C

1987 ANNUAL REPORT TO SHAREHOLDERS

Shell Canada Limited

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Unless the context 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 consolidated subsidiaries.

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Shell Canada Limited

FINANCIAL AND OPERATING HIGHLIGHTS

Shell, in Canada since 1911, is one of the country's largest integrated petroleum companies. It has assets of $5.5 billion and is a leading natural gas and sulphur producer. It also ranks as an important producer of crude oil, natural gas liquids and coal. The Company is a major manufacturer and marketer of refined petroleum products and petrochemicals.

FINANCIAL

($ millions)	**1987**	1986	1985
Earnings – before unusual items	**350**	130	146
– after unusual items	**350**	154	146
Cash flow from operations	**732**	711	600
Capital and exploration expenditures	**404**	581	469
Return on average capital employed (%)	**8.6**	4.7	4.4
Return on average common shareholders' equity (%)	**13.5**	6.0	5.8
Earnings per Class "A" Common Share (dollars)	**3.01**	1.24	1.17
Dividends paid per Class "A" Common Share (dollars)	**0.70**	0.60	0.60

OPERATING

Crude oil and natural gas liquids produced – gross (m^3/d)	**11 200**	10 000	10 700
Natural gas produced and sold – gross (thousands of m^3/d)	**17 000**	16 200	16 700
Sulphur sales – gross (tonnes/d)	**4 447**	2 982	3 928
Coal sales – gross (tonnes/d)	**5 198**	5 041	6 360
Crude oil processed by Shell refineries (m^3/d)	**37 100**	37 900	37 500
Petroleum product sales (m^3/d)	**33 600**	33 700	34 400
Chemical sales (tonnes/d)	**2 137**	2 105	2 062

ON THE COVER: Silhouetted in the early morning sun, a Shell Canada rig drills in the Caroline field, one of Alberta's largest natural gas-condensate-sulphur discoveries in the last 20 years.

Shell Canada's principal business strategies are to:
– Invest in the Resources segment as the key source of long-term growth in net income and improvement in return on investment;
– Invest in the Oil Products segment to provide customers with the best product quality and service in the industry;
– Invest in the Chemicals segment to maintain the supply and quality of products to customers.

The key objective of the Company is to achieve consistent, robust financial results in whatever market conditions prevail.

Shell, through the efforts of its people, was exceptionally successful in the realization of the strategies and objective in 1987 in terms of net income growth, improvement in return on investment, reserves additions and strengthened financial position.

The Business Environments

The oil and gas and chemical business environments improved substantially from 1986 to 1987. Improvement was led by higher and more stable crude oil prices, increased sales opportunities for resources commodities and stronger prices for bulk chemical commodities. The impact of these factors was enhanced by market-oriented policies of governments and by increased industry efficiency. These conditions led to renewed investor confidence, a sharp contrast to the depressed conditions that accompanied the oil price collapse in 1986.

1987 Performance

Shell's improved performance in 1987 reflects, in part, actions taken in recent years to strengthen the Company. It is gratifying that, as a result of these actions and the favourable business conditions referred to above, your Company's 1987 earnings were almost three and one-half times the earnings recorded just four years ago.

Details of 1987 performance are described in the following pages. The most significant achievements were:

- *Consolidated earnings of $350 million, an increase of 127 per cent over $154 million in 1986.*
- *Return on average capital employed of 8.6 per cent compared with 4.7 per cent in 1986.*
- *Chemicals segment earnings of $107 million compared with a loss of $7 million in 1986.*
- *Resources segment earnings of $154 million compared with $74 million in 1986.*
- *Increased sales of all Resources commodities, including record sales of sulphur.*
- *Net proved developed and undeveloped reserves in each of the crude oil and condensate, natural gas, natural gas liquids and sulphur categories increased net of production.*
- *A reduction in Corporate expenses, including financing costs, from $42 million to $33 million.*
- *The ratio of long-term debt to total capital employed reduced by year-end 1987 to 15 per cent and interest coverage increased to seven.*
- *Lost-time accident frequency reduced by a further 11 per cent.*

Notable External Events

In the external environment, two events in 1987 were of major importance.

The Canada-United States Free Trade Agreement, when ratified by both countries, will provide for a fundamental change of direction in Canada's traditional trade relations with the U.S. It will offer Canadians *more secure access to what is our largest export market. It can be the foundation for growth, greater employment opportunity and a strong economic base for Canada.*

The Free Trade Agreement will keep open U.S. markets that are critical to the oil and gas sector and it will provide major opportunities for the Canadian petrochemicals industry through removal of tariffs. Canada and Shell will benefit from implementation of the agreement.

A related event was the federal government announcement of a phased plan of tax reform. Reform is necessary to maintain Canadian competitiveness in international markets. Implementation of the first phase, involving personal and corporate tax rates, tax-based investment incentives and other measures in 1988, must be followed quickly by the implementation of a national sales tax to complete effective tax reform.

Investment Plans

Consistent with its continuing strategies and the price and fiscal environments, the Company plans capital and exploration expenditures in 1988 of about $510 million, exclusive of any attractive acquisition opportunities that may arise. This is an increase of some $100 million over 1987. Of the total, oil and gas expenditures will rise to about $346 million from $259 million, reflecting an expanded exploration program, largely for natural gas in Western Canada. In a continuing program to improve product quality and service competitiveness, investments of $127 million are planned in the Oil Products segment and $12 million in Chemicals. Spending in Business Services, Research and other Corporate activities to support the business segments will be about $23 million.

Performance Outlook

Earnings and profitability levels in 1988 depend largely on resources and chemical commodity prices and oil product margins. The fact that crude oil prices varied by up to $7 (U.S.) per barrel during 1987 is a reminder that price volatility is likely to continue in the short term. Uncertain economic and market conditions will influence oil and chemical product margins.

On balance, earnings and return on investment in 1988 are expected to be strong, although possibly not reaching 1987 levels.

Shell People

The improved performance of the Company in 1987 was made possible by the dedicated effort of visibly high-spirited Shell people. Their commitment is gratefully acknowledged and valued as the key to achievement of corporate goals in the future.

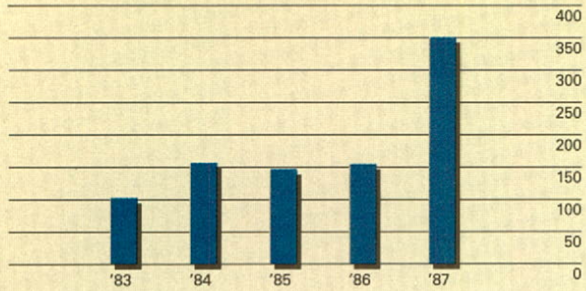
Your Directors are also grateful for the 40 years of dedicated service contributed by C. William Daniel, who retired as a Director in April 1987.

On behalf of the Board,

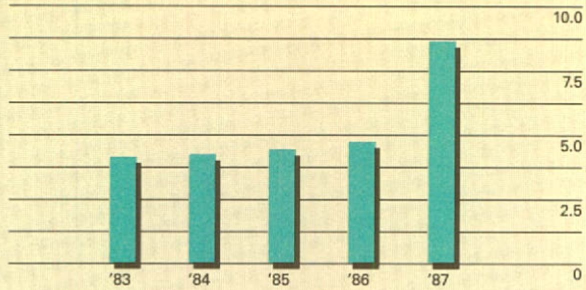
JMacLeod

J. M. MacLeod
President and Chief Executive Officer
Calgary, Alberta
March 1988

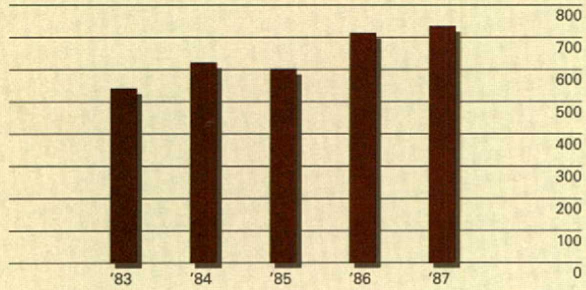
EARNINGS
($ millions)



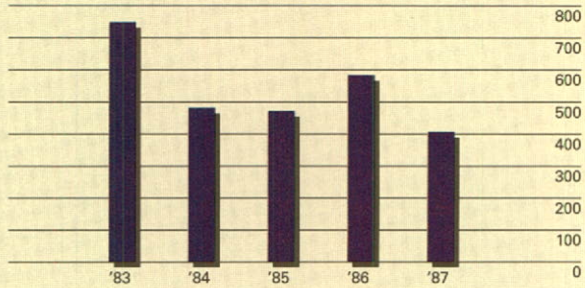
RETURN ON AVERAGE CAPITAL EMPLOYED (%)
Five-year average: 5.2%



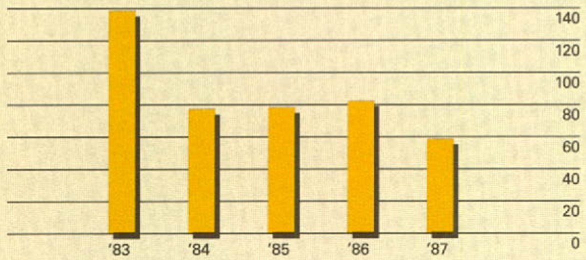
CASH FLOW FROM OPERATIONS
($ millions)



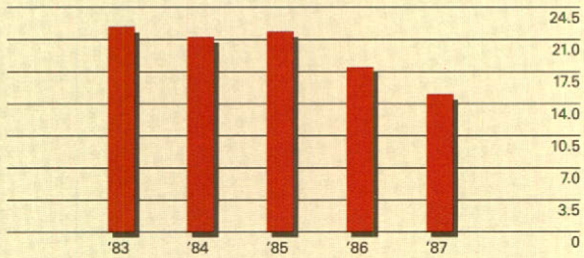
CAPITAL AND EXPLORATION EXPENDITURES
($ millions)



REINVESTMENT RATIO (%)
Five-year average: 87%



LONG-TERM DEBT AS A PERCENTAGE OF TOTAL CAPITAL EMPLOYED (%)
Five-year average: 19.6%



QUARTERLY FINANCIAL AND STOCK-TRADING INFORMATION	1987 Quarter				Total	1986 Quarter				Total
	1st	2nd	3rd	4th	Year	1st	2nd	3rd	4th	Year
Sales and other operating revenues ($ millions)	**1 123**	**1 163**	**1 246**	**1 287**	**4 819**	1 390	1 200	1 095	1 113	4 798
Earnings before income taxes ($ millions)	**169**	**115**	**163**	**146**	**593**	87	56	26	123	292
Earnings before unusual items ($ millions)	**103**	**64**	**94**	**89**	**350**	40	18	16	56	130
Earnings after unusual items ($ millions)	**103**	**64**	**94**	**89**	**350**	40	18	16	80	154
Earnings per share (dollars)	**0.90**	**0.54**	**0.80**	**0.77**	**3.01**	0.32	0.13	0.11	0.68	1.24
Cash dividends (dollars)										
Per Class "A" Common Share	**—**	**0.35**	**—**	**0.35**	**0.70**	—	0.30	—	0.30	0.60
Per Class "B" Common Share	**—**	**1.40**	**—**	**1.40**	**2.80**	—	1.20	—	1.20	2.40
Share prices* (dollars) High	**42¼**	**49½**	**52¾**	**47**	**52¾**	24¾	25	25¼	27⅛	27⅛
Low	**26**	**37¼**	**44**	**28½**	**26**	19½	21½	18¾	22⅛	18¾
Close (end of period)	**39½**	**47⅜**	**45¼**	**35⅛**	**35⅛**	24⅛	22	22⅜	26	26
Shares traded** (thousands)	**9 346**	**4 832**	**4 013**	**5 990**	**24 181**	4 243	2 263	1 814	3 276	11 596

*Toronto Stock Exchange quotations **Volume traded on the Montreal, Toronto, Alberta and Vancouver stock exchanges

FINANCIAL REVIEW
PERFORMANCE AND OUTLOOK

Consolidated earnings for Shell Canada in 1987 increased to $350 million or $3.01 per Class "A" Common Share from earnings of $154 million ($1.24 per share) for 1986 and $146 million ($1.17 per share) for 1985.

The Corporation's 1987 overall return on average capital employed of 8.6 per cent was substantially improved over the returns for 1986 and 1985 of 4.7 per cent and 4.4 per cent respectively.

Cash flow from operations increased to $732 million from $711 million for 1986 and $600 million for 1985.

Business segment earnings

The Corporation's Chemicals segment was the major contributor to the 1987 increase in consolidated earnings and overall return on average capital employed. Earnings rose to $107 million from losses of $7 million and $11 million for 1986 and 1985 respectively. Improved prices and higher volumes for styrene, together with higher prices for polymers, were the major factors in the segment's 1987 success. Profit for industrial chemicals remained at 1986 levels.

Resources segment earnings increased to $154 million in 1987 from $74 million in 1986, due primarily to the elimination of Petroleum and Gas Revenue Tax effective in October 1986, strengthened oil prices in 1987 and decreased exploration write-offs (1986 earnings included write-offs of $27 million associated with the suspension of East Coast offshore exploration programs). These increases were partially offset by a reduction in earnings due to lower natural gas and sulphur prices. Reduced prices for gas stemmed from competition stimulated in part by deregulation of the natural gas industry in late 1986, while the decline in sulphur prices arose due to heightened competition in an environment of larger available supplies and moderately reduced demand. The effect of the price declines was mitigated, to a large extent, by higher sales volumes for gas, liquids and sulphur realized through successful marketing programs in new and existing markets.

Oil Products earnings for 1987 of $122 million compared with 1986 earnings of $129 million and the 1985 level of $54 million. The 1987 results included an after-tax gain of $21 million on the sale of the Bowden refinery. The reduction in operating earnings, after excluding the Bowden gain, resulted from lower margins due to intense price competition throughout all Canadian markets.

Corporate expenses declined to $33 million in 1987 from $42 million in 1986 and $89 million in 1985. The reduction from 1986 and 1985 levels was due primarily to lower financing costs. This resulted from the early retirement, in 1986, of $200 million (U.S.) 14 1/8-per-cent sinking fund debentures, measures taken to lower the cost of existing debt and the impact of a stronger Canadian dollar on U.S. denominated borrowings. Corporate results also included benefits of $20 million in 1987 and $36 million in 1986 relating to the acquisition of Shell Explorer Limited. Offsetting these reductions was a negative inventory profit adjustment due to unrealized profit on inter-segment crude oil sales. The increased unrealized profit resulted from higher 1987 crude oil prices.

