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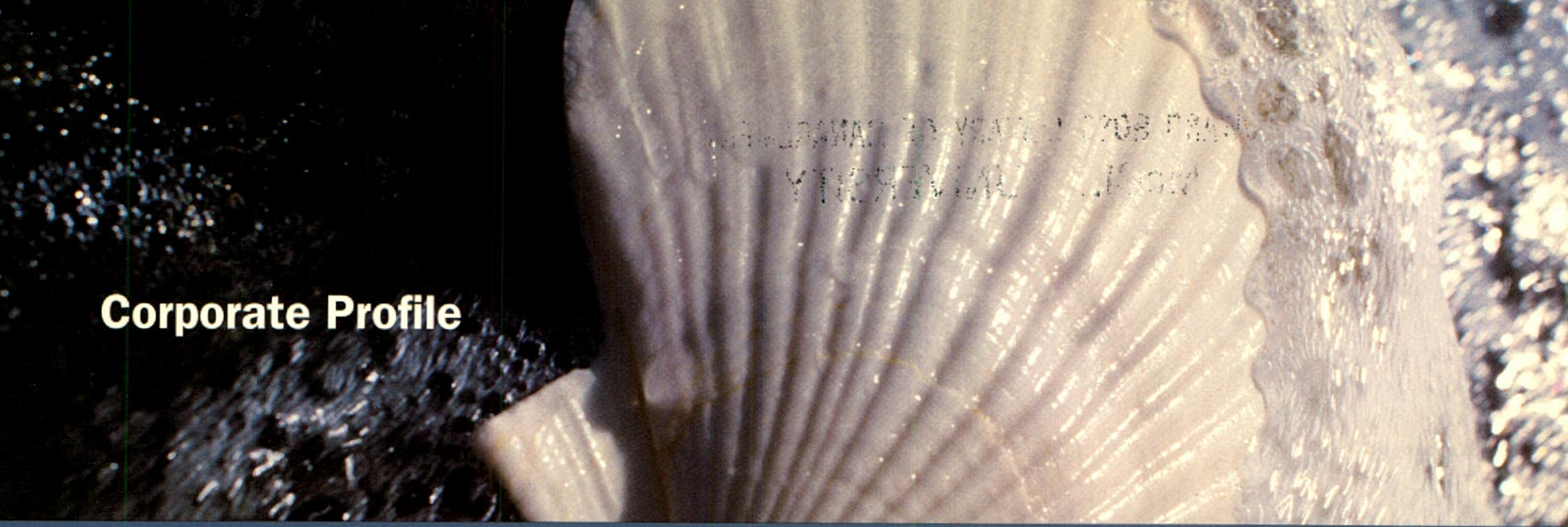
Shell Canada Limited

1999 Annual Report



Corporate Profile

Shell Canada Limited is one of the largest integrated petroleum companies in Canada. Shell is committed to discovering and developing hydrocarbon reserves and to providing customers with quality products and services at a profit to shareholders. The Company's Resources business is one of the country's largest producers of natural gas, natural gas liquids and sulphur. The Athabasca Oil Sands project is the largest project ever undertaken by Shell Canada. Through Shell Canada Products Limited, the Company manufactures, distributes and markets refined petroleum products across the country. The Company seeks to conduct its activities according to the principles of sustainable development.

HOWARD ROSS LIBRARY OF MANAGEMENT
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Highlights

FINANCIAL HIGHLIGHTS *($ millions except as noted)*	1999	1998	1997
Earnings	**641**	432	523
Cash flow from operations	**795**	845	940
Capital and exploration expenditures	**715**	796	520
Return on average capital employed *(%)*	**15.8**	11.8	13.2
Return on average common shareholders' equity *(%)*	**17.7**	13.1	14.8
Per Class "A" Common Share *(dollars)*			
Earnings	**2.22**	1.49	1.69
Cash flow from operations	**2.75**	2.91	3.03
Dividends paid	**0.72**	0.72	0.66

OPERATING HIGHLIGHTS	1999	1998	1997
Production			
Natural gas – gross *(mmcf/d)*	**562**	587	667
Crude oil and bitumen – gross *(bbls/d)*	**19 700**	22 900	26 500
Condensate – gross *(bbls/d)*	**23 600**	24 900	24 600
Ethane, propane and butane – gross *(bbls/d)*	**30 400**	30 800	31 300
Sulphur – gross *(long tons/d)*	**6 600**	6 600	6 600
Crude oil processed by Shell refineries *(m^3/d)*	**41 800**	41 800	41 200
Sales			
Petroleum product sales *(m^3/d)*	**45 000**	45 000	44 400
Prices			
Natural gas average plant gate netback price *($/mcf)*	**2.69**	1.89	1.86
Crude oil average field gate price *($/bbl)*	**24.97**	18.83	25.80
Condensate average field gate price *($/bbl)*	**24.90**	18.54	26.74
Ethane, propane and butane average field gate price *($/bbl)*	**12.91**	7.25	10.93

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

President's Message

Seated: **Timothy W. Faithfull,** ***President and Chief Executive Officer***; *Standing, from left to right:* **Neil J. Camarta,** ***Senior Vice President, Oil Sands***; **Ronald B. Blakely,** ***Chief Financial Officer***; **Raymond I. Woods,** ***Senior Operating Officer, Resources***; **W. John Wills,** ***Senior Operating Officer, Products.***

Overview

In a year of exceptionally volatile market conditions, I am pleased to report that the Company's earnings of $641 million, or $2.22 per Class "A" Common Share, resulted in a 15.8 per cent return on average capital employed. Overall earnings included a number of one-time items, but even excluding these, Shell remained among the most profitable integrated oil and gas companies in Canada.

The rise in natural gas and crude oil prices benefited our Resources business, but had a severe negative impact on refining margins in Oil Products. However, Products exceeded targets on cost reductions, yields and reliability, and continued its program of retail outlet rationalization.

In 1999, we achieved two major milestones for Shell Canada's future growth: the Sable Offshore Energy project came on stream at year-end, and a formal commitment was made to proceed with the Athabasca Oil Sands project.

We continued to reposition our asset portfolio by selling the conventional crude oil and natural gas business in the Plains area of Western Canada, which no longer offered major growth opportunities.

Highlights

- **RESOURCES POSTED RECORD EARNINGS** *of $302 million for the full year, excluding one-time items.*
- **CONSTRUCTION OF THE SABLE PROJECT** *offshore Nova Scotia was completed on time and its first gas flowed December 31, 1999. Shell has a 31.3 per cent share in the project, which is expected to reach full capacity in the fourth quarter of 2000.*
- **THE COMPANY ANNOUNCED** *in December the decision to build a $3.5-billion joint venture Oil Sands project in the Athabasca region of northern Alberta with an upgrader near Edmonton. Final project approval added 900 million barrels of bitumen to Shell's reserves. Production is expected to start in late 2002.*
- **SHELL SOLD ITS CONVENTIONAL OIL AND GAS PROPERTIES** *in the Plains area of Western Canada for an after-tax gain of $230 million. More than 90 per cent of employees in the Plains business received and accepted an offer of employment from the new owner.*
- **SHELL SOLD ITS 12 PER CENT EQUITY OWNERSHIP** *in Coral Energy for a $35-million gain after-tax. The Company continues to sell its western Canadian natural gas production to Coral Energy.*
- **IN 1999, SHELL'S REFINERIES** *achieved first quartile performance for reliability against 1998 industry benchmarks. Scotford refinery ranked number one in Canada.*
- **REVENUES FROM NON-FUELS SALES** *showed a seven per cent improvement over 1998. This increase resulted primarily from the focus on innovative programs such as Java Café, Thirstbuster™ drinks and Oven Works bakeries in our convenience stores, and upgrades to car wash facilities.*
- **SHELL RECEIVED TWO DIVERSITY AWARDS** *for its continued efforts to provide a fair and equitable work environment where diversity is valued and every employee has opportunities to contribute. This effort included the appointment of an ombudsman in 1999.*

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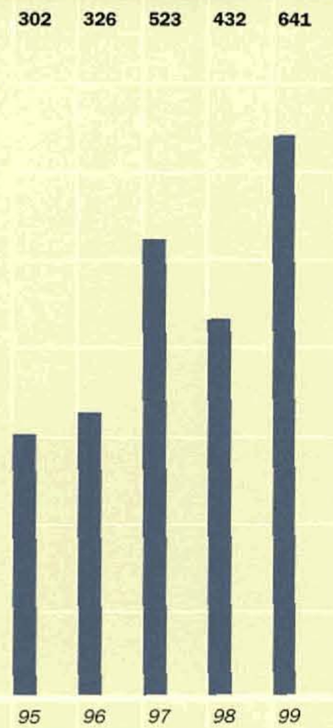
Earnings From Continuing Operations *($ millions)*

The 1999 earnings of $641 million included a $230-million gain on asset sales and a $32-million provision for asset impairment.

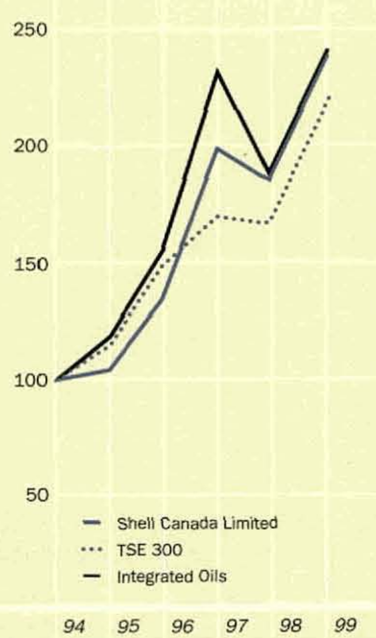


Earnings Analysis *($ millions)*

Asset sales were the main contributor to the rise in earnings.

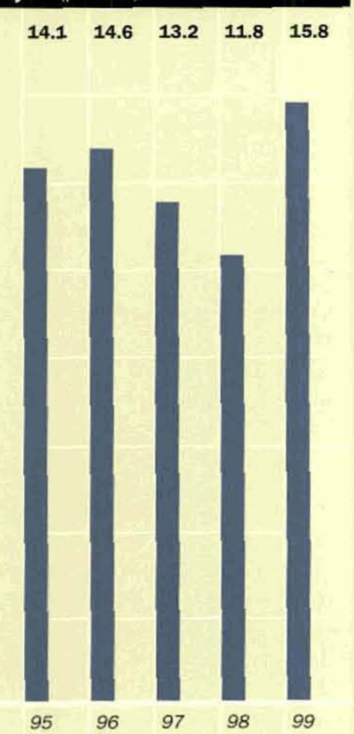
Shareholder Return *(index value)*

In 1999, Shell's return to shareholders exceeded the TSE 300 and kept pace with the Integrated Oils Index.



Return On Average Capital Employed *(per cent)*

For the second successive year Shell had the highest return on average capital employed of all the integrated oil and gas companies in Canada.



Shell Canada's safety performance in 1999 was not as good as in 1998, particularly for contractors. While it is still among the best in our industry, the safety and well-being of our employees and contractors remains our first priority and improvement initiatives are under way.

Environment

We continued to apply the principles of sustainable development to all of our activities in 1999, integrating economic, environmental and social considerations within the conduct of our business.

Climate change is a key issue for Shell Canada and our industry as a whole. In 1998, we committed to reducing greenhouse gas emissions from our base business by six per cent of 1990 levels by 2008. However, our new Oil Sands operation, which will more than double our liquids production, will add significantly to our total emissions and presents a major challenge to achieving greater reductions.

Energy efficiency improvements in the basic design of our Oil Sands project and other synergies with the project have already reduced projected emissions levels by more than 25 per cent over the pre-feasibility study estimates. Now, our initial goal for Oil Sands is a further reduction of 40 per cent by 2010, achieving an emissions level equivalent to that associated with the crude oil imported into North America that Oil Sands will displace. This demanding goal will require continuing commitment to additional energy efficiency improvements through the application of technology, and securing offsetting emissions reductions with innovative approaches. The Company is looking at trading mechanisms that could be used to meet these targets and is participating in the emissions trading program recently launched by the Royal Dutch/Shell Group of Companies.

Our participation in the Voluntary Challenge and Registry (VCR) Inc. program continues to be important to our efforts. Shell's 1999 report to the VCR showed that by the end of 1998 we were performing better than our 2000 target for greenhouse gas emissions.

We are seeking to engage all stakeholders, including environmental and community groups, as we build on our experience in communicating openly and actively with those affected by our operations. We have a duty to consult with all of our neighbours, and to hear and try to meet their concerns about the impact of our activities.

Looking Ahead

Shell Canada's goals are leadership in profitability, and profitable growth. We remain committed to achieving a sustained 15 per cent return on average capital employed. The capital investment required for our new Oil Sands business means that our short-term results will fall below this goal, but our base businesses in Oil Products and Resources still aim to meet the profitability target.

Although crude oil prices doubled over the course of 1999, reaching more than $27 US per barrel (West Texas Intermediate), the outlook is uncertain and the market is likely to remain volatile in 2000. Natural gas prices strengthened in 1999 and we expect them to reflect the tighter balance of supply and demand in the United States and additional pipeline capacity available for Canadian exports.

In Resources, we plan to maintain high levels of cash flow from our conventional natural gas operations in the Foothills. We will pursue exploration and production opportunities adjacent to our existing facilities to leverage our significant infrastructure position.

Our principal Frontier venture, the Sable Offshore Energy project, is expected to reach full capacity of just over 500 million cubic feet of gas per day (mmcf/d) in the fourth quarter 2000. Shell's share will be 160 mmcf/d. We are evaluating the potential for developing additional reserves in the Sable basin as markets continue to develop in the northeastern United States and Eastern Canada. In 2000, we expect to take the first steps in exploring the deepwater licences offshore Nova Scotia that we acquired in 1999.

Shell is also working with an industry group to evaluate potential development options for reserves of natural gas that we hold in the Mackenzie Delta, Northwest Territories.

Finally in Resources, the Company is undertaking a strategic evaluation of its Peace River operations. Although Peace River has yielded significant subsurface technological successes, we need to evaluate the potential of a much larger, full-scale commercial venture in the context of our total portfolio.

Construction of the Athabasca Oil Sands project began late in 1999 and will build up significantly in 2000. Start-up is planned for late 2002.

In the Oil Products business, we expect continued pressure on refining margins because of worldwide excess capacity. Our goal is to achieve increasingly tough targets for operational excellence in our refineries. In 2000, we will begin modifications to our Scotford refinery, which will allow it to process feedstocks from the new Oil Sands upgrader. This will be a \$400-million investment.

The federal government announced in June 1999 revised regulations governing sulphur content in gasoline. The new regulations will be phased in beginning in 2002. Shell supports the reduction of sulphur levels in gasoline, but believes that a single-step approach to an average of 30 parts per million (ppm) in 2004 would be more cost-effective. Shell will face significant expenditures to ensure compliance at its Sarnia and Montreal East refineries.

In the Retail business, we will strengthen brand image and our convenience package through the new easyPay™ technology, with enhanced offerings at the pump and in our Select convenience stores. In addition, we will continue to improve network efficiency.

We propose to invest \$4.1 billion over the next five years, of which \$2.5 billion represents Shell's share of the Athabasca Oil Sands project, including related modifications to the Scotford refinery.

Shell Canada's strong balance sheet and the continued excellent performance of our base businesses in the upstream gas and the downstream refining and marketing sectors will enable us to finance our capital plans.

Once again, the key to our success will be the alignment of day-to-day business activities with the Company's overall strategy. All of our businesses will continue to focus on operational excellence and capital discipline. In recent years, Shell has successfully established clear organizational and personal accountability. We will apply these principles and disciplines just as strongly to our growth projects and initiatives.

As Shell Canada's President and Chief Executive Officer, my goal is to continue our leadership in profitability while delivering the major growth projects. The Company's achievements in 1999 reflect the talent and commitment of the people of Shell Canada, to whom our thanks are due. At a time of great change and with periods of uncertainty affecting some business sectors, they showed strong determination to succeed – a good foundation for the future businesses.

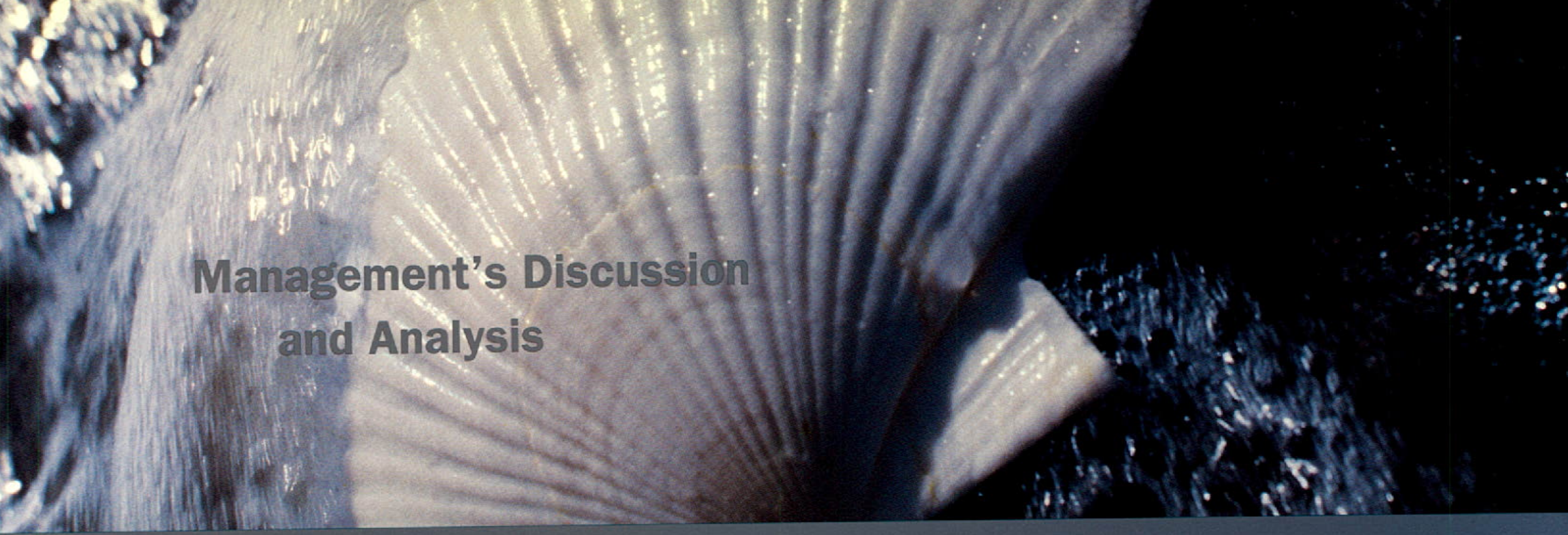
In conclusion, I would like to thank Peter J.G. Bentley, Chairman of Canfor Corporation, who will retire from our Board. Shell Canada is indebted to Mr. Bentley for his many years of service to the Company and we are grateful for his guidance through some challenging times.

On behalf of the Board,

T. W. Faithfull

TIMOTHY W. FAITHFULL
President and Chief Executive Officer
Calgary, Alberta

March 2000



Management's Discussion and Analysis

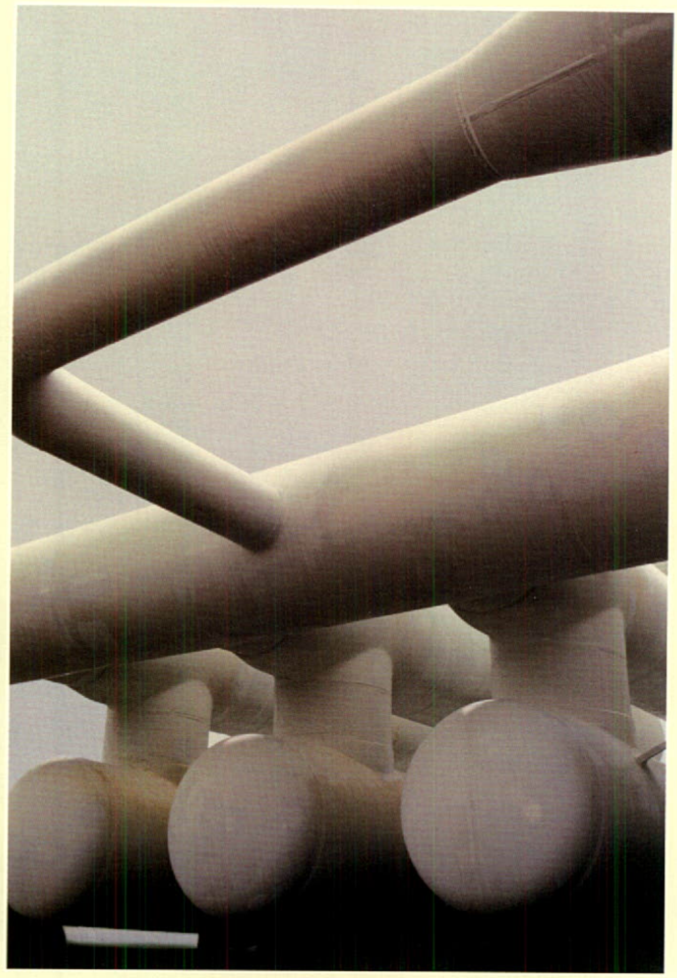
Shell Canada's earnings for 1999 were $641 million or $2.22 per Class "A" Common Share compared to earnings of $432 million or $1.49 per share for 1998. The 1999 results included a $230-million gain from the sale of the Plains business, a $32-million impairment provision for Peace River and a gain of $54 million from fees paid by Shell's partners in the Athabasca Oil Sands project.

