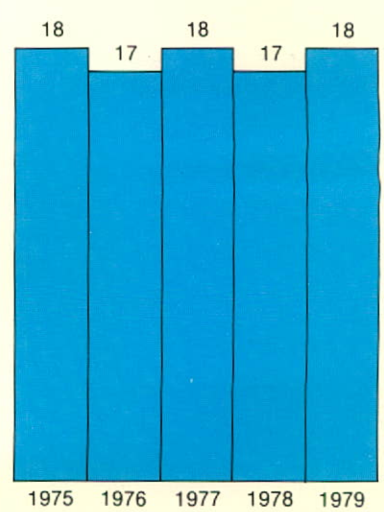
Natural gas sales in 1979 averaged 18 million cubic metres a day, an increase of six per cent from 1978 levels. Gross production of crude oil and natural gas liquids rose 16 per cent to 12 100 cubic metres daily, partly due to new liquids extraction facilities at Waterton gas plant. Sulphur production increased 10 per cent to 3514 gross tonnes daily, and sales rose to 3251 tonnes a day from 3160 tonnes in 1978.

Cash from operations before exploration expense increased 17 per cent to $359 million. In addition, the Company in 1979 received $24 million from natural gas purchasers as a result of the deferral of natural gas production under "take or pay" contracts. These payments will not be reflected in the Company's earnings until the year in which

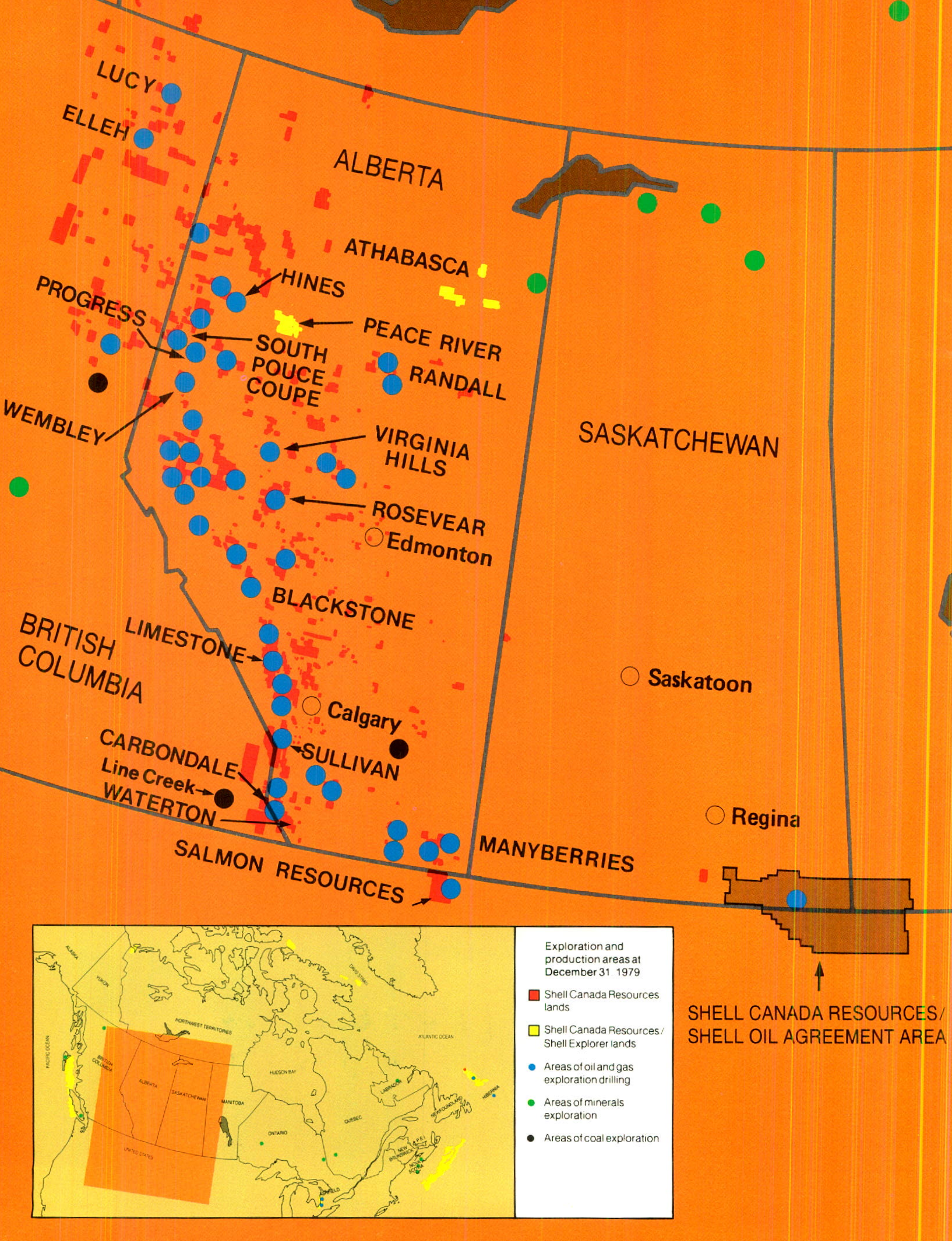
Crude oil and natural gas liquids produced—gross
Thousands of cubic metres daily



Natural gas produced and sold—gross
Millions of cubic metres daily



Winter work on the rig floor in Alberta is a cold and demanding business. But drilling is the only way to confirm whether the underground structures indicated by geology and geophysics actually contain oil or gas. This Shell-contracted rig is northwest of Calgary in the foothills, where it can take 8 to 10 months to penetrate the thick layers of hard rock to a target depth of 4000 to 5000 metres.



LUCY
ELLEH
ALBERTA
ATHABASCA
HINES
PROGRESS
PEACE RIVER
SOUTH POUCE COUPE
RANDALL
WEMBLEY
VIRGINIA HILLS
SASKATCHEWAN
ROSEVEAR
Edmonton
BLACKSTONE
BRITISH COLUMBIA
LIMESTONE
Saskatoon
Calgary
CARBONDALE
SULLIVAN
Line Creek
WATERTON
Regina
MANYBERRIES
SALMON RESOURCES
SHELL CANADA RESOURCES/ SHELL OIL AGREEMENT AREA
Exploration and production areas at December 31, 1979
Shell Canada Resources lands
Shell Canada Resources/ Shell Explorer lands
Areas of oil and gas exploration drilling
Areas of minerals exploration
Areas of coal exploration

Land holdings (net) Millions of hectares at December 31, 1979	Shell Canada–Shell Explorer joint venture	Shell Canada direct
Oil and Gas		
East coast offshore:		
Shelf/Slope off Nova Scotia	4.0	–
Other (including Gander, Baffin Bay, Davis Strait)	1.1	1.5
Ontario	–	0.1
Northwest and Yukon Territories:		
Mackenzie Delta	0.2	–
Other	–	0.1
West coast offshore	5.3	–
Plains and foothills of Western Canada:		
Producing regions	–	2.2
Oil sands	0.1	–
Coal	–	0.4
Minerals	–	0.5
	10.7	4.8
Shell Canada's 50% interest under joint venture agreement with Shell Explorer		5.4
Shell Canada total, net		10.2

the prepaid volumes are delivered.

In December, the federal government approved National Energy Board recommendations for new gas exports of 106 billion cubic metres for delivery over the period 1980 to 1987. Shell sales to gas purchasers receiving export authorizations could increase by as much as 2.9 million cubic metres a day by the end of 1982.

Further investment is planned by Shell to develop facilities to produce, transport and process these additional gas volumes. The scheduling of 1980 investment will be closely tied to the gas supply requirements of Pan-Alberta Gas, a major buyer. Pan-Alberta's early sales to U.S. customers are dependent on Canadian and U.S. regulatory approval and the pre-building of the southern Canadian and U.S. sections of the Alaska Natural Gas Transmission System.

Oil and Gas

The steady expansion of Shell's crude oil and natural gas exploration and development activities continued during 1979.