Improved cash flow from operations

Cash flow from operations increased to $732 million for 1987 compared with $711 million in 1986 (1985 – $600 million). Increased cash flow provided by the Chemicals segment was the principal factor contributing to this improvement. A marginal

1 9 8 7 A C H I E V E M E N T S

Exceptional Chemicals segment performance and a substantial increase in Resources earnings lifted consolidated earnings to $350 million

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Return on average capital employed increased to 8.6 per cent

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Continued success in the reduction of financing costs increase in cash flow provided by Resources was offset by a reduction in Oil Products.

Resources emphasis in Western Canada

Most of the Corporation's capital and exploration expenditures occurred in Resources. Total expenditures in the segment for 1987 were $262 million, down from $361 million for 1986 (1985 – $367 million). The decline reflected a reduction of exploration expenditures within frontier areas as well as the completion, in 1986, of the first phase of the Peace River in-situ oil sands expansion. Expenditures in 1987 were concentrated in conventional opportunities in Western Canada. During the last two years this strategy has provided significant low-cost additions to reserves.

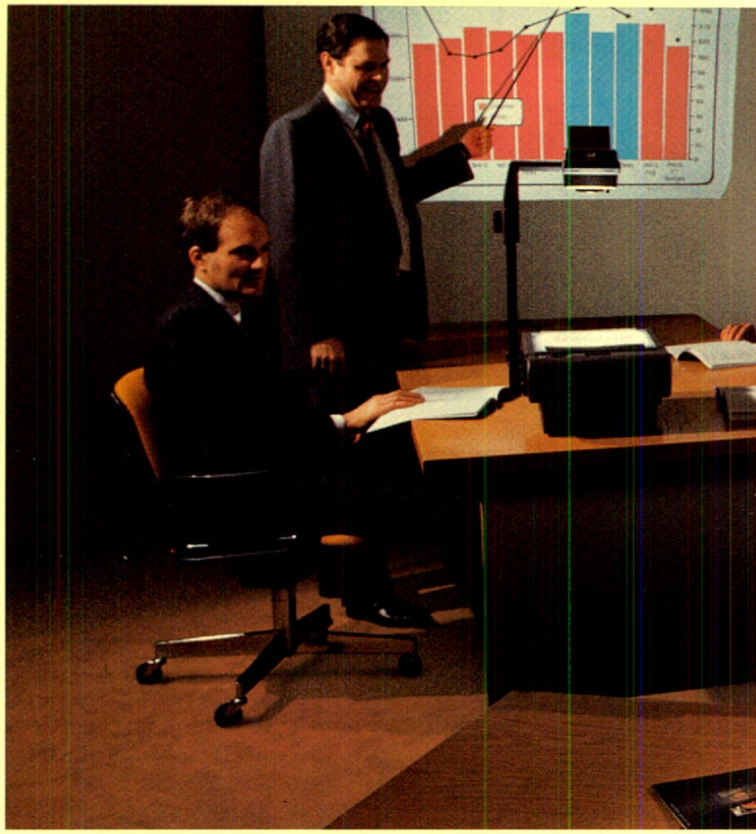
Expenditures in Oil Products were $124 million, up from 1986 and 1985 levels of $79 million and $40 million respectively. The increase was due to the completion of the $86 million residual catalytic cracking unit at Montreal East refinery, constructed to meet the lead phase-down requirements in gasoline. As well, the unit will reduce the amount of heavy fuel oil produced and provide additional chemical feedstocks.

Capital expenditures in Chemicals, at $4 million, were composed mainly of costs required to maintain this segment's production capacity. Expenditures in 1986 were $12 million.

Corporate expenditures were $14 million, down from $129 million in 1986. The 1986 amount included $112 million for the acquisition of Shell Explorer Limited.

In addition to the capital and exploration expenditures, the Corporation acquired a one-third investment interest in Rainbow Pipe Line Company Ltd. for $27 million.

Proceeds on disposal of assets were $86 million, up from the 1986 amount of $23 million. This amount included $27 million from the sale of the Bowden refinery and $19 million from the disposition of residential land in the Brampton, Ontario, area. Additional proceeds were received from the sale of the assets of Canadian Oil Company Limited, a wholly-owned re-refinery in Toronto, and the sale of three vessels in the Shell Canadian Tankers fleet.



At right, in foreground, are G.B. Darou, Vice President (Finance), G.L. Peterson, Controller, and E.F.J. Marschall, Treasurer. Peter Snell of Management Reporting (left, background) leads analysis of financial statistics with Nick Robertson, Charles Leong and Carolyn McLaughlin.

Long-term financing cost reduction

During the year, four million Series "A" Preferred Shares were redeemed at a total cost of $100 million plus accrued dividends. In 1986 the Corporation retired $200 million (U.S.) 14 1/8-per-cent sinking fund debentures. During 1987, in preparation for further refinancing activity, the Corporation issued $100 million 11 1/2-per-cent debentures. Interest on these debentures is payable on a floating rate basis under an interest rate swap agreement. All of these transactions were completed in connection with the Corporation's long-term plan to reduce overall financing costs.

Dividend rate increased

In light of the 1987 improvement in consolidated earnings, the Corporation increased the dividend rate on Class "A" Common Shares to 70 cents a share from the 1986 and 1985 rate of 60 cents a share.

Review and outlook

The year 1987 was outstanding with continued oil and gas exploration and development successes, growth within natural gas, sulphur and chemicals markets, protection of Oil Products' market position in the face of intense competition and reduced financing costs. These successes contributed to Shell Canada's strong financial performance throughout 1987 and the strengthened balance sheet at the end of the year.

Resources and Chemicals commodity prices remain key determinants of the Corporation's future financial performance. Strong results are anticipated in 1988, although earnings may not match the 1987 level. However, barring any major decline in prices, earnings and the overall rate of return on capital employed are expected significantly to exceed levels attained in 1986 and 1985.

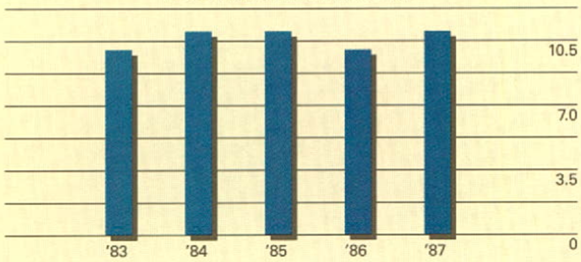
Capital and exploration expenditures of $511 million are planned for 1988. This expenditure plan relates directly to the Corporation's long-term strategies. Expenditures of $349 million are anticipated for Resources, Shell's principal source of long-term growth in earnings and return on investment. Oil Products expects spending of $127 million to support and strengthen the segment's competitive position. Chemicals expenditures of $12 million are required essentially to maintain production capacity. Within the Corporate segment, expenditures of $23 million are budgeted primarily to provide enhanced computer and communications support.

In 1988 the Corporation will continue with the plan to reduce financing costs, as demonstrated by the January 1988 retirement of $100 million 11¾-per-cent debentures. A further reduction in financing levels (including preferred shares) of $150 million is anticipated in 1988. Since 1985 this plan has contributed to Shell's strengthened financial position as exemplified by long-term debt as a percentage of total capital employed. This ratio has improved from 21.8 per cent in 1985 to 15.0 per cent in 1987 and an anticipated 14.0 per cent in 1988. The interest coverage increased from 4.0 in 1985 to 7.0 in 1987.

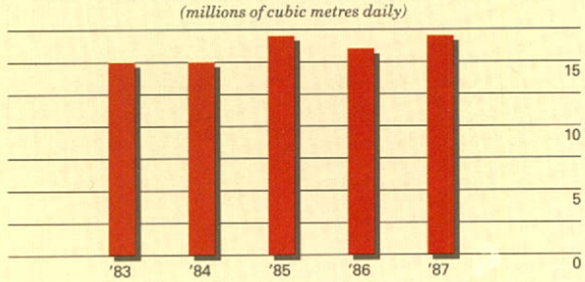
Shell Canada has a strong financial base as it enters 1988 and expects continued successes from the foregoing investment and financing plans. As a result, the Corporation has significant capacity to consider any additional business opportunities identified in the year or to withstand any unanticipated adverse market conditions.

OPERATIONS REVIEW
RESOURCES

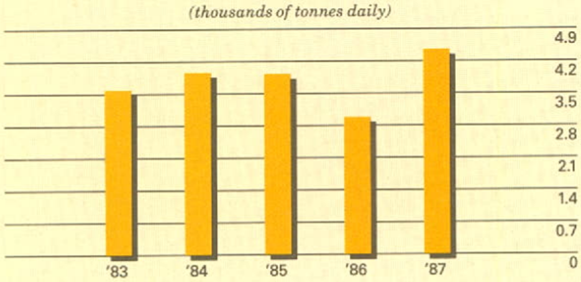
GROSS PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS
(thousands of cubic metres daily)



GROSS NATURAL GAS VOLUMES PRODUCED AND SOLD
(millions of cubic metres daily)



SULPHUR SALES
(thousands of tonnes daily)



RESOURCES FINANCIAL PROFILE

($ millions)	**1987**	1986	1985
Revenues	**1 053**	1 040	1 454
Earnings	**154**	74	192
Capital employed	**1 847**	1 789	1 745
Capital and exploration expenditures	**262**	361	367
Return on average capital employed (%)	**8.5**	4.2	11.5

Successful exploration and development and a doubling of earnings by Resources were significant 1987 achievements. Production levels were the highest in recent years and additions to reserves more than replaced production in all categories. Reserves additions of crude oil and condensate replaced production by 180 per cent, with year-end reserves totalling 23.2 million cubic metres. Natural gas reserves additions offset production by 120 per cent, bringing total reserves to 90.8 billion cubic metres. Adding to this exceptional year, the Corporation also posted reserves additions of natural gas liquids that replaced annual production sevenfold, increasing year-end reserves to 13.7 million cubic metres. Sulphur reserves additions replaced sales by 190 per cent. Development of the large Caroline field in Alberta accounted for most of the increases in the natural gas liquids, condensate and sulphur reserves bases. Further details are on page 38.

Shell invested $259 million in oil and gas exploration and development in 1987, concentrating on selected opportunities in Western Canada while maintaining and protecting positions in the Mackenzie Delta and East Coast offshore. The Corporation, alone and in joint ventures, recorded a net total of four oil and three natural gas discoveries in 1987. Overall, there were 62 exploration and development wells drilled, of which 20 were successful oil and 26 were successful gas wells.

Shell's strategic emphasis on enhanced oil recovery (EOR), using miscible flooding techniques to increase production from mature oil fields, continued through 1987. As part of this, the Corporation and partners are proceeding with a $100 million EOR project in the Virginia Hills field in Alberta.

Shell also pursued successful expansion of markets for natural gas and sulphur during the year as further deregulation of the gas industry removed an impediment to export sales.

The National Energy Board abandoned a longstanding surplus test that had been applied to exports. The test required producers to maintain about 20 to 22 years of gas supply for domestic markets as a condition of obtaining export permits. Under the new market-based system, the regulatory body will monitor supply and assess demand in periodic studies.

In response to the deregulated climate, the Corporation is intensifying its direct sales program complementing traditional long-term contracts. Canadian and U.S. regulatory approvals were obtained in 1987 for Shell's project to deliver Alberta gas to the northeast U.S. by converting an out-of-use oil pipeline between Montreal and Portland, Maine, to gas transportation. Deliveries on an interruptible basis started in November 1987. After installation of some new facilities, firm service at 700 000 cubic metres daily is expected to begin on November 1, 1988.

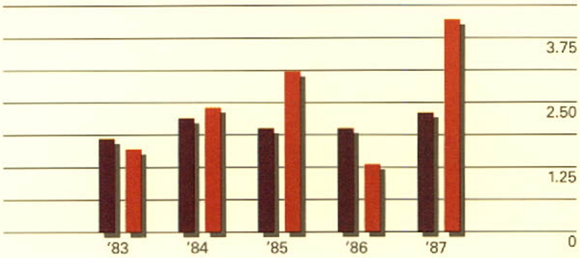
The Corporation anticipates that export volumes of gas will expand gradually and is confident of improving its market share despite severe competition. Prices, however, continue to be weak and will likely remain so until the gas surplus dissipates. As U.S. gas availability declines, a moderate rise in gas prices is anticipated.

Natural gas successes

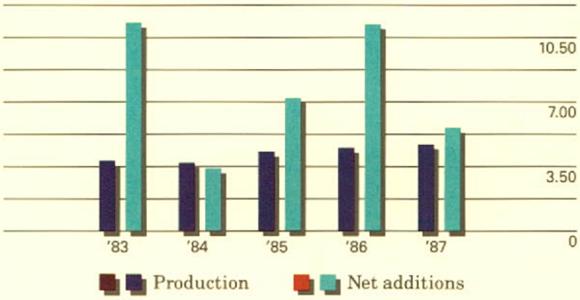
A highlight of 1987 activity was Shell's successful land acquisitions in the greater Caroline area of west-central Alberta following its major gas/condensate discovery in 1986. The Corporation, as project leader, is co-ordinating with partners the development of the Caroline field, about 100 kilometres north of Calgary. Three successful wells were drilled in 1987 and six outstep wells are planned for 1988. A major exploration effort is in progress south and north of the Caroline find; one well was successful, two were suspended, two were abandoned and one other was being drilled.

Natural gas discoveries were also made at Clearwater in the west-central foothills and at Braeburn in north-central Alberta. Tests at Clearwater indicated a flow rate of 590 000 cubic metres a day. Construction is under way to connect five Shell-interest Clearwater wells to a processing plant

CRUDE OIL AND CONDENSATE RESERVES
(millions of cubic metres)



NATURAL GAS RESERVES
(billions of cubic metres)



at Ram River, with production expected to begin late in 1988.

Shell received regulatory approval for development of the 100-per-cent-owned Panther River gas field about 90 kilometres northwest of Calgary. Surveying and clearing of the pipeline right-of-way was started, with five wells to be brought on stream in 1989.

There were 10 successful step-out and infill wells drilled at Limestone and Jumping Pound West, northwest of Calgary, at Simonette, northwest of Edmonton, and at Cranberry in northern Alberta as part of a program to maximize gas deliverabilities under existing contracts. As part of the same program, four successful wells were drilled in the Waterton area of southwest Alberta and an existing suspended well was worked over to become a commercial producer.