Return on average capital employed (ROACE) was 15.8 per cent in 1999 compared to 11.8 per cent in 1998. Cash from operations (before movements in working capital) decreased to $795 million from $845 million for the same period in 1998.

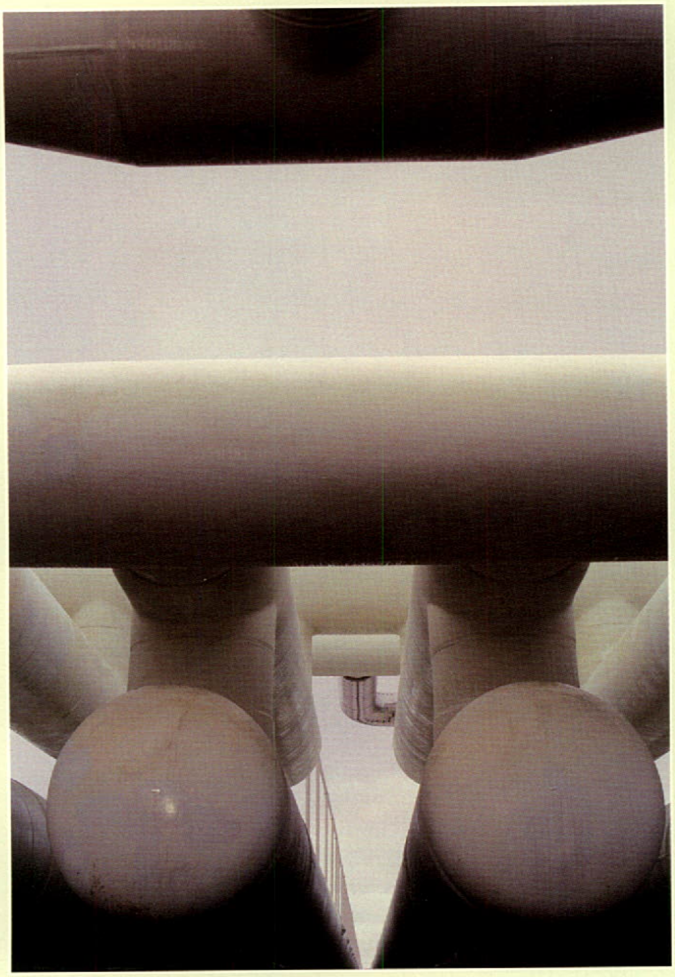
Capital expenditures in 1999 were $715 million compared to $796 million in 1998.

Management's Discussion and Analysis includes the report on Resources, Oil Sands, Oil Products and Corporate activities up to and including page 40.

Resources



Maintenance coordinator Bob Wilks stands beside the slug catcher at the **Sable Offshore Energy project's gas plant** in Goldboro, Nova Scotia. Part of the inlet facilities, the slug catcher is a series of large-diameter pipes measuring 200 metres in length. The unit is designed to separate the two-phase **hydrocarbon mixture** into liquids and vapours before entering the gas plant.



During 1999, construction of the first phase of the Sable Offshore Energy project was completed, and facilities were brought on stream.

Resources

Resources earnings for 1999 were $500 million compared to $169 million in 1998. The $500 million included a gain of $230 million from the sale of the Plains business and a $32-million impairment provision for Peace River. Even excluding these one-time items, Resources achieved record earnings due to strong commodity prices. Return on average capital employed was 31.5 per cent in 1999 (16.3 per cent excluding the gain from the sale of the Plains business and the Peace River impairment provision) compared to 9.6 per cent in 1998. Resources capital and exploration expenditures were $488 million in 1999 compared to $509 million in the previous year.

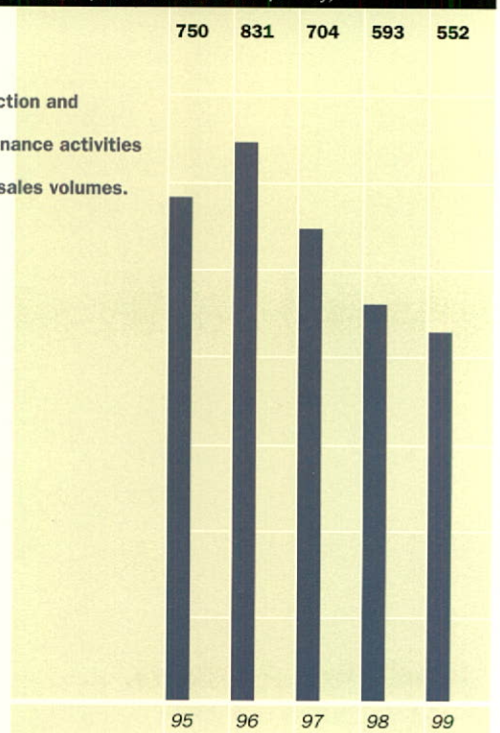
Natural Gas

In 1999, natural gas prices rose from about $2.25 per thousand cubic feet (mcf) to peak at $4 per mcf in the fourth quarter, when they started to subside due to unseasonably warm weather in North America. The high prices in 1999 resulted from increased pipeline capacity out of Canada, an upswing in North American demand and reduced U.S. domestic supply.

Shell sold its 12 per cent equity ownership in Coral Energy, L.P. (a natural gas, power and energy management company based in Houston, Texas) and Coral Energy Canada Inc. to Shell Oil Company of Houston effective September 30, 1999. The sale resulted in an after-tax gain to Shell Canada of $35 million Cdn.

Shell Canada continues to sell its western Canadian natural gas production to Coral Energy Canada Inc., Coral's Calgary-based Canadian marketing operation.

Gross Natural Gas Sales *(millions of cubic feet per day)*



Lower field production and scheduled maintenance activities resulted in lower sales volumes.

The Sable Offshore Energy project came on stream in December 1999 and will substantially enhance Shell's natural gas business. Approximately 25 per cent of the Company's total gas production is expected to come from Sable when the project reaches full capacity towards the end of 2000. Shell will sell its Sable volumes to markets in Atlantic Canada and the north-eastern United States. Shell's total production of natural gas in 1999 was 562 million cubic feet per day (mmcf/d), 25 mmcf/d less than in 1998.

Crude Oil, Bitumen and Asphalt

Crude oil prices started the year at $11 US per barrel (West Texas Intermediate) and peaked at over $27 US per barrel in December. Steps by OPEC to curtail production, the decline of existing production sources, reduced investment levels and stronger demand in Asia substantially reduced crude oil and product inventories to their lowest levels in years by December 1999.

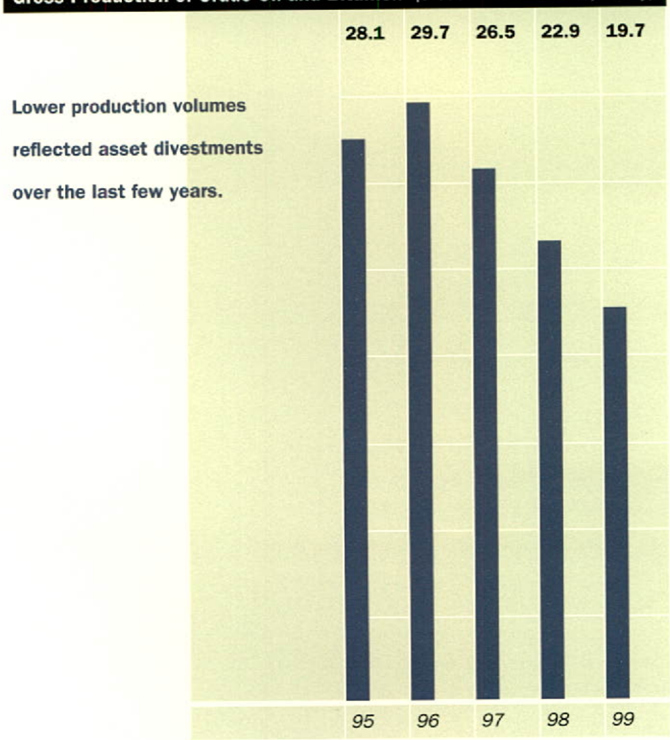
Rising crude oil prices also improved netback prices at Shell's Peace River complex. Towards year-end, traditional price differences between light and heavy crude oils narrowed in response to reduced heavy crude oil production. This production drop resulted from less drilling and low prices in 1998.

The asphalt business achieved a record year in 1999, selling more than 88,000 tonnes in British Columbia, Alberta and the Northwest Territories.

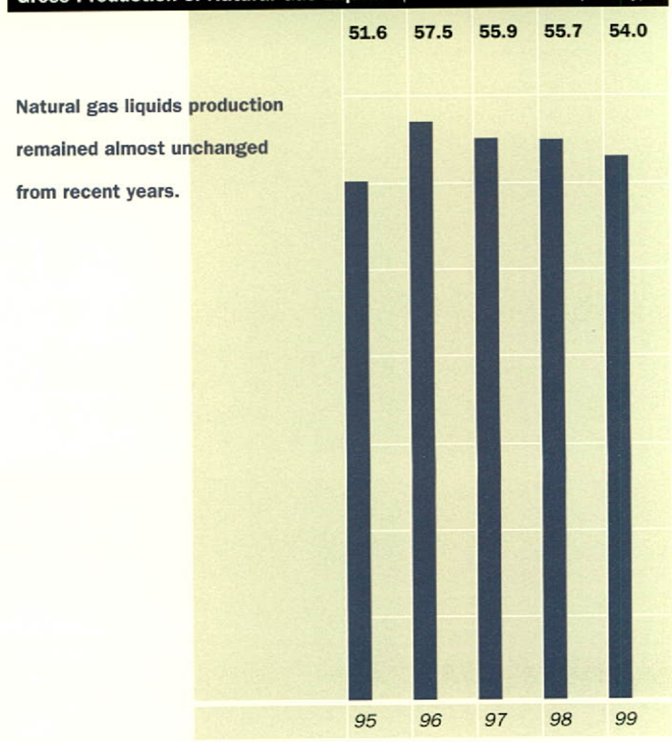
Natural Gas Liquids

Natural gas liquids comprise ethane, propane, butane and condensates. Ethane prices, which are tied closely to natural gas values, rose in line with strengthening gas prices and strong petrochemical demand. Propane began the year with low prices, which then recovered in line with crude oil and natural gas values. Butane prices also tracked crude oil and gasoline values

Gross Production of Crude Oil and Bitumen *(thousands of barrels per day)*



Gross Production of Natural Gas Liquids *(thousands of barrels per day)*



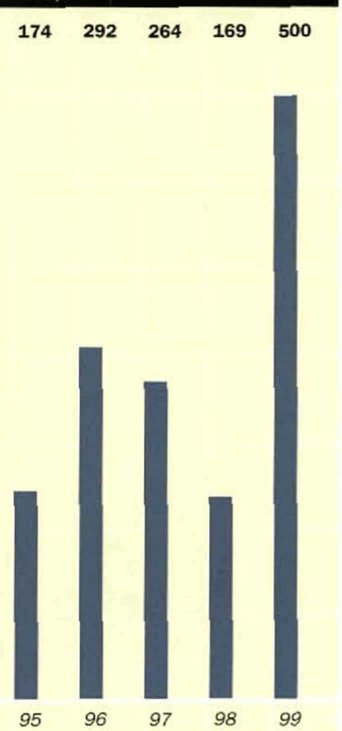
and, as a result, steadily improved over the year. At year-end, the industry's inventories of natural gas liquids were within the five-year historical range.

In December 1999, Shell prepared to market its first production of Sable propane and butane by truck and rail from Point Tupper, Nova Scotia, to local Atlantic and northeastern U.S. markets.

Reduced heavy oil production through most of 1999 resulted in less demand for condensate as a diluent. Consequently, condensate prices were lower than crude oil prices for most of the year. By year-end, a modest recovery in heavy oil production coupled with increased refinery demand led to improved condensate prices.

Total production of natural gas liquids for 1999 was 54,000 barrels per day. Sable will add 7,000 barrels per day to Shell's production by the end of 2000.

Resources Earnings in 1999 *($ millions)*



Strengthening commodity prices and asset sales contributed to record earnings for Resources in 1999.

Sulphur

Sales of sulphur into China were triple those in 1998 due to displacement of pyrite as a sulphur source and an upturn in phosphate fertilizer production in that country. Increased demand in all offshore markets led to tighter supply and a return to the 1997 average price of $35 US per tonne.

In contrast, the U.S. market price fell substantially as weak agricultural prices led to a decline in phosphate fertilizer production. Shell's sales from its own production reached 6,600 long tons per day in 1999.

Eastern Canada

SABLE OFFSHORE ENERGY PROJECT

During 1999, construction of the first phase of the Sable Offshore Energy project was completed, and facilities were brought on stream. First gas flowed December 31, 1999. Shell's overall natural gas production will increase by about 25 per cent, or 160 mmcf/day of gas and 7,000 barrels per day of natural gas liquids, when Sable reaches full capacity late in 2000.

The project comprises six fields near Sable Island, which lies some 225 kilometres off the coast of Nova Scotia. Shell's 31.3 per cent share in the project has added 1.1 trillion cubic feet of natural gas and 46 million barrels of natural gas liquids to the Company's gross reserves.

RESOURCES HIGHLIGHTS *($ millions except as noted)*

	1999	1998	1997
Revenues	**1 032**	741	969
Earnings	**500**	169	264
Capital employed	**1 360**	1 816	1 696
Capital and exploration expenditures	**488**	509	352
Return on average capital employed *(%)*	**31.5**	9.6	15.3

EAST COAST OFFSHORE

In support of its growth strategy in the Frontier region, Shell acquired a 40 per cent share of six exploration licences in the Sable sub-basin and a 33 per cent share of three exploration licences in Nova Scotia deep water. Shell's share of the work commitments on these acquisitions is approximately $77 million and $31 million respectively over the next four years.

Substantial seismic data has been collected in the Sable sub-basin licences, which cover 314,000 hectares. Drilling will start in 2000, with two exploration wells planned. In addition, a seismic program is planned on the deepwater block in the summer of 2000.

ANTICOSTI ISLAND

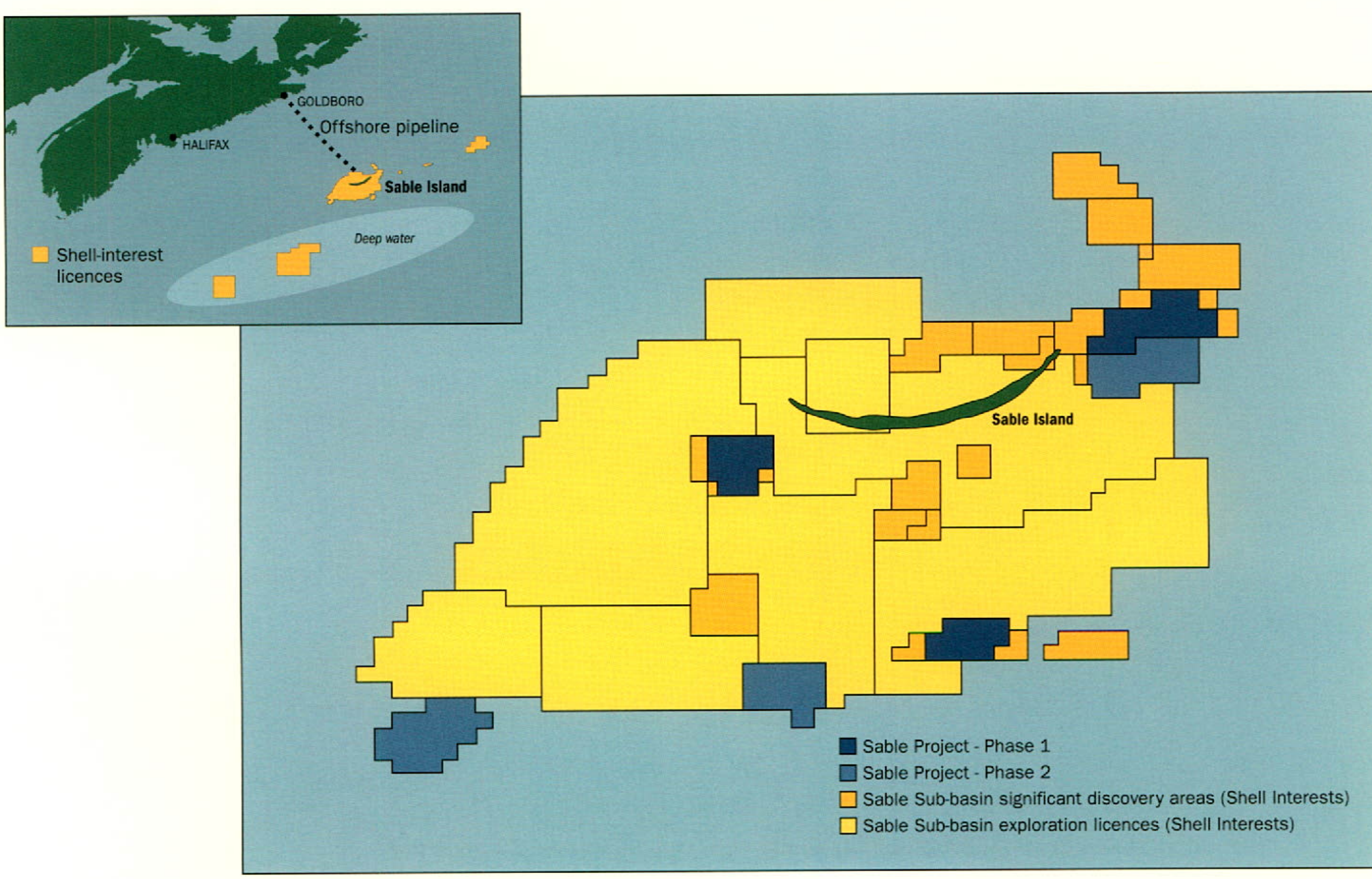
Shell has met its drilling obligations on Anticosti Island in the Gulf of St. Lawrence. Five wells were completed and declared dry, two in 1998 and three in 1999.

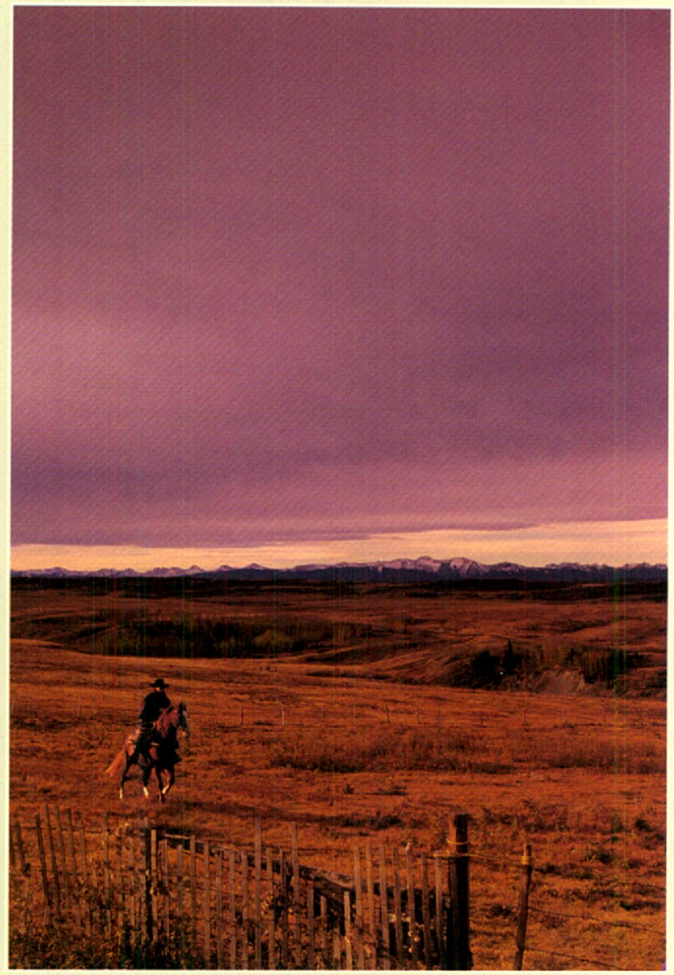
Frontier – *Mackenzie Delta*

Shell holds an estimated one trillion cubic feet of natural gas reserves and 30 million barrels of oil in the Mackenzie Delta, Northwest Territories. The Company is working with an industry group to evaluate potential development options for this longer-term opportunity.