Conventional oil and gas expenditures ($ millions)	**1979**	'78	'77	'76	'75
Exploration	**$183**	153	109	69	36
Development	**$ 97**	84	116	61	32
Total	**$280**	237	225	130	68

Exploration expenditures were concentrated in Alberta (75 per cent) and in British Columbia (15 per cent). Exploration was also conducted in Ontario, Saskatchewan, Manitoba, Montana and the East Coast offshore.

A total of 69 exploration wells were drilled and resulted in one oil and 10 gas discoveries. In addition, two wells drilled in previous years were completed as gas discoveries in 1979. At year-end, 10 wells remained to be tested. Volumes from these discoveries will be added to proved reserves during the next several years as development drilling is completed.

Development efforts were directed towards bringing new fields into production and maintaining deliverability from existing fields. Development wells drilled in 1979 resulted in 17 oil and 11 gas well successes. At year-end, 11 wells remained to be tested.

Exploration and development wells drilled (gross)	**1979**	'78	'77	'76	'75
Exploration	**69**	68	58	30	10
Development	**43**	34	31	31	32
Total	**112**	102	89	61	42

Reserves: Proved natural gas reserves at year-end 1979 were 137.8 billion cubic metres, or five per cent below year-end 1978. Downward revisions of 4.6 billion cubic metres to previous estimates, and sales at 6.6 billion cubic metres during the year, exceeded extensions and discoveries credited to the proved reserve category.

Proved crude oil and natural gas liquid reserves declined by 3.4 million cubic metres or six per cent as minor upward revisions were more than offset by 1979 production volumes.

Exploration and development drilling in

Reserves

I. Estimated proved recoverable reserves (excluding probable reserves), before deducting royalties.

	Natural Gas (1)		Oil & NGL		Sulphur	
December 31	**1979**	1978	**1979**	1978	**1979**	1978
	(billion cubic metres)		(million cubic metres)		(million tonnes)	
Beginning of year	**145.1**	138.0	**54.1**	58.5	**27.4**	27.4
Revisions of previous est. (2)	**(4.6)**	3.0	**1.0**	(3.5)	**(0.6)**	0.2
Extensions and discoveries	**3.9**	9.7	**—**	2.9	**2.3**	0.8
Production/sales	**(6.6)**	(5.6)	**(4.4)**	(3.8)	**(1.2)**	(1.0)
End of year	**137.8**	145.1	**50.7**	54.1	**27.9**	27.4

II. Oil sands synthetic crude potential reserves: (3) December 31	**1979**	1978
	(million cubic metres)	
Mining (Athabasca)	**300**	300
In-situ (Peace River and Athabasca) (4)	**500 to 800**	500 to 800

(1) Reserves delineated in the Mackenzie Delta are excluded.

(2) Downward revisions in 1979 to previous gas reserves estimates occurred primarily at Lookout Butte, Harmattan Elkton, Ghost River and Limestone, based on economic evaluation together with analyses of production history and delineation drilling.

(3) Represents the Company's interest in oil sands.

(4) Production of these reserves is dependent on the development of viable recovery technology.

1979 and recent years has indicated significant potential new natural gas reserves which in future, after further delineation drilling, will be reflected as additions to proved reserves. In the foothills region, for example, it can take several years from initial discovery until commercial reserves can be delineated with sufficient accuracy to be included in the proved category.

The Panther River prospect in the Alberta foothills is a current example of the length of time required to evaluate discoveries. Gas was discovered at Panther River in 1958, but to date none of the potentially large reserves are included in the proved category. Drilling in 1978 and 1979 has provided encouragement that these reserves can be economically developed. However, it can be expected that several additional successful tests over a period of three or four years will be required before sufficient well information is obtained to enable Panther reserves to be included in the proved category.

Alberta foothills: Activities in 1979 were highlighted by further success in the Alberta foothills where Shell has historically been the major operator. Ten deep-drilling rigs operated continuously on exploration and development prospects throughout the year.

The Company drilled or participated in 20 exploration and development tests. Gas discoveries were announced at Waterton (Carbondale) near Pincher Creek, at Sullivan southwest of Calgary, at Blackstone southwest of Edmonton and at Ricinus north of Limestone. Further drilling is being carried out at Sullivan and Blackstone.

Drilling at Panther River, 120 kilometres northwest of Calgary, was particularly important. Shell Panther River 8-29-29-10 W5 was the fifth test on the Panther structure and flowed gas from a depth of 5035 metres at the rate of 260 000 cubic metres a day — a rate significantly higher than previous tests which all found natural gas but had low deliverability. Two tests are under way to continue evaluation of the extent and deliverability of this large structure, which has potential gas reserves in excess of 30 billion cubic metres.

Construction progressed on the gathering system and compressor station for the Limestone gas field. Gas from this field is to be processed through the Ram River gas plant, operated by Aquitaine Company of Canada. Completion of Shell's $60 million field facilities is scheduled for initial sales to commence on November 1, 1980, at an average rate of 2.3 million cubic metres a day.

Alberta plains: In the plains of Alberta, Shell conducted seismic surveys in selected areas and drilled or participated in 38 exploration tests. During the year, gas discoveries were announced at Hines, South Pouce Coupe and Progress north of Grande Prairie, at Randall northeast of High Prairie, and at Manyberries south of Medicine Hat. Shell participated in one small oil discovery at Wembley west of Grande Prairie.

Construction west of Edmonton of the South Rosevear gas plant and gathering facilities was completed on schedule and initial sales commenced on November 1, 1979. The $31 million project has been operating at rates up to design volume of 1.2 million cubic metres a day. Shell is the plant operator and holds a 49.5-per-cent interest.

Eight development wells were drilled in the Virginia Hills Belloy oil field. These, together with the six existing wells and completion of a central treating plant scheduled for early 1980, will increase daily production to 200 cubic metres. Proved recoverable reserves are estimated to be 1.6 million cubic metres by primary means, with an additional 1.9 million cubic metres recoverable through future implementation of a waterflood scheme.

Other areas: In northeastern British Columbia, land acquisition and seismic work continued. Shell drilled or participated in five tests in the northeast B.C. plains, and gas discoveries were announced at Lucy and Elleh near Fort Nelson. Seismic and drilling programs place increasing emphasis on the B.C. foothills in 1980.

In the Williston Basin of southeastern Saskatchewan and southwestern Manitoba, Shell conducted seismic work and drilled one test which was abandoned. These lands are held under the agreement between Shell Canada Resources and Shell Explorer, a wholly-owned subsidiary of Shell Oil of Houston.

A portion of these agreement lands was farmed out to accelerate evaluation. Terms were negotiated for another company to earn an interest in approximately 180 000 hectares by drilling 16 tests; the seventh test was in progress at year-end.

In northern Montana, Salmon Resources, a wholly-owned subsidiary of Shell Canada Resources, conducted seismic work and drilled four tests which were all abandoned.

In southwestern Ontario, eight tests were drilled and a gas discovery and a successful step-out test were announced at Ashfield north of Goderich. Two wells were being tested at year-end, one of which, Chippewa, is in a producing gas field. Shell's 170 000-hectare land holdings were increased by an agreement in which the Company can earn an interest on 60 000 hectares by exploration work during a three-year period. Further geophysical and drilling programs are scheduled for 1980.

Frontier regions: In the Gander area, Texaco Canada and partners completed their farm-in commitment on Shell's two-million-hectare

Processing plants for natural gas are normally located near the producing field and remove sulphur, water and various by-products from the raw gas stream. Shown here is Shell's Jumping Pound plant in the Alberta foothills, which supplies much of the gas used in the city of Calgary.

block, 300 kilometres east of Newfoundland. Texaco-Shell et al Blue H-28 was drilled in water depth of 1486 metres, a worldwide petroleum industry water depth record. The test was abandoned at a total depth of 6103 metres without encountering hydrocarbons.

Shell is undertaking seismic work in an area extending from the Chevron et al Hibernia P-15 oil discovery on the Grand Banks northward to the Company's Gander block. Interpretation of data will be completed early in 1980 and may lead to drilling in 1981.