1987 ACHIEVEMENTS

A landmark year: Reserves additions in all categories exceeded high 1987 production levels

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Of 62 net wells drilled, 20 were successful oil and 26 successful natural gas

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Record sales volume of 1.6 million tonnes of sulphur

During the year, Shell re-entered north-eastern British Columbia to connect the Sikanni gas field for production.

Record sulphur sales

Shell shipped a record volume of approximately 1.6 million tonnes of sulphur in 1987, up from 1.1 million tonnes a year earlier. The increase resulted from the success of an aggressive selling program in Canada and for the U.S. market, together with the development of new business and the enlarging of delivery contracts in overseas markets.

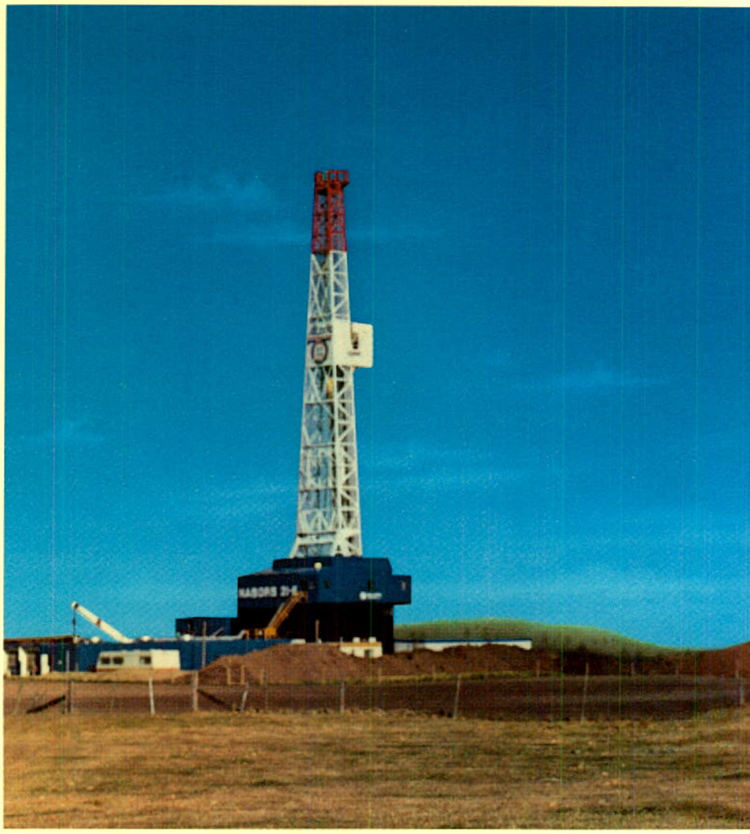
Prices were soft during the first half of the year, but a firmer trend developed in spot prices during the last half. Demand for sulphur should continue to strengthen in 1988.

The Corporation received approval from the Alberta Energy Resources Conservation Board for the Bearberry demonstration sulphur recovery project, about 100 kilometres northwest of Calgary. Engineering work and planning are proceeding. The project will demonstrate the technical and economic potential for commercial development of the Bearberry field, which contains very high levels of hydrogen sulphide.

Crude oil developments

Oil exploration programs in 1987 were concentrated chiefly in selected areas of Alberta, with limited activity in Saskatchewan. Four successful wells were drilled at Kidney and one at Dawson in north-central Alberta. Two discoveries were made at Tableland and one at Macoun in Saskatchewan, all under farm-out agreements.

As part of an ongoing program to improve oil production from existing fields, infill drilling was conducted at several Shell-operated fields, including 10 wells in Pembina, Swan Hills and Virginia Hills, all in north-central Alberta. A similar program was undertaken in two outside-operated fields – Weyburn in southeast Saskatchewan and Harmattan-Elkton north of Calgary – with a total of 16 infill wells. Outstep drilling in Shell-operated Alberta fields resulted in 14 successful wells at Progress/Gordondale, Kidney and Slave while four oil wells were drilled under farm-out in a new play in the Royce area west of Peace River.



J.M. MacLeod, President and Chief Executive Officer, (left) J.E. Czaja, Executive Vice President (Resources), and P.J. Merki, Vice President (Exploration) study map during tour of the Caroline natural gas field, among the largest Alberta discoveries in two decades.

At the end of the year, Shell acquired a one-third interest in Rainbow Pipe Line for $27 million. The 1100-kilometre pipeline system transports crude oil and Peace River bitumen production from northwestern Alberta to Edmonton.

Enhanced recovery projects

Agreement was reached with partners to proceed with a major EOR project in the Virginia Hills field in north-central Alberta. It will include a hydrocarbon miscible flood in the southern part of the field and optimization of waterflood operations in the northern half. Shell's share of investment is about $50 million, and the Corporation could realize additional reserves of up to 2.1 million cubic metres of oil, of which 0.5 million cubic metres have been booked as proved. Construction will start in 1988, with the project to be fully operational in 1990.

At Harmattan East, a miscible flood project will start up in 1988. This EOR project will use

waste carbon dioxide from the field's gas processing plant as a flooding agent.

Performance of a three-year-old pilot EOR project in the Shell-operated Midale field of southeast Saskatchewan has been encouraging to date. Results from the project will be used to determine whether commercial-scale carbon dioxide flooding is feasible at Midale and other southeastern Saskatchewan oil fields.

Peace River oil sands production

Shell completed the first full year of production from its expanded Peace River oil sands operation in northern Alberta. Since start-up of the first-phase expansion in the fourth quarter of 1986, daily production rates have increased and were ahead of targets by year-end 1987. Sustained production at the design capacity of 1600 cubic metres a day should be achieved by the end of 1988. The Peace River project began as a pilot in 1979.

The Corporation received regulatory approval in early 1988 for a second-phase expansion that would involve an investment of about $570 million by Shell and a partner. Final process design for this expansion of 6400 cubic metres daily will be completed in 1988. Preliminary road building, construction of initial drilling pads and field work will also be under way, permitting a project commitment by early 1989, subject to satisfactory economics at the time.

During 1987 the Peace River oil sands complex, as well as the Waterton natural gas plant, reached significant safety marks of one million accident-free hours worked.

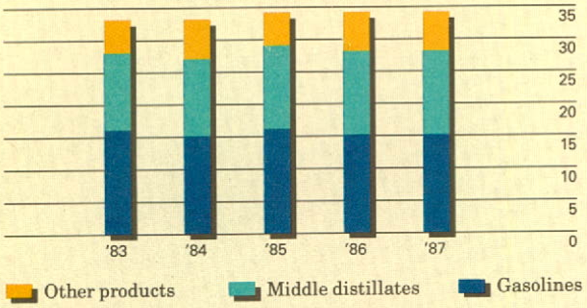
Pressure on coal markets

Coal prices continued under pressure in 1987 and competition remained intense. Crows Nest Resources achieved further productivity improvements during the year at its Line Creek mine in southeastern British Columbia. The mine's lost-time accident frequency rate declined by 70 per cent and was the best safety record in the B.C. coal industry.

The mine produces metallurgical coal for customers in Japan and Korea and thermal coal for Korean customers. Crows Nest shipped 1 162 000 tonnes of metallurgical and 735 000 tonnes of thermal coal in 1987 compared with 1 006 000 tonnes and 834 000 tonnes respectively in the previous year.

International markets for coal are expected to remain over-supplied in the near future.

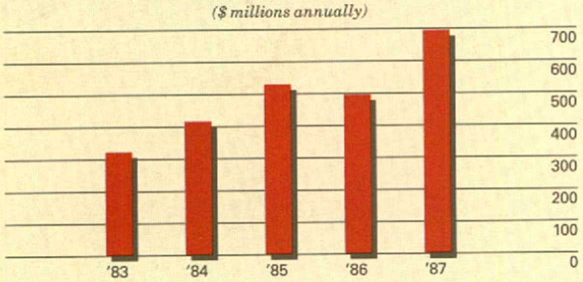
PETROLEUM PRODUCT SALES
(thousands of cubic metres daily)



OIL PRODUCTS FINANCIAL PROFILE

($ millions)	**1987**	1986	1985
Revenues	**3 494**	3 592	4 504
Earnings	**122**	129	54
Capital employed	**1 797**	1 700	2 029
Capital expenditures	**124**	79	40
Return on average capital employed (%)	**7.0**	6.9	2.6

CHEMICAL PRODUCT SALES REVENUES
($ millions annually)



CHEMICALS FINANCIAL PROFILE

($ millions)	**1987**	1986	1985
Revenues	**691**	494	527
Earnings (loss)	**107**	(7)	(11)
Capital employed	**840**	842	943
Capital expenditures	**4**	12	23
Return on average capital employed (%)	**12.7**	–	–

OPERATIONS REVIEW PRODUCTS

In the Chemicals segment, strong demand for styrene and polymers resulted in higher prices and margins and a dramatic turn-around in earnings. A slight decline in sales volumes, together with a drop in operating margins due to severe price competition, contributed to reduced Oil Products earnings in 1987.

OIL PRODUCTS

Intense competition and gasoline price wars depressed product prices across Canada in 1987. Operating earnings were lower than in 1986, primarily because higher crude oil costs could not be fully recovered under the constant downward pressure on prices generally.

Some provincial governments increased their intervention in petroleum product pricing, either directly or through regulatory bodies. Such action, notably in Nova Scotia, Prince Edward Island and to a lesser extent in Quebec, is contrary to the spirit of the federal government's moves to deregulate the oil industry in 1985 and is incompatible with the more competitive environment fostered by that initiative. The Corporation strongly believes that competition in the marketplace should be the sole price determinant.

Shell attended a number of hearings and meetings in 1987 with various provincial officials and agencies to explain its pricing policies relative to crude costs.

Shell Canada Products continually strives to improve its efficiency as a marketer and refiner. With the new Formula Shell gasolines, as well as successful promotional campaigns, the Oil Products organization continues to be well positioned in a very competitive marketplace that still has excess refining capacity.

Strong marketing programs

Several aggressive marketing programs enabled Shell to maintain its market position in 1987.

The retail station network was further developed, with an increasing variety of products and services available to the motoring public. This was done in parallel to continued major programs emphasizing customer service and satisfaction. Training schools established in 1986 were expanded to cover virtually all service station attendants as well as marketing sales representives and district managers.

Marketing initiatives were undertaken in concert with Shell's involvement in the 1988 Winter Olympic Games in Calgary where it was an official corporate sponsor of the Olympic Arts Festival. Promotional activities were designed to help customers and visitors understand and enjoy the Games. Service station promotions included an 84-page factbook for television viewers as well as toques, pins and posters. In Calgary, retail outlets became information centres and several had touch-screen computers to provide Olympic history and details on events. All the sites supplied maps, brochures, telephone services and travel information. Shell volunteers operated a road patrol, with a local radio station, to assist travellers to the Games.

In addition to ongoing programs directed at upgrading the retail network and enhancing customer convenience, Oil Products expanded its varied service features. Clean Plus car washes showed significant growth along with do-it-yourself washes in climate-controlled multiple bay centres. Expansion of the one-stop convenience food store network (Circle K in Western Canada, 7/Eleven in Ontario and Provigo in Quebec) continues. A major redevelopment was commenced in 1987 of five Ontario service centres along Highway 401 between Windsor and the Quebec border and increased sales are anticipated at these high-volume outlets. Shell's cardlock and fleet service program established in 1986 continues to produce impressive gains in new commercial accounts by offering 24-hour access to fuel pumps and a superior invoicing system.

Following successful results from a pilot test in British Columbia, the Corporation is extending its centralized inquiry- and complaint-handling service across the country. This Calgary-based Shell Helps project involves a toll-free phone number and specially trained personnel to answer customer inquiries and resolve problems.

Redundant assets sold

Shell Canada Products sold various assets considered redundant or unnecessary for its ongoing operations.

The assets of Canadian Oil Company, a wholly-owned re-refinery operation in Toronto, were sold to a private company in the first half of the year. The re-refinery recycles waste lubricating oil into usable petroleum products.

Also sold were three vessels in the Shell Canadian Tankers fleet that had operated in the Great Lakes, St. Lawrence River and Eastern Arctic. The vessels – Lakeshell, Eastern Shell and Northern Shell – went to Socanav Inc. of Montreal with which Shell now has a 10-year service agreement. A bunkering vessel, Rivershell, was not affected by the sale.

In Alberta, the Bowden refinery north of Calgary was sold to Parkland Refining Ltd. of Red Deer. The refinery, first opened in 1960 and part of Shell's purchase of Canadian Oil Companies, Limited in 1963, produced mainly motor gasoline and had a design capacity of 1065 cubic metres daily.

1 9 8 7 A C H I E V E M E N T S

Dramatic turn-around in Chemicals earnings from a loss in 1986

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Aggressive programs maintained Oil Products' market position

•

New unit increases efficiencies at Montreal East refinery

Refinery efficiencies

A new $86 million residual catalytic cracking unit went into operation in November at Montreal East refinery. It will decrease the amount of heavy fuel oil produced, provide additional chemical feedstocks, improve energy efficiency and help the refinery to meet legislated restrictions on lead content in gasoline. The federal government has set a target for the removal of all lead in gasoline by the end of 1992. The refinery unit was completed with one of the best construction safety records in Quebec in recent years.

Shell's four refineries – Montreal East, Sarnia, Scotford and Shellburn – operated at an average utilization rate of 84 per cent in 1987. Improved operations at Scotford, near Fort Saskatchewan, Alberta, made Bowden production excess to the Corporation's requirements. When Bowden's sale was completed in November, the refinery had marked 24 years of operation without a lost-time accident.

Significant safety achievements were also recorded at the Shell refineries, all of which had adopted the International Loss Control Institute's stringent five-star program. Measured against internationally recognized standards of training and work habits, Shellburn and Scotford refineries were awarded four-star ratings in 1987. Montreal East and Sarnia Manufacturing Centre each carry an acceptable three-star rating.

Continued lubricants growth

The lubricants division continued to increase sales of both lubricating oils and greases in 1987, specifically in sales of packaged goods which had a significant 25-per-cent increase in volume. To meet this greater demand, plant facilities at Montreal, Toronto and Calgary were running at high throughputs during the year.

In addition, new packaging equipment – a one-litre lube oil line in Toronto and a new grease line in Montreal – was installed to expand and upgrade operations.