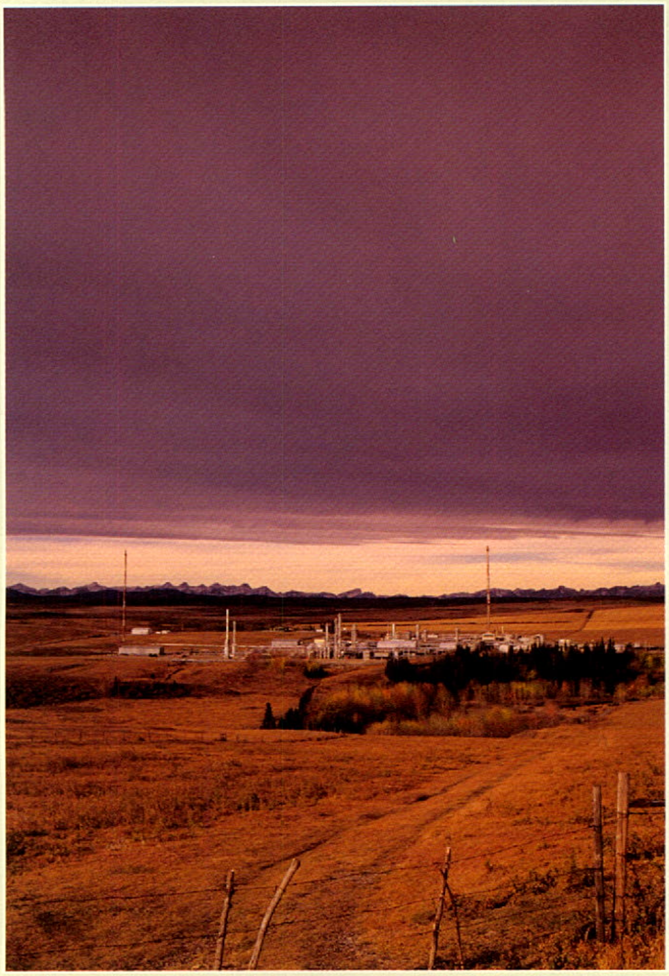
Western Canada – *Foothills*

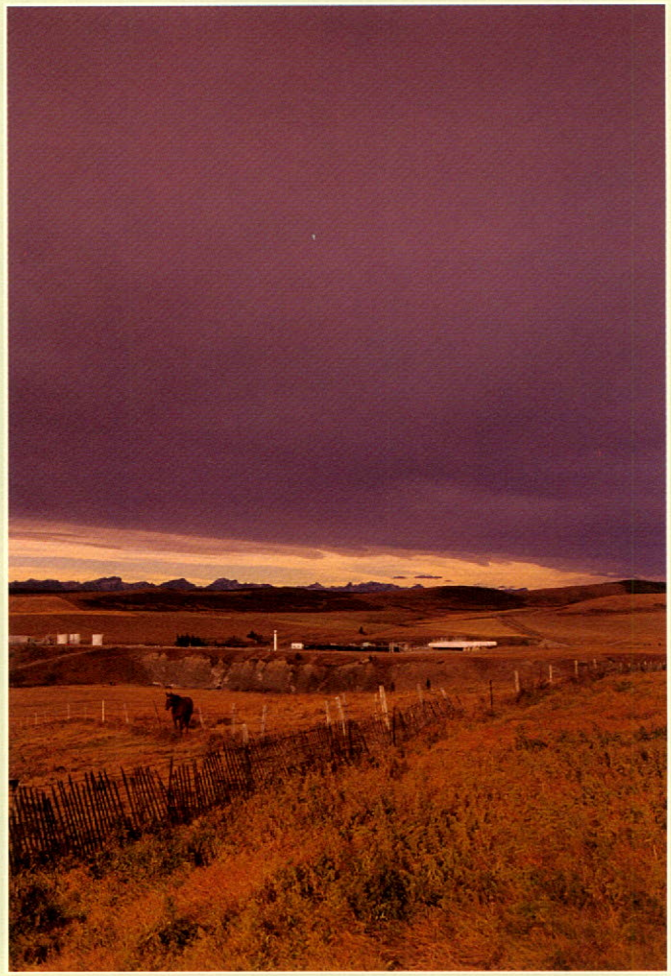
Shell moved the focus of its exploration program in mid-1999. The new mandate is to explore in joint ventures with other companies, taking advantage of Shell's extensive Foothills seismic database, technical expertise and gas processing infrastructure. The Foothills group purchased an interest in almost 14,000 hectares of Crown land and acquired 365 square kilometres of three-dimensional (3-D) seismic, which resulted in the licensing of five exploration wells in 1999. Other prospects will be tested in 2000.





For almost 50 years, Shell's Jumping Pound complex has coexisted with its ranching and farming neighbours in the Foothills of the Rocky Mountains. Located 33 kilometres west of Calgary, Alberta, the Jumping Pound natural gas field was discovered in 1944 and the plant continues to be an important part of the Company's portfolio of assets.





The strategic location of its plants and infrastructure has enabled Shell to capitalize on processing additional third party volumes.

JUMPING POUND/BURNT TIMBER

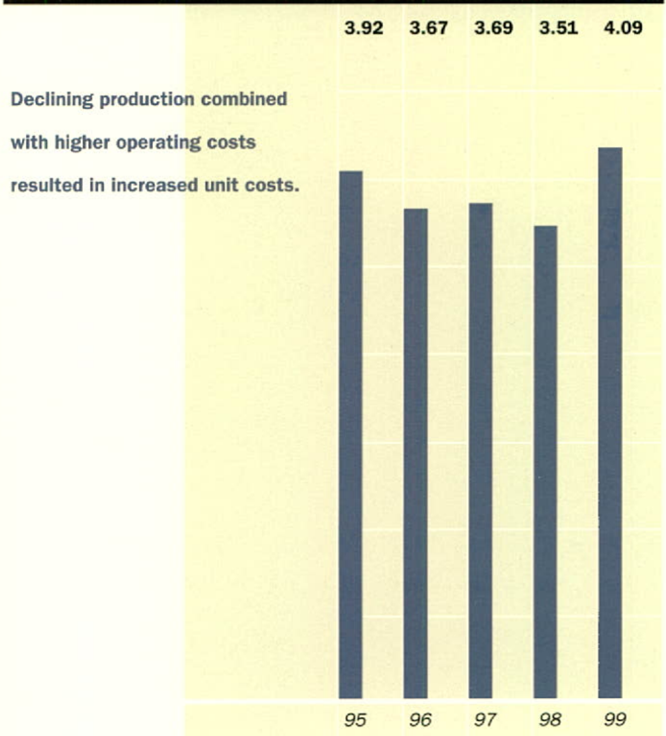
The strategic location of its plants and infrastructure has enabled Shell to capitalize on processing additional third party volumes. Completed in 1999, a new pipeline connects the Jumping Pound and Wildcat Hills gas plants. Jumping Pound now processes additional volumes of 21 mmcf/d, with an increase in pipeline capacity of 32 mmcf/d.

Another pipeline is under construction to bring more third party volumes to Shell's Burnt Timber plant for processing. Burnt Timber's inlet throughput has increased by 25 per cent since October 1999.

CAROLINE

The gas plant again achieved record throughput levels in 1999, enabling Shell to capitalize on higher natural gas liquids prices in the last six months of the year.

Resources Unit Costs *($ per barrel of oil equivalent)*



LIMESTONE

An infill drilling program, which began in 1998 to maximize the development and production of existing reserves, continued in 1999. Three successful wells were drilled and tied in to restore production to 1997 levels. This program will continue into the year 2000.

WATERTON

In 2000, Shell expects to proceed with a number of attractive development opportunities in the north end of Waterton, subject to regulatory approval.

WILDCAT HILLS

Two wells were brought on stream in 1999, resulting in a total initial increase in Shell-share sales gas of six million cubic feet per day. Additional wells are planned for this area in 2000.

Shell is committed to stakeholder consultation in the communities where it explores and operates. In 1999, the Alberta Energy and Utilities Board and Alberta's premier recognized the Shell-supported Sundre Petroleum Operators Group as a model for community consultation in the province's energy industry.

Western Canada – *Plains*

Shell Canada sold its Plains business effective November 1, 1999. The sale included conventional oil properties in south-eastern Saskatchewan (Midale) and north central Alberta (Virginia Hills/House Mountain). Also included were Shell's interest in the third-party-operated Karr/Simonette oil field in northwestern Alberta, a sweet gas plant in northern Alberta (Hamburg), and selected exploration landholdings and seismic in Western Canada. In 1999, the divested assets had a productive capacity (Shell's share) averaging 15,000 barrels of crude oil per day and 60 million cubic feet of natural gas per day. This divestment was consistent with Shell's shift in strategic focus to Alberta's oil sands and Canada's Frontier regions, particularly the East Coast offshore.

PROVED DEVELOPED AND UNDEVELOPED RESERVES								
	Crude Oil & Bitumen *(millions of barrels)*		**Natural Gas Liquids** *(millions of barrels)*		**Natural Gas** *(billions of cubic feet)*		**Sulphur** *(millions of long tons)*	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1995	126	105	233	211	2 826	2 411	28	27
1996	193	153	197	161	2 628	2 053	26	24
1997	186	170	235	212	3 399	3 010	26	24
1998	185	170	206	183	3 256	2 771	23	21
1999	**105**	**100**	**192**	**168**	**3 119**	**2 666**	**22**	**19**

Western Canada – *Peace River*

Operations at Peace River comprise soak radial wells and lower productivity vertical wells producing through a plant with a capacity of more than 12,000 barrels per day. The current operation exploits a small part of the reservoir, which has about 10 billion barrels of bitumen in place.

While results from the recent program of soak radial wells have been encouraging, earlier well technology has not proved economic and the present infrastructure is small in scale. For these reasons, there was no new drilling in 1999, pending a review of future options for the operation. With a reduced capital program and a conservative price forecast for bitumen, a $32-million after-tax impairment provision, recorded in December 1999, recognized the shortfall between estimated future cash flows and the asset's net book value.

Although the present operation is uneconomic, Peace River is a large resource and a potential significant investment opportunity for Shell in the longer term, depending on market conditions and technical feasibility.

Exploration Program Costs

Shell's exploration program totalled $73 million in 1999 compared to $83 million in 1998. Exploration activities, including seismic and drilling, focused on selective participation in deeper plays in the Western Canada Sedimentary Basin and on new opportunities off Canada's East Coast.

Looking Ahead

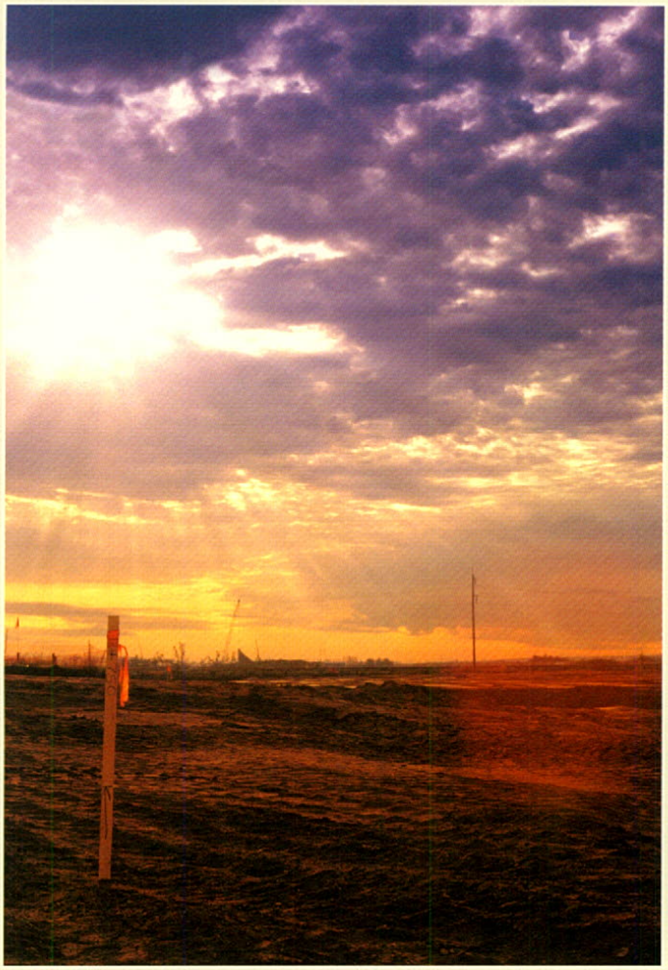
Resources' objective is profitable growth with a target of 15 per cent return on average capital employed for the upstream portfolio. Strong financial performance from Sable and Shell's existing natural gas operations in Western Canada will position the Company to achieve this goal. Resources' focus in 2000 will be:

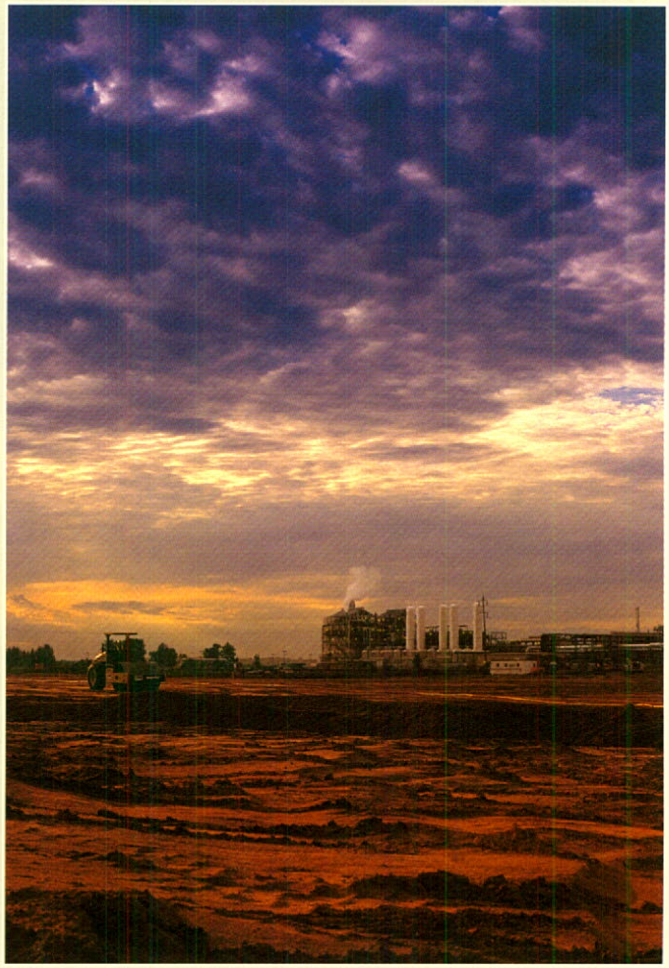
- **CONTINUE** *to pursue operational excellence at existing complexes.*
- **PURSUE** *an exploration program on a new portfolio of deep plays adjacent to existing Foothills operations.*
- **ADVANCE** *strategies and plans for potentially significant Frontier opportunities.*
- **INVESTIGATE** *the feasibility of a longer-term Peace River opportunity.*
- **IDENTIFY** *opportunities to improve energy efficiency and reduce greenhouse gas emissions at Shell's sour gas facilities.*

CAPITAL AND EXPLORATION INVESTMENT

Shell plans upstream capital expenditures of $270 million in 2000: $100 million on exploration and $170 million on development projects. The total planned expenditures for the East Coast offshore (including the Sable project) are $131 million, while the capital budget for Western Canada is $129 million. Expenditures of the remaining $10 million will include information and technology and marketing infrastructure.

Oil Sands





Crews clear the ground in preparation for construction of a new upgrader adjacent to the site of Shell's Scotford refinery 40 kilometres northeast of Edmonton, Alberta. The upgrader, which will process bitumen (heavy oil) from the Muskeg River Mine in the Athabasca area of northern Alberta, is a key component of the Company's new Oil Sands project.

The project will balance profitability with a responsible approach to social and environmental issues.

Oil Sands

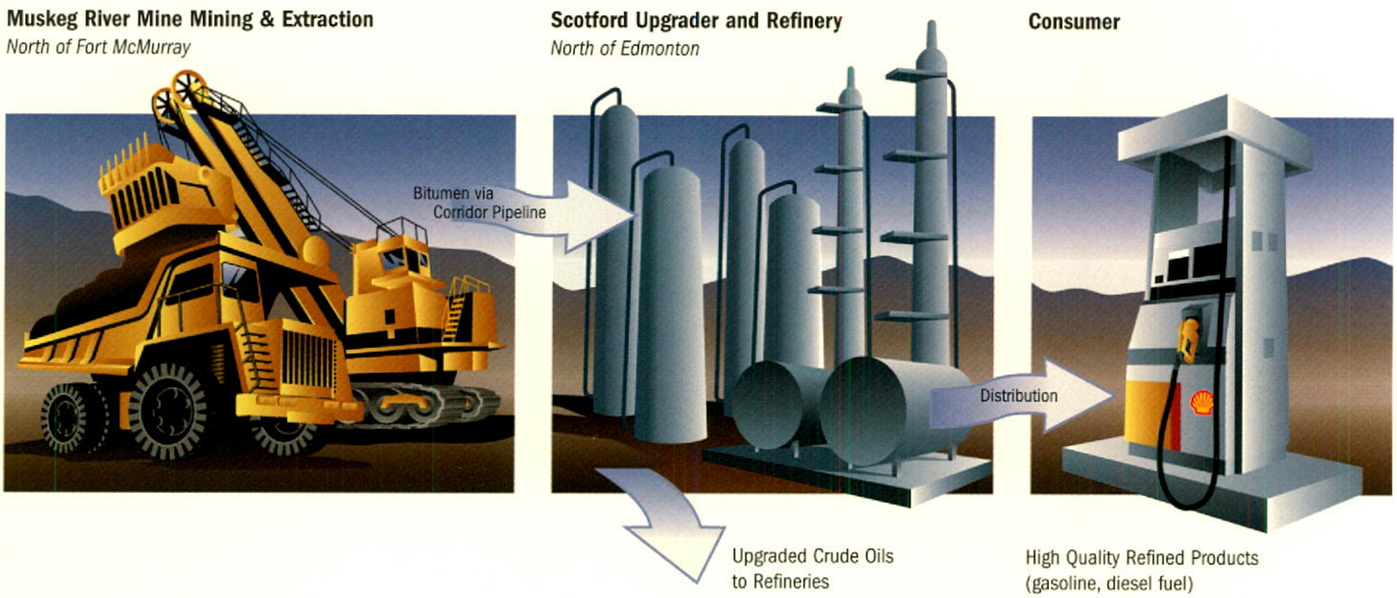
In December 1999, Shell Canada approved the largest investment in the Company's history – the Athabasca Oil Sands project. Under a joint venture agreement, Shell holds a 60 per cent interest in the project while Chevron Canada Resources and Western Oil Sands L.P. each hold 20 per cent.

The $3.5-billion Oil Sands project joint venture includes:

- **THE $1.8-BILLION MUSKEG RIVER MINE,** *to be constructed on Lease 13, 70 kilometres north of Fort McMurray, Alberta. Muskeg River Mine will use trucks and shovels to excavate the oil sands, and advanced extraction technologies to separate the bitumen from the sands. Production is expected to start late 2002, reaching 155,000 barrels per day of bitumen in 2003. The joint venture has formed a new company to operate the Muskeg River Mine, called Albian Sands Energy Inc.*

- **THE $1.7-BILLION SCOTFORD UPGRADER,** *to be constructed next to Shell's existing Scotford refinery north of Fort Saskatchewan, Alberta. The Scotford upgrader will use hydrogen-addition technology to process the bitumen from the Muskeg River Mine into a range of premium, synthetic crude oils. These crude oils will be used to produce clean, high quality fuels to help meet the transportation needs of Canadians. Shell will operate the upgrader.*

Shell Canada's share of these investments will be $2.1 billion. The Company will also act as project administrator, responsible for the overall coordination of project execution and operations.



Project facilities to be built by experienced service providers include:

- **THE CORRIDOR PIPELINE,** *which will transport diluted bitumen from the Muskeg River Mine to the Scotford upgrader, connect the upgrader with refinery and pipeline terminals in the Edmonton area, and provide oil storage facilities for the project. Corridor Pipeline Limited, a wholly owned subsidiary of BC Gas Inc., will invest $600 million in the pipeline, which will be operated by another BC Gas subsidiary, Trans Mountain Pipe Line Company Ltd.*

- **THE ATCO POWER CANADA LIMITED MUSKEG RIVER MINE GAS-FIRED COGENERATION PLANT,** *which will provide steam and electricity to meet the needs of the mine, plus additional electricity for Alberta consumers. This 170-megawatt cogeneration facility and associated heat recovery equipment will cost $200 million.*

- **THE ATCO PIPELINES MUSKEG RIVER MINE NATURAL GAS PIPELINE,** *which will transport the natural gas needed by the Muskeg River Mine and cogeneration plant. ATCO Pipelines will spend $37 million to build this pipeline.*

In addition to its joint venture investment of $2.1 billion, Shell will spend $400 million to modify its existing Scotford refinery. The modifications will enable the refinery to utilize the feedstocks produced by the new Scotford upgrader.

Commitment to Sustainable Development

The project will balance profitability with a responsible approach to social and environmental issues. Shell's investment is expected to meet shareholders' return expectations and will provide economic and social benefits in both construction and operation. Extensive consultation continues with local communities to enhance benefits in the key areas of employment, business, education and training, as well as environmental planning, monitoring and land reclamation.

Throughout the design, construction and operation of the project, safety and environmental management, including energy efficiency, will be priorities.

Investment to the end of 1999

Total spending on the project to the end of 1999 was $252 million. Upon project approval, Western and Chevron each paid 20 per cent of the feasibility and development costs incurred to that date. After that, the joint venture participants (referred to in this report as partners) funded expenditures in line with their proportionate interests. As a result, Shell's total capital invested at December 31, 1999, was $167 million. Chevron and Western also agreed to pay fees that recognize the resource and infrastructure value Shell is contributing to the joint venture. These fees produced an after-tax gain for Shell of $54 million in 1999.