Baffin Bay environmental studies, required by the federal government before drilling commences, continued in 1979. An environmental impact statement for northern Baffin Bay, including the Company's 860 000-hectare block, will be filed in 1980 and clearance to drill is expected in 1981. The block is farmed out to Petro-Canada, which is committed to drill one test with an option on a second. Each test will earn Petro-Canada a 50-per-cent interest in one-half of the block.

Completion of environmental studies in southern Baffin Bay, including the Company's 650 000-hectare Davis Strait block, is expected in 1980. A statement will be filed in 1981 and clearance to drill is anticipated in 1982. Shell plans to conduct seismic work in 1980 to define locations for possible future drilling.

The recently reported success at Mobil et al Venture D-23 near Sable Island off Nova Scotia, together with gas discoveries by Shell and other operators in earlier years, suggest that sufficient reserves could be established to justify a pipeline to the mainland. Shell has scheduled seismic surveys on its offshore Nova Scotia holdings during 1980 to delineate prospects for possible future drilling.

Oil Sands

Oil sands expenditures ($ millions)	1979	'78	'77	'76	'75
Mining	**$ 2**	1	(2)[c]	(1)[c]	6
In-situ	**$12**	6	1	–	–

[c] Recovery of previous years' expenditures from affiliate.

Public hearings on the Alsands oil sands mining project in Alberta's Athabasca area were completed in 1979 and the Energy Resources Conservation Board has recommended project approval to the Alberta government. Final negotiations on commercial terms, approaching conclusion near year-end, were interrupted by the announcement of a federal election.

Although this caused some delay, the consortium decided to proceed with detailed delineation drilling, site clearance and drainage during the late winter to avoid a year's postponement. Commercial terms must be settled within a few months if plant start-up is still to be achieved by late 1986.

Delays and changes in scope have escalated project costs and the estimate to initial completion is now $6.7 billion in as-spent dollars. Shell Canada is consortium manager and a 25-per-cent partner in the project.

The $150 million oil sands in-situ pilot project near Peace River, Alberta, began operations in November to evaluate the economics of bitumen recovery from sands buried some 500 metres below the surface. Using a steam-injection process, the pilot project is designed to produce 550 cubic metres of bitumen a day.

Shell Canada Resources is operator and holds an 18.75-per-cent interest. Successful operation of the Peace River project could lead to a decision to construct a commercial-scale plant for 22 000 cubic metres of synthetic oil daily in the 1990s.

Shell Canada Resources also has a 12.5-per-cent interest in Amoco Canada Petroleum's Gregoire Lake in-situ project in the Athabasca oil sands area.

Coal

Coal expenditures ($ millions)	1979	'78[c]	'77	'76	'75
	$9	5	3	3	2

[c] 1978 expenditures exclude the purchase of Crows Nest Industries Limited.

Crows Nest Resources, a wholly-owned subsidiary of Shell Canada Resources, negotiated two long-term contracts for thermal coal with Korea Electric Company of Seoul, South Korea. The first, signed in late 1979, is for the supply of 350 000 tonnes a year; the second, signed in early 1980, is for 400 000 tonnes a year.

The Korean contracts enabled development of a coal mine to begin at Line Creek in southeastern British Columbia, with first deliveries to South Korea expected in 1982. Efforts are continuing to market the full potential output of Line Creek, including an additional one million tonnes annually of metallurgical coal for the steel-making industry. The new mine will represent an initial investment of about $180 million.

The Line Creek coal rights are part of the significant metallurgical and thermal coal reserves acquired through the purchase of Crows Nest Industries in early 1978. Exploration and evaluation of Shell's other coal reserves continues.

Minerals

Shell has one million gross hectares under exploration for minerals, including 600 000 hectares for uranium. During 1979, field programs emphasized exploration for tin, molybdenum and uranium.

Coal supplies some nine per cent of Canada's energy needs today and will be called upon to play a larger role at home and abroad in the years ahead. Shell has negotiated export contracts for coal and is now developing a mine in southeastern British Columbia.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EXIT

New investment is helping Canada become increasingly self-sufficient in the manufacture of petrochemicals. At a cost of over $200 million, Shell has built two new world-scale facilities at Sarnia, Ontario, for manufacturing isopropyl alcohol and polypropylene. These versatile Canadian-produced materials, sold in both the domestic and exports markets, are used to fabricate a wide range of consumer and industrial products. Shown here are polypropylene storage silos at Sarnia, with hopper cars being prepared for loading.

mark*, for the control of insects in apple and pear orchards and in potato crops.

Two world-scale petrochemical plants, a 91 000-tonne isopropyl alcohol unit and a 70 000-tonne polypropylene unit, were brought on stream at the Sarnia Manufacturing Centre.

Costing more than $200 million, the plants were officially opened by Ontario Premier William Davis. The products from both plants are enjoying good customer acceptance and will contribute about $40 million annually to Canada's balance of payments.

OTHER ACTIVITIES

Shell Canada expanded its efforts in research, land and property development and new ventures in 1979.

Research

In October, plans were announced for a $16 million research facility in Alberta by 1982. Employing 95 people, it will provide direct support for Shell's expanding resource exploration and development activity.

At the Oakville Research Centre, work continued on process improvements for conventional refining operations, and in connection with synthetic crude production. Development proceeded on new motor oils and greases for the industrial, automotive and recreation markets, with special emphasis on low-temperature performance.

In the Oakville polymers laboratory, researchers worked with Canadian manufacturers on their uses of polypropylene. Much of this work has been directed towards creating new formulations for the Canadian automotive industry, which continues to search for ways to reduce automobile weight.

Land and Property

Shell's land and property development department expanded its portfolio of major tracts of land for subdivision and servicing.

Acquisitions for both future residential and industrial subdivisions were centred in southern Ontario, but included one parcel in the Vancouver area.

The Company entered into its first joint venture with a major land development company, George Wimpey Canada Limited, on property near Burlington, Ontario. Work on this project is expected to start in mid-1980. In addition, a residential subdivision was completed in St. Albert, near Edmonton.

New Ventures

Preliminary construction for Shell's first Woodex plant began at Hearst, Ontario, 400 kilometres north of Sault Ste. Marie. Woodex is a process for converting wood waste into industrial fuel, thereby providing a new source of energy and resolving many environmental problems associated with present methods of waste wood disposal. The plant will cost about $4.5 million and produce 325 tonnes of Woodex pellets a day.

Manufacturing facilities at the Enviroglas plant in Belleville, Ontario, were expanded to produce above-ground, corrosion-resistant storage tanks for process industries, adding to the existing product line of underground fuel storage tanks. Recently, a licence was obtained from A. O. Smith Inland Inc. to manufacture and market fiberglass-reinforced pipes and fittings.

*Registered Trade Mark — Shell Canada Limited

Sheltech Canada

Sheltech Canada is marketing expertise in such areas as telecommunications, micrographics and controlled satellite surveying. It markets to industry and government certain kinds of advanced technology developed within Shell in the course of pursuing normal business activities.

Alphatext Limited

Alphatext, an Ottawa-based company in which Shell has the majority interest, continued to market computerized information-handling services for text-editing, typesetting, information retrieval and communications. At year-end, engineering was well advanced for office work stations having their own on-site computers for word processing and access to remote data bases.

HUMAN RESOURCES

At year-end, Shell Canada and its subsidiaries had 7,800 employees.

Staffing for new projects remains a high priority and increased attention is being given to needs in the years ahead, when major new energy ventures are expected to place a heavy demand on the market for skilled and experienced people.