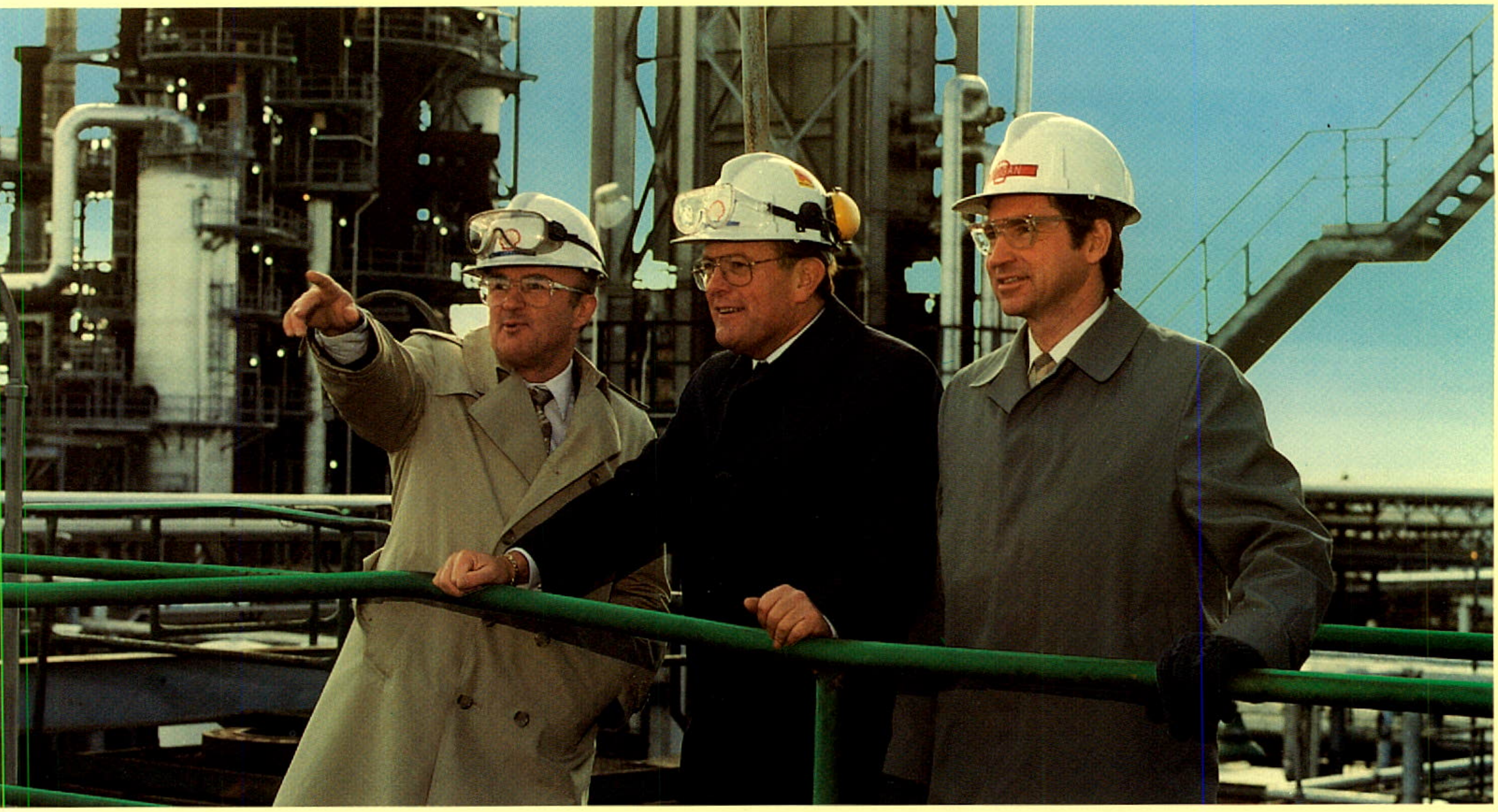
D.J. Taylor, Executive Vice President (Products), (centre) and J.K. Hogan, Vice President (Engineering and Construction), (right) are shown sections of the Montreal East refinery by Manufacturing Manager Gaston Lafontaine. Behind them is the new residual catalytic cracking unit which began operation in November; the old unit is at left.

CHEMICALS

Earnings in the Chemicals segment were up sharply from a year earlier. Results were particularly strong for styrene and polymers, due to higher margins resulting from increased worldwide demand.

Styrene business

There was a dramatic rebound in 1987 earnings for the styrene business from losses reported in 1986. Higher demand for styrene in both domestic and export markets, combined with stable supply, brought significant margin improvements throughout the year. Orders for styrene derivatives remained strong, especially in thermoplastics such as polystyrene.



In polystyrene markets, above-average growth occurred in fast food service supplies, such as clamshell burger packs and take-out salad containers, and in dairy products, including egg cartons. Polystyrene demand also increased for use in radio and video cassette parts, for computer housings, appliances and automotive parts, and for protective contoured shapes and loose-fill packaging. Unsaturated polyester, a thermoset resin derived from styrene, experienced expanding applications in recreational vehicles, boat hulls and bathroom fixtures.

Shell has developed an effective marketing network, particularly in Pacific Rim countries and the United States, to meet this growing demand. The outlook remains favourable for 1988.

Production problems in 1986 at the Scotford chemical plant in Alberta have been resolved. During 1987 the plant produced styrene at close to its capacity of 308 000 tonnes.

Polymers business

Improved earnings and strong sales volumes were reported by the polymers business in 1987.

International and domestic demand for polypropylene remained at a high level throughout the year, with supply shortages in some export areas resulting in firmer prices.

Polypropylene is a versatile polymer used in carpet backing, fine fibres, ropes, packaging and a wide variety of consumer items. New grades and applications continued to be developed during 1987, strengthening Shell's overall market position.

The Sarnia chemical plant in Ontario operated at full capacity and construction for minor debottlenecking of the plant was started in 1987. This will provide increased capacity in 1988 in response to anticipated demand growth in world and Canadian markets.

Industrial chemicals business

Industrial chemicals was led by a strong performance in aromatics sales due to tight supply and high demand for benzene in the first half of 1987. Total earnings, production and sales of industrial chemicals were essentially the same as in 1986.

New products continued to be developed, including a low-odour solvent for commercial coatings and a hydrocarbon solvent for use in oil fields.

Sustained demand for industrial chemicals is expected in 1988.

Technology is a fundamental ingredient of Shell Canada's strategies. It is applied aggressively to achieve oil and natural gas reserves replacement, reductions in operating costs and improvements in the Corporation's processes and products. Relevant research and development programs are carefully focused on market opportunities and Shell's operating needs.

Total expenditures by the Research and Technology department in 1987 were $54 million compared with $44 million in 1986. Most of Shell's spending in Canada was at research centres in Calgary and Oakville where a total of 234 people are employed. Capital expenditures amounted to $2 million. Total expenditures included spending in a cost-sharing agreement with Shell Internationale Research Maatschappij B.V., making available some $720 million worth of innovations and developments from other Shell laboratories worldwide.

Safety milestones were reached at the research centres in 1987 – one million accident-free hours at Calgary and the second consecutive accident-free year at Oakville.

Research with a business focus

Research and technical service programs at the Calgary Research Centre support Resources business activities.

To maximize oil reserves from conventional fields, experimental studies were carried out to determine optimum conditions for enhanced recovery techniques, in particular miscible hydrocarbon and carbon dioxide flooding. At Peace River, Shell's patented pressure-cycle, steam-drive process is proving to be a very effective oil sands in-situ production process. Nevertheless, the research centre continues to work for better results, with progress in such areas as improved separation and handling of produced bitumen and the recycling of recovered water for steam generation. For both conventional fields and oil sands, additional research has been focused on improving Shell's ability to model reservoir production characteristics by computer simulation.

The Bearberry demonstration project in Alberta also represents a significant technical challenge. Not only does the reservoir contain high levels of hydrogen sulphide, requiring careful consideration of materials selection and safety, but it contains elemental sulphur, which may create plugging problems in the reservoir and production equipment. Programs have been undertaken at both research centres on reservoir flow behaviour, process techniques and preferred materials for such unique operating conditions. With this know-how, engineers will be able to develop effective and safe designs for Bearberry.

To support the Oil Products and Chemicals segments, the Oakville Research Centre has concentrated on development of new and distinctive products, optimizing refinery production and developing advanced processes.

Among the products developed at Oakville and introduced in 1987 is a railroad curve grease that reduces track and wheel wear and which, since its introduction, has captured significant market share.

New and improved grades of polypropylene were also developed to satisfy diverse customer needs. These specially designed grades, introduced in 1987, provide manufacturers of bottle caps and container lids with a polymer that increases productivity and reduces costs.

Other work at Oakville has led to an increase in paving and industrial asphalt production at Montreal East refinery. The key to this was finding process routes that allow asphalt production from a wider range of crudes.

Another aspect of the Corporation's long-standing commitment to oil sands development is its current investment in advanced technology which will be needed in large upgrading units to convert the bitumen into synthetic crude. Improvements being made to Shell's Hycon process hold promise of higher levels of conversion and better synthetic crude quality.

D.G. Stoneman, Senior Vice President (Operations and Marketing), (left) and L.F. Bolger, Vice President (Research), examine corrosion effect in materials research at Calgary. Technologist Barry Valgardson (background) operates safety pressure vessel in which materials are tested with corrosive hydrogen sulphide.

Quality management programs

In 1987 an enhanced products quality management program was established, including the development of new specifications for fuels and lubricants aimed at customer satisfaction. Experimental work also continued in exploring the potential of computer-based knowledge systems to improve the efficiency of the human skills base.

A critical examination of the cost-effectiveness of the Corporation's research and technology programs was undertaken and plans developed to maximize their benefits. This will allow Shell to better assess and adjust the balance of its spending on technology between support for current and longer-term business plans.

Shell's relationships with a number of universities were strengthened through grants and joint research projects.

The Corporation also became a founding member of Precarn Associates Inc., an industry-driven joint venture for undertaking precompetitive research in "artificial intelligence" and robotics at universities and other research facilities.

1 9 8 7 A C H I E V E M E N T S

Research proceeds on sulphur recovery challenges of the Bearberry project in Alberta

•

Distinctive polypropylene grades developed to meet growing demand

•

Progress on improving bitumen recovery at Peace River, Alberta

OPERATIONS REVIEW
PEOPLE ACTIVITIES

Several program and policy initiatives undertaken in 1987 by Human Resources were directed to providing employees with greater opportunities to shape their jobs and careers at Shell. They represented a response to employee communication sessions across the country and feedback from a previously conducted survey.

A new employee performance and development review process, implemented in 1987, offers more open communication for Shell people to discuss fully their performance and career potential with their supervisors. Some employees in Calgary were introduced to a new program, Career Information Network, which allows them to nominate themselves for internal job vacancies. This program will be expanded to other Shell locations in 1988.

In keeping with its commitment to employment equity, approximately one-third of Shell's 1987 university and college recruits were women.

A major statement of corporate ethics, defining Shell's philosophy for managing the business and outlining standards of conduct for employees, was circulated throughout the Corporation in 1987.

About 2,000 salaried positions were evaluated during the year to ensure consistency in salary administration. This extensive program involved supervisors and employees in the development of detailed descriptions of duties and responsibilities.

A review of the effectiveness of Corporation-sponsored employee training was completed in 1987 and will provide the basis for a new approach to management and technical training.

Shell continues to expand use of computing and telecommunications technology to improve work quality and make information readily available for those needing it. In 1987, planning for information technology by the Information and Computing department was integrated with the normal business planning process.

R.R. Picard, Vice President (Human Resources), H.W. Lemieux, Vice President (General Counsel) and Secretary, and R.A. MacDonell, Senior Vice President (Business Services), (left to right) in foreground. In background, Richard Jackson teaches programming language course in Shell's Calgary Training Centre.

Health, safety and environment

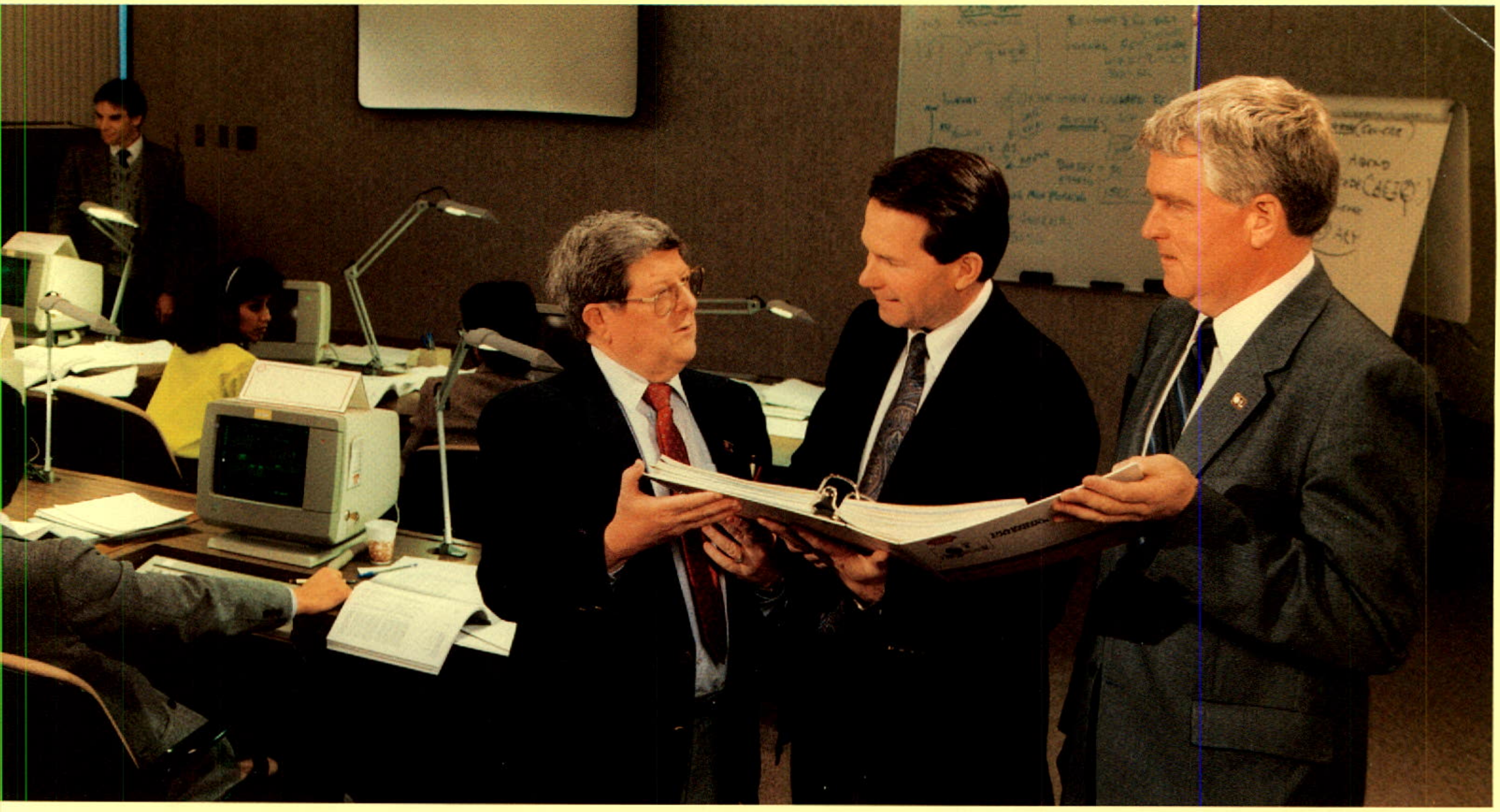
Shell's strong commitment to human health and safety, and to environmental protection, was recognized in two corporate awards received in 1987.