Looking Ahead

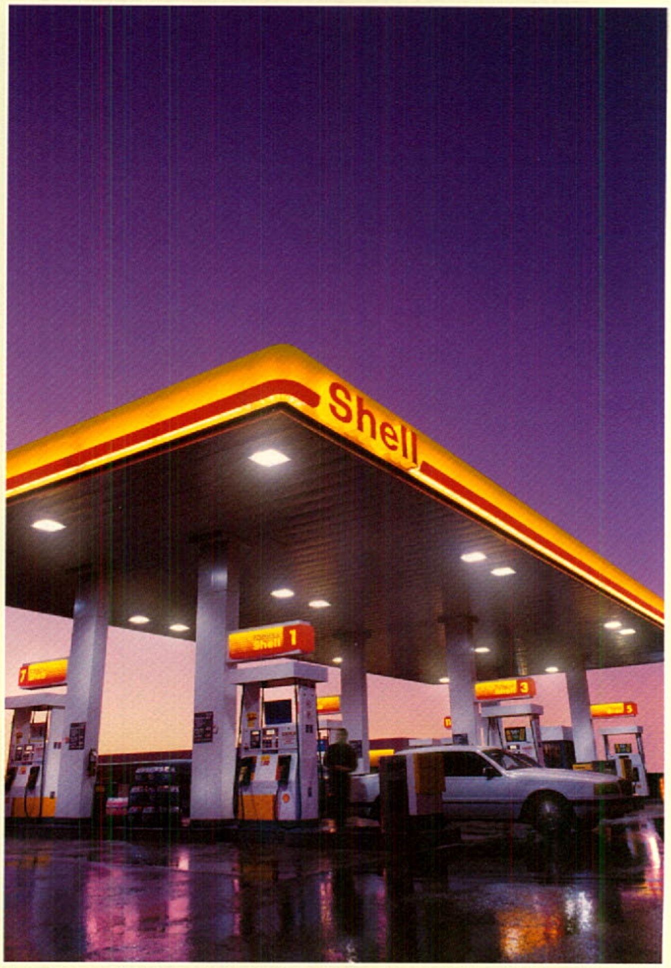
Construction of the Muskeg River Mine and Scotford upgrader began in the fall of 1999 with site clearing and preparation. Activities in 2000 will include foundation and civil works, completion of the temporary camp facilities at the mine site and completion of much of the project's detailed engineering.

Consultation will continue, in particular to advance the development of a Climate Change Management Plan. Improvements in basic design have already reduced the projected emissions levels by more than 25 per cent over pre-feasibility study estimates. The current goal is a further reduction of at least 40 per cent of post-start-up emissions levels by 2010.

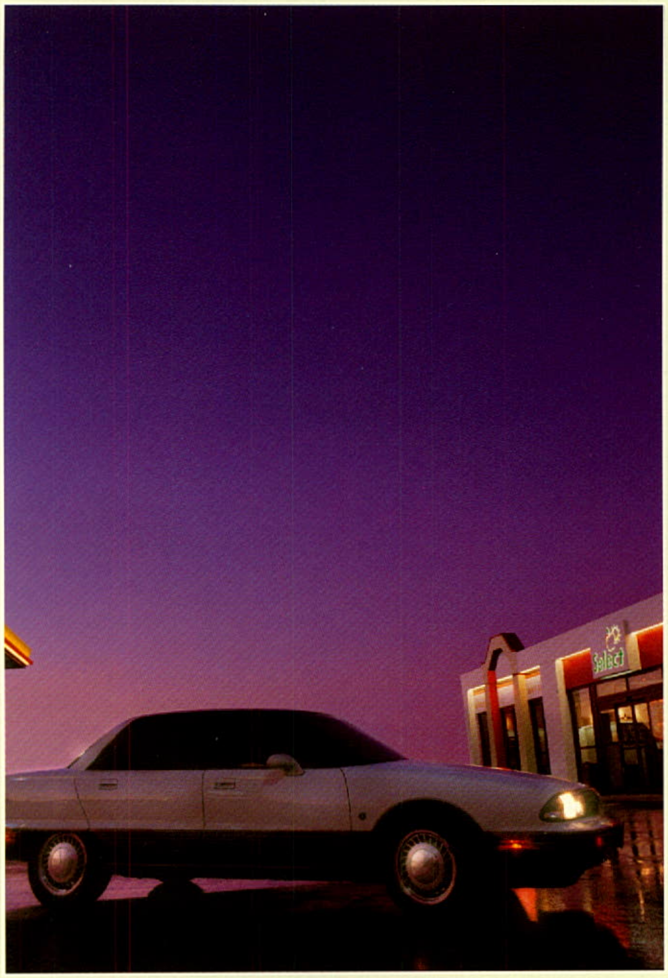
CAPITAL INVESTMENT

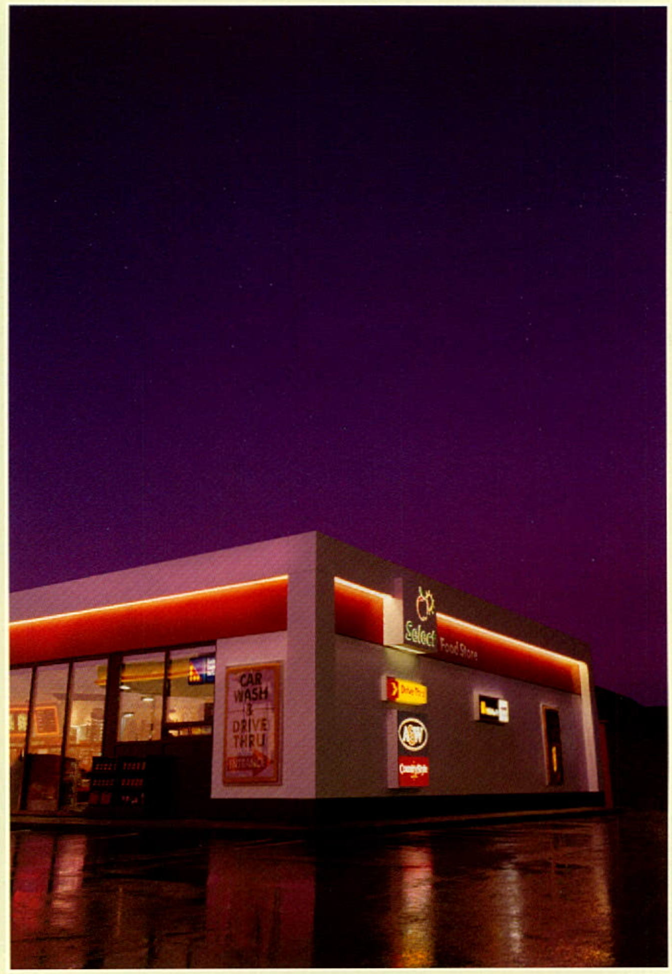
Shell has budgeted $922 million in capital expenditures in 2000 for its interest in the joint venture and the Scotford refinery modifications. The Company will invest the balance of its $2.5-billion share between 2001 and 2003.

Oil Products



More and more of **Shell Canada's retail stations** display an attractive, modern design and innovative, pay-at-the-pump technology. Car wash upgrades and an increasingly broad range of offerings in the Select convenience stores continue to boost the Company's non-fuels business.





Significant increase in revenues from non-petroleum products and services contributed to the Company's overall profitability in 1999.

Oil Products

Oil Products earnings were $141 million in 1999, down sharply from the record $275 million of the previous year. The 1999 earnings included a $30-million gain from fees paid by the Company's partners in the Athabasca Oil Sands project for access to the infrastructure value from Shell's Scotford refinery. The earnings decrease was due mainly to severely depressed refining margins. The margin squeeze resulted from high inventories of finished products worldwide at the beginning of 1999 combined with a steep increase in crude oil prices, which doubled over the course of the year. Return on average capital employed was 8.2 per cent in 1999 compared to 15.7 per cent in 1998. Capital expenditures were $109 million compared to $171 million in 1998.

Although profitability fell, Manufacturing and Supply performed well against the other key measures of refining yields, reliability and operating costs. Reliability performance at all three Shell refineries was rated in the first quartile in 1999.

Retail and Commercial marketing continued to focus on customer satisfaction through excellence in site management, and on operational efficiency by maximizing site throughputs, growing the non-fuels revenue stream and tightly controlling operating costs.

Overall, Oil Products continued to emphasize operational excellence and delivered a strong performance in areas where it has direct control. Unit operating and overhead costs continued to be industry pacesetters at 4.7 cents per litre.

Driven largely by strong economic growth in Ontario, Quebec and Alberta, the demand for oil products in 1999 grew by 3.2 per cent over the previous year.

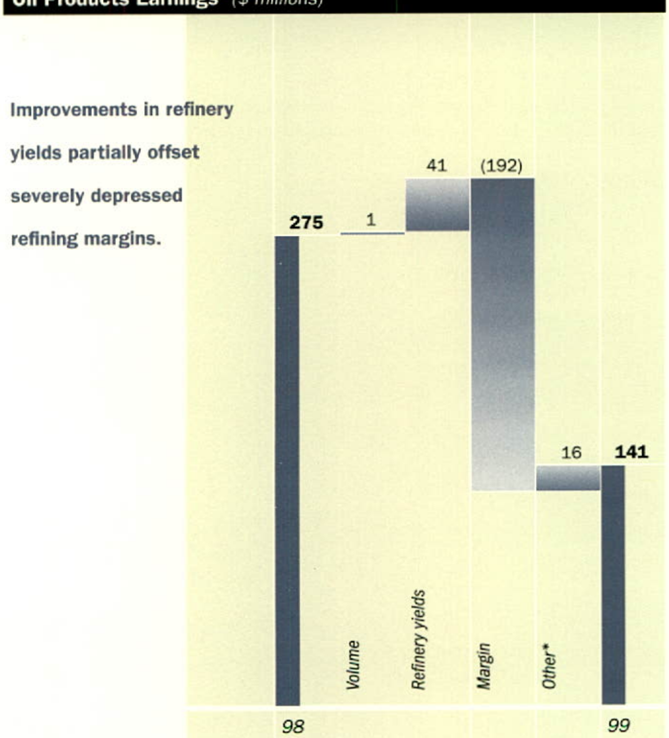
Manufacturing and Supply

Shell refineries continued to perform among the best in the industry, with reliability at all three refineries ranked in the first quartile against 1998 industry benchmarks. The Scotford refinery near Edmonton, Alberta, was best-in-class in all benchmark parameters of the industry study. Distribution terminals also maintained first quartile performance in industry benchmarking surveys. Overall, cost reductions and strong performance reflected the continued efforts to focus on operational excellence and improving asset efficiencies.

The reversal of Enbridge Pipeline Inc.'s Line 9, which previously moved crude oil from Sarnia to Montreal, is now in effect. Line 9 will bring offshore crude oil from Portland, Maine, to Ontario refineries. Shell will now be able to benefit from the offshore supply carried through the pipeline from Montreal to Sarnia when market conditions favour the movement of crude oil west.

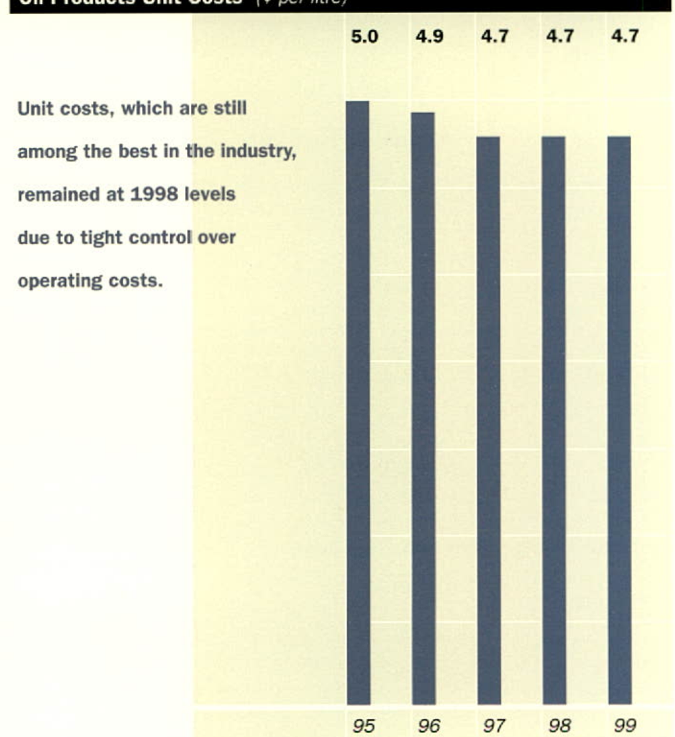
OIL PRODUCTS HIGHLIGHTS *($ millions except as noted)*			
	1999	1998	1997
Revenues	**4 480**	3 885	4 621
Earnings	**141**	275	252
Capital employed	**1 651**	1 766	1 740
Capital expenditures	**109**	171	150
Return on average capital employed *(%)*	**8.2**	15.7	14.7

Oil Products Earnings *($ millions)*



* *Includes $30-million gain from Athabasca Oil Sands fees.*

Oil Products Unit Costs *(¢ per litre)*



COST EFFICIENCY

Shell completed the largest ever maintenance shutdown at its Montreal East refinery in May 1999. The cost of the shutdown was higher than anticipated due to increased scope of work. However, cost reduction initiatives at all three Shell refineries helped to offset shutdown expenditures.

Efforts to increase the efficiency of the terminal network, including agreements to provide terminalling services to third parties, were successful in 1999. Shell's Montreal terminal is now the largest terminal in Canada based on throughput volumes.

SCOTFORD REFINERY MODIFICATIONS

Shell launched a project to modify the Scotford refinery, which will enable it to process feedstocks from the Oil Sands upgrader. The modifications will begin in 2000 with completion scheduled in time for start-up of the Oil Sands project in 2002.

NATIONAL PRODUCT REFORMULATION REGULATIONS

Shell refineries met the new regulatory requirement to reduce the annual average amount of benzene in gasoline to a maximum of 0.95 per cent. This regulation came into effect in 1999.

Montreal East and Sarnia refineries have started preliminary work on the selection of technology to reduce sulphur levels in gasoline. Federal regulations approved in 1999 require that sulphur content be reduced to an average of 150 parts per million (ppm) between 2002 and the end of 2004 and 30 ppm by January 1, 2005. The substantial investment required for these facilities to meet the new regulations will commence in 2000.

Retail

Retail operations continued to focus on customer satisfaction through quick and convenient service, improved consumer offerings of non-petroleum products and services, and increased customer loyalty through the successful AIR MILES® reward program.

Rising retail gasoline prices, particularly in the second half of 1999, reflected higher crude oil and wholesale product prices. In the highly competitive Canadian gasoline retailing market, these higher prices resulted in increased price volatility and strong consumer resistance. Extensive media coverage followed the frequent price changes, and efforts to communicate the reasons for higher crude and wholesale prices met with limited success.

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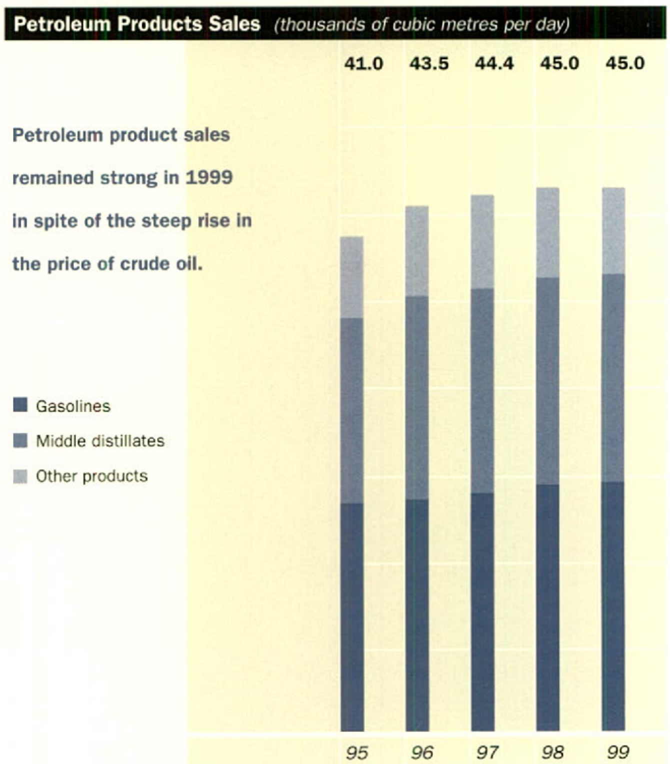


Shell's retail motor gasoline market share in major urban markets declined marginally but remained above 19 per cent throughout the year. Significant increase in revenues from non-petroleum products and services contributed to the Company's overall profitability in 1999. This revenue stream remains a target for growth over the next five years.

CONTINUED RETAIL NETWORK IMPROVEMENTS

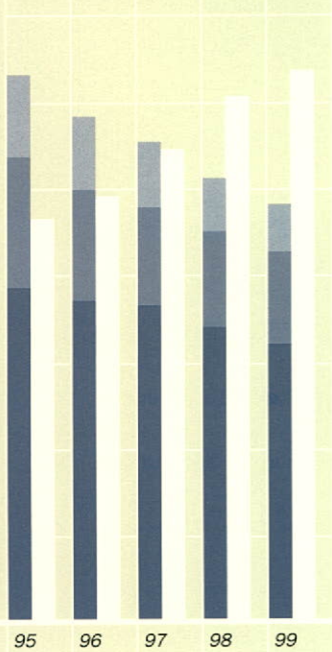
The Company continued its program to develop new sites and upgrade existing locations to the new image. In 1999, 62 Company- and dealer-owned sites converted to the new standards. There were 2,072 Shell retail sites at year-end, of which 1,833 are Shell-brand and 239 are private-brand. This compares to 2,201 sites at the end of 1998, of which 1,935 were Shell-brand and 266 were private-brand. Average throughput at Shell- and private-brand sites followed the trend of year-over-year increases to an average of 3.64 million litres per site in 1999.

NON-PETROLEUM PRODUCTS AND SERVICES GROWTH

Revenue from non-petroleum products and services grew by 7.1 per cent as a result of continued marketing focus on convenience store product lines, new design concepts, and upgrading of car wash equipment and operations. Originally piloted in Winnipeg, Manitoba, in 1998, the new Select in-store design complements the exterior retail image and features improved product offerings such as Java Café, Thirstbuster™ drinks and Oven Works bakeries. In 1999, Shell added 20 new-design Select stores to its retail network, primarily in Montreal, Toronto and Calgary.

Retail Site Performance *(throughput per site in millions of litres)*

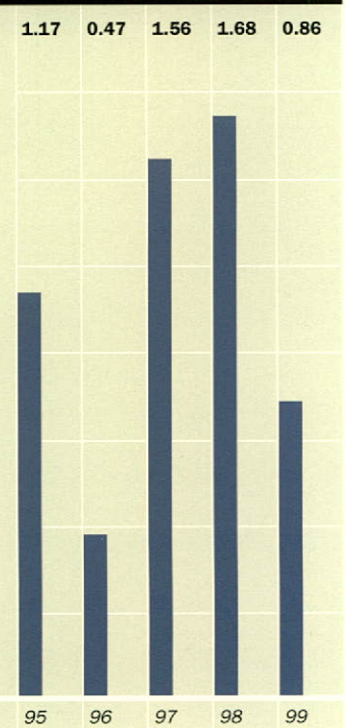
	95	96	97	98	99
(number of sites)	2 713	2 503	2 377	2 201	2 072
(millions of litres)	2.66	2.81	3.12	3.47	3.64



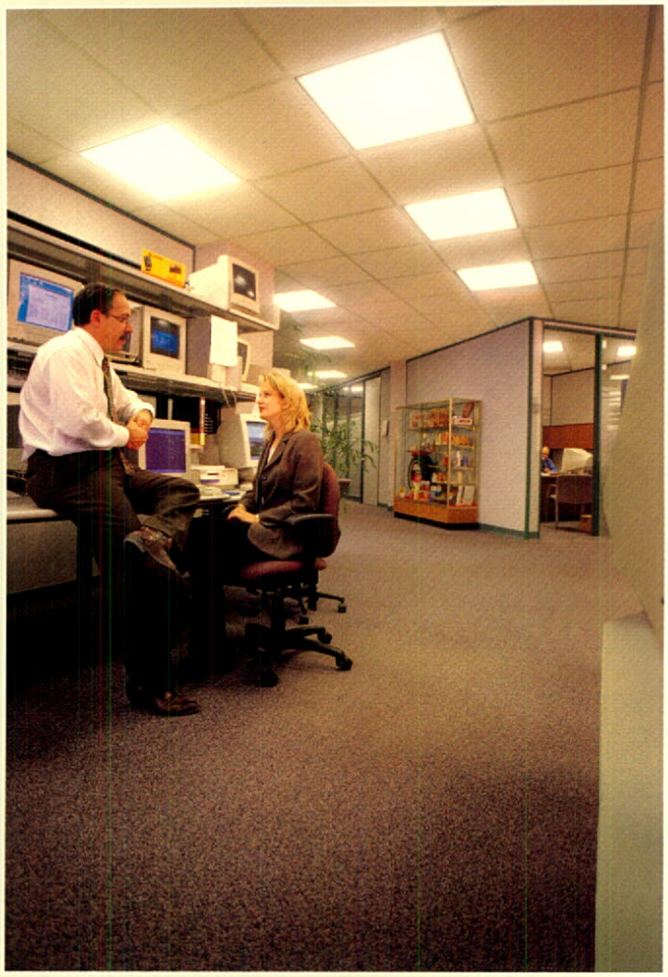
Network rationalization and new image conversions contributed to the continuous improvement in site throughput.