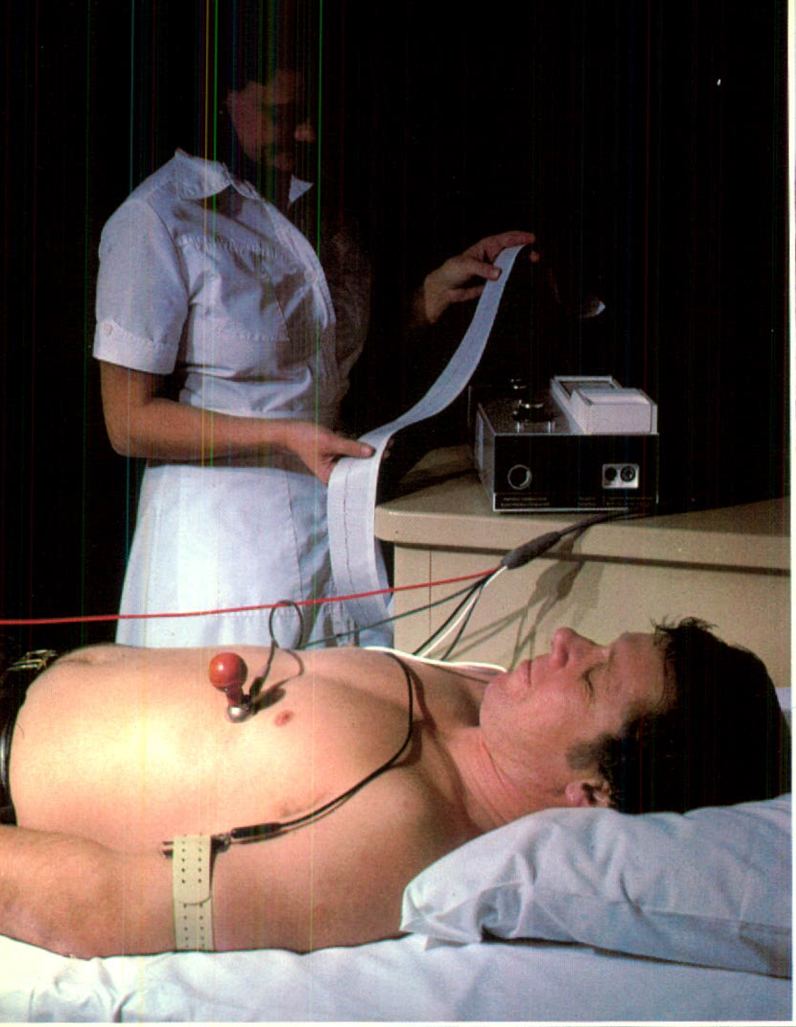
The trend continues towards increased employment of women in technical, professional and supervisory positions. At the end of the year 190 women were employed in these categories within the Company, an increase of nearly 50 per cent in three years.

New initiatives were taken during the year in employee relations, health and safety and workplace development.

Employee Relations

The Company continued to administer and upgrade a wide range of programs for regular and retired employees.

Early in 1979 a dental plan was introduced, under which contributions are shared equally

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between employees and Shell.

Salaries and wages were adjusted to reflect competitive and economic conditions and to reward individual contribution.

Settlements were negotiated early in the year with unions representing operating employees at refineries and marketing and gas plants in Central and Western Canada. Unions at Montreal East refinery and Montreal marketing and Thermoshell facilities rejected similar terms and went on strike in mid-December. At year-end the strike was unresolved. However, refinery throughput and product deliveries were being maintained by supervisory staff.

Health and Safety

Added emphasis was placed on occupational health, industrial hygiene and safety in 1979, and staff was strengthened by the appointment of a research toxicologist.

Under a newly-developed occupational health surveillance program, employees in designated operating areas receive comprehensive and periodic medical examinations. This is to safeguard health by establishing a data base on health concerns, in line with evolving legislation in this area.

The program was introduced at Montreal East refinery during 1979 and will be extended to other major locations in 1980.

With an increasing number of women now working in operating jobs, a need has arisen for a medical counselling procedure regarding pregnancy. A new counselling service will help to determine what measures are appropriate during pregnancy for the person and the operating job in question.

Occupational health and industrial hygiene are increasingly being brought into the planning and engineering stages of new projects. As a result, the need for special facilities can be foreseen, allowing them to be incorporated into the overall design and installation.

A series of health and safety bulletins on subjects such as fuel oils, lubricants and gasoline was launched to broaden dealers' and agents' knowledge of potential hazards.

Workplace Development

Work continued on developing organization techniques to improve effectiveness and better meet employee needs. Methods pioneered at the recently commissioned Sarnia chemical plant were extended to the South Rosevear gas plant and the Peace River in-situ oil sands pilot plant, both of which came into service in 1979. Operations are conducted by multi-skilled teams, capable of self-management with minimal dependence on external supervision.

Work schedule variations were extended in a number of locations to provide greater flexibility for employees in arranging leisure time and travel to and from work, while maintaining effective Company operations.

SOCIAL PERFORMANCE

Shell Canada contributes to society by exploring for and developing new resources and by offering products and services that people need and want. As a result, jobs are created and wealth is generated.

Most of this wealth circulates back to the nation by way of reinvestment in the business which helps to stimulate other parts of the economy, by taxes of various kinds that help to pay for the wide range of government services, and in employee wages and salaries.

Shell's role in the wealth-creation process is illustrated by the "value added" concept.

Value Added

In 1979, Shell Canada bought in materials and services worth $2,412 million. During the year the Company's total operating effort including resource exploration and production, and refining and marketing, generated revenues of $3,483 million. As a result value of $1,071 million was added, reflecting the contribution of employees and providers of capital.

Shell's 1979 value added contributed to Canada's Gross National Product and in so doing, to economic and social progress.

This area of a company's contribution to society can be expressed in specific terms and referred to as "real" value added.

Many other areas of performance such as community involvement cannot be measured primarily against economic yardsticks. They are a "social" value added and are of fundamental importance, because a company can only operate in the long term in ways that are acceptable to society.

Community Involvement

Corporate contributions during 1979 amounted to $1.7 million. Projects which received support from Shell Canada included:

—a campaign by the Canadian National Institute for the Blind to raise $2 million for talking books and recording equipment, and

—the Roseau River Native Children's Centre near Winnipeg. Shell contributed towards the establishment of the centre and the installation of solar panels.

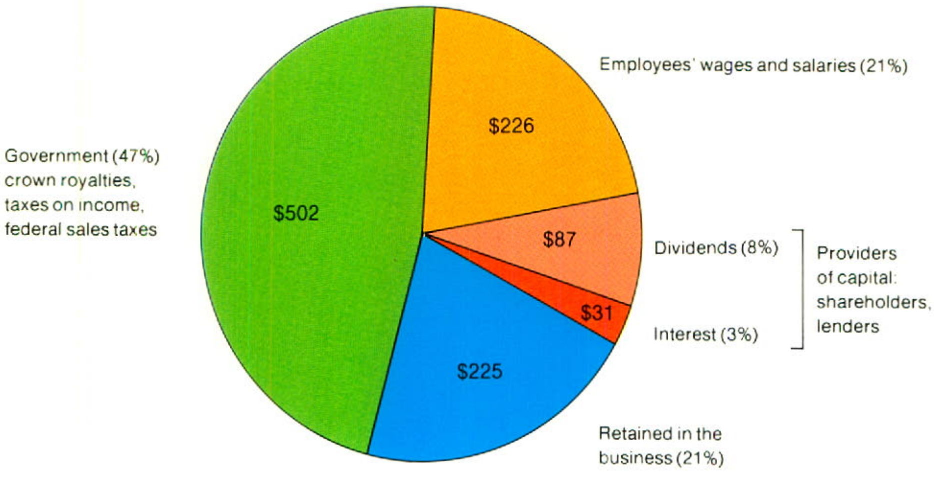
Altogether, some 575 non-profit charitable organizations received support in 1979.

In addition, through some 83 grants totalling about $47,000, the Company also supported projects in which employees are personally involved as volunteer workers.

To help broaden understanding of Canada's various regions and cultures, 60 children

Shell Canada contributes to society in many ways. *Top left:* Nurse Mariette Gemme carries out an electrocardiograph test on Yvon Théberge, an employee at Montreal East Refinery, as part of an occupational health surveillance program. *Top right:* Brian Puppa of Kirkland Lake, Ontario, built this wind-powered generator to become a winner in the Canada-Wide Science Fair. Brian and two other winners were sponsored by Shell to attend the International Science Symposium in the United Kingdom. *Bottom:* Competitors in the 1979 senior cross country event at Morin Heights, Quebec, in the Shell Cup Canadian National Amateur Ski Championships. This season's championships in Alpine, Nordic and Freestyle events were supported by a Shell Canada grant of $150,000.