The first Environmental Award to a corporation from the province of Alberta notes that Shell Canada's long-term regard for "sound environmental management has had a very positive impact in this province and set high standards for industry."

The Corporation also received an award for "an outstanding fitness and lifestyle program." The award, one of six presented by the Canadian Chamber of Commerce and Fitness Canada, recognizes Shell's success in organizing a variety of programs at locations across Canada. Employee participation in fitness programs has shown steady growth.

A new policy restricted smoking to designated areas in Shell office buildings in 1987. The final phase of the policy resulted in a smoking ban in all Shell-leased space in major office buildings starting March 1, 1988. Operating locations are establishing realistic timetables for implementing plans to comply with the general intent of the policy.

Continued emphasis on sound and effective safety programs and attitudes throughout the Corporation resulted in a further reduction of 11 per cent in the lost-time accident frequency rate in



1987. Unfortunately, in spite of these efforts, one Shell and two contractor employees were killed while working at Shell facilities.

The Corporation continues to support research projects directed to protecting wildlife that could be affected by Shell activities in the foothills and mountains of Alberta and British Columbia. Studies in 1987 concentrated on bighorn sheep, grizzly bears and cougars.

Health-related risk assessment and management are receiving greater attention because of environmental and occupational health concerns associated with exposure to chemicals. Shell regularly evaluates chemical hazards, measures workplace exposures and monitors the health of employees. This integrated approach provides information necessary for ensuring a safe and healthy environment for those working in and around Shell facilities.

Shell in the community

Beyond its primary economic role of providing quality products to customers as efficiently as possible, while earning an adequate return for shareholders, Shell recognizes that there are many additional responsibilities in the society in which it operates.

It contributed, for example, through grants, donations and other programs in 1987, to activities which may not be directly related to the business but which reflect wider support to the community.

As an essential part of its community involvement, Shell Canada acknowledges a responsibility to communicate openly on public issues where it has relevant information and experience. The Corporation strives to share such data and analyses with governments and their agencies, the news media and, in growing importance, community groups interested in and affected by proposed Shell developments.

1987 ACHIEVEMENTS

More opportunities for employees to shape their jobs and careers

•

Further reduction in corporate-wide lost-time accident frequency rate

•

Expanded communication with community groups on proposed developments

Caribou Inuit young girl's parka

Micmac or Maliseet basket

Maliseet woman's beaded hat

Shell Canada is proud to be involved in making possible a magnificent exhibition of Indian and Inuit art objects entitled ***The Spirit Sings: Artistic Traditions of Canada's First Peoples.*** *The collection of more than 600 rare artifacts, from museums and private lenders in over 20 countries around the world, was organized by the Glenbow Museum in Calgary and funded primarily by Shell.*

The exhibition, reflecting the variety, richness and inspiration of aboriginal cultures as they were before the first Europeans came to North American shores, was the centrepiece of the visual arts festival of the XV Winter Olympics in Calgary in February 1988. It is also scheduled to be part of Canada Day celebrations July 1 in Ottawa during a four-month display supported by the Canadian Museum of Civilization.

Brought together in a single exhibition for the first time, the unique artifacts – clothing and costumes ornamented with beads and quillwork, stone, wood and bone carvings, jewelry, bowls, boxes, canoes and masks – are widely regarded as contributing to a deeper understanding and appreciation of Canada's native heritage.

The Spirit Sings logo, derived from Ojibwa drum

Tlingit chief's hat, topped by potlach rings

Iroquois ball-headed club

Huron-Abenaki birchbark model canoe

Accounting policies

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:

Principles of consolidation

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

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 with provision made where a permanent decline in the value of such investments has occurred.

Inventories

Inventories of crude oil, products and merchandise are stated at the lower of cost, applied on a "first-in, first-out" basis, and net realizable value. Materials and supplies are stated at the lower of cost and estimated useful value.

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 and predevelopment costs, including geological and geophysical costs, are charged to earnings currently. All development costs are capitalized.

Interest

Interest costs are expensed as incurred.

Depreciation, depletion and amortization

Depreciation and depletion on resource assets is 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.

Deferred gas production revenue

Amounts received under take-or-pay contracts for future delivery of natural gas are recorded as deferred gas production revenue. The amounts are included in sales revenue when the related gas is delivered.

Royalties and mineral taxes

Alberta royalties on crude oil obtained from its Crown leases are required to be delivered in kind. All other royalty entitlements, which are not delivered in kind, and mineral taxes are reflected in the cost of purchased crude oil, petroleum products and other merchandise.

Government incentives

Government incentives, other than tax rate reductions, are accounted for as deductions from the related qualifying expenditures. Such government assistance is reflected in earnings immediately if the related qualifying expenditures are expensed, or through future depreciation, depletion and amortization provisions if the related qualifying expenditures are capitalized.

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.

Energy futures trading

The exposure of the Corporation to price fluctuation in some contractual energy purchases is reduced by entering into energy futures contracts. Any gain or loss on these transactions is applied to the cost of the purchased products in accordance with the intent to hedge risks rather than to speculate in the futures markets.

Shell Canada Limited

CONSOLIDATED STATEMENT OF EARNINGS

($ millions)

Year ended December 31	**1987**	1986	1985
Revenues			
Sales and other operating revenues	**4 819**	4 798	6 070
Dividends, interest and other income	**38**	20	32
	4 857	4 818	6 102
Expenses			
Purchased crude oil, petroleum products and other merchandise	**2 240**	2 383	3 686
Operating expenses	**870**	891	856
Selling and general expenses	**735**	641	577
Exploration and predevelopment expenses	**100**	182	121
Depreciation, depletion, amortization and retirements	**221**	240	229
Interest on long-term debt	**98**	143	128
Income taxes (Note 8)	**243**	162	236
Petroleum and gas revenue taxes	—	46	123
	4 507	4 688	5 956
Earnings			
Earnings before unusual items	**350**	130	146
Unusual items, after income taxes (Note 11)	—	24	—
Earnings for the year	**350**	154	146
Earnings per Class "A" Common Share (dollars)	**3.01**	1.24	1.17

CONSOLIDATED STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

($ millions)

Year ended December 31	**1987**	1986	1985
Earnings retained			
Balance at beginning of year	**1 562**	1 490	1 427
Earnings for the year	**350**	154	146
	1 912	1 644	1 573
Dividends paid (Note 3)	**92**	82	83
Balance at end of year	**1 820**	1 562	1 490

The accompanying notes are an integral part of these statements.

Shell Canada Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

($ millions)

Year ended December 31	**1987**	1986	1985
Cash flow from operating activities			
Earnings before unusual items	**350**	130	146
Exploration and predevelopment expenses	**100**	182	121
Expenses not requiring any outlay of cash			
Depreciation, depletion, amortization and retirements	**221**	240	229
Deferred income taxes [2]	**38**	103	73
Other items	**23**	56	31
Cash flow from operations	**732**	711	600
Movement in working capital excluding cash [1]			
(Increase) decrease in accounts receivable	**(57)**	203	(46)
(Increase) decrease in inventories	**(65)**	366	83
(Increase) decrease in prepaid expenses	**(20)**	(8)	(9)
Increase (decrease) in accounts payable and accrued liabilities	**(120)**	(248)	82
Increase (decrease) in income and other taxes payable [3]	**139**	(23)	(168)
Increase (decrease) in long-term debt due within one year	**224**	(5)	4
Deferred gas production revenue	**(38)**	(35)	(23)
	795	961	523
Cash flow invested			
Capital and exploration expenditures [4]	**(404)**	(581)	(469)
Investments	**(27)**	—	—
Long-term receivables and other	**(15)**	6	88
Proceeds on disposal of properties, plant and equipment	**86**	23	58
	(360)	(552)	(323)
Dividends paid			
Preferred shares	**(14)**	(15)	(16)
Common shares	**(78)**	(67)	(67)
	(92)	(82)	(83)
Cash flow from financing activities			
Capital stock	**(92)**	—	—
Long-term debt [5]	**(128)**	(320)	58
	(220)	(320)	58
Increase in cash [1]	**123**	7	175
Cash at December 31 [6]	**332**	209	202

1 Cash comprises cash and short-term investments less short-term borrowings.

2 The 1986 amount excludes deferred tax reductions of $69 million for unusual items.

3 The 1986 amount excludes current tax reductions of $12 million for unusual items.

4 The 1986 amount includes acquisition of Shell Explorer Limited (See Notes 10 and 11).

5 The 1986 amount includes premium and foreign exchange differential on the early redemption of debentures and a premium on the acquisition of resource properties from three pension funds (See Note 11).

6 The 1986 amount was reduced by the payment on January 2, 1987 of the $104 million note payable to affiliate.

The accompanying notes are an integral part of these statements.

Shell Canada Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ millions)

At December 31	**1987**	1986	1985
Assets			
Current assets			
Cash and short-term investments[1]	**332**	209	202
Accounts receivable	**708**	651	854
Inventories			
Crude oil, products and merchandise	**636**	563	927
Materials and supplies	**43**	51	53
Prepaid expenses	**56**	36	28
	1 775	1 510	2 064
Investments, long-term receivables and other	**132**	129	173
Properties, plant and equipment (Note 4)	**3 602**	3 586	3 562
	5 509	5 225	5 799
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	**476**	492	844
Income and other taxes payable	**139**	—	35
Note payable to affiliate	**—**	104	—
Long-term debt due within one year	**237**	13	18
	852	609	897
Deferred gas production revenue	**168**	206	241
Long-term debt (Note 5)	**700**	825	1 070
Deferred income taxes	**1 009**	971	1 049
	2 729	2 611	3 257
Shareholders' investment			
Capital stock (Note 3)	**669**	761	761
Contributed surplus	**291**	291	291
Earnings retained in the business	**1 820**	1 562	1 490
	2 780	2 614	2 542
Commitments (Note 9)			
Legal proceedings (Note 12)			
	5 509	5 225	5 799

[1] Short-term investments are carried at the lower of cost or market value.

The accompanying notes are an integral part of these statements.

The consolidated financial statements have been approved by the Board.

J.M. MacLeod, Director

Peter J.G. Bentley, Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

A summary of major accounting policies of Shell Canada is presented on page 21.

2. Other statement of earnings information

The following amounts were included in the determination of earnings:

($ millions)	**1987**	1986	1985
Sales revenues attributable to exports	**1 049**	889	1 244
Maintenance and repair expenses	**185**	174	168
Short-term interest expenses	**1**	1	2
Research and development expenses	**54**	44	34

3. Capital stock

	1987		1986		1985	
($ millions)	Issued	Dividends	Issued	Dividends	Issued	Dividends
6 000 000 Series "A" Preferred Shares (1986 and 1985 – 10 000 000)	**150**	**14**	250	15	250	16
100 4% Preference Shares	**1**	**—**	1	—	1	—
75 570 602 Class "A" Common Shares (1986 – 75 222 331; 1985 – 75 215 511)	**489**	**53**	481	45	481	45
9 087 039 Class "B" Common Shares	**29**	**25**	29	22	29	22
Total	**669**	**92**	761	82	761	83

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.

Series "A" Preferred Shares

The holders of Series "A" Preferred Shares are entitled to receive cumulative preferential dividends fixed at a rate of one-half of the Canadian bank prime rate plus five-eighths of one per cent. These shares are retractable at the holder's option on February 15, 1989 at the price of $25 per share plus accrued dividends. The shares are redeemable at the option of Shell Canada Limited on not less than 60 days notice, at a price equal to $25 per share plus accrued dividends to the redemption date. In 1987, four million shares were redeemed.

4% Preference Shares

The holder of the 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.

Common Shares

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

4. Segmented information

The Corporation operates principally in Canada in three industry segments: Resources, Oil Products and Chemicals.

Resources comprises exploration, production and marketing activities for crude oil, bitumen, natural gas, gas liquids, sulphur, synthetic oils and coal.

Oil Products and *Chemicals* include the manufacture, distribution and marketing of refined products and chemical products respectively.

Corporate includes cash, short-term securities, miscellaneous corporate ventures, long-term debt, general corporate facilities, unallocated corporate revenues and expenses, and interest on long-term debt.

Segmented financial results and property, plant and equipment data are reported as if the segments were separate entities. 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 the associated estimated profits are eliminated from total revenues and operating profit respectively.