- Shell-brand company- and dealer-owned sites
- Shell-brand sites independently administered by Shell reseller agents
- Private-brand sites
- Site throughput, which includes private-brand sites for 1997 to 1999 only. All years exclude Shell-brand sites independently administered by Shell reseller agents.

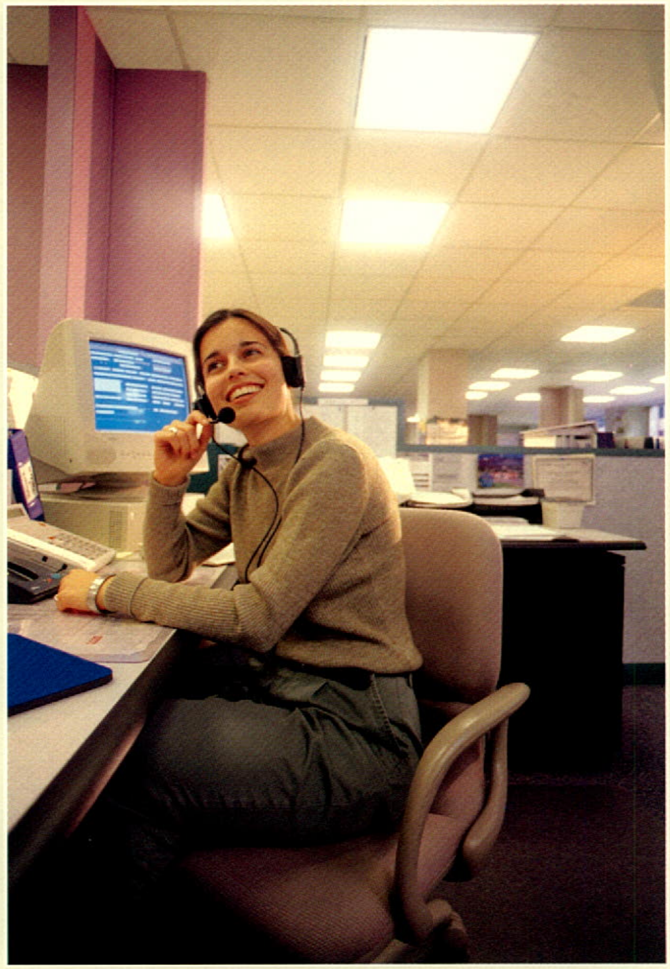
Earnings Per Litre *(¢ per litre)*



The decrease in earnings per litre reflected depressed refining margins.



The Site Operations Support department of Shell's Customer Service Centre provides assistance 24 hours a day, seven days a week to the Company's agents, dealers and attendants across Canada. During normal business hours, other groups in the centre handle customer calls, credit inquiries from commercial cardholders and cardlock customers, technical questions about products, accounting support system queries and switchboard operations.



Shell continued to focus on the sale of high quality fuels and lubricants, supported by an efficient distribution network and customer service organization.

QUICK AND CONVENIENT FUELLING

The successful launch of easyPay™ transponder technology in the Calgary market at the end of 1998 led to strong customer acceptance. Shell's easyPay™ customers benefit from faster, easier fuelling by using a personal tag that activates the pump and automatically charges purchases to their credit card.

CUSTOMER LOYALTY PROGRAM

Shell's seven-year participation in the successful AIR MILES® reward program continues to provide benefits to the retail consumer. More than 700,000 new AIR MILES® members shopped at Shell in 1999 and the program continued to drive incremental revenue. New sponsors, including a national department store chain and a large Quebec grocer, will further increase members' ability to collect travel miles.

PRIVATE-BRAND CONVERGENCE

The rebranding of private-brand sites to the Shell brand continued as part of the network upgrading program, with 27 sites converted or closed in 1999. The Company completed the integration of private-brand operating processes and systems into Shell's operations, which resulted in reduced operating costs and improved asset effectiveness.

Commercial

Shell's Commercial business includes agency, aviation, commercial-branded sales, lubricants, wholesale sales and heating oil sales, as well as customer service in support of both retail and commercial marketing.

The bulk of Commercial's sales volumes comes from distillate fuels and, throughout 1999, rapidly rising crude oil and wholesale prices severely compressed distillate marketing margins. Shell's distillate volumes grew by less than one per cent over 1998. Shell continued to focus on the sale of high quality fuels and lubricants, supported by an efficient distribution network and customer service organization. Key market segments include agricultural, industrial and transportation (particularly aviation and road transport) customers.

AGENCY AND COMMERCIAL NETWORK

Shell's ongoing emphasis on site and distribution efficiencies, selective network upgrades and enhanced marketing programs increased throughput volumes by 25 per cent. Further network rationalization and successful integration of the private-brand commercial network reduced the number of agency bulk plants to 81 and cardlock ACCESS facilities to 110 at year-end. Market growth and more stringent environmental standards continue to drive selective reinvestment in these networks.

Expansion of the AIR MILES® reward program provided increased benefits to Commercial customers, and further opportunities are being explored.

AVIATION

Aviation fuel sales stayed virtually unchanged in 1999 compared to 1998 and market share was about 30 per cent. The Company completed the sale of its Aerocentre facilities at Vancouver and Toronto Pearson airports to Piedmont Hawthorne Holdings Inc., and agreed to sell the Calgary Aerocentre to the same purchaser. Shell will retain its strong aviation fuelling presence at these sites, while Piedmont Hawthorne, a major aviation service provider based in the United States, will operate the buildings and provide a full range of aviation services. The strategic decision to sell these facilities and pursue partners with expertise in aviation services will maximize value to customers while ensuring long-term presence for Shell's branded aviation fuels.

LUBRICANTS

Global and domestic oversupply of lubricants base stocks persisted in 1999. This situation, combined with a surplus of blending and packaging capacity, pushed margins down in the integrated base oil and blended finished lubricants business. Finished lubricants sales volumes increased modestly, but a reduction in blending, packaging and distribution costs only partially offset the decline in unit margins. Shell aims to further improve the financial performance of its lubricants marketing business by focusing on key customer segments and product lines and by continuing to seek ways to reduce expenses.

Looking Ahead

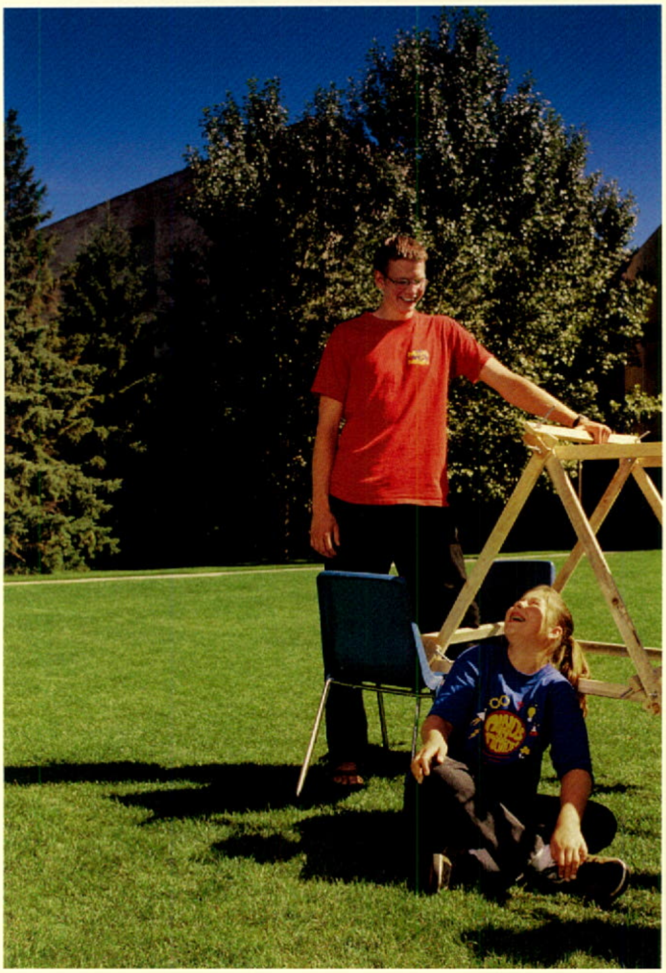
Oil Products' goal is to achieve and sustain a 15 per cent return on average capital employed. The strategic direction is unchanged and will continue along the path of operational excellence and efficient operation of existing assets. Safety and environmental performance, although comparatively strong within the industry, remains a focus for continuous improvement. Oil Products' key strategies in 2000 will be:

- **OPTIMIZE** *refining yields, further improve plant reliability and further reduce unit operating expenses.*
- **PROVIDE** *customer focus through excellence in site operations.*
- **IMPROVE** *network efficiency and reduce unit operating costs.*
- **PURSUE** *growth initiatives that centre on network upgrading, convenience products retailing and services, and strengthening the brand image.*

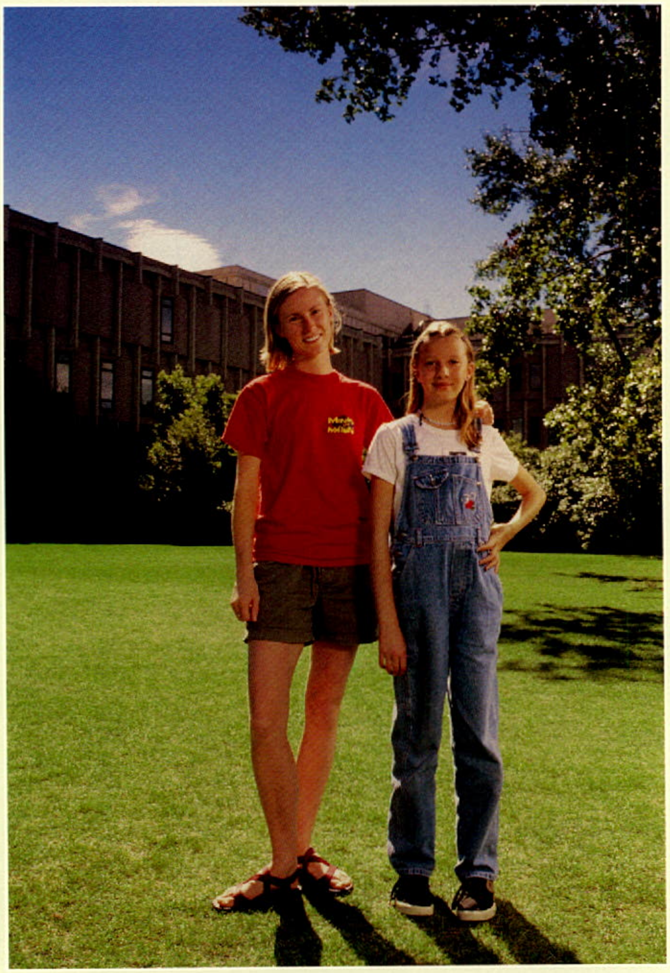
CAPITAL INVESTMENT

Oil Products plans capital expenditures of $319 million in 2000. Specifically, $202 million will fund Scotford refinery modifications to maximize the benefit from the Oil Sands project. The downstream business will invest $45 million in other refinery projects and $72 million in its marketing networks. Of the total $319 million, $267 million is budgeted for growth and profitability and the remaining $52 million will support the asset integrity of existing facilities.

Corporate




Calgary youngsters learn the basics of bridge building during a Minds in Motion summer camp. Shell is a founding sponsor of this **Calgary-based science education program** offered by Youth Engineering and Science/Virtual Adventure Camps Canada.



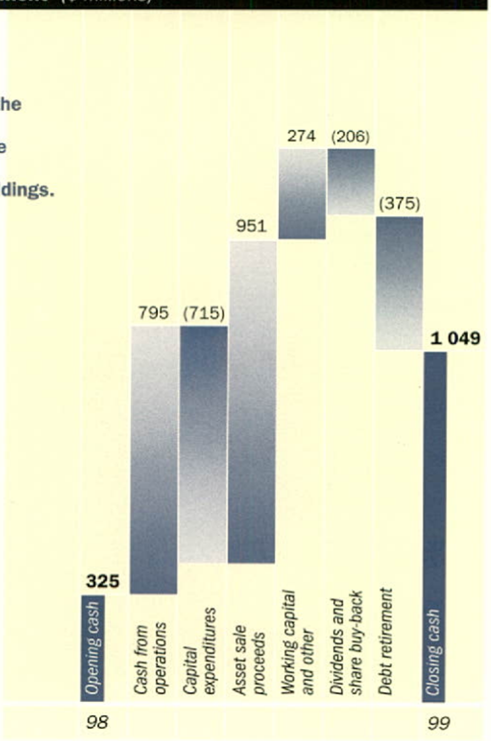
Shell donated a total of $4.7 million to not-for-profit organizations across Canada in 1999.

Corporate

Shell's net after-tax Corporate expenses were nil in 1999 compared to $12 million in 1998. The 1999 results benefited from a $24-million gain from fees paid by the Company's partners in the Athabasca Oil Sands project for resource value contributed by Shell. Results for 1999 also included gains from a favourable tax court decision and the sale of real estate holdings. The Company's 1998 earnings included a $32-million gain from the sale of the Shell Centre office building in Calgary.

1999 Cash Movement *($ millions)*

Asset sales were the main reason for the increased cash holdings.



Financing Activities

Capital expenditures of $715 million in 1999 fell slightly from $796 million in 1998. Shell invested most of these expenditures in the Sable Offshore Energy project and development of the Oil Sands project. The Company repaid $250 million US of matured debt in 1999. Cash holdings and cash from operations financed both capital expenditures and debt repayment. In November 1999, Shell sold its Plains business for $770 million. As a result, cash and short-term securities were $1,049 million at the end of the year.

Shell advanced $750 million Cdn. to The Shell Petroleum Company Limited (a wholly owned subsidiary of the Corporation's ultimate parents) in December 1999. This allowed the Company to earn competitive returns with minimal credit risk.

Shell maintained its high rating with all the major credit rating agencies, reflecting the Company's financial strength. The Company entered the year with debt of $861 million Cdn. In June 1999, $250 million US of long-term debt matured, reducing year-end debt to $448 million Cdn. Long-term debt as a percentage of capital employed was 11 per cent at December 31.

Internal cash flows and additional debt will finance the capital needed to proceed with the Oil Sands project. The Company does not expect these financing needs to affect its strong credit rating.

At the end of 1999, the Company had a $750-million short-term line of credit backed by $100 million in committed lines of credit available to fund any temporary cash requirements. No credit was outstanding at December 31, 1999.

In August 1999, Shell announced its intention to make a normal course issuer bid to repurchase for cancellation up to one per cent of its 289 million Class "A" Common Shares. The bid is to counter any dilution in value of Shell's common shares that might result from issuing shares to employees under the Company's employee stock option program. The bid will end on or before August 16, 2000. At the end of 1999, 78,000 shares had been repurchased. For the same reason, Shell had announced in July 1998 its intention to make a similar bid to repurchase for cancellation up to one per cent of its 290 million Class "A" Common Shares. During this bid period, 1,000,800 shares were repurchased at market prices for a total cost of $24 million.

Shell paid dividends of $0.72 per common share in 1999. Dividends paid remained at 1998 levels because of increased investment in the Sable project and development of the Oil Sands project. Return on average shareholders' equity was 17.7 per cent compared to 13.1 per cent in 1998.

Accounting Recommendations

During 1999, a new Canadian accounting standard was established for Employee Future Benefits applicable to fiscal years beginning in 2000. Shell will adopt this standard, which will have no material impact on its financial statements.

A new Canadian accounting standard for Income Taxes is applicable to fiscal years beginning in 2000. The standard, which Shell will adopt without restating financial statements for prior periods, will have no material impact on the Company's financial statements.

Risk Management

The major risks to Shell Canada are in operations, marketing, exploration and development, finance, and health, safety and environment.

OPERATIONS

Operating risk is the uncertainty of future earnings as a result of operating upsets and failure to meet production commitments. Shell's large, diversified mix of production facilities reduces this risk. Enhanced engineering design during facility planning and construction increases asset reliability. Once in operation, extensive preventive maintenance and continuous review of asset integrity reduces operating risk. The Company also retains highly trained and experienced operating staff.

MARKETING

Marketing risk is due to disruption in supply and access to markets, failure of customers to pay (credit risk) and fluctuations in commodity prices. Shell has many different supply and transportation arrangements to ensure access to markets. To minimize credit risk, the Company targets credit-worthy customers. Oil Products and Resources each manage commodity price risk using appropriate risk management tools within the limits set by the Board of Directors.

Resources uses risk management instruments to lock in natural gas prices.

Oil Products uses energy futures and over-the-counter swaps to satisfy customer requests for fixed prices. Major refining or supply decisions include the use of risk management instruments to hedge price exposure.

EXPLORATION AND DEVELOPMENT

The major risk in exploration is whether the basin explored contains commercially viable volumes and whether the structures drilled will be discoveries. The Company reduces risk by using modern tools such as 3-D seismic surveys and by applying risk analysis techniques to investment evaluations. Having a diverse portfolio of exploration opportunities and existing assets further reduces the risk.

FINANCE

Financial risk results from fluctuations in currency values and interest rates, and from serious losses due to accidental causes. Shell uses risk management instruments to manage its exposure to these risks.

Currency risk is the uncertainty to which earnings are exposed due to fluctuations in foreign currency exchange rates. Shell has many commodity transactions priced in non-Canadian currency, primarily U.S. dollars. To manage long-term exposure, Shell maintains a significant portion of long-term debt in U.S. dollars. For short-term exposures, foreign currency cash flows are netted across operations each month. Foreign exchange exposure for large capital transactions is managed on an individual basis from daily operating cash flows. Shell used hedges to reduce currency exposure of capital costs for Sable in 1998 and 1999.

Interest rate risk arises from fluctuations in interest rates and their effect on interest expense. Both debt levels and the extent to which debt interest is based on floating rates affect exposure to interest rates. Four interest rate swap arrangements totalling $250 million were outstanding at the end of 1999, and 83 per cent of outstanding debentures were based on floating rates. The Company also used forward rate agreements to reduce the risk of interest rate volatility associated with Year 2000 exposures.

Shell uses risk control and risk financing techniques to protect against serious losses from accidental causes. This includes an insurance program designed to protect the Company with an acceptable level of risk at minimum cost.

HEALTH, SAFETY AND SUSTAINABLE DEVELOPMENT (HSSD)

HSSD risks are a critical exposure for Shell's business. Reducing the number of Company-owned sites for the production, marketing and distribution of hydrocarbons has reduced exposure to environmental risk. Site remediation is an important part of this rationalization program. Shell standards require an HSSD assessment on Resources assets bought or sold, with remediation carried out at sites where liabilities have been identified. The policy covering Oil Products properties is to restore all Company-owned and -operated sites to environmentally acceptable standards, in accordance with government regulations, before disposal. However, the most effective way to manage HSSD risks is to minimize them or to prevent them from arising in the first place. To this end, Shell maintains standards, procedures and training programs, completes audits and monitors performance.

Year 2000

Shell Canada made a successful transition to the new millennium, encountering only three minor problems during the rollover. In the first two weeks of 2000, a few other small problems were detected and rectified immediately. The transition did not affect closure of the books for the financial year-end. The successful outcome was a tribute to the considerable efforts of the team on duty during rollover and to the many people across Canada who worked hard over the last three years to ensure compliance.

Since 1997, the pre-tax costs associated with all the compliance activities totalled $9 million, of which $3 million was incurred in 1999.

Outlook and Sensitivities

Shell's long-term objectives are to achieve sustained profitability of 15 per cent return on average capital employed (ROACE) and to seek profitable investment opportunities to grow the business. The large Oil Sands investment will reduce ROACE to below 15 per cent in the near term. However, Shell's investment plans, particularly for Oil Sands and offshore natural gas, will set the Company on a growth path well into the new century.

Health, Safety and Sustainable Development

SAFETY

Shell Canada's safety performance in 1999, although disappointing compared to recent years, remained among the best of its petroleum industry peers for lost-time and recordable injury rates. There were three lost-time injuries to employees and 15 to contractors. The lost-time injury frequency for employees was 0.08 injuries per 200,000 work hours, compared to 0.03 in 1998. The total recordable frequency for employees was 0.5. Oil Products and Resources had employee lost-time injury frequencies of 0.05 and 0.21 respectively. The lost-time injury frequency for contractors was 0.78 compared to 0.69 in 1998 and the total recordable frequency was 3.55. The overall Canadian industry average for lost-time injury frequency in 1997 was 3.2. The deterioration in safety performance is a concern and initiatives are under way to improve both employee and contractor safety.

In 1999, Scotford refinery and Shellburn terminal achieved major safety milestones. Scotford completed four years without a lost-time injury and Shellburn completed seven years. The Midale complex completed one million exposure hours (equivalent to 18 years) without an employee lost-time injury.

OPERATING EARNINGS SENSITIVITIES *(after-tax)*		*Increase (Decrease)*
Western Canada natural gas *(AECO)*	Cdn. 10-cent increase per thousand cubic feet	$ 5 million
Sable natural gas *(Henry Hub)*	U.S. 10-cent increase per thousand cubic feet	$ 5 million
Condensate *(West Texas Intermediate)*	U.S. $1 increase per barrel	$ 6 million
Bitumen *(West Texas Intermediate)*	U.S. $1 increase per barrel	$ 1 million
Sulphur	Cdn. $1 increase per tonne	$ 1 million
Light oil sales margin	Cdn. 1/4-cent increase per litre	$ 20 million
Exchange rate *(including debt)*	1-cent improvement in $Cdn. vs. $US	($ 1 million)
Exchange rate *(excluding debt)*	1-cent improvement in $Cdn. vs. $US	($ 8 million)

PRESIDENT'S SAFETY AWARD

The winner of the 1999 President's Safety Award was Scotford refinery. This award recognizes the department or operating location with the most outstanding safety performance. Scotford refinery employees and contractors demonstrated strong commitment to safety though innovative initiatives and visible support for safety activities.