Where Shell Canada's $1,071 million value added went in 1979
$millions



of Shell employees were sponsored in an exchange program called "Getting Together."

Environmental Protection

Investment continued throughout Shell's operations to maintain high standards of environmental protection.

At Shellburn refinery in British Columbia, improvements to reduce air emissions, water effluents and noise were announced.

At Waterton gas plant in Alberta, additions costing $800,000 were made to existing waste water treatment facilities.

Waterton plant won the Chemical Institute of Canada's 1979 Environmental Improvement Award for reducing airborne emissions of sulphur dioxide and increasing the amount of sulphur recovered in gas processing.

Shell continued to participate with industry associations and governments in forming equipment and manpower co-operatives across the country to deal with oil spills.

Responses were prepared and submitted to governments on water quality in the Great Lakes, air pollution, oil spills and the transportation of dangerous goods.

Energy Conservation

Major energy savings were achieved at the Company's five natural gas plants, where energy usage per unit of output was reduced by 13 per cent compared with 1978.

Energy savings in refinery operations during 1979 were estimated to be 206 000 cubic metres of oil equivalent, about 14 per cent of fuel used during the base year 1972.

Conservation measures were also taken at Shell offices across the country.

Communications

Shell intensified communication with its various publics in 1979 as energy issues became even more prominent.

Media briefing sessions were held to provide information on Canada's oil supply and demand situation, oil and natural gas pricing, and profits and reinvestment. Information efforts were further expanded through media interviews and a speech program.

Shell executives continued to discuss energy-related issues with federal and provincial governments and to assist on government advisory committees.

Educational films and publications on energy subjects were sent to many Canadian schools. Shell films were seen by close to 1.5 million Canadians in 1979 and more than 75 per cent of this audience were students. About 60,000 copies of Company publications were sent to educational groups.

Shell Canada was awarded the Social Responsibility Advertising Award by the Canadian Advertising Advisory Board for its Shell Helps consumer information campaign. The award recognizes excellence in advertising that goes beyond normal marketing objectives to focus attention on an area of social or community concern.

FINANCIAL INFORMATION

Accounting Policies

A summary of major accounting policies of Shell Canada Limited and its subsidiaries is presented below.

Principles of Consolidation
The accounts of Shell Canada Limited and all its subsidiary companies are included in the consolidated financial statements. Interests in oil and gas joint ventures are accounted for using the proportionate consolidation method.

Investments
Investments in companies in which Shell Canada exercises significant influence are accounted for using the equity method. Other long term investments are recorded at cost with provision made where a permanent decline in the value of such investments has occurred.

Inventories
Inventories of crude oil, products and merchandise are valued at the lower of current average cost and net realizable value. Current average cost is determined on a basis which approximates the "first-in, first-out" method. Materials and supplies are valued at the lower of cost and estimated useful value.

Exploration and Development Costs
The Company follows the successful efforts method of accounting for exploration and development, including oil sands activities. Exploration expenditures and predevelopment costs, including geological and geophysical costs, are charged to earnings currently. Acquisition costs of resource properties are capitalized. Exploratory drilling costs are initially capitalized and wells subsequently determined to be unsuccessful are charged to expense. All development costs are capitalized.

Depreciation and Amortization
Resource assets are depreciated or amortized on the unit of production basis. Costs of producing properties are depleted and gas plants depreciated over remaining proved reserves. The costs of non-producing properties are amortized in accordance with experience. Resource development expenditures are amortized over remaining proved developed reserves. Other plant and equipment are depreciated on a straight-line basis over their estimated useful lives.

Maintenance, Repairs and Replacements
The costs of maintenance, repairs and replacements of plant and equipment are expensed in the year incurred except for replacements which appreciably increase the capacity or extend the useful service life of the facility. The costs of such replacements are capitalized and the replaced components are retired from the accounts.

Pensions
The Company has retirement programs which cover virtually all employees. The Company's policy is generally to fully fund these programs and to pay all costs except for employees' Canada/Quebec Pension Plan contributions. The annual contribution to these programs is calculated using an actuarial method which essentially spreads the cost of future benefits as a level percentage of payroll of active employees over their future years of service with the Company.

Income Taxes
The Company follows the tax-allocation basis of accounting for income taxes. On this basis, a deferred income tax provision is recorded for the imputed tax effect of capital cost allowances and drilling and lease acquisition costs claimed for tax purposes in excess of depreciation and amortization charged against reported income.

Consolidated Statement of Earnings ($ millions)

Year ended December 31	1979	1978
Revenues		
Sales and other operating revenue, net of direct retail taxes	**$3,436**	$2,715
Dividends, interest and other income	**47**	19
	3,483	2,734
Expenses		
Purchased crude oil, petroleum products and other merchandise	**2,096**	1,709
Operating expense	**357**	312
Selling and general expenses	**329**	293
Exploration expense	**134**	96
Depreciation, amortization and retirements	**84**	66
Interest on long term debt	**31**	28
Income taxes:		
Current	**140**	—
Deferred	**53**	80
	3,224	2,584
Earnings for the year	**$ 259**	$ 150
Earnings attributable to common shares after preferred share dividend requirements	**$ 243**	$ 150
Earnings per Class "A" Common Share	**$ 2.42**	$ 1.49

Consolidated Statement of Earnings Retained in the Business ($ millions)

Year ended December 31	1979	1978
Balance at beginning of year, as previously reported	**$**	$723
Adjustment for changes in accounting for exploration and development expenditures (Note 5)		2
As restated	**$ 817**	725
Earnings for the year	**259**	150
	1,076	875
Dividends paid (Note 9)	**87**	58
Balance at end of year	**$ 989**	$817

Consolidated Statement of Financial Position ($ millions)

As at December 31	**1979**	1978
Assets		
Current assets		
Cash	**$ 196**	$ 169
Short term investments, at cost which approximates market	**165**	72
Accounts receivable	**526**	439
Inventories:		
Crude oil, products and merchandise	**417**	399
Materials and supplies	**31**	33
Prepaid expenses	**34**	22
	1,369	1,134
Investments, long term receivables and other assets (Note 6)	**107**	158
Properties, plant and equipment (Note 4)	**1,487**	1,358
	$2,963	$2,650

Liabilities, deferred credits and shareholders' investment		
Current liabilities		
Short term notes payable	**$ 25**	$ —
Accounts payable and accrued liabilities	**407**	427
Income and other taxes payable	**105**	59
Long term debt due within one year	**6**	2
	543	488
Long term debt (Note 7)	**328**	321
Deferred gas production revenue	**38**	14
Deferred income taxes (Note 8)	**307**	253
Shareholders' investment		
Capital stock (Note 9)	**467**	466
Contributed surplus	**291**	291
Earnings retained in the business	**989**	817
Total shareholders' investment	**1,747**	1,574
	$2,963	$2,650

Consolidated Statement of Changes in Financial Position ($ millions)

Year ended December 31	1979	1978
Cash internally generated		
Cash from operations before exploration expense (a)	$535	$393
Proceeds from sales of capital assets and miscellaneous items	20	14
Deferred gas production revenue	24	14
	579	421
Cash invested		
Capital and exploration expenditures	366	383
Purchase of Crows Nest Industries Limited (net of working capital)	—	56
Long term receivables, investments and other assets	(46)	89
Working capital excluding cash (b)	85	43
	405	571
Dividends paid (Note 9)	87	58
Cash surplus/(deficiency) before external financing	87	(208)
External financing		
Capital stock	1	250
Long term debt	7	139
	8	389
Increase in cash (b)	$ 95	$181

(a) Cash from operations before exploration expense comprises earnings plus exploration expense, provision for deferred income taxes, depreciation, amortization and other non-cash items.