Financial results
($ millions)
Sales and other revenues
Inter-segment sales
Total revenues
Operating profit (loss)
Depreciation, depletion, amortization, retirements
Interest on long-term debt
Income taxes
Petroleum and gas revenue taxes
Earnings (loss) before unusual items
Unusual items, after income taxes
Earnings (loss) for the year
Total assets
Capital employed [1]

Properties, plant and equipment
($ millions)
Resources
Conventional oil and gas
Non-conventional oil and gas, and coal
Oil Products
Refining
Marketing and transportation
Chemicals
Corporate
Total

1 Capital employed is total assets less current liabilities.

Resources			Oil Products			Chemicals			Corporate			Total		
1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
767	834	1 249	**3 355**	3 474	4 307	**691**	494	527	**44**	16	19	**4 857**	4 818	6 102
286	206	205	**139**	118	197	**—**	—	—	**—**	—	—	**—**	—	—
1 053	1 040	1 454	**3 494**	3 592	4 504	**691**	494	527	**44**	16	19	**4 857**	4 818	6 102
440	361	753	**232**	278	128	**239**	30	20	**1**	52	(39)	**912**	721	862
124	117	118	**33**[2]	63	61	**47**	44	44	**17**	16	6	**221**	240	229
—	—	—	**—**	—	—	**—**	—	—	**98**	143	128	**98**	143	128
162	124	320	**77**	86	13	**85**	(7)	(13)	**(81)**	(41)	(84)	**243**	162	236
—	46	123	**—**	—	—	**—**	—	—	**—**	—	—	**—**	46	123
154	74	192	**122**	129	54	**107**	(7)	(11)	**(33)**	(66)	(89)	**350**	130	146
—	—	—	**—**	—	—	**—**	—	—	**—**	24	—	**—**	24	—
154	74	192	**122**	129	54	**107**	(7)	(11)	**(33)**	(42)	(89)	**350**	154	146
1 959	1 905	1 906	**2 159**	1 975	2 612	**855**	857	966	**536**	488	315	**5 509**	5 225	5 799
1 847	1 789	1 745	**1 797**	1 700	2 029	**840**	842	943	**173**	285	185	**4 657**	4 616	4 902

Cost			Accumulated provisions[3]			Net book value			Capital expenditures		
1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
2 079	1 952	1 862	**768**	689	626	**1 311**	1 263	1 236	**256**[4]	313	308
482	481	441	**84**	69	56	**398**	412	385	**6**	48	59
2 561	2 433	2 303	**852**	758	682	**1 709**	1 675	1 621	**262**	361	367
1 241	1 239	1 201	**430**	406	345	**811**	833	856	**81**	35	4
545	484	454	**247**	234	223	**298**	250	231	**43**	44	36
1 786	1 723	1 655	**677**	640	568	**1 109**	1 083	1 087	**124**	79	40
912	909	901	**213**	169	124	**699**	740	777	**4**	12	23
155	142	116	**70**	54	39	**85**	88	77	**14**	129[5]	39
5 414	5 207	4 975	**1 812**	1 621	1 413	**3 602**	3 586	3 562	**404**	581	469

2 Includes gain of $26 million realized on sale of the Bowden refinery.

3 Principal depreciation and depletion rates:
Resources segment
– unit of production
Other segments
– straight-line 4% to 13%.

4 Does not include investment in Rainbow Pipe Line Company Ltd. of $27 million.

5 Includes acquisition of Shell Explorer Limited.

5. Long-term debt

($ millions)	Maturity	**1987**	1986	1985
Debentures [1]				
$15^{3}/_{4}$% (1987 – U.S. $96; 1986 – U.S. $96; 1985 – U.S. $96)	1991	**125**	133	134
$14^{3}/_{8}$% (1987 – U.S. $125; 1986 – U.S. $125; 1985 – U.S. $125)	1992	**162**	174	175
$11^{3}/_{4}$%	1988	**100**	100	100
$11^{1}/_{4}$% [2]	1992	**75**	75	75
$11^{1}/_{2}$% [3]	1992	**100**	—	—
Sinking fund debentures				
Series 1 – $7^{1}/_{2}$% (1987 – U.S. $41; 1986 – U.S. $45; 1985 – U.S. $49)	1994	**54**	62	68
Series 2 – $9^{1}/_{4}$% (1987 – U.S. $52; 1986 – U.S. $58; 1985 – U.S. $64)	1996	**67**	80	89
$14^{1}/_{8}$% (1985 – U.S. $200)	1997	**—**	—	280
$9^{3}/_{8}$%	2003	**114**	114	119
Promissory notes				
Floating rate [4]	1992	**100**	100	100
Other long-term obligations	Varying dates	**46**	38	33
		943	876	1 173
Included in current liabilities as due within one year		**237**	13	18
Unamortized balance of foreign exchange gains and losses		**6**	38	85
Total		**700**	825	1 070

1 In preparation for the refinancing of debentures callable or maturing in the 1988-89 period, the Corporation has entered into a double interest rate swap arrangement to permit the refinancing of U.S. $100 million at 1986 interest rates.

2 During 1986, interest was payable on a floating rate basis under an interest rate swap arrangement. In January 1987, an additional interest rate swap was entered into through which the effective interest rate has been fixed at approximately $8^{3}/_{4}$%.

3 Under an interest rate swap arrangement, interest is payable at levels below rates applicable to 30-day Canadian Bankers Acceptances.

4 Interest is payable monthly at three-quarters of one per cent below prime rates prevailing at Canadian chartered banks to August 1988, subject thereafter to annual renegotiation. In the event that agreements cannot be reached with respect to a new interest rate, the principal amount may be repaid in full without penalty.

Of the $943 million long-term debt, the aggregate amount of payments necessary to meet sinking fund or retirement provisions will be:

$112 million in 1988; $ 14 million in 1989;
$ 16 million in 1990; $143 million in 1991;
$456 million in 1992.

The principal amounts of the U.S. debentures included above are expressed in terms of Canadian dollars, translated at the rates of exchange prevailing on December 31, 1987, 1986 and 1985, respectively. Unrealized gains and losses arising on translation of long-term debt are deferred and amortized over the remaining term of the debt.

6. Pension plans

The Corporation has retirement programs which cover virtually all employees, and which provide defined benefits based on an employee's years of service and average final earnings.

Commencing in 1986, the Corporation revised its method of accounting for pensions to conform with accounting recommendations issued by the Canadian Institute of Chartered Accountants and the United States Financial Accounting Standards Board. These recommendations set forth specific requirements for the determination of pension expense, and serve to separate expense recognition from funding. The new policy was applied prospectively from January 1, 1986, and resulted in the determination of 1987 and 1986 pension expense as follows:

($ millions)	**1987**	1986
Service costs – benefits earned during the year	**7**	7
Interest cost on projected benefit obligation	**50**	47
Actual return on plan assets	**(37)**	(99)
Net amortization and deferral[1]	**(20)**	49
Net pension expense	**—**	4

1 Net amortization and deferral includes the difference between actual and estimated returns on plan assets, amortization of a net pension asset identified on the initial application of these policies and amortization of the unrecognized net gain. The amortization period for the net pension asset and the unrecognized net gain is the average remaining service period of active employees expected to receive benefits under the plan.

These amounts compare to the 1985 charge to earnings of $26 million determined under the previous policy which essentially entailed the expensing of contributions as they were made.

The plan's funded status at December 31 was as follows:

($ millions)	**1987**	1986
Actuarial present value of benefit obligations:		
Accumulated benefit obligation including vested benefits of $549 and $540 for 1987 and 1986 respectively.	**567**	563
Projected benefit obligation	**644**	614
Plan assets at fair market value[2]	**701**	685
Plan assets in excess of projected benefit obligation	**57**	71
Unrecognized net gain	**(11)**	(39)
Unamortized net asset existing at January 1, 1986	**(16)**	(18)
Prepaid pension cost recognized in the Statement of Financial Position	**30**	14

2 Pension fund assets are comprised primarily of common shares, fixed income securities and real estate.

In determining pension expense for 1987 and 1986, the interest rate on the projected benefit obligation, rate of compensation growth, and long-term rates of return on plan assets have been estimated to be 8%, 5%, and 8% respectively.

As an element of the pension arrangements, the Corporation maintains a savings fund which covers employees after stated periods of service. The Corporation contributes to this fund based on a percentage of the employees' salaries and wages and expenses such contributions as made. The total cost of this plan for 1987, 1986 and 1985 was $14 million, $12 million and $10 million respectively.

7. Taxes and royalties

The following amounts were charged to earnings before unusual items:

($ millions)	**1987**	1986	1985
Items reported separately:			
Income taxes	**243**	162	236
Petroleum and gas revenue taxes	—	46	123
Items included in purchased crude oil, petroleum products and other merchandise, and operating expenses:			
Crown royalties and mineral taxes	**147**	164	255
Royalties paid to private leaseholders	**30**	35	49
Federal sales taxes	**248**	291	267
Petroleum compensation charges	—	—	364
Oil import compensation received	—	—	(94)
Canadian ownership charges	—	—	55
Other taxes	**56**	53	57
Total	**724**	751	1 312
Items not included in revenues and expenses:			
Federal excise taxes	**377**	254	132
Fuel and sales taxes collected for provincial governments	**569**	538	537
Royalties paid in kind to the Alberta government	**68**	62	151

8. Income taxes

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

(% of pre-tax earnings)	**1987**	1986	1985
Statutory rate (weighted average)	**49.6**	49.7	48.8
Increases (decreases) resulting from:			
Non-deductibility of crown royalties and other payments to provinces	**16.6**	35.7	43.5
Resource rate reductions and other abatement measures partially to offset non-deductibility of crown royalties	**(15.8)**	(31.8)	(37.7)
Adjustments arising from re-assessments	**(0.7)**	0.7	(1.7)
Manufacturing and processing credit	**(6.2)**	(5.5)	(0.7)
Non-deductibility of petroleum and gas revenue taxes	—	7.9	15.7
Inventory allowance	—	(0.8)	(3.9)
Other	**(2.5)**	(0.5)	(2.2)
Effective income tax rate reflected in earnings before unusual items	**41.0**	55.4	61.8

At December 31, 1987, the Corporation had $112 million of earned depletion deductions available to reduce taxable income of future years.

9. Commitments

At December 31, 1987, the Corporation had non-cancellable operating leases with an initial or remaining term of one year or more, covering service stations, office space and other facilities. Future minimum payments (without reduction for related rental income) under such leases are estimated to be:

$46 million in 1988;	$ 40 million in 1989;
$35 million in 1990;	$ 30 million in 1991;
$28 million in 1992;	$202 million thereafter.

To assure a long-term supply of ethylene, the Corporation entered into a contract which started in 1984 for a duration of 20 years to purchase 107 000 tonnes per annum representing 16 per cent of the output of an ethylene plant. The price of the ethylene is determined on a cost of service basis which includes fixed and variable operating expenses, debt service and a specified return on capital to the owner of the plant. In certain circumstances, a portion of the commitment under the contract, not exceeding $58 million, could be accelerated; such payment would have the effect of eliminating the debt service component of the contract.

10. Transactions with affiliated companies

During 1987, the Corporation purchased $400 million of crude oil, oil products and chemicals from the Shell International Trading Company and other affiliates of the Royal Dutch/Shell Group of Companies (1986 – $300 million). These purchases were made at commercial rates and terms. Current amounts payable in respect of such purchases at December 31, 1987, were $32 million (December 31, 1986 – $14 million). In addition, Shell Canada, in the course of its regular business activities, has routine transactions with other affiliates. Such transactions are at commercial rates and are not material in relation to the Corporation's overall activities.

In 1986, the Corporation purchased the shares of Shell Explorer Limited for $80 million (U.S.) from Pecten International. All of these companies are part of the Royal Dutch/Shell Group of Companies. By means of this transaction, the Corporation acquired Shell Explorer's interests in non-producing properties in Canada's frontier and the unclaimed tax deductions that Shell Explorer earned from its exploration and research expenditures in Canada.

11. Unusual items

During 1986, the Corporation realized two unusual items, resulting in a net gain of $24 million.

The first was an unusual gain of $71 million, representing a reduction of income tax expense due to the utilization of income tax deductions in excess of allocated costs on the acquisition of Shell Explorer Limited (see Note 10) and resource properties from three pension funds.

The second item was due to the early redemption of the $200 million (U.S.) 14⅛-per-cent sinking fund debentures due August 15, 1997. The total cost of retiring this debt was $306 million (Canadian), which was paid from existing cash reserves made available from the reduction in the cost of inventory. The premium paid on the early retirement of the debentures and the unamortized foreign exchange differential produced a loss of $47 million, after income tax credits of $6 million.

12. Legal proceedings

Shell Canada Resources Limited (which amalgamated with the Corporation on January 1, 1986) was one of nine companies which, along with the Government of Alberta, were named as defendants in an action commenced by the Lubicon Lake Indian Band for a declaration for proprietary rights in certain lands and natural resources in northern Alberta, and for $900 million for damages and past royalties and revenues. In June 1987, the plaintiffs successfully applied to amend their Statement of Claim to effect a reduction in their monetary claim against the defendants to $800 million and to claim an additional $250 million against the Province of Alberta only. Counsel has advised that the extent of the corporate defendants' liability cannot currently be determined but has expressed the opinion that it is unlikely the plaintiffs will succeed in establishing their claim to the natural resources or in their claim for damages.

13. United States accounting principles and reporting practices

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They differ from those generally accepted in the United States in the following respects:

Income taxes

Effective January 1, 1987, and prospectively from that date, the Corporation adopted for United States generally accepted accounting principles, the provisions of the Financial Accounting Standards Board's Statement #96. These recommendations require the use of the accrual method of accounting for income taxes. Under this method enacted income tax rates for the current and future periods are applied to temporary differences between the accounting and tax bases of assets to determine the Corporation's deferred income tax liability. The effect of this change in accounting principle is shown in the table on page 33. Had lower income tax rates proposed under the federal government's June 18, 1987, White Paper on Tax Reform been enacted in the year, earnings before the cumulative effect of the change and earnings as adjusted would have been $405 million and $555 million respectively.

Foreign currency translation

Long-term debt denominated in foreign currencies was translated at the rates of exchange in effect at the end of the period. Unrealized exchange gains and losses arising on translation were deferred and amortized over the remaining terms of the debt. Generally accepted accounting principles in the United States require that such gains or losses be reflected in income in the period in which they arose.

Capitalization of interest

Interest costs were expensed as incurred. United States accounting principles require capitalization and subsequent amortization of certain interest costs incurred on capital outlays.

Pension expense

As a consequence of the differences between Canadian and United States accounting principles relative to both pension contributions and the treatment of the 1984 enhanced retirement program, the net pension asset identified on the initial application of the new pension accounting policy (see Note 6) was larger under United States accounting principles than it was under Canadian accounting principles. Commencing in 1986, the amortization of this larger initial net pension asset serves to reduce pension expense under U.S. accounting principles.

Pension contribution

Prior to 1986, actuarial gains and losses were charged to earnings in the year in which they occurred. Under United States accounting principles, such gains and losses were spread over current and future periods.

Extraordinary item

Under United States accounting principles, the premium paid in 1986 on the redemption of the 14⅛% sinking fund debentures (see Note 11) would have been treated as an extraordinary item.