GREENHOUSE GASES

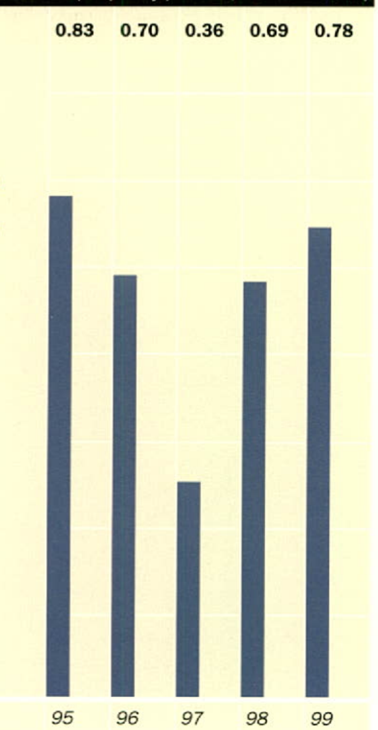
Shell Canada shares the worldwide concern over the potential impact of climate change and strongly supports precautionary, prudent action.

Shell has set an overall target to be at 94 per cent of 1990 greenhouse gas levels for the existing base business by the year 2008. At the end of 1998, total greenhouse gas emissions were below 1990 levels. The Company's energy efficiency improvement program reduced carbon dioxide emissions by an estimated 920,000 tonnes between 1990 and 1998. However, overall growth of the business and increased energy demand to produce oil and gas from declining fields largely offset these gains.

Shell participates in and strongly supports the Voluntary Challenge and Registry (VCR) Inc. program as an important way of addressing this issue. In 1999, the VCR introduced a system to evaluate the quality of data being reported by the program's more than 900 participants. Out of 597 plans filed, Shell was one of 41 organizations to obtain a "Gold" award.

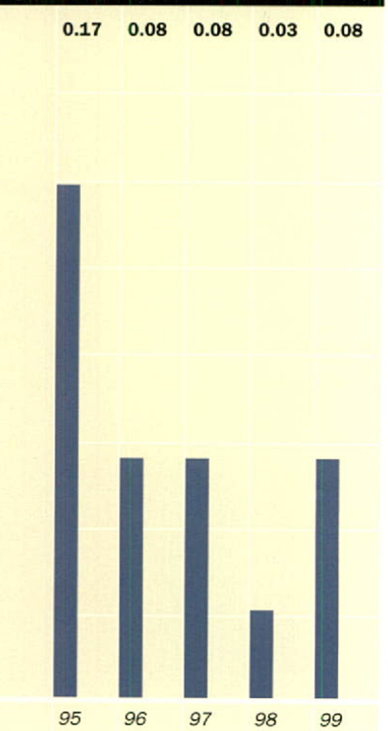
In addition, Shell was an early supporter of another voluntary initiative, participating in the Canadian Association of Petroleum Producers' new Environment, Health and Safety Stewardship program.

Lost-Time Injury Rate – Contractors *(frequency per 200,000 work hours)*



The lost-time injury rate for contractors showed a disappointing increase in 1999 and will be a focus of attention in 2000.

Lost-Time Injury Rate – Employees *(frequency per 200,000 work hours)*



Three lost-time injuries to employees in 1999 resulted in an increased frequency rate over 1998.

The Company has committed to proactively manage greenhouse gas emissions from its Oil Sands project and will set goals for reductions and offsets. To achieve this, Shell is working to establish an independent advisory panel of environmental groups and community representatives.

ACCELERATED REDUCTION/ELIMINATION OF TOXINS (ARET)

Shell continues to take part in this voluntary program to reduce persistent, bioaccumulative, toxic substances by 90 per cent, and "other" identified toxic substances by 50 per cent of 1988 levels by the year 2000. Shell's identified emissions fall within the category of "other" identified toxins. The Company had achieved a 78 per cent reduction on the base year by the end of 1998.

HEALTH, SAFETY AND SUSTAINABLE DEVELOPMENT MANAGEMENT SYSTEM

Implementation of the Health, Safety and Sustainable Development Management System in the field locations continued in 1999 with a goal of completion in 2000. Shell revised and reissued its Health, Safety and Sustainable Development Policy to reflect current practices and ISO 14001 requirements. The objectives and targets were also updated in accordance with an annual review program. Implementing the system should place Shell among the leaders in recognized health, safety and environmental management systems.

Shell tracks its performance and publishes the results in its annual "Progress Toward Sustainable Development" report. This report received a "Silver" recognition award from the Chartered Accountants of Canada and National Post in the resources reporting category.

LOOKING AHEAD

Shell will publish health, safety and sustainable development objectives and accompanying targets in its annual "Progress Toward Sustainable Development" report. These objectives and targets cover the following areas:

- *employee health and safety;*
- *contractor safety;*
- *health and safety of customers and public;*
- *greenhouse gas management;*
- *regulatory compliance;*
- *emergency preparedness;*
- *product stewardship;*
- *air and water emissions;*
- *control of soil and groundwater contamination;*
- *waste management;*
- *energy management;*
- *land use and wildlife;*
- *physical integrity of assets.*

Technology and Asset Integrity

Technology specialists provide the technical and engineering support necessary to secure the best performance from the Company's existing assets and new business opportunities. This support enables Shell to operate its refineries and gas plants safely and with maximum efficiency. For example, in the Calgary Research Centre laboratory, scientists are developing innovative extraction and solvent recovery processes for the Oil Sands project, as well as feed and product characteristics for the upgrader design.

Access to the worldwide research and technical support capabilities of the Royal Dutch/Shell Group of Companies augments Shell Canada's capabilities.

Human Resources Development

The ability to attract and retain committed, motivated and highly skilled employees is essential to the Company's continuing success. Shell strives to provide a work environment that supports diversity and treats people fairly on the basis of merit. The Company seeks to train, develop and reward employees appropriately, recognizing each person's unique skills and abilities.

Shell received two diversity awards during the year in recognition of its progress toward these goals. An ombuds position, created and filled in 1999, will serve as an additional resource to support fairness in the workplace. The results of an annual employee survey, benchmarked against other companies, identify areas of employee concern.

Management encourages the development of accountability systems that promote responsibility and decision making at all levels. A performance management system throughout the organization aligns individual activities with the overall corporate direction. Employees share in the Company's success through a results pay system, which takes into account annual earnings and Shell's overall profitability compared to the other major integrated petroleum companies.

Community Involvement

Shell donated a total of $4.7 million to not-for-profit organizations across Canada in 1999. The funds supported environmental and educational initiatives and the commitment of employees, retirees and marketing partners to their respective communities.

Shell and the Nature Conservancy of Canada (NCC) formalized their 20-year association in 1999. Shell agreed to commit $750,000 over three years to conservation projects. NCC used part of the 1999 funding to secure a rare and endangered Garry Oaks ecosystem on Vancouver Island. The remaining funds were used to preserve a unique property on Île de Grâce in the St. Lawrence River where thousands of shorebirds rest on their migration route, and to support NCC's scientific work for conservation.

Shell donated $50,000 to Youth Engineering and Science/Virtual Adventure Camps Canada (YES-VACC). YES-VACC is a national organization and its goal is to encourage young Canadians in the pursuit of science. With an additional $10,000 contribution in 1999, Shell became a founding sponsor of Minds in Motion, which is a Calgary-based YES-VACC summer program. Hosted by the University of Calgary, Minds in Motion helps children from grades three to eight discover the fun of learning science in week-long summer camps.

Over the past decade, the Shell Environmental Fund (SEF) has granted almost $7.2 million to projects that improve the Canadian environment at a local level, including grants of just under $850,000 in 1999. Schools, wildlife conservation groups and community environmental organizations continue to seek SEF support, with a growing emphasis on energy audit and energy conservation projects.

Shell contributed more than $700,000 to 1999 United Way campaigns across Canada. The Company matched the dollars raised by employees and retirees, and the final national total of $1.4 million included a donation of just over $1 million to the Calgary campaign. A total of 160 people became Leaders of the Way by donating $1,000 or more and about 500 volunteers spent over 2,000 hours providing practical assistance to community agencies in Days of Caring. This commitment earned Shell a United Way "Spirits of Gold" award.

Management's Report

To the Shareholders of Shell Canada Limited

The management of Shell Canada Limited is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on management's informed judgments and estimates. Financial information included elsewhere in this Annual Report is consistent with the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal control has operated effectively for the year ended December 31, 1999.

PricewaterhouseCoopers LLP, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Corporation. The committee reviews the financial content of the Annual Report and meets regularly with management, internal audit and PricewaterhouseCoopers LLP to discuss internal controls, accounting, auditing and financial matters. The committee recommends the appointment of the external auditors. The committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

RONALD B. BLAKELY
Chief Financial Officer

February 1, 2000

Ian S. Tittle

IAN S. TITTLE
Controller

Consolidated Statement of Cash Flows

Year ended December 31 ($ millions)	**1999**	1998	1997	1996	1995
Cash from operating activities					
Earnings from continuing operations	**641**	432	523	326	302
Gain on sale of investment	**(47)**	–	–	–	–
Exploration	**70**	57	62	84	65
Non-cash items					
Depreciation, depletion, amortization and retirements	**254**	265	308	393	382
Asset sales and rationalization	**(367)**	–	–	–	–
Current taxes related to major property disposal	**155**	–	–	–	–
Deferred income taxes	**78**	54	37	(65)	(33)
Other items	**11**	37	10	12	5
Cash flow from continuing operations	**795**	845	940	750	721
Movement in working capital and other related to operating activities	**244**	(301)	43	(52)	(197)
Cash from operating activities from continuing operations	**1 039**	544	983	698	524
Cash flow from discontinued operations	**–**	–	–	61	140
Movement in working capital from discontinued operations	**–**	–	–	25	44
	1 039	544	983	784	708
Cash invested					
Capital and exploration expenditures	**(715)**	(796)	(520)	(442)	(384)
Proceeds on disposal of properties, plant and equipment	**951**	253	169	72	67
Investments, long-term receivables and other	**26**	(85)	(15)	35	15
Movement in working capital related to investing activities	**4**	16	–	–	–
Discontinued operations	**–**	–	–	520	174
	266	(612)	(366)	185	(128)
Cash from financing activities					
Common shares buy-back *(Note 3)*	**(2)**	(24)	(976)	–	–
Proceeds from exercise of common share stock options	**4**	1	8	10	2
Dividends paid	**(208)**	(209)	(206)	(202)	(168)
Long-term debt repayments and other	**(375)**	6	(14)	(31)	(226)
	(581)	(226)	(1 188)	(223)	(392)
Increase *(decrease)* in cash	**724**	(294)	(571)	746	188
Cash at beginning of year	**325**	619	1 190	444	256
Cash at end of year[1]	**1 049**	325	619	1 190	444

Year ended December 31 ($ millions)	**1999**	1998	1997	1996	1995
Supplemental disclosure of cash flow information					
Dividends received	**46**	21	8	4	4
Interest received	**13**	27	29	30	33
Interest paid	**52**	67	65	69	87
Income taxes paid	**162**	464	278	292	235

[1] *Cash comprises cash and highly liquid short-term investments.*

Consolidated Balance Sheet

At December 31 ($ millions)	**1999**	1998	1997	1996	1995
Assets					
Current assets					
Cash and short-term investments	**299**	325	619	1 190	444
Loan to SPCO *(Note 10)*	**750**	–	–	–	–
Accounts receivable	**889**	627	717	767	764
Inventories					
Crude oil, products and merchandise	**464**	545	540	396	546
Materials and supplies	**49**	49	49	47	49
Prepaid expenses	**121**	122	114	99	86
	2 572	1 668	2 039	2 499	1 889
Investments, long-term receivables and other	**219**	198	214	193	227
Properties, plant and equipment *(Note 2)*	**3 783**	3 946	3 713	3 718	4 035
Total assets	**6 574**	5 812	5 966	6 410	6 151
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	**916**	656	705	717	734
Income and other taxes payable	**391**	10	304	120	152
Current portion of site restoration and other long-term obligations	**21**	21	28	–	–
Current portion of long-term debt	**2**	367	1	6	10
	1 330	1 054	1 038	843	896
Site restoration and other long-term obligations *(Note 7)*	**183**	188	189	238	251
Long-term debt *(Note 6)*	**440**	425	740	716	704
Deferred income taxes	**786**	745	799	762	852
Total liabilities	**2 739**	2 412	2 766	2 559	2 703
Commitments and contingencies *(Note 11)*					
Shareholders' investment					
Capital stock *(Note 3)*					
100 4% Preference Shares	**1**	1	1	1	1
289 377 839 Class "A" Common Shares (1998 – 289 178 840; 1997 – 290 127 940)	**472**	468	469	538	528
	473	469	470	539	529
Contributed surplus	**–**	–	–	291	291
Retained earnings	**3 362**	2 931	2 730	3 021	2 628
Total shareholders' investment	**3 835**	3 400	3 200	3 851	3 448
Total liabilities and shareholders' investment	**6 574**	5 812	5 966	6 410	6 151

The consolidated financial statements have been approved by the Board of Directors.

TIMOTHY W. FAITHFULL

Director

PETER J.G. BENTLEY

Director

Notes to Consolidated Financial Statements

Shell Canada's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Corporation's major accounting policies are summarized as follows:

1. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Shell Canada Limited and its subsidiary companies. The financial statements reflect the Corporation's proportionate interests in oil and gas joint ventures.

Inventories

Inventories of crude oil, products and merchandise are stated at the lower of cost, applied on the Last-In, First-Out (LIFO) basis, and net realizable value. Materials and supplies are stated at the lower of cost and estimated useful value.

Investments

Investments in companies over which Shell Canada exercises significant influence are accounted for using the equity method. Accordingly, the book value of the investment in such companies equals the original cost of the investment, plus Shell Canada's share of earnings since the investment date, less dividends received. Other long-term investments are recorded at cost. Short-term investments are carried at the lower of cost or market value and are highly liquid securities with a maturity of three months or less when purchased.

Exploration and Development Costs

The Corporation follows the successful efforts method of accounting for exploration and development activities. Under this method, acquisition costs of resource properties are capitalized. Exploratory drilling costs are initially capitalized and costs relating to wells subsequently determined to be unsuccessful are charged to earnings. Other exploration costs are charged to earnings. All development costs are capitalized.

Depreciation, Depletion and Amortization

Depreciation and depletion on resource assets are provided on the unit-of-production basis. Land and lease costs relating to producing properties and costs of gas plants are depleted and depreciated over remaining proved reserves. Resource development costs are depleted and depreciated over remaining proved developed reserves. A valuation allowance for unproved properties is provided through amortization of costs; the amortization rate is determined in accordance with experience. Costs relating to non-resource assets are depreciated on the straight-line basis over each asset's estimated useful life.

Site Restoration

Estimated site restoration costs are provided for on either the unit-of-production or the straight-line basis over the useful life of the related assets. Costs are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Provision is being made for site restoration costs that the Corporation expects to incur within the foreseeable future and that can be reasonably estimated.

Interest

Interest costs are expensed as incurred.

Revenues

Inter-segment sales, which are accounted for at estimated market-related values, are included in revenues of the segment making the transfer. On consolidation, such inter-segment sales and any associated estimated profits in inventory are eliminated from total revenues and profit.

Royalties and Mineral Taxes

Alberta royalties on crude oil obtained from Crown leases are required to be delivered in kind. All royalty entitlements and mineral taxes are reflected as reductions in sales and other operating revenues.

Other Employee Future Benefits

In addition to its pension plan, the Corporation provides retiree benefits including life insurance and supplementary health and dental coverage. The actuarially determined cost of these benefits is accrued over the estimated average remaining service life of employees.

Foreign Currency Translation

Long-term monetary liabilities are translated to Canadian dollars at rates of exchange in effect at the end of the period. Unrealized exchange gains and losses arising on translation are deferred and amortized over the remaining terms of these liabilities.

Financial Instruments

Financial instruments including cash, marketable securities and short-term debt are recorded at historical cost and, unless otherwise indicated, their market values approximate the recorded amounts.

Foreign Exchange Forward Contracts

The Corporation enters into foreign exchange forward contracts to hedge certain foreign purchases and sales. Those foreign transactions are recorded in the financial statements in Canadian dollars at the rate specified in the forward contract. Exchange gains or losses on the contracts offset the gains or losses on the initial transaction.

Interest Rate Swaps

Interest rate swaps are used to manage interest rate exposure. Differentials under interest rate swap arrangements are recognized by adjustments to interest expense.

Energy Futures

The Corporation uses energy futures to reduce exposure to price fluctuations in some contractual energy purchases and sales. Any gain or loss on these transactions is applied to the cost of the products purchased and sold in accordance with the intent to hedge risk.

Stock-based Compensation Plans

The Corporation has a stock-based compensation plan, which is described in *Note 3*. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

Reclassification

Certain information provided for prior years has been reclassified to conform to the current presentation.

2. Segmented Information

The operating segments are those adopted by senior management of the Corporation to determine resource allocations and assess performance. In all material respects, the segmented information is applied consistently in accordance with the Corporation's significant accounting policies. The Corporation's revenues are attributed principally to Canada where all of its major properties, plants and equipment are located.

Segmented financial results and properties, plant and equipment data are reported as if the segments were separate entities.

EARNINGS *($ millions)*

Total			
1999	1998	1997	
523	401	423	Natural gas
64	41	64	Crude oil and bitumen
417	289	439	Natural gas liquids
(184)	(144)	(209)	Royalties
2 137	1 799	2 084	Gasolines
1 477	1 299	1 581	Middle distillates
655	573	739	Other products
290	248	335	Other revenues
–	–	–	Inter-segment sales
5 379	4 506	5 456	**Total revenues**
3 205	2 372	3 066	Purchased crude oil, petroleum products and other merchandise
–	–	–	Inter-segment purchases
1 053	1 039	1 071	Operating, selling and general
70	57	62	Exploration
254	265	308	Depreciation, depletion, amortization and retirements
49	70	65	Interest on long-term debt
27	52	20	Foreign exchange on long-term debt
4 658	3 855	4 592	**Total expenses**
367	–	–	Asset sales and rationalization[1]
1 088	651	864	**Earnings *(loss)* before income taxes**
447	219	341	**Income taxes**
641	432	523	**Earnings *(loss)***

[1] *In 1999, the Corporation recognized a pre-tax gain of $422 million ($230 million after-tax) related to the sale of the Plains properties, which was partially offset by an impairment provision of $55 million pre-tax ($32 million after-tax) related to Peace River.*

The Corporation has the following segments:

Resources includes exploration, production and marketing activities for crude oil, bitumen, natural gas, natural gas liquids and sulphur.

Oil Products includes the manufacturing, distributing and selling of the Corporation's refined petroleum products.

Corporate and Other includes controllership, financing, administration and general corporate facility management. It also includes Oil Sands.

Resources			Oil Products			Corporate and Other		
1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
523	401	423	**–**	–	–	**–**	–	–
64	41	64	**–**	–	–	**–**	–	–
417	289	439	**–**	–	–	**–**	–	–
(184)	(144)	(209)	**–**	–	–	**–**	–	–
–	–	–	**2 137**	1 799	2 084	**–**	–	–
–	–	–	**1 477**	1 299	1 581	**–**	–	–
36	25	31	**619**	548	708	**–**	–	–
89	34	56	**175**	184	153	**26**	30	126
87	95	165	**72**	55	95	**–**	–	–
1 032	741	969	**4 480**	3 885	4 621	**26**	30	126
–	–	–	**3 205**	2 387	3 066	**–**	(15)	–
–	–	–	**159**	150	260	**–**	–	–
268	250	283	**761**	764	762	**24**	25	26
70	57	62	**–**	–	–	**–**	–	–
188	154	169	**127**	156	139	**(61)**	(45)	–
–	–	–	**–**	–	–	**49**	70	65
–	–	–	**–**	–	–	**27**	52	20
526	461	514	**4 252**	3 457	4 227	**39**	87	111
367	–	–	**–**	–	–	**–**	–	–
873	280	455	**228**	428	394	**(13)**	(57)	15
373	111	191	**87**	153	142	**(13)**	(45)	8
500	169	264	**141**	275	252	**–**	(12)	7

Corporate and Other includes Oil Sands earnings of $24 million after-tax from fees paid by the other joint venture participants.