(b) Cash comprises cash and short term investments less short term notes payable.

The consolidated financial statements have been approved by the Board:
C. William Daniel, Director   Peter J. G. Bentley, Director

Financial Results by Industry Segment ($ millions) (Note 3)

	Resources	Oil Products	Chemical Products	Other	Total
1979					
Sales and other operating revenue	$ 838	$2,389	$203	$ 6	$3,436
Dividends, interest and other income	—	6	—	41	47
Inter-segment transfers	—	69	—	—	—
Total revenue	838	2,464	203	47	3,483*
Product costs and operating expenses	403	2,248	166	34	2,782*
Exploration expense	134	—	—	—	134
Depreciation, amortization and retirements	52	23	6	3	84
Operating profit	249	193	31	10	483
Common corporate expenses	9	15	2	(26)	—
Interest on long term debt	—	—	—	31	31
Income taxes	100	73	12	8	193
Earnings	$ 140	$ 105	$ 17	$(3)	$ 259
Identifiable assets	$1,053	$1,190	$278	$442	$2,963
Capital employed**	$ 945	$ 878	$280	$317	$2,420
Capital and exploration expenditures	$ 313	$ 30	$ 16	$ 7	$ 366
1978					
Sales and other operating revenue	$ 686	$1,889	$136	$ 4	$2,715
Dividends, interest and other income	—	6	—	13	19
Inter-segment transfers	—	49	—	—	—
Total revenue	686	1,944	136	17	2,734*
Product costs and operating expenses	326	1,877	132	28	2,314*
Exploration expense	96	—	—	—	96
Depreciation, amortization and retirements	35	28	1	2	66
Operating profit	229	39	3	(13)	258
Common corporate expenses	8	14	2	(24)	—
Interest on long term debt	—	—	—	28	28
Income taxes	86	5	(3)	(8)	80
Earnings	$ 135	$ 20	$ 4	$(9)	$ 150
Identifiable assets	$ 895	$1,129	$331	$295	$2,650
Capital employed**	$ 788	$ 776	$322	$276	$2,162
Capital and exploration expenditures	$ 263	$ 37	$ 73	$ 10	$ 383

*After elimination of inter-segment transfers.
**Capital employed equals identifiable assets less current liabilities.

Notes to Consolidated Financial Statements

1. Accounting policies

A summary of major accounting policies of Shell Canada Limited and its subsidiaries is presented on page 25 of this report.

2. Subsidiary companies

Principal operating subsidiary

Shell Canada Resources Limited

Other operating subsidiaries

Alphatext Limited
Crows Nest Forest Products Limited
Crows Nest Resources Limited
Enviroglas Limited
Salmon Pipelines Ltd.
Salmon Resources Ltd.
Shell Canadian Tankers Limited

In view of the insignificance to shareholders of other subsidiary companies, Shell Canada Limited has exercised its option not to comply with the requirement of Section 200 of the Companies Act of British Columbia that these be listed in the Annual Report.

3. Financial results by industry segment

The directors of the Company have determined that Shell Canada operates principally in three industry segments: Resources, Oil Products and Chemical Products. The Resources segment comprises exploration and production activities for crude oil, natural gas, gas liquids, sulphur, oil sands, coal and minerals. The Oil Products and Chemical segments include the manufacture, distribution and marketing of refined oil products and chemical products respectively. "Other" includes cash, short term securities, pipeline investments, miscellaneous corporate ventures and interest on long term debt.

The financial results by industry segment, as shown on page 29, are reported as if the segments were separate entities. Inter-segment transfers of products, which are included as revenues in the segment making the transfer, are eliminated from total Company revenues. Inter-segment transfers are accounted for at estimated market-related values. General corporate administrative costs are allocated to segments.

4. Properties, plant and equipment

December 31, 1979 ($ millions)	Principal depreciation and amortization rates	Cost	Accumulated depreciation and amortization	Net book value
Resources segment	Unit of production	**$1,170**	**$311**	**$ 859**
Oil Products segment	4% to 13%	**832**	**425**	**407**
Chemical Products segment	4% to 13%	**229**	**26**	**203**
Other	4% to 13%	**30**	**12**	**18**
Total December 31, 1979		**$2,261**	**$774**	**$1,487**
Total December 31, 1978		$2,058	$700	$1,358

5. Changes in accounting for exploration and development expenditures

Changes in accounting for exploration and development expenditures were adopted retroactively in 1979 to conform with a recently developed form of successful efforts accounting which has gained general acceptance. These changes had no material effect on the earnings and financial position for 1979 and 1978. In addition, an increase of $3 million in the unrecorded pre-1968 deferred income taxes also arose due to these changes (Note 8). The 1978 figures have been restated to reflect these changes.

6. Investments, long term receivables and other assets

December 31 ($ millions)	% Ownership	1979	1978
Investments in pipeline and other companies			
At equity (with no quoted market value) including:		**$ 15**	$ 15
Sun-Canadian Pipe Line Company Limited	45.0		
Trans-Northern Pipe Line Company	33.3		
At cost less provision:			
— with quoted market value of $20 (1978 - $15) including:		**9**	9
Interprovincial Pipe Line Limited	2.0		
Trans Mountain Pipe Line Company Ltd.	8.6		
— with no quoted market value including:		**5**	5
Alberta Products Pipe Line Ltd.	10.0		
Montreal Pipe Line Company Limited	16.0		
Peace Pipe Line Ltd.	12.8		
Income taxes recoverable		**—**	58
Long term receivables and other assets		**78**	71
		$107	$158

7. Long term debt

December 31 ($ millions)	Maturity	1979	1978
Sinking Fund Debentures			
Series F - 5¾%	1983	**$ 2**	$ 2
1 - 7½% (U.S. $71)	1994	**76**	81
2 - 9¼% (U.S. $75)	1996	**74**	74
9⅜% Debentures	2003	**120**	125
Promissory Notes			
7% (£11)	1980 to 1984	**21**	20
Floating Rate* (U.S. $15)	1980 to 1988	**17**	14
Other long term obligations	varying dates	**24**	7
		334	323
Included in current liabilities as due within one year		**6**	2
		$328	$321

*These promissory notes bear interest at fluctuating rates which average 105 per cent of the U.S. bank's prime rate.

Of the foregoing long term debt, the aggregate amount of payments required to meet sinking fund or retirement provisions will be $11 million in 1981, $15 million in 1982, $17 million in 1983, and $17 million in 1984.

The principal amounts of the U.S. Debentures and of the U.S. and Sterling Promissory Notes included in the consolidated financial statements are expressed in terms of Canadian dollars, translated at the rates of exchange prevailing when the funds were received. The aggregate principal amount, if translated at the rate of exchange prevailing at December 31, 1979 would have been $219 million, compared with $190 million included in the financial statements.

8. Deferred income taxes

Deferred income taxes of $307 million at December 31, 1979 have been accumulated since January 1, 1968, the effective date of the recommendation of the Canadian Institute of Chartered Accountants concerning the tax-allocation basis of accounting for income taxes. If this basis of accounting had been adopted for years prior to 1968, the accumulated amount of deferred income taxes would have been increased by approximately $56 million.

9. Capital stock

The Company carries on business under the Canada Business Corporations Act. Under the terms of this Act, all classes of the Company's shares are without nominal or par value and are authorized in unlimited number.

December 31 ($ thousands)	**1979**		1978	
	Issued	**Dividends**	Issued	Dividends
10,000,000 Series "A" Preferred Shares	**$250,000**	**$14,464**	$250,000	$ —
100 4% Preference Shares	**1,000**	**40**	1,000	40
63,880,078 Class "A" Common Shares (1978 - 63,840,147)	**186,927**	**45,983**	186,301	37,022
9,087,039 Class "B" Common Shares	**29,107**	**26,171**	29,107	21,082
	$467,034	**$86,658**	$466,408	$58,144

Series "A" Preferred Shares

The holders of Series "A" Preferred Shares are entitled to receive cumulative preferential dividends fixed at a rate of one-half of the Canadian bank prime rate plus five-eighths of one per cent. These shares are retractable at the holders' option on February 15, 1989 at the price of $25 per share plus accrued and unpaid dividends. The shares are redeemable at the Company's option on not less than 60 days notice, at a price equal to $25 per share plus accrued and unpaid dividends to the redemption date.