United States accounting principles and reporting practices *(continued)*

If the Corporation's financial statements had been presented on the basis of United States accounting principles, earnings and earnings per share would have been:

($ millions)	**1987**	1986	1985
Earnings before unusual items as reported	**350**	130	146
Adjustments net of income taxes where applicable:			
Income taxes	**(70)**	—	—
Foreign currency translation	**32**	18	(22)
Amortization of capitalized interest	**(9)**	(2)	(7)
Decrease in pension expense	**4**	4	—
Pension contribution	**—**	—	(2)
Unusual items as adjusted	**—**	71	3
Earnings before extraordinary item as adjusted and cumulative effect of a change in accounting principle	**307**	221	118
Extraordinary item as adjusted	**—**	(29)	—
Cumulative effect on prior years' earnings (to December 31, 1986) of changing to the accrual method of accounting for income taxes	**150**	—	—
Earnings as adjusted	**457**	192	118
Earnings attributable to preferred shares	**(14)**	(15)	(16)
Earnings attributable to Common Shares as adjusted	**443**	177	102
Earnings per Class "A" Common Share as adjusted (dollars)	**3.96**	1.58	0.91

Auditors' report

To the Shareholders of Shell Canada Limited:

We have examined the consolidated statements of financial position of Shell Canada Limited as at December 31, 1987, 1986 and 1985 and the consolidated statements of earnings, earnings retained in the business and cash flows for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1987, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1987 in accordance with generally accepted accounting principles consistently applied, except for the change, with which we concur, in the method of accounting for pensions as explained in Note 6 to the financial statements.

Price Waterhouse

Price Waterhouse
Calgary, Alberta
February 9, 1988

FIVE-YEAR FINANCIAL DATA

STATEMENT OF EARNINGS ($ millions)	**1987**	1986	1985	1984	1983
Revenues					
Petroleum products	**3 219**	3 337	4 155	3 820	3 594
Natural gas	**443**	491	593	559	575
Crude oil and natural gas liquids	**158**	177	443	646	569
Chemicals	**691**	494	527	414	321
Other operating revenues	**308**	299	352	295	241
Sales and other operating revenues	**4 819**	4 798	6 070	5 734	5 300
Dividends, interest and other income	**38**	20	32	28	36
	4 857	4 818	6 102	5 762	5 336
Expenses					
Purchased crude oil, petroleum products and other merchandise	**2 240**	2 383	3 686	3 552	3 409
Operating expenses	**870**	891	856	741	660
Selling and general expenses	**735**	641	577	500	467
Exploration and predevelopment expenses	**100**	182	121	99	88
Depreciation, depletion, amortization and retirements	**221**	240	229	169	140
Interest on long-term debt	**98**	143	128	131	133
Income taxes – current	**205**	59	163	119	14
– deferred	**38**	103	73	175	209
Petroleum and gas revenue taxes	**—**	46	123	118	114
	4 507	4 688	5 956	5 604	5 234
Earnings					
Earnings before unusual items	**350**	130	146	158	102
Unusual items, after income taxes	**—**	24	—	—	—
Earnings before extraordinary item	**350**	154	146	158	102
Extraordinary item, after income taxes	**—**	—	—	(35)	—
Earnings for the year	**350**	154	146	123	102

STATEMENT OF CASH FLOWS ($ millions)					
Cash flow from operating activities					
Cash flow from operations	**732**	711	600	619	539
Movement in working capital excluding cash	**101**	285	(54)	(144)	132
Deferred gas production revenue	**(38)**	(35)	(23)	25	42
	795	961	523	500	713
Cash flow invested					
Capital and exploration expenditures	**(404)**	(581)	(469)	(479)	(746)
Investments	**(27)**	—	—	—	—
Long-term receivables and other	**(15)**	6	88	(150)	(10)
Proceeds on disposal of properties, plant and equipment	**86**	23	58	15	22
	(360)	(552)	(323)	(614)	(734)
Dividends paid					
Preferred shares	**(14)**	(15)	(16)	(16)	(17)
Common shares	**(78)**	(67)	(67)	(67)	(64)
	(92)	(82)	(83)	(83)	(81)
Cash flow from financing activities					
Capital stock	**(92)**	—	—	2	291
Long-term debt	**(128)**	(320)	58	(13)	(19)
	(220)	(320)	58	(11)	272
Increase (decrease) in cash	**123**	7	175	(208)	170
Cash at December 31	**332**	209	202	27	235

Shell Canada Limited

FIVE-YEAR FINANCIAL DATA

(continued)

FINANCIAL POSITION AT YEAR END ($ millions)	**1987**	1986	1985	1984	1983
Working capital					
Cash and short-term investments	**332**	209	202	107	235
Short-term borrowings	**—**	—	—	(80)	—
Other working capital	**591**	692	965	911	767
	923	901	1 167	938	1 002
Capital employed					
Investments, long-term receivables and other	**132**	129	173	296	204
Properties, plant and equipment – net	**3 602**	3 586	3 562	3 483	3 289
Total capital employed	**4 657**	4 616	4 902	4 717	4 495
Less: Deferred gas production revenue	**168**	206	241	264	239
Long-term debt	**700**	825	1 070	998	1 002
Deferred income taxes	**1 009**	971	1 049	976	817
Series "A" Preferred Shares	**150**	250	250	250	250
4% Preference Shares	**1**	1	1	1	1
Common shareholders' investment at book value	**2 629**	2 363	2 291	2 228	2 186
Total assets	**5 509**	5 225	5 799	5 776	5 240
DATA PER COMMON SHARE (dollars)*					
Earnings – before extraordinary item	**3.01**	1.24	1.17	1.27	0.83
– after extraordinary item	**3.01**	1.24	1.17	0.96	0.83
Dividends paid	**0.70**	0.60	0.60	0.60	0.60
Common shareholders' investment	**23.48**	21.18	20.53	19.97	19.61
Common shares outstanding at year end (millions)	**112**	112	112	112	111
Shareholders (number at year end)	**7 055**	10 931	12 594	13 836	13 773
RATIOS					
Return on average capital employed (%) 1	**8.6**	4.7	4.4	4.2	4.1
Earnings attributable to common shares as % of average common shareholders' equity 2	**13.5**	6.0	5.8	4.8	4.2
as % of revenues 3	**6.9**	2.9	2.1	1.9	1.6
Common share dividends as % of earnings attributable to common shares 4	**23.3**	48.3	51.4	62.6	74.6
Current assets to current liabilities 5	**2.1**	2.5	2.3	1.9	2.3
Long-term debt as % of total capital employed 6	**15.0**	17.9	21.8	21.2	22.3
Interest coverage 7	**7.0**	2.6	4.0	3.9	3.5
Reinvestment ratio (%) 8	**59**	82	78	77	138
EMPLOYEE DATA					
Salaries, wages and employee benefits ($ millions)	**369**	382	371	393	376
Employees (number at year end)	**6 913**	7 011	7 142	7 136	7 975
Capital employed per employee ($ thousands)	**674**	658	686	661	564

*Class "A" Common Share equivalent is calculated on the basis that the holder of a Class "B" Common Share is entitled, on a share-for-share basis, to four times any amount paid or distributed to a holder of a Class "A" Common Share. Earnings per common share have been calculated using monthly weighted average Class "A" equivalents.

Definitions of ratios

1 Earnings plus after-tax interest expense on long-term debt divided by average capital employed. Capital employed is total assets less current liabilities.
2 Earnings less dividends paid on preferred shares divided by average common shareholders' equity. Common shareholders' equity is total shareholders' investment less preferred share capital.
3 Earnings less dividends paid on preferred shares divided by total revenues.
4 Common share dividends paid divided by earnings less dividends paid on preferred shares.
5 Total current assets divided by total current liabilities.
6 Long-term debt divided by total capital employed.
7 Pre-tax earnings plus interest on long-term debt divided by interest on long-term debt.
8 Capital, exploration and investment expenditures divided by cash flow from operations.

Shell Canada Limited

SUPPLEMENTAL OIL PRODUCTS AND CHEMICALS DISCLOSURE

(unaudited)

	1987	1986	1985	1984	1983
Production					
Crude oil processed by Shell refineries (thousands of cubic metres daily)	**37.1**	37.9	37.5	33.6	31.9
Rated refinery capacity at year end (thousands of cubic metres daily)	**43.1**	43.9	42.9	42.9	35.0
Average rated refinery capacity utilization (%)	**84**	88	87	93*	76*
Sales					
Petroleum product sales (thousands of cubic metres daily)					
Gasolines	**15.1**	15.3	15.9	14.8	15.5
Middle distillates	**13.1**	12.8	13.2	12.4	12.2
Lubricants, asphalts, heavy fuel oils and greases	**5.4**	5.6	5.3	5.7	4.8
	33.6	33.7	34.4	32.9	32.5
Petroleum product sales ($ millions)					
Gasolines	**1 657**	1 711	2 087	1 901	1 846
Middle distillates	**1 103**	1 186	1 507	1 329	1 280
Lubricants, asphalts, heavy fuel oils and greases	**459**	440	561	590	468
	3 219	3 337	4 155	3 820	3 594
Retail outlets (number at year end)	**3 479**	3 507	3 473	3 478	3 433
Chemical sales (tonnes daily)	**2 137**	2 105	2 062	1 667	1 378
Chemical sales ($ millions)					
Aromatics	**387**	211	236	124	79
Solvents and intermediates	**120**	124	144	137	118
Polymers and resins	**183**	158	146	129	104
Other	**1**	1	1	24	20
	691	494	527	414	321

*Reflects closing of Oakville and St. Boniface refineries in the last half of 1983 and start-up of Scotford refinery in the fourth quarter of 1984.

SUPPLEMENTAL OIL, GAS AND COAL DISCLOSURE

(unaudited)

	1987	1986	1985	1984	1983
Production					
Crude oil and natural gas liquids (thousands of cubic metres daily)					
Gross	**11.2**	10.0	10.7	11.4	10.1
Net	**8.8**	7.7	7.7	7.9	7.0
Natural gas (millions of cubic metres daily)					
Gross	**17.0**	16.2	16.7	14.5	15.2
Net	**13.0**	12.2	11.8	10.0	10.5
Sulphur – gross (thousands of tonnes daily)	**3.4**	3.5	3.5	3.1	3.3
Clean coal – gross (thousands of tonnes daily)	**4.7**	4.3	5.7	6.2	4.0
Sales					
Sulphur – gross (thousands of tonnes daily)	**4.4**	3.0	3.9	4.0	3.6
Coal – gross (thousands of tonnes daily)	**5.2**	5.0	6.4	5.7	3.8

Gross production includes all production attributable to Shell's interest before deduction of royalties; net production is determined by deducting royalties from gross production. Net production figures are not applicable to sulphur and coal as royalties are applied to sales volumes rather than production volumes.

SUPPLEMENTAL OIL, GAS AND COAL DISCLOSURE

(continued)

LAND HOLDINGS

Oil and gas at December 31 (thousands of hectares)		Exploration rights Gross 1987	Exploration rights Gross 1986	Exploration rights Net 1987	Exploration rights Net 1986	Leases Gross 1987	Leases Gross 1986	Leases Net 1987	Leases Net 1986
Onshore within the provinces									
Conventional oil and gas:	Alberta	**222**	250	**186**	209	**1 214**	1 308	**696**	782
	Other	**351**	393	**247**	272	**390**	537	**273**	370
Synthetic oils:	Oil sands – mining					**20**	20	**10**	10
	– in-situ					**138**	162	**62**	81
Canada Lands									
East Coast offshore:	Nova Scotia	**218**	314	**99**	129				
	Newfoundland	**229**	229	**156**	183				
	Baffin Bay/Davis Strait	**863**	863	**863**	863				
Northwest/Yukon Territories:	Mackenzie Delta	**198**	436	**164**	406				
	Fort Liard	**49**	—	**30**	—				
West Coast offshore		**5 598**	5 598	**2 642**	2 642				
Arctic Islands:	Cape Allison	**15**	18	**3**	4				
	North Buckingham	—	455	—	25				
		7 743	8 556	**4 390**	4 733	**1 762**	2 027	**1 041**	1 243

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

Exploration rights are acquired from the Canadian government or the provinces through application or competitive bidding, and confer upon the holder the right to explore for crude oil, natural gas and sulphur and to lease the crude oil, natural gas and sulphur 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.

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 leased lands, approximately 325 000 gross hectares (1986 – 321 000) or 122 000 net hectares (1986 – 114 000) in Western Canada, primarily in Alberta, are classified as developed lands.

Coal at December 31 (thousands of hectares)	Licences and leases Gross 1987	Licences and leases Gross 1986	Licences and leases Net 1987	Licences and leases Net 1986
Alberta	**102**	103	**102**	103
British Columbia	**53**	55	**53**	55
Saskatchewan	—	3	—	3
	155	161	**155**	161

EXPLORATION AND DEVELOPMENT WELLS DRILLED (CONVENTIONAL OIL AND GAS)

		1987 Gross	1987 Net	1986 Gross	1986 Net	1985 Gross	1985 Net	1984 Gross	1984 Net	1983 Gross	1983 Net
Exploration	Oil	**5**	**4**	10	6	5	4	6	5	2	2
	Gas	**3**	**3**	5	3	7	5	3	1	2	1
	Dry	**17**	**11**	26	20	35	27	11	10	14	11
		25	**18**	41	29	47	36	20	16	18	14
Development	Oil	**64**	**16**	131	52	108	56	43	19	32	17
	Gas	**27**	**23**	22	17	12	10	11	9	7	6
	Dry	**5**	**5**	10	7	6	5	6	4	10	4
		96	**44**	163	76	126	71	60	32	49	27
Total wells drilled		**121**	**62**	204	105	173	107	80	48	67	41

Definitions

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.

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.

Shell Canada Limited

SUPPLEMENTAL OIL, GAS AND COAL DISCLOSURE

(continued)

Reserve quantity information

Estimation of reserve quantities is based on sound geological and engineering principles. However, the results are estimates based on judgmental interpretation of reservoir data. They are subject to revision as additional information regarding producing fields and technology becomes available and as economic and operating conditions change. The federal and provincial governments royalty rates vary depending on prices, production volumes, the timing of initial production and changes in regulations. The net reserves set forth in the table to the right have been calculated on the basis of royalty rates in force as of the dates the estimates were made.