2. Segmented Information *(continued)*

CASH FLOWS *($ millions)*

Total			
1999	1998	1997	
795	845	940	Cash flow from operations
244	(301)	43	Movement in working capital and other related to operating activities
1 039	544	983	**Cash from operating activities**
(715)	(796)	(520)	Capital and exploration expenditures
981	184	154	Other cash invested
(581)	(226)	(1 188)	Cash from financing activities
724	(294)	(571)	**Increase *(decrease)* in cash**

CAPITAL EMPLOYED *($ millions except as noted)*

Total			
1999	1998	1997	
7 515	7 797	7 360	Properties, plant and equipment at cost
3 732	3 851	3 647	Accumulated depreciation, depletion, amortization and retirements
3 783	3 946	3 713	Net properties, plant and equipment
494	246	228	Other assets less other liabilities
4 277	4 192	3 941	**Capital employed**
15.8	11.8	13.2	**Return on average capital employed *(%)*[1]**

[1] *Return on average capital employed (ROACE) is earnings plus after-tax interest expense on debt divided by the average of opening and closing capital employed for the twelve months to December 31. Capital employed is a total of equity and long-term debt including the current portion of long-term debt.*

Resources			Oil Products			Corporate and Other		
1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
686	386	513	**148**	440	399	**(39)**	19	28
52	8	–	**187**	(9)	(77)	**5**	(300)	165
738	394	513	**335**	431	322	**(34)**	(281)	193
(488)	(509)	(352)	**(109)**	(171)	(150)	**(118)**	(116)	(18)
839	167	143	**25**	(14)	27	**117**	31	(16)
2	4	1	**4**	8	5	**(587)**	(238)	(1 194)
1 091	56	305	**255**	254	204	**(622)**	(604)	(1 035)

Resources			Oil Products			Corporate and Other		
1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
3 802	4 105	3 806	**3 461**	3 492	3 414	**252**	200	140
1 714	1 846	1 698	**1 958**	1 932	1 879	**60**	73	70
2 088	2 259	2 108	**1 503**	1 560	1 535	**192**	127	70
(728)	(443)	(412)	**148**	206	205	**1 074**	483	435
1 360	1 816	1 696	**1 651**	1 766	1 740	**1 266**	610	505
31.5	9.6	15.3	**8.2**	15.7	14.7	**–**	–	–

Oil Sands capital activities are as follows: capital expenditures were $113 million in 1999 (1998 – $57 million; 1997 – $15 million); capital employed at the end of 1999 was $147 million (1998 – $92 million; 1997 – $37 million).

3. Capital Stock

Shell Canada Limited carries on business under the Canada Business Corporations Act. All classes of shares are without nominal or par value and are authorized in unlimited number. The holder of the four per cent Preference Shares receives fixed, cumulative dividends of $40,000 per annum. The Preference Shares may be redeemed at the amount paid up thereon plus accrued dividends.

On August 11, 1999, Shell Canada Limited announced its intention to make a normal course issuer bid, to repurchase for cancellation up to one per cent of its 289,410,425 Class "A" Common Shares issued and outstanding as at August 10, 1999. The bid is to counter current and potential dilution of the common shares under Shell's employee stock option program. The bid began on August 17, 1999, and will end on or before August 16, 2000. At year-end, 78,000 shares have been repurchased at market prices for a total cost of $2 million.

On July 29, 1998, Shell Canada Limited announced its intention to make a normal course issuer bid, to repurchase for cancellation up to one per cent of its 290,167,640 Class "A" Common Shares issued and outstanding as at July 28, 1998. The bid was to counter current and potential dilution of the common shares under Shell's employee stock option program. The bid began on August 17, 1998, and expired on August 16, 1999. During this bid period, 1,000,800 shares were repurchased at an average price of $24.34 per share for a total cost of $24 million.

Under the Share Option Plan, the Company may grant options to executives and other senior employees. The number of options granted is determined by a formula. The exercise price of each option equals the market price of the Company's stock on the date of grant and the maximum term of an option is 10 years. Options may not be exercised during the one-year period following the date of grant after which time one-third of the options may be exercised in each of the next three years on a cumulative basis.

A summary of the status of the Company's fixed stock option plans as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

STOCK OPTIONS	**1999**		1998	
	Options *(thousands)*	Weighted-Average Exercise Price	Options *(thousands)*	Weighted-Average Exercise Price
Outstanding at the beginning of the year	**1 623**	**$ 18.46**	979	$ 14.60
Granted	**715**	**21.65**	699	23.50
Exercised	**(277)**	**15.54**	(51)	13.79
Forfeited	**(2)**	**23.50**	(4)	23.50
Outstanding at the end of the year	**2 059**	**19.95**	1 623	18.44
Options exercisable at year-end	**836**		880	

The following table summarizes information about fixed stock options at December 31, 1999:

	Options Outstanding			Options Exercisable	
	Number Outstanding *(thousands)*	Weighted-Average Remaining Contractual Life *(years)*	Weighted-Average Exercise Price	Number Exercisable *(thousands)*	Weighted-Average Exercise Price
$10 to $13	335	4.5	$ 13.00	335	$ 13.00
$14 to $17	358	6.0	16.58	283	16.25
$18 to $21	714	9.0	21.65	–	–
$22 to $24	652	7.9	23.50	218	23.50
$10 to $24	2 059	7.4	19.95	836	16.84

4. Income Taxes

The income tax provisions included in the determination of earnings are developed by applying Canadian federal and provincial statutory tax rates to pre-tax earnings, with adjustments as set out in the following table:

($ millions except as noted)	**1999**	1998	1997
Earnings before income taxes	**1 088**	651	864
Basic corporate tax rate *(%)*	**44.4**	43.6	44.3
Income taxes at basic rate	**483**	284	383
Increases *(decreases)* resulting from:			
Crown royalties and other payments to provinces	**68**	55	80
Resource allowance and other abatement measures	**(65)**	(55)	(77)
Manufacturing and processing credit	**(28)**	(29)	(26)
Other, including revisions in previous tax estimates	**(11)**	(36)	(19)
Total	**447**	219	341

During 1997, the Corporation received a tax refund and related interest of $200 million towards final settlement. The settlement is associated with a number of tax issues from the years 1971 to 1991, and includes $149 million in taxable interest. The largest portion of the settlement results from the 1992 decision by the Federal Court of Appeal in *The Queen v. Gulf Canada Limited.* A portion of the settlement was recognized in earnings in prior years, with $67 million after-tax included in 1997 earnings.

5. Taxes, Royalties and Other

The following amounts were included in the determination of earnings:

($ millions)	1999	1998	1997
Items reported separately:			
Income taxes	**447**	219	341
Items included in sales and other operating revenues and in operating, selling and general expenses:			
Crown royalties and mineral taxes	**151**	121	187
Royalties paid to private leaseholders	**34**	23	22
Other taxes	**55**	58	67
Research and development expense	**15**	17	17
Total	**702**	438	634

6. Long-Term Debt

($ millions)	Maturity	1999	1998	1997
Debentures				
7 3/8% (U.S. $250)	1999	–	383	358
8 7/8% (U.S. $300)	2001	**433**	460	429
Capital Leases	varying dates	**16**	18	19
		449	861	806
Included in current liabilities		**(2)**	(367)	(1)
Unamortized balance of foreign exchange loss		**(7)**	(69)	(65)
Total		**440**	425	740

In order to offset some of the exposure due to fluctuations in U.S. dollar exchange rates on commodity prices, the Corporation has the majority of its debt payable in U.S. dollars.

To hedge interest rates, the Corporation has entered into four interest rate swap arrangements for $250 million US through which the effective interest cost is currently payable at a floating rate.

Of the $449 million long-term debt, the payments necessary during the next five years are as follows:

$ 1 million in 2000

$ 434 million in 2001

$ 2 million in 2002

$ 2 million in 2003

$ 2 million in 2004.

7. Site Restoration and Other Long-Term Obligations

($ millions)	1999	1998	1997
Site restoration[1]	**70**	78	93
Other employee future benefits	**96**	89	76
Other obligations	**38**	42	48
	204	209	217
Included in current liabilities	**(21)**	(21)	(28)
Total	**183**	188	189

1 *Site restoration expenditures for 1999 were $12 million (1998 – $19 million; 1997 – $22 million).*

8. Financial Instruments

	Market Value[1]			Unrealized Gain/(Loss)[2]		
($ millions)	**1999**	1998	1997	**1999**	1998	1997
Commodity contracts	**127**	31	5	**6**	(3)	–
Foreign exchange contracts	**158**	76	76	**2**	5	2
	Market Value[1]			Carrying Value		
($ millions)	**1999**	1998	1997	**1999**	1998	1997
Interest rate swaps	**1**	11	2	**–**	–	–
Long-term debt[3]	**476**	917	864	**442**	792	741

1 *Market value is determined primarily by market quotes. The reported amounts of financial instruments such as cash equivalents, marketable securities and short-term debt approximate fair value.*

2 *Unrealized gain/(loss) represents the gain or (loss) the Corporation would incur if the contract were liquidated at December 31.*

3 *Long-term debt includes the current portion.*

The Corporation uses commodity contracts to reduce the risk of price fluctuations of some commodities. Over-the-counter contracts with terms generally no longer than one year are used. At December 31, commodity contracts outstanding were:

	1999		1998		1997	
($ millions except as noted)	Face Value	Volume[4]	Face Value	Volume[4]	Face Value	Volume[4]
Crude oil sales commitments	**3**	**231**	6	440	1	42
Crude oil and refined products purchase commitments	**–**	**–**	2	–	2	–
Natural gas sales commitments	**127**	**41**	24	10	3	2

4 *Crude oil and refined product volumes are thousands of barrels, and natural gas volumes are billions of cubic feet. Where the Corporation has entered into offsetting positions, the volume has been excluded.*

The Canadian/U.S. dollar exchange rates affect a portion of the Corporation's anticipated revenues and expenses. In order to reduce this foreign exchange exposure, the Corporation has implemented a hedging program using foreign spot and forward exchange contracts and swaps. The Corporation uses forward contracts with maturities generally less than one year. Interest rate and currency swaps are used to manage exposure to interest rate and currency rate changes. The Corporation uses arrangements with maturities no longer than the underlying debt instrument *(Note 6)*.

Non-performance by the other parties to the financial instruments exposes the Corporation to credit loss. The counterparties are generally international and domestic banks with credit ratings of AA or better and there is no significant concentration of credit risk held with any one institution. The Corporation does not anticipate non-performance by the counterparties.

9. Employee Future Benefits

Employees participate in the Corporation's defined contribution plan for the first 10 years of service. After 10 years, employees can elect to participate in the Corporation's defined benefit pension plan. Benefits from this pension plan are Company-paid and are based on years of service and final average earnings. In addition to the pension plans, life insurance and supplementary health and dental coverage benefits are provided to retirees.

The benefit obligations and pension expense have been determined in accordance with generally accepted accounting principles and actuarial procedures. Pension fund assets comprise primarily common shares, fixed income securities and real estate.

Status at December 31 was as follows:

OBLIGATIONS *($ millions)*	**1999**	1998	1997
Accumulated benefit obligation – pension	**1 328**	1 287	1 215
Additional benefits related to projected pay increases	**46**	33	31
Total projected benefit obligation	**1 374**	1 320	1 246
Plan assets at five-year moving average of market value	**1 766**	1 625	1 600
Net *(surplus)* for pension benefits	**(392)**	(305)	(354)
Obligation for other employee future benefits	**96**	89	76
Net *(surplus)*	**(296)**	(216)	(278)

NET SURPLUS *($ millions)*	**1999**	1998	1997
Long-term receivables	**(79)**	(56)	(18)
Prepaid assets	**(89)**	(81)	(74)
Unrecorded assets – net[1]	**(224)**	(168)	(262)
Net *(surplus)* for pension benefits	**(392)**	(305)	(354)
Current liability	**4**	4	4
Long-term liability	**92**	85	72
Total obligation for other employee future benefits	**96**	89	76

[1] *Unrecorded assets are amortized over the expected average remaining service life of employees, which is currently nine years (1998 – 10 years; 1997 – 11 years).*

EXPENSES *($ millions)*	**1999**	1998	1997
Benefits earned during the year	**16**	15	15
Interest cost	**101**	107	101
Actual *(return)* on plan assets	**(300)**	(126)	(221)
Net amortization and deferral	**160**	(35)	87
Net pension *(income)*	**(23)**	(39)	(18)
Defined contribution plan	**–**	4	6
Other employee future benefits expense	**15**	18	8
Total	**(8)**	(17)	(4)

The assumptions used for future employee benefits were as follows:

(per cent)	**1999**	1998	1997
Discount rate	**7.5**	8.5	8.5
Long-term rate of return on plan assets	**7.5**	8.5	8.5
Rate of compensation growth	**3.0**	4.0	4.0

10. Transactions with Affiliated Companies

Shell Canada, in the course of its regular business activities, has routine transactions with affiliates. Such transactions are at commercial rates. The following transactions occurred with Shell International Trading Company and other affiliates of the Royal Dutch/Shell Group of Companies as at December 31:

Year ended December 31 ($ millions)	**1999**	1998	1997
Purchases of crude oil, petroleum products and chemicals	**909**	791	1 136
Amounts payable in respect of such purchases	**80**	68	70
Sale of natural gas, petroleum products and chemicals	**857**	621	474
Amounts receivable in respect of such sales	**88**	79	69

The only material product purchase is crude oil which comprises 92 per cent of total affiliated company purchases.

In December 1999, the Corporation entered into a loan agreement with The Shell Petroleum Company Limited (SPCO), a wholly owned subsidiary of the Corporation's ultimate parents, under which it advanced $750 million Cdn. at competitive Canadian short-term interest rates as part of its cash management activities. Interest income of $1 million after-tax was earned in December.

Shell Canada sold its natural gas marketing business on April 1, 1997, to Coral Energy (Coral), in which Shell Oil Company of Houston, Texas (Shell Oil), owned a 44 per cent interest. In return, the Corporation obtained a 12 per cent interest in Coral, a natural gas, power and energy management company. On June 1, 1997, the Corporation began selling its gas production to Coral. On January 12, 1998, Shell Oil increased its holding in Coral to 88 per cent.

Effective September 30, 1999, Shell Canada sold its 12 per cent interest in Coral to Shell Oil. This transaction resulted in a $35-million after-tax gain.

In May 1998, the Corporation purchased the shares of a related party for $108 million. As as result of this acquisition Shell Canada was able to use income tax deductions of the acquired company. The purchase price was established, independently verified and agreed to by the related parties.

11. Commitments and Contingencies

At December 31, 1999, the Corporation had non-cancellable operating and other long-term commitments with an initial or remaining term of one year or more. Future minimum payments under such commitments are estimated to be:

($ millions)	*Operating Commitments* [1]	*Other Long-term Commitments* [2]
2000	66	366
2001	55	249
2002	50	206
2003	44	261
2004	40	257
thereafter	238	3 023[3]

[1] *These operating commitments cover leases of service stations, office space and other facilities.*

[2] *The Corporation has substantial commitments for use of facilities or services and supply and processing of products, all made in the normal course of business.*

[3] *Includes obligations of $1.9 billion for the Oil Sands project and $1 billion for pipeline charges.*

Various lawsuits are pending against the Corporation. Actual liability with respect to these lawsuits cannot be determined, but management believes, based on counsels' opinions, that any potential liability will not materially affect the Corporation's financial position.

12. Year 2000 Uncertainty

The Year 2000 issue arose because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

13. Discontinued Operations

The Corporation sold its Chemicals business effective December 31, 1996, to Shell Chemicals Canada Ltd. The sale of the Chemicals business resulted in a gain of $226 million after-tax and earnings from discontinued operations of $43 million after-tax. The results of the Chemicals business have been accounted for as discontinued operations and previously reported financial statements have been restated.

In 1995, the Corporation sold its Polypropylene business to a company owned 50 per cent by a related party, which resulted in a gain of $95 million after-tax. Earnings from discontinued operations were $126 million after-tax in 1995, which included results for both Chemicals and Polypropylene.

Supplemental Oil Products Disclosure *(unaudited)*

Years ended December 31

PRODUCTION *(thousands of cubic metres/day)*	**1999**	1998	1997	1996	1995
Crude oil processed by Shell refineries					
Montreal East *(Quebec)*	**17.0**	18.0	17.5	17.5	16.7
Sarnia *(Ontario)*	**9.9**	9.7	10.1	10.1	9.7
Scotford *(Alberta)*	**14.9**	14.1	13.6	12.8	12.5
Total	**41.8**	41.8	41.2	40.4	38.9
Rated refinery capacity at year-end					
Montreal East *(Quebec)*	**20.7**	20.6	20.6	20.6	20.0
Sarnia *(Ontario)*	**11.4**	11.4	11.4	11.4	11.4
Scotford *(Alberta)*	**15.3**	15.0	14.2	12.5	12.0
Total	**47.4**	47.0	46.2	44.5	43.4

SALES *(thousands of cubic metres/day)*	**1999**	1998	1997	1996	1995
Gasolines	**20.8**	20.6	19.9	19.4	19.1
Middle distillates	**17.1**	17.0	16.8	16.7	15.2
Other products	**7.1**	7.4	7.7	7.4	6.7
Total	**45.0**	45.0	44.4	43.5	41.0

Supplemental Resources Disclosure *(unaudited)*

Years ended December 31

PRODUCTION	1999	1998	1997	1996	1995
Natural gas *(millions of cubic feet/day)*					
Gross	**562**	587	667	697	696
Net	**473**	463	571	601	586
Crude oil and bitumen *(thousands of barrels/day)*					
Gross	**19.7**	22.9	26.5	29.7	28.1
Net	**16.8**	20.4	21.6	25.0	23.9
Condensate *(thousands of barrels/day)*					
Gross	**23.6**	24.9	24.6	24.9	22.7
Net	**18.7**	20.2	20.3	22.3	20.7
Ethane, propane and butane *(thousands of barrels/day)*					
Gross	**30.4**	30.8	31.3	32.6	28.9
Net	**25.3**	26.8	26.5	29.5	26.4
Sulphur – gross *(thousands of long tons/day)*	**6.6**	6.6	6.6	6.4	6.2

Gross production includes all production attributable to Shell's interest before deduction of royalties; net production is determined by deducting royalties from gross production.

SALES	1999	1998	1997	1996	1995
Natural gas – gross *(millions of cubic feet/day)*	**552**	593	704	831	750
Crude oil and bitumen – gross *(thousands of barrels/day)*	**22.5**	25.2	29.9	33.5	31.5
Condensate – gross *(thousands of barrels/day)*	**34.5**	36.3	33.4	32.9	36.3
Ethane, propane and butane – gross *(thousands of barrels/day)*	**53.5**	64.2	63.7	68.9	69.6
Sulphur – gross *(thousands of long tons/day)*	**9.3**	8.0	7.4	7.9	6.6

PRICES	1999	1998	1997	1996	1995
Natural gas average plant gate netback price *($/mcf)*	**2.69**	1.89	1.86	1.69	1.50
Crude oil average field gate price *($/bbl)*	**24.97**	18.83	25.80	26.14	22.01
Condensate average field gate price *($/bbl)*	**24.90**	18.54	26.74	25.55	19.17
Ethane, propane and butane average field gate price *($/bbl)*	**12.91**	7.25	10.93	10.02	7.50

EXPLORATION AND DEVELOPMENT WELLS DECLARED

	1999		1998		1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration										
Oil	–	–	2	2	3	3	8	4	5	3
Gas	**1**	–	6	3	2	2	–	–	4	3
Dry	**15**	**13**	12	8	8	6	14	11	7	6
	16	**13**	20	13	13	11	22	15	16	12
Development										
Oil	**2**	**1**	24	14	49	22	36	20	69	25
Bitumen	–	–	17	17	10	10	11	11	4	4
Gas	**9**	**7**	7	6	11	8	8	6	4	3
Dry	**2**	**1**	–	–	2	1	1	1	–	–
	13	**9**	48	37	72	41	56	38	77	32
Total wells declared	**29**	**22**	68	50	85	52	78	53	93	44
Wells in progress	**10**	**3**	24	21	24	20	21	19	17	13

Exploration wells – Wells drilled either in search of new and as yet undiscovered pools of oil or gas, or with the expectation of significantly extending the limits of established pools. All other wells are development wells.

PRODUCTIVE WELLS

	1999		1998		1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Oil wells										
Alberta – conventional	–	–	242	127	287	137	346	181	425	176
Alberta – bitumen	**131**	**131**	199	199	186	186	181	181	173	173
Saskatchewan	–	–	273	188	466	286	1 292	496	1 303	511
	131	**131**	714	514	939	609	1 819	858	1 901	860
Gas wells										
Alberta	**242**	**213**	253	220	270	217	289	220	371	233
British Columbia	–	–	–	–	6	5	8	6	8	6
Saskatchewan	–	–	–	–	–	–	–	–	5	2
Nova Scotia	**2**	**1**	–	–	–	–	–	–	–	–
	244	**214**	253	220	276	222	297	226	384	241
Total productive wells	**375**	**345**	967	734	1 215	831	2 116	1 084	2 285	1 101

Productive wells – Producing and non-unitized wells capable of producing.

Gross wells – The number of wells in which Shell Canada has a working interest.

Net wells – The aggregate of the numbers obtained by multiplying each gross well by the percentage working interest of Shell Canada therein, rounded to the nearest whole number.

RESERVES

Reserve Quantity Information

Estimation of reserve quantities is based on established geological and engineering principles and involves judgmental interpretation of reservoir data. These estimates are subject to revision as additional information regarding producing fields and technology becomes available, as economic and operating conditions change, or as properties are divested or acquired. The difference between the gross and net reserves is the volume of reserves dedicated to meet royalty payments over the life of the reserves. The net reserves in the table below have been calculated on the basis of royalty rates and economic conditions in place as of the date the estimate is made. Shell Canada's estimated proved reserves include quantities for the East Coast but exclude any quantities in the Mackenzie Delta and Arctic Islands.