4% Preference Shares

The holders of the Preference Shares are entitled to receive fixed cumulative dividends at the rate of four per cent (4%) per annum. The Company may redeem the Preference Shares at the amount paid-up thereon plus accrued dividends.

Class "A" Common Shares

The Company has an incentive Stock Option Plan authorizing the granting of options to officers and key employees to purchase unissued Class "A" Common Shares. The option price prior to May 27, 1977, was not less than 90% of the fair market value of the shares on the date the option was granted and after that date is fair market value. The term of each option is a maximum of 10 years.

At December 31, 1979, options to purchase an aggregate of 255,030 Class "A" Common Shares were outstanding at an average of $15.51 per share, exercisable under the terms of the plan. During the year, options for 58,375 shares were exercised at an average $11.66 per share for an aggregate cash consideration of $680,000. Options for 97,875 shares were granted during 1979 at an average of $18.86 per share.

Pursuant to provisions in the Canada Business Corporations Act, 18,444 shares were cancelled during the year, resulting in a $54,000 reduction in capital stock.

Class "B" Common Shares

The holder of Class "B" Common Shares is entitled on a share-for-share basis to four times any amount paid or distributed by way of dividend or other distribution to the holders of Class "A" Common Shares.

10. Transactions with affiliated companies

Shell Canada, in the course of its regular business, has routine transactions at standard commercial rates with affiliates of the Royal Dutch/Shell Group of companies. Such transactions are not significant in relation to the Company's overall activities.

11. Commitments and contingent liabilities

At December 31, 1979, the Company and its subsidiaries had non-cancellable operating leases, with an initial or remaining term of one year or more, covering service stations, office space and other facilities. Future minimum payments (without reduction for related rental income) under such leases are estimated at $9 million in 1980, $12 million in 1981, $11 million in 1982, $8 million in 1983, $6 million in 1984, and $89 million thereafter.

Shell Canada and its subsidiary companies had no contingent liabilities which could result in the sustaining of losses that would materially affect its financial position.

12. Remuneration of directors and officers

Information relating to remuneration paid to directors and officers of Shell Canada Limited by the Company and its subsidiaries during the year 1979:

Number of directors	10
Aggregate remuneration to directors ($ thousands)	$ 94
Number of officers	19
Aggregate remuneration to officers ($ thousands)	$1,816
Number of officers who were also directors	3

13. Comparative figures

The comparative figures for the previous year have been reclassified where necessary to conform with current year's presentation.

Auditors' Report

To the Shareholders of Shell Canada Limited:

We have examined the consolidated statement of financial position of Shell Canada Limited as at December 31, 1979 and the consolidated statements of earnings, earnings retained in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Shell Canada Limited as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting for exploration and development expenditures, with which we concur, referred to in Note 5 to the financial statements, on a basis consistent with that of the preceding year.

Price Waterhouse & Co. Chartered Accountants, Toronto, Ontario
February 22, 1980

Statistical Review — Financial

Dollars in millions except per share amounts	1979	1978	1977	1976	1975
Revenues					
Petroleum products	$ 2,195	1,762	1,530	1,409	1,217
Crude oil, natural gas and related products	$ 949	746	661	566	541
Chemical products	$ 203	136	113	97	76
Other operating revenue	$ 89	71	46	39	34
Net sales and other operating revenue	$ 3,436	2,715	2,350	2,111	1,868
Dividends, interest and other income	$ 47	19	25	26	17
Total revenues	$ 3,483	2,734	2,375	2,137	1,885
Earnings and dividends					
Cash from operations before exploration expense	$ 535	393	344	270	247
per common share (1)	$ 5.19	3.93	3.43	2.70	2.46
Earnings for the year	$ 259	150	157	136	148
Earnings attributable to common shares	$ 243	150	157	136	148
per common share (1)	$ 2.42	1.49	1.57	1.36	1.47
Dividends paid on common shares	$ 72	58	56	50	50
per common share (1)	$ 0.72	0.58	0.56	0.50	0.50
Income taxes					
Current	$ 140	—	42	86	127
Deferred	$ 53	80	68	25	17
Financial position at year end					
Cash and short term investments	$ 361	241	60	195	87
Short term notes payable	$ (25)	—	—	—	—
Other working capital	$ 490	405	362	308	334
Investments, long term receivables and other assets	$ 107	158	69	57	53
Properties, plant and equipment — net	$ 1,487	1,358	1,095	850	743
Total capital employed	$ 2,420	2,162	1,586	1,410	1,217
Long term debt	$ 328	321	182	175	94
Deferred gas production revenue	$ 38	14	—	—	—
Deferred income taxes	$ 307	253	172	104	79
Shareholders' investment at book value	$ 1,747	1,574	1,232	1,131	1,044
Common shareholders' investment per common share (1)	$ 14.93	13.21	12.29	11.28	10.42
Shareholders					
Common shares outstanding at year end (millions) (1)	100	100	100	100	100
Shareholders (number at year end)	16,887	17,370	17,458	17,761	18,186
Capital and exploration expenditures					
Capital expenditures	$ 232	287	315	176	116
Exploration expense (2)	$ 134	96	64	47	24
Employees					
Salaries, wages and employee benefits	$ 226	200	177	158	140
Employees (number at year end)	7,801	7,750	6,972	6,812	6,725

(1) Class "A" Common Share equivalent, calculated on the basis that the holder of Class "B" Common Shares is entitled on a share-for-share basis to four times any amount paid or distributed to holders of Class "A" Common Shares. Cash from operations and earnings per common share have been calculated using monthly weighted average Class "A" equivalent.

(2) Exploration expense includes geological, geophysical, exploratory dry hole and predevelopment costs for resource activities.

Statistical Review — Financial

	1979	1978	1977	1976	1975
Ratios					
Return on average capital employed	**12.0%**	8.8%	11.0%	10.8%	13.0%
Earnings attributable to common shares:					
as % of average common shareholders' equity	**17.2%**	11.7%	13.3%	12.5%	14.8%
as % of revenues	**7.0%**	5.5%	6.6%	6.4%	7.8%
Common share dividends as % of earnings attributable to common shares	**29.7%**	38.8%	35.6%	36.7%	33.9%
Current assets to current liabilities	**2.5**	2.3	2.0	2.5	2.3
Long term debt as % of capital employed	**13.6%**	14.8%	11.5%	12.4%	7.7%
Capital employed per employee ($ thousands)	**310**	279	228	207	181

Statistical Review — Operating

	1979	1978	1977	1976	1975
Resources					
Crude oil and natural gas liquids produced:					
gross (cubic metres daily)	**12 100**	10 500	11 000	11 700	13 000
net (cubic metres daily)	**7 400**	6 500	6 900	7 600	8 500
Natural gas produced and sold:					
gross (thousands of cubic metres daily)	**18 000**	17 000	17 900	16 700	17 600
net (thousands of cubic metres daily)	**12 300**	11 700	12 200	11 600	12 700
Sulphur produced — gross (tonnes daily)	**3 514**	3 200	3 269	3 024	3 123
Sulphur sales — own production (tonnes daily)	**3 251**	3 160	2 376	2 213	1 998
Wells drilled (net): (1)					
Exploratory — oil	**—**	4	3	2	—
Exploratory — gas	**11**	6	17	9	4
Exploratory — dry holes	**40**	47	31	16	6
Development — total	**29**	28	25	16	11
Total wells drilled	**80**	85	76	43	21
Net land holdings (millions of hectares)	**10**	11	15	15	15
Products					
Rated refinery capacity at year end (cubic metres daily)	**47 000**	47 000	47 000	47 900	47 900
Crude oil intake to distilling units (cubic metres daily)	**44 700**	41 900	42 500	44 800	42 500
% of year end rated refinery capacity	**95%**	89%	91%	94%	89%
Petroleum product sales (cubic metres daily)	**43 200**	40 800	40 100	43 400	41 900
Chemical sales (tonnes daily)	**1 296**	1 072	962	971	830
Retail outlets (number at year end)	**3 754**	3 880	3 982	4 374	4 609

One cubic metre = 6.29 barrels; one cubic metre = 35.3 cubic feet; one tonne = 0.984 long ton; 1 hectare = 2.47 acres.