Shell Canada's estimated proved reserves (excluding any reserves in the Mackenzie Delta, Nova Scotia offshore, Arctic Islands and other frontier areas) are all located in Canada, with approximately 90 per cent in Alberta.

Shell's 1987 crude oil and condensate production increased by 15 per cent over 1986 levels to 2.3 million cubic metres. Crude oil and condensate reserves additions of 4.1 million cubic metres replaced net annual production by 180 per cent, with year-end reserves totalling 23.2 million cubic metres. The increase in reserves was partially a result of upward revisions to previous estimates, due primarily to approval of the Virginia Hills waterflood optimization project, improved performance of the Fenn-Big Valley, Innisfail and Sturgeon fields, and the effect of reduced operating costs and improved prices on the economic lives of mature Saskatchewan fields. Significant condensate reserves additions occurred in conjunction with further natural gas reserves increases at Caroline. New oil reserves additions were primarily associated with the ongoing development of the Kidney field.

Shell continued its leadership role as a natural gas producer with a six-per-cent annual increase in net natural gas production totalling 4.7 billion cubic metres during 1987. During the year reserves, net of royalties, increased by 5.6 billion cubic metres, replacing annual production by 120 per cent.

Oil, gas and other reserves

Net proved developed and undeveloped reserves
Beginning of year
Revisions of previous estimates
Extensions, discoveries and other additions
Improved recovery methods
Production
End of year
Net proved developed reserves
Beginning of year
End of year
Gross proved developed and undeveloped reserves
At end of year

Reserves increases were due mainly to additions and extensions in Clearwater, Caroline, Sorge, and Sikanni (B.C.).

The year 1987 may be considered a hallmark year for Shell with respect to natural gas liquids. Production rose by 12 per cent over 1986 to 0.9 million cubic metres and net NGL reserves increased by 6.8 million cubic metres, offsetting production by more than seven times and boosting the end-of-year reserves base by 75 per cent to 13.7 million cubic metres. Caroline reserves additions account for the majority of the NGL increase. Thus far, only two-thirds of the expected ultimate reserves in Caroline have been booked as proven.

In the sulphur business, Shell increased its sales from production and inventory by 50 per cent to a total of 1.4 million tonnes. Furthermore, net sulphur reserves rose by 2.7 million tonnes, offsetting sales by 190 per cent and increasing the end-of-year reserves base by six per cent. Again, Caroline accounted for the bulk of the reserves additions.

Crude oil and condensate (million cubic metres)			Bitumen (million cubic metres)			Natural gas liquids (million cubic metres)			Natural gas (billion cubic metres)			Sulphur (million tonnes)		
1987	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
21.4	22.1	21.0	**7.9**	7.2	7.2	**7.8**	8.8	8.6	**89.9**	82.9	80.0	**21.5**	18.3	18.0
1.5	(1.0)	2.5	**0.4**	0.8	–	**1.1**	(0.4)	0.6	**0.8**	3.0	5.2	**(0.1)**	0.8	1.2
2.5	1.4	0.5	**—**	—	—	**5.7**	0.2	0.3	**4.8**	8.5	2.0	**2.8**	3.3	0.2
0.1	0.9	0.1	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
(2.3)	(2.0)	(2.0)	**(0.1)**	(0.1)	–	**(0.9)**	(0.8)	(0.7)	**(4.7)**	(4.5)	(4.3)	**(1.4)***	(0.9)*	(1.1)*
23.2	21.4	22.1	**8.2**	7.9	7.2	**13.7**	7.8	8.8	**90.8**	89.9	82.9	**22.8**	21.5	18.3
18.6	19.1	18.0	**2.6**	0.2	0.2	**6.7**	7.7	7.3	**65.4**	64.7	61.2	**14.6**	14.8	13.9
17.4	18.6	19.1	**2.9**	2.6	0.2	**6.8**	6.7	7.7	**61.7**	65.4	64.7	**12.8**	14.6	14.8
29.7	28.2	29.5	**8.8**	8.4	8.4	**16.4**	10.2	10.8	**111.7**	112.9	110.2	**24.9**	23.6	21.0

*Sales volumes

Other reserves		Coal (million tonnes)			Oil sands mining (million cubic metres)			Oil sands in-situ (million cubic metres)		
At end of year		**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
Net proved		**45**	44	46	**—**	—	—	**—**	—	—
Net probable		**137**	127	127	**—**	—	—	**—**	—	—
Net potential		**—**	—	—	**300**	300	300	**800**	800	800

Definitions

Proved reserves – Estimated quantities of crude oil, bitumen, natural gas liquids, natural gas and sulphur which geological and 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 which can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved undeveloped reserves – Reserves which 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 Canada has a right to retain.

Probable reserves – Reserves which are estimated to be commercially recoverable and are less well defined than proved reserves, but may be estimated or indicated to exist on the basis of geological, geophysical or engineering data.

Potential reserves – Reserves which are speculative quantities in addition to proved and probable reserves which geological, geophysical and engineering data, together with trends in existing plays and statistical and interpretative methods, indicate may become economically proved.

Shell Canada Limited

SUPPLEMENTAL FINANCIAL DISCLOSURE

(unaudited)

The following information has been prepared in accordance with the Canadian Institute of Chartered Accountants' requirements for supplemental oil and gas disclosure and provisions of the United States Financial Accounting Standards Board Statement #69. This latter standard has been adopted by the United States Securities and Exchange Commission as a comprehensive set of disclosure requirements for conventional oil and gas producing activities. Such activities involve only conventional equipment and methods and therefore exclude Shell's in-situ as well as its coal operations reported in the Resources segment data in Note 4.

Capitalized costs

December 31 ($ millions)	**1987**	1986	1985
Unproved oil and gas properties	**355**	337	402
Proved oil and gas properties	**1 724**	1 615	1 460
	2 079	1 952	1 862
Accumulated depreciation, depletion and amortization	**768**	689	626
Net capitalized costs	**1 311**	1 263	1 236

Costs incurred

Year ended December 31 ($ millions)	**1987**	1986	1985
Property acquisition	**60**	26	40
Exploration costs	**88**	132	118
Development costs	**108**	155	150
Total costs incurred	**256**	313	308

Results of operations from producing activities

Year ended December 31 ($ millions)	**1987**	1986	1985
Revenues	**786**	762	1 060
Less: Operating expenses	**243**	220	201
Exploration and predevelopment expenses	**99**	181	120
Depreciation, depletion, amortization and retirements	**110**	103	102
Income taxes	**166**	128	322
Petroleum and gas revenue taxes	**—**	46	123
Results of operations from producing activities	**168**	84	192

Amounts from in-situ and coal operations, the contributions from which were $(14) million in 1987, $(10) million in 1986, and nil in 1985, are excluded from the above revenues and expenses but are included in the Resources segment financial results reported in Note 4.

Standardized measure of discounted future net cash flows

The following future net revenue information, in management's view, does not purport to represent an accurate estimate of the value of the Corporation's oil and gas operations, and should be interpreted with considerable caution since actual future cash flows will differ from future net cash flows presented in that:

(a) Future cash flows will be derived not only from proved reserves but also from probable and potential reserves which ultimately become proved,

(b) Future, rather than current year, costs and prices will apply,

(c) Economic, regulatory and operating conditions will change, and

(d) Cash flows from non-conventional oil and gas (in-situ) and coal activities are excluded from this computation.

Net cash flows

Year ended December 31 ($ millions)	**1987**	1986	1985
Future cash inflow [1]	**12 474**	11 920	16 283
Less: Future operating and development costs	**4 680**	3 892	3 929
Future income taxes	**3 332**	3 517	5 889
Future petroleum and gas revenue taxes	**—**	—	142
Future net cash flows	**4 462**	4 511	6 323
Less: 10% annual discount for estimated timing of cash flows	**2 311**	2 372	3 257
Standardized measure of discounted future net cash flows from proved oil and gas reserves	**2 151**	2 139	3 066

Changes in net cash flows

Sales, net of operating costs [2]	**(543)**	(496)	(736)
Net changes in prices and operating costs	**(477)**	(2 511)	32
Extensions, discoveries and improved recovery, less related costs [2]	**436**	434	126
Development costs incurred during the period	**108**	155	150
Revisions of previous quantity estimates [2]	**118**	23	456
Petroleum and gas revenue taxes	**—**	81	640
Accretion of discount	**384**	602	479
Net changes in income taxes	**20**	1 260	(161)
Other	**(34)**	(475)	82
Net increase (decrease) for the year	**12**	(927)	1 068

[1] Future net cash flows were computed using year-end prices and costs, and year-end statutory tax rates that relate to existing proved developed and undeveloped oil and gas reserves in which the Corporation has mineral interests.

[2] Costs include petroleum and gas revenue taxes, where applicable.

CORPORATE DIRECTORY

at December 31, 1987

OFFICERS

J.M. MacLeod
President and Chief Executive Officer
Calgary

J.E. Czaja
Executive Vice President (Resources)
Calgary

Donald J. Taylor
Executive Vice President (Products)
Calgary

D.G. Stoneman
Senior Vice President (Operations and Marketing)
Calgary

R.A. MacDonell
Senior Vice President (Business Services)
Calgary

G.B. Darou
Vice President (Finance)
Calgary

H.W. Lemieux
Vice President (General Counsel) and Secretary
Calgary

E.F.J. Marschall
Treasurer
Calgary

G.L. Peterson
Controller
Calgary

PRINCIPAL OPERATING MANAGEMENT

RESOURCES

R.P. Cej
Vice President (Development)

P.J. Merki
Vice President (Exploration)

R.A. Rouleau
President (Crows Nest Resources)

OIL PRODUCTS

B.J. Bunting
Vice President (Eastern Complex)

C. Falcone
Vice President (Western Complex)

R.G. Naden
Vice President (Marketing)

ENGINEERING AND CONSTRUCTION

J.K. Hogan
Vice President (Engineering and Construction)

CHEMICALS

J.L. Lyon
Vice President (Chemicals)

BUSINESS SERVICES

C.J. Tooker
Vice President (Information and Computing)

RESEARCH

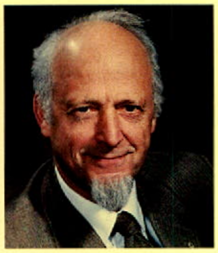
L.F. Bolger
Vice President (Research)

CORPORATE

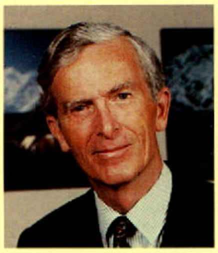
R.R. Picard
Vice President (Human Resources)

F.W.D. Shannon
Vice President (Corporate Strategies)

Peter J.G. Bentley



Dr. James M. Ham



Peter F. Holmes

Walter F. Light

Lorne K. Lodge

Margaret Southern

Antoine Turmel

L.C. van Wachem

Shown above are non-employee Directors.

Audit Committee
Composed of Messrs. Bentley and Lodge and Mrs. Southern, reviews Shell's financial statements, the scope and results of the shareholders' auditors' work, the adequacy of internal accounting controls and internal audit programs, and the compliance with accounting and reporting standards.

Management Resources and Compensation Committee
Composed of Messrs. Bentley, Light, MacLeod and Turmel, reviews and recommends to the Board succession plans for senior management and reviews and approves executive compensation.

BOARD OF DIRECTORS

at December 31, 1987

Peter J.G. Bentley, O.C.
Chairman and Chief Executive Officer
Canfor Corporation
Vancouver

J.E. Czaja
Executive Vice President (Resources)
Shell Canada Limited
Calgary

Dr. James M. Ham, O.C.
Professor of Science, Technology and Public Policy
University of Toronto

Peter F. Holmes
Chairman and Managing Director
The "Shell" Transport and
Trading Company, p.l.c.
London, England

Walter F. Light, O.C.
Retired Chairman
Northern Telecom Limited
Toronto

Lorne K. Lodge
Chairman of the Board
IBM Canada Ltd.
Markham

J.M. MacLeod
President and Chief Executive Officer
Shell Canada Limited
Calgary

Margaret Southern, C.M.
President
Spruce Meadows Equestrian Centre
Calgary

Donald J. Taylor
Executive Vice President (Products)
Shell Canada Limited
Calgary

Antoine Turmel, O.C.
Corporate Director
Montreal

L.C. van Wachem
President and Managing Director
Royal Dutch Petroleum Company
The Hague, Netherlands

Shell Canada Limited
(incorporated under the laws of Canada)
Head Office: Shell Centre
400-4th Avenue S.W.
Calgary, Alberta T2P 0J4

Transfer agent and registrar

Shell Canada's transfer agent and registrar is National Trust Company – Toronto, Montreal, Winnipeg, Calgary and Vancouver, and its agent in Halifax, Canada Permanent Trust Company.

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

Stock exchange listings

The Class "A" Common Shares of Shell Canada Limited are listed on the Montreal, Toronto, Alberta and Vancouver stock exchanges (stock symbol is 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 27, 1988, the Ballroom, L'Hotel, Toronto, Ontario.

Duplicate reports

Shareholders who receive more than one copy of Annual and Quarterly Reports, 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.

Form 10-K report

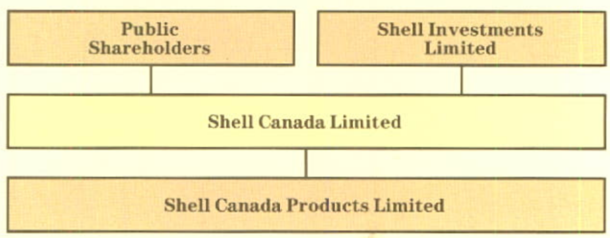
A copy of the Corporation's Form 10-K report for 1987, as filed with the Securities and Exchange Commission in the United States, is available to shareholders on request from the Corporation's Secretary at the above Head Office address.

Ownership and voting rights of Shell Canada Limited
(at December 31, 1987)

Ownership of Shell Canada Limited is divided between Shell Investments Limited (SIL) and public shareholders. SIL's holdings include approximately 68 per cent of the Class "A" and 100 per cent of the Class "B" Common Shares which, when aggregated, represent a 78 per cent ownership interest. However, while each Class "B" share has four times the value of a Class "A", it represents only one vote per share. Consequently, the SIL voting interest is approximately 71 per cent.

The publicly-held Class "A" Common Shares (approximately 24.3 million) constitute 22 per cent ownership and 29 per cent voting interest.

Shell Investments 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 metric conversion factors

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

For Information:
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