Crude Oil and Bitumen

The Plains business divestment in 1999 included the sale of Shell's entire crude oil portfolio, representing net crude oil reserves of 58 million barrels after accounting for an additional four million barrels produced in 1999. Revised volume forecasts for existing steam-assisted gravity drainage (SAGD) wells led to the impairment provision for developed bitumen reserves at Peace River. Combined with bitumen production of two million barrels, bitumen reserves declined by eight million barrels in 1999.

	Crude Oil and Bitumen *(millions of barrels)*		
OIL, GAS AND OTHER RESERVES	**1999**	1998	1997
Net proved developed and undeveloped reserves			
Beginning of year	**170**	170	153
Revisions of previous estimates	**(6)**	7	13
Extensions, discoveries and other additions	**–**	–	24
Improved recovery methods	**–**	–	–
Purchases of reserves in place	**–**	–	–
Sales of reserves in place	**(58)**	–	(12)
Production	**(6)**	(7)	(8)
End of year	**100**	170	170
Net proved developed reserves			
End of year	**7**	56	62
Gross proved developed and undeveloped reserves			
End of year	**105**	185	186
Gross proved developed reserves			
End of year	**7**	63	70

Proved reserves – Estimated quantities of crude oil and bitumen, natural gas liquids, natural gas and sulphur that geological engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs. These estimates are based on existing economic and operating conditions (prices, costs, royalties and income taxes) as of the date the estimate is made.

Proved developed reserves – Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Natural Gas Liquids

Net reserves of natural gas liquids declined by 15 million barrels primarily due to production during the year. Positive revisions to previous reserve estimates at Jumping Pound and Caroline more than offset the loss of reserves due to the sale of the Plains business. Net reserves of ethane, propane and butane declined by nine million barrels in 1999 and condensate reserves fell by six million barrels.

Natural Gas

Net natural gas reserves fell by 105 billion cubic feet in 1999. This decline reflected the sale of the Plains business, which included the Hamburg gas property reserves and associated gas reserves of the divested oil properties. Updated reservoir modelling and simulation work led to positive revisions to previous reserve estimates at Jumping Pound and Waterton, which largely offset 1999 production.

Sulphur

Net sulphur reserves declined by two million long tons due primarily to 1999 production.

Natural Gas Liquids *(millions of barrels)*			**Natural Gas** *(billions of cubic feet)*			**Sulphur** *(millions of long tons)*		
1999	1998	1997	**1999**	1998	1997	**1999**	1998	1997
183	212	161	**2 771**	3 010	2 053	**21**	24	24
5	(12)	25	**163**	(100)	237	**–**	–	2
–	–	32	**1**	80	637	**–**	–	–
–	–	–	**–**	–	–	**–**	–	–
–	–	13	**–**	–	340	**–**	–	–
(4)	–	(2)	**(95)**	(50)	(48)	**–**	–	–
(16)	(17)	(17)	**(174)**	(169)	(209)	**(2)**	(3)	(2)
168	183	212	**2 666**	2 771	3 010	**19**	21	24
155	137	129	**2 187**	1 534	1 662	**18**	20	18
192	206	235	**3 119**	3 256	3 399	**22**	23	26
176	157	147	**2 550**	1 873	1 911	**20**	21	20

Proved undeveloped reserves – Reserves that are expected to be recovered from new wells on undrilled acreage adjacent to producing acreage, or from existing wells where further significant expenditure is required.

Gross proved reserves – Reserve estimates before the deduction of royalty interests owned by others.

Net proved reserves – Reserve estimates after deduction of royalties and, therefore, only those quantities which Shell has a right to retain.

Supplemental Oil Sands Disclosure *(unaudited)*

Years ended December 31

RESERVES

The Muskeg River Mine on Lease 13 contains proved reserves of one billion barrels and probable reserves of 498 million barrels. Shell's 60 per cent interest is 600 million barrels of proved and 300 million barrels of probable reserves. This estimate is before deduction of royalties, which cannot be accurately estimated. Under the Oil Sands Royalty Regulation, royalty is dependent on project cash flows, therefore, the calculation of royalties depends upon price, production rates, capital costs and operating costs over the life of the Muskeg River Mine.

The reserve estimates are based upon a detailed geological assessment including drilling and laboratory tests. They also consider current mine plans, planned operating life and regulatory constraints. The current proved plus probable reserve estimate includes only the portion of Lease 13 that represents the development area approved by the Alberta Energy and Utilities Board. The reserve estimate is the actual barrels of bitumen to be shipped for processing at the Scotford upgrader. No allowance for volume losses during upgrading is required because of the Scotford upgrader's hydroconversion upgrading process.

Drilling density is a factor in classifying reserves as either proved or probable. Proved reserves of bitumen are based on high geological certainty, with drill hole spacing less that 350 metres and the application of existing or piloted technology. Probable reserves of bitumen are based on high geological certainty, with drill hole spacing less than 700 metres and the application of existing or piloted technology.

	Mineable Bitumen *(millions of barrels)*		
OIL SANDS RESERVES	**1999**	1998	1997
Gross proved developed and undeveloped reserves			
Beginning of year	–	–	–
Revisions of previous estimates	–	–	–
Extensions, discoveries and other additions	600	–	–
Improved recovery methods	–	–	–
Purchases of reserves in place	–	–	–
Sales of reserves in place	–	–	–
Production	–	–	–
End of year	**600**	–	–
Gross proved and probable developed and undeveloped reserves			
End of year	**900**	–	–
Gross proved developed reserves			
End of year	–	–	–

Landholdings *(unaudited)*

Years ended December 31

(thousands of acres)	**Undeveloped Acres**				**Developed Acres**			
	1999		1998		**1999**		1998	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Onshore within the provinces								
Conventional oil and gas:								
Alberta	**370**	**237**	755	517	**653**	**435**	809	552
British Columbia	**53**	**53**	262	183	**–**	**–**	2	1
Saskatchewan	**–**	**–**	10	8	**–**	**–**	65	39
Quebec	**2 403**	**1 196**	2 645	236	**–**	**–**	–	–
Synthetic oils:								
– mining	**91**	**91**	97	97	**–**	**–**	–	–
– in-situ	**–**	**–**	–	–	**195**	**195**	240	240
	2 917	**1 577**	3 769	1 041	**848**	**630**	1 116	832
Canada lands								
East Coast offshore:								
Nova Scotia	**2 330**	**883**	368	151	**109**	**33**	109	44
Moncton basin	**–**	**–**	61	61	**–**	**–**	–	–
Baffin Bay	**–**	**–**	2 130	2 130	**–**	**–**	–	–
Northwest Territories	**65**	**54**	103	64	**–**	**–**	–	–
West Coast offshore	**13 602**	**12 858**	13 585	12 854	**–**	**–**	–	–
Arctic Islands	**5 801**	**3 100**	136	26	**–**	**–**	–	–
Hudson Bay	**–**	**–**	3 482	929	**–**	**–**	–	–
	21 798	**16 895**	19 865	16 215	**109**	**33**	109	44
Total	**24 715**	**18 472**	23 634	17 256	**957**	**663**	1 225	876

Gross acres include the interests of others; net acres exclude the interests of others.

Undeveloped acres, comprising Crown reservations, permits, exploration agreements and licences, are acquired from the Government of Canada or the provinces through application or competitive bidding. They confer upon the holder the right to explore for crude oil and natural gas and to lease the crude oil and natural gas rights under a specified percentage of the lands covered. No deduction has been made to reflect that only a portion of these areas may be converted to lease.

Developed acre leases essentially confer upon the lessee the right to remove crude oil and natural gas from the property, subject to the payment of a rental and/or a reserved royalty.

Of the total developed acres, approximately 294,000 gross acres (1998 – 399,000) or 212,000 net acres (1998 – 256,000) in Western Canada, primarily in Alberta, are classified as producing lands.

Supplemental Financial Data *(unaudited)*

DATA PER COMMON SHARE[1] *(dollars except as noted)*	**1999**	1998	1997	1996	1995
Earnings from continuing operations	**2.22**	1.49	1.69	0.96	0.90
Earnings	**2.22**	1.49	1.69	1.77	1.55
Cash flow from continuing operations	**2.75**	2.91	3.03	2.22	2.14
Dividends paid	**0.72**	0.72	0.66	0.60	0.50
Common shareholders' investment	**13.25**	11.75	11.03	11.41	10.24
Common shares outstanding at year-end *(millions)*	**289**	289	290	338	336
Registered shareholders *(number at year-end)*	**3 001**	3 161	3 257	3 398	3 622

1 *All data has been restated to reflect the impact of the June 30, 1997, three-for-one stock split.*

RATIOS	**1999**	1998	1997	1996	1995
Return on average capital employed *(%)*[1]	**15.8**	11.8	13.2	14.6	14.1
Return on average capital employed from continuing operations *(%)*[1]	**15.8**	11.8	13.2	8.6	9.2
Return on net investment *(%)*[2]	**13.4**	9.9	10.8	11.8	11.3
Return on average common shareholders' equity *(%)*[3]	**17.7**	13.1	14.8	16.3	16.0
Return on average common shareholders' equity from continuing operations *(%)*[3]	**17.7**	13.1	14.8	8.9	9.2
Common share dividends as % of earnings from continuing operations[4]	**32.5**	48.3	39.3	62.1	55.7
Price earnings ratio[5]	**13.2**	15.6	15.2	10.1	9.2
Current assets to current liabilities	**1.9**	1.6	2.0	3.0	2.1
Interest coverage from continuing operations[6]	**23.1**	10.3	14.2	9.0	6.8
Reinvestment ratio from continuing operations *(%)*[7]	**89.9**	94.3	57.5	59.0	53.5
Total debt as % of capital employed[8]	**10.3**	18.9	18.8	15.8	17.2
Debt to cash flow from continuing operations *(%)*[9]	**55.6**	93.7	78.8	96.4	99.0

1 *Earnings plus after-tax interest expense on long-term debt divided by average of opening and closing capital employed. Capital employed is a total of equity and long-term debt including the current portion of long-term debt.*

2 *Earnings plus after-tax interest expense on long-term debt divided by average of opening and closing net investment. Net investment is total assets less current liabilities.*

3 *Earnings divided by average common shareholders' investment.*

4 *Common share dividends paid divided by earnings from continuing operations.*

5 *Closing share price at December 31 divided by earnings per share.*

6 *Pre-tax earnings from continuing operations plus interest on debt divided by interest on debt.*

7 *Capital, exploration and investment expenditures divided by cash flow from continuing operations.*

8 *Total debt divided by total debt plus equity.*

9 *Total debt divided by cash flow from continuing operations.*

EMPLOYEES	**1999**	1998	1997	1996	1995
Employees *(number at year-end)*	**3 431**	3 644	3 593	3 710	3 918

Quarterly Financial and Stock-Trading Information *(unaudited)*

	1999					1998				
	Quarter				Total	Quarter				Total
($ millions except as noted)	1st	2nd	3rd	4th	Year	1st	2nd	3rd	4th	Year
Earnings										
Sales and other operating revenues	**1 035**	**1 186**	**1 509**	**1 649**	**5 379**	1 136	1 091	1 142	1 137	4 506
Expenses	**893**	**1 085**	**1 299**	**1 381**	**4 658**	942	911	1 031	971	3 855
Asset sales and rationalization	**–**	**–**	**–**	**367**	**367**	–	–	–	–	–
Earnings before income taxes	**142**	**101**	**210**	**635**	**1 088**	194	180	111	166	651
Income taxes	**62**	**43**	**65**	**277**	**447**	79	54	35	51	219
Earnings	**80**	**58**	**145**	**358**	**641**	115	126	76	115	432
Segmented earnings										
Resources	**48**	**49**	**115**	**288**	**500**	58	33	30	48	169
Oil Products	**38**	**24**	**27**	**52**	**141**	70	65	59	81	275
Corporate	**(6)**	**(15)**	**3**	**18**	**–**	(13)	28	(13)	(14)	(12)
Earnings	**80**	**58**	**145**	**358**	**641**	115	126	76	115	432
Per Class "A" Common Share *(dollars)*										
Earnings	**0.28**	**0.20**	**0.50**	**1.24**	**2.22**	0.40	0.43	0.26	0.40	1.49
Cash dividends	**0.18**	**0.18**	**0.18**	**0.18**	**0.72**	0.18	0.18	0.18	0.18	0.72
Share prices *(dollars)*[1]										
High	**25.50**	**30.50**	**34.00**	**33.85**	**34.00**	27.00	27.10	27.20	25.75	27.20
Low	**21.00**	**23.55**	**29.00**	**27.50**	**21.00**	20.50	24.55	22.00	22.85	20.50
Close *(end of period)*	**24.50**	**29.95**	**32.50**	**29.30**	**29.30**	25.00	25.80	23.95	23.25	23.25
Shares traded *(thousands)*[2]	**7 626**	**7 045**	**4 450**	**4 185**	**23 306**	7 072	5 262	4 770	8 379	25 483

[1] *Toronto Stock Exchange quotations.*

[2] *Volume traded on the Montreal and Toronto stock exchanges.*

Corporate Directory and Board of Directors

OFFICERS *(all in Calgary)*

TIMOTHY W. FAITHFULL
President and Chief Executive Officer

VICE PRESIDENTS

W. JOHN WILLS
Senior Operating Officer, Products

RAYMOND I. WOODS
Senior Operating Officer, Resources

RONALD B. BLAKELY
Chief Financial Officer

HAROLD W. LEMIEUX
Vice President, General Counsel and Secretary

NEIL J. CAMARTA
Senior Vice President, Oil Sands

GRAHAM BOJÉ
Vice President, Manufacturing

GARY S. VASSIE
Vice President, Oil Sands, Project Integration

TREASURER

CATHERINE L. WILLIAMS

CONTROLLER

IAN S. TITTLE

BOARD OF DIRECTORS

PETER J.G. BENTLEY O.C.
Chairman
Canfor Corporation
Vancouver

FERNAND R. BIBEAU
Chairman of the Board
Beauward Shopping Centres Ltd.
St-Eustache

TIMOTHY W. FAITHFULL
President and Chief Executive Officer
Shell Canada Limited
Calgary

JOHN F. FRASER O.C.
Chairman
Air Canada
Winnipeg

KERRY L. HAWKINS
President
Cargill Limited
Winnipeg

JOHN D. MCNEIL
Company Director
Toronto

MARK MOODY-STUART
Chairman and Managing Director
The "Shell" Transport and Trading Company, p.l.c.
London, England

PAUL D. SKINNER
Managing Director
The "Shell" Transport and Trading Company, p.l.c.
London, England

MARGARET E. SOUTHERN O.C., L.V.O.
President
Spruce Meadows Equestrian Centre
Calgary

ROBERT T. STEWART
Retired Chairman of the Board and Chief Executive Officer
Scott Paper Limited
Vancouver

Statement of Corporate Governance Practices

The Corporation is aligned with the guidelines recommended by the Toronto Stock Exchange (TSE) for effective corporate governance. The one exception is the guideline to implement a system to enable an individual director to engage an outside adviser at the expense of the Corporation. It is the Board's view that any situations requiring outside advice should be handled case by case.

A complete description of the Corporation's approach to corporate governance is set out in Appendix 3 entitled "Statement of Corporate Governance Practices," which is attached to the Corporation's Management Proxy Circular dated March 1, 2000.

The Board of Directors

The Board of Directors manages and supervises the business and affairs of the Corporation in a stewardship role. The day-to-day management is delegated to the officers of the Corporation. Any responsibilities that have not been delegated to the officers or to a committee of the Board remain with the Board.

The Board is composed of 10 directors. Nine of the 10 directors are unrelated to the Corporation, as defined in the TSE guidelines. The one related director is the President and Chief Executive Officer, T.W. Faithfull. The Corporation has a significant shareholder, but seven of the 10 directors are outside directors who have no interests in or relationships with either the Corporation or the significant shareholder. The Board believes this fairly reflects the investment of minority shareholders.

The Chairman of the meetings of the Board is a separate role from the President and Chief Executive Officer.

The Board held seven meetings during 1999.

The Board has adopted a Statement of General Business Principles, which all employees are expected to observe in the conduct of the Corporation's business dealings. The Board expects management to manage the business of the Corporation in a manner that enhances shareholder value, is consistent with the highest level of integrity and is within the law.

The Investor Relations manager and senior management communicate with significant shareholders, institutional investors and the financial community. The Corporation's transfer agent or the Corporate Secretary's department responds to shareholder account inquiries. Shareholders and the public receive a response from the Public Affairs department, the Investor Relations department, the Corporate Secretary's department or the appropriate member of senior management.

Board Committees

The Board has three committees: the Audit Committee, the Management Resources and Compensation Committee and the Nominating and Governance Committee. All members of the committees are outside directors and unrelated to the Corporation.

Audit Committee

The members of the Audit Committee are P.J.G. Bentley (Chairman), J.F. Fraser, K.L. Hawkins, M.E. Southern and R.T. Stewart.

The committee's mandate includes:

- *reviewing the annual audited financial statements and the Auditors' Report on the statements prior to submission to the Board for approval;*
- *reviewing the scope of external and internal audits;*
- *reviewing and discussing accounting and reporting policies and changes in accounting principles;*
- *reviewing the Corporation's internal control systems and procedures;*
- *meeting with the external auditors independently of management of the Corporation.*

The Audit Committee met twice in 1999.

Management Resources and Compensation Committee

The members of the Management Resources and Compensation Committee are J.D. McNeil (Chairman), P.J.G. Bentley, F.R. Bibeau, J.F. Fraser and K.L. Hawkins.

The committee's mandate includes:

- *determining compensation and terms of employment for senior executives, including stock option and incentive programs;*
- *approving pension and benefit plans of the Corporation;*
- *reviewing executive succession and development plans and recommending to the Board candidates for election as officers of the Corporation;*
- *assessing at least annually the performance of the President and Chief Executive Officer and determining his or her compensation and terms of employment.*

The Management Resources and Compensation Committee met four times in 1999.

Nominating and Governance Committee

The members of the Nominating and Governance Committee are J.F. Fraser (Chairman), P.J.G. Bentley, F.R. Bibeau and R.T. Stewart.

The committee's mandate includes:

- *determining criteria for being a director and assisting the Chief Executive Officer in selecting new candidates for the Board;*
- *reviewing and recommending to the Board criteria related to the tenure of directors;*
- *reviewing annually the performance of the Board and committees of the Board;*
- *reviewing annually memberships of the committees and making recommendations to the Board on appointments to the committees;*
- *reviewing and making recommendations to the Board on the mandates of committees of the Board;*
- *determining remuneration to be paid to directors for sitting on the Board and committees;*
- *reviewing and making recommendations to the Board on corporate governance;*
- *administering the Director Share Compensation Plan.*

The Nominating and Governance Committee met three times in 1999.

Investor Information

SHELL CANADA LIMITED

(incorporated under the laws of Canada)

HEAD OFFICE

Shell Centre
400 – 4th Avenue S.W.
Calgary, Alberta T2P 0J4
Website www.shell.ca

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
600, 333 – 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone (403) 232-2400
Facsimile (403) 264-2100
E-Mail inquiries@cibcmellon.com
Website www.cibcmellon.com
Answerline 1-800-387-0825

STOCK EXCHANGE LISTINGS

The Class "A" Common Shares of Shell Canada Limited are listed on the Toronto Stock Exchange (stock symbol SHC), and do not have an established public trading market in the United States.

ANNUAL MEETING

The annual meeting of shareholders will be held at 11:00 a.m., Wednesday, April 26, 2000, in the Crystal Ballroom, Palliser Hotel, Calgary, Alberta.

DUPLICATE REPORTS

Shareholders who receive more than one copy of the Quarterly Report to Shareholders and the Annual Report, as a result of having their shareholdings represented by two or more share certificates, may wish to contact the transfer agent to have their holdings consolidated. It will not be necessary to forward share certificates.

This Annual Report is recyclable and has been printed using vegetable-based inks. The paper used for the cover and front section contains a minimum of 10 per cent post-consumer fibre and the paper for the back section contains 20 per cent post-consumer content.

ANNUAL INFORMATION FORM AND PROGRESS TOWARD SUSTAINABLE DEVELOPMENT

The Corporation's Annual Information Form for 1999 and the publication "Progress Toward Sustainable Development" are available to shareholders on request from the Corporation's Secretary at Shell's head office.

OWNERSHIP AND VOTING RIGHTS OF SHELL CANADA LIMITED

(at December 31, 1999)

Ownership of Shell Canada Limited is divided between Shell Investments (1996) Limited and public shareholders. Shell Investments (1996) Limited holds approximately 78 per cent of the equity and voting rights.

The publicly held Class "A" Common Shares (approximately 63.6 million) constitute about 22 per cent of the equity and voting rights in the Corporation.

Shell Investments (1996) Limited is a Canadian company, wholly owned by Shell Petroleum N.V. of the Netherlands which, in turn, is owned 40 per cent by The "Shell" Transport and Trading Company, p.l.c., an English company, and 60 per cent by Royal Dutch Petroleum Company of the Netherlands.

APPROXIMATE CONVERSION FACTORS

1 cubic metre of liquids	=	6.29 barrels
1 cubic metre of gases	=	35.3 cubic feet
1 barrel of oil equivalent	=	6,000 cubic feet of gases
1 tonne	=	2,205 pounds
	=	0.984 long ton
	=	1.102 short tons
1 kilometre	=	0.621 mile
1 hectare	=	2.47 acres
1 litre	=	0.22 gallon

Shell Canada Limited

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