(1) Includes only those wells on which Shell Canada made direct expenditures. Under the joint venture agreement with Shell Explorer, Shell Canada has a 50 per cent interest in the following additional net wells drilled, for which all expenditures were charged to Shell Explorer as part of their exploration commitment:

1977 — 1 exploratory — dry; 1976 — 1 exploratory — dry, 1 development;
1975 — 1 exploratory — oil, 1 exploratory — gas, 1 exploratory — dry.

Accounting for Inflation

To illustrate the impact of inflation on earnings the following table presents the adjustments which account for the variance between earnings reported in the consolidated financial statements, on the historical cost basis, and earnings restated for changes in the general purchasing power of money. As in previous years, the purchasing power adjusted figures are computed by using the Gross National Expenditure Implicit Price Index in accordance with the guideline issued by the Canadian Institute of Chartered Accountants.

Year ended December 31 ($ millions)	1979	1978
Earnings (per historical cost financial statements)	**$259**	$150
Price-level adjustments		
Inventories (removing inflationary gain from profit on sale of inventories)	**(49)**	(22)
Depreciation (based on increased cost of fixed assets measured in terms of general purchasing power at the end of the year)	**(66)**	(43)
General purchasing power gain (resulting from holding monetary items* during the year)	**21**	9
Sales, purchases and all other expenses** (restating revenues and costs incurred during the year in terms of general purchasing power at the end of the year)	**11**	2
	(83)	(54)
	176	96
Adjustment updating 1978 earnings to 1979 dollars	**—**	11
Price-level restated earnings	**$176**	$107
— Per Class "A" Common Share (in terms of the general purchasing power of money at the end of 1979)	**$1.59**	$1.06

* Monetary items comprise principally cash, receivables, current liabilities and long term debt.
** Income taxes are based on amounts recorded in the historical cost financial statements.

Five Year Summary	1979	1978	1977	1976	1975
Earnings (per historical cost financial statements)	**$259**	150	157	136	148
Price-level restated earnings (in terms of 1979 purchasing power)	**$176**	107	100	88	116
Earnings as a % of average capital employed (in terms of general purchasing power)	**6.4%**	4.5%	4.5%	4.0%	5.2%
Purchasing power of the Canadian dollar (amount needed on January 1 each year to purchase what $1.00 would buy on December 31, 1979)	**$0.90**	0.85	0.78	0.73	0.66

Auditors' Report on Inflation Accounting

To the Shareholders of Shell Canada Limited:

As auditors of Shell Canada Limited we have examined its consolidated financial statements as at December 31, 1979 and have reported thereon to the shareholders under date of February 22, 1980. As part of our examination we have also examined the supplementary information concerning inflation accounting which restates in summary form the earnings for the year ended December 31, 1979 in terms of the purchasing power of money at that date.

In our opinion, the supplementary information concerning inflation accounting for the year ended December 31, 1979 has been properly prepared on a consistent basis in accordance with the guideline issued in December, 1974 by the Canadian Institute of Chartered Accountants.

Price Waterhouse & Co. Chartered Accountants, Toronto, Ontario — February 22, 1980

Shell Canada Limited 505 University Avenue, Toronto, Ontario, M5G 1X4

Incorporated under the laws of Canada

Officers (December 31, 1979)

C. William Daniel, President and Chief Executive Officer, Toronto
J.M. MacLeod, Senior Vice President, Toronto
D.W. Menzel, Senior Vice President, Toronto
D.J. Taylor, Senior Vice President, Toronto
R.S. Aberg, Vice President (Oil Sands Administration), Calgary
W.A.M. Birt, Vice President (Employee Relations and Public Affairs), Toronto
L.F.J. Bolger, Vice President (Chemicals), Toronto
W.M. Catterson, Vice President (Manufacturing and Engineering), Toronto
J.E. Czaja, Vice President (Oil Sands Mining Development), Calgary
J.N. Fiell, Vice President (Finance and Administration), Toronto
G. Robertson, Vice President (Exploration), Calgary
A.G. Seager, Vice President (Oil Products), Toronto
D.G. Stoneman, Vice President (Development), Calgary
T.B.O. McKeag, Secretary, Toronto
K.B. Munnoch, Treasurer, Toronto
R.J. Parton, Controller, Toronto

Executive changes during 1979

Effective April 1, 1979:

Mr. G.A. Bevan, formerly Senior Vice-President, Toronto, accepted an assignment as Marketing Coordinator (Oil) with Shell International Petroleum Company, London.

Mr. D.J. Taylor, formerly Vice-President (Oil), was appointed Senior Vice-President.

Mr. W.M. Catterson, formerly General Manager (Refining and Chemical Plants), became Vice-President (Manufacturing and Engineering).

Mr. A.G. Seager, formerly General Manager (Marketing), became Vice-President (Oil Products).

Effective June 1, 1979:

Mr. W.A.M. Birt, formerly General Manager (Employee Relations), became Vice-President (Employee Relations and Public Affairs).

Mr. R.J. Parton, formerly Manager (Corporate Accounting), became Controller.

Mr. R.F. Taylor, formerly Controller, became General Manager (Employee Relations).

Effective October 1, 1979:

Mr. G. Robertson, formerly General Manager (Western Exploration), became Vice-President (Exploration).

Retirements:

Mr. D.W. Smith, formerly Vice-President (Exploration), Calgary, retired December 1, 1979.

Mr. T.B.O. McKeag, General Counsel and Secretary, retired March 1, 1980.

Transfer agent and registrar

The Royal Trust Company — Halifax, Montreal, Toronto, Winnipeg, Calgary, Vancouver.

Changes of address or inquiries about shares and dividends should be directed to the transfer agent.

Stock exchange listings

The Class "A" Common Shares of Shell Canada Limited are listed on the Montreal, Toronto and Vancouver Stock Exchanges. The stock symbol is SHC.

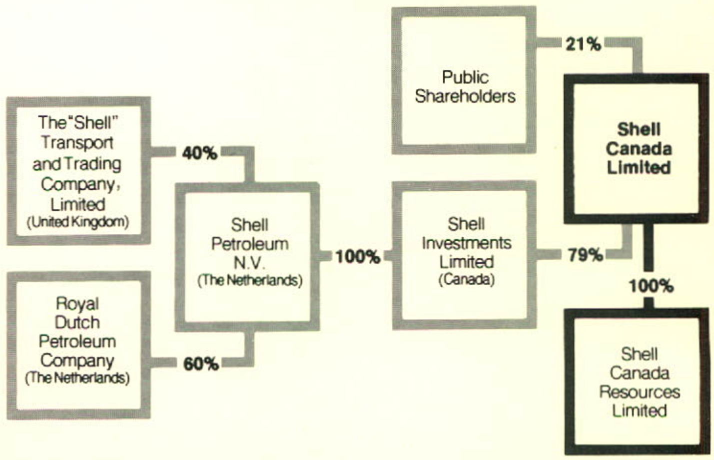
Investor information

Investors may obtain information to assist them in evaluating the Company's operations and results from the Assistant Treasurer, Shell Canada Limited, 505 University Avenue, Toronto, Ontario, M5G 1X4.

Annual meeting

The annual meeting of shareholders will be held at 11:00 a.m., Thursday, April 24, 1980 in the Shell Building, Toronto.

Ownership of the Corporation at December 31, 1979



Voting rights: Approximately 71 per cent of the voting rights in Shell Canada Limited are held by companies of the Royal Dutch/Shell Group of Companies and 29 per cent are held by public shareholders.

Shell Canada Limited

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