SHELL CANADA LIMITED · 1986 ANNUAL REPORT

SHELL CANADA, WITH ASSETS OF $5.2 BILLION, IS ONE OF THE LARGEST INTEGRATED PETROLEUM COMPANIES IN CANADA. WITH AN ESTABLISHED FINANCIAL BASE, SKILLED WORKFORCE AND COMMITTED MANAGEMENT TEAM, IT IS MEETING THE CONTINUING CHALLENGE OF DEVELOPING ENERGY RESOURCES FOR CANADIANS. SHELL RANKS AS THE LARGEST NATURAL GAS AND SULPHUR PRODUCER IN CANADA, A MAJOR PRODUCER OF CRUDE OIL AND NATURAL GAS LIQUIDS, AND A SIGNIFICANT PRODUCER OF COAL. AS A LEADING MANUFACTURER AND MARKETER OF REFINED PETROLEUM PRODUCTS AND PETROCHEMICALS, IT HAS BUILT A SOUND REPUTATION FOR CUSTOMER SERVICE AND INNOVATIVE, QUALITY PRODUCTS – AS DEPICTED ON THE COVER.

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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.

On peut obtenir ce rapport en français sur demande.

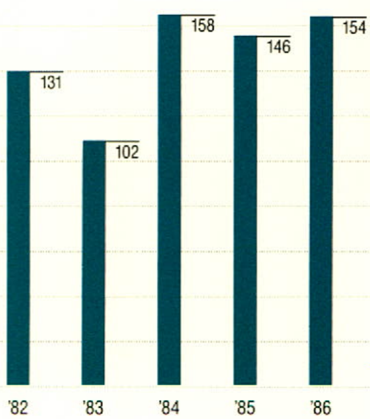
SHELL CANADA LIMITED – FINANCIAL AND OPERATING HIGHLIGHTS

Financial

($ millions)	**1986**	1985	1984
Earnings – before unusual/extraordinary items	**130**	146	158
– after unusual items	**154**	146	158
– after extraordinary item	**154**	146	123
Cash from operations	**711**	600	619
Capital and exploration expenditures	**581**	469	479
Return on average capital employed (%)	**4.7**	4.4	4.2
Return on average common equity (%)	**6.0**	5.8	4.8
Earnings per Class "A" Common Share (dollars)			
– before extraordinary item	**1.24**	1.17	1.27
– after extraordinary item	**1.24**	1.17	0.96
Dividends paid per Class "A" Common Share (dollars)	**0.60**	0.60	0.60

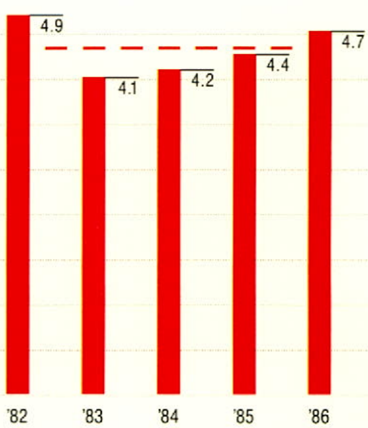
Operating

Crude oil and natural gas liquids produced – gross (m^3/d)	**10 000**	10 700	11 400
Natural gas produced and sold – gross (thousands of m^3/d)	**16 200**	16 700	14 500
Sulphur sales – gross (tonnes/d)	**2 982**	3 928	3 960
Coal sales – gross (tonnes/d)	**5 041**	6 360	5 749
Crude oil processed by Shell refineries (m^3/d)	**37 900**	37 500	33 600
Petroleum product sales (m^3/d)	**33 700**	34 400	32 900
Chemical sales (tonnes/d)	**2 105**	2 062	1 667



Earnings

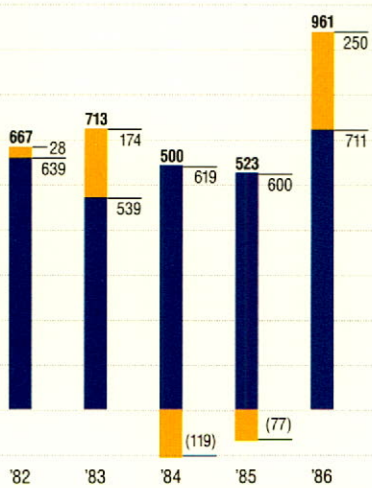
($ millions)



Return on average capital employed

(%)

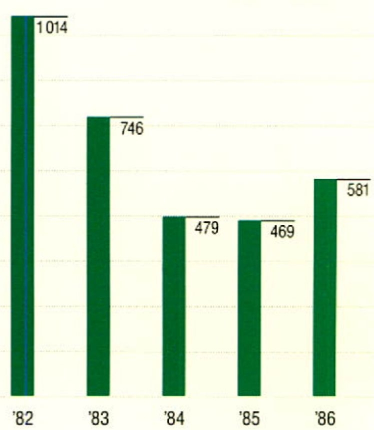
– – Five-year average 4.5



Cash flow from operating activities

($ millions)

Other   Cash from operations



Capital and exploration expenditures

($ millions)

DESPITE THE INTERNATIONAL OIL PRICE COLLAPSE, 1986 WAS A YEAR OF POSITIVE ACCOMPLISHMENTS FOR SHELL CANADA. THE COMPANY ENHANCED ITS FINANCIAL STRENGTH. ITS STRATEGIES REMAIN CONSTANT – TO INVEST IN RESOURCES FOR GROWTH, TO IMPROVE SHELL'S COMPETITIVE POSITION IN OIL PRODUCTS, AND TO MAINTAIN THE CHEMICALS BUSINESS.

Your Company entered 1986, its 75th year in Canada, determined to achieve consistent, robust financial performance in whatever market conditions prevail.

Plans had been developed for the year based on the then-prevalent view that crude oil prices would be sustained at the level of about $26 (U.S.) a barrel. These plans included investment expenditures of $667 million. Early in 1986 it became apparent that the international crude oil market was in the process of collapse. This resulted from Saudi Arabia's decision to withdraw from the balancing producer role that had maintained the OPEC objectives of production constraints and, hence, price support.

Faced with a low, volatile price environment, the Company took steps to maintain its financial strength without compromising long-term strategies. Throughout the year these actions included reducing budgeted investment expenditures by some $200 million, withdrawing from exploration in high-cost frontier areas, reducing staff levels and pursuing other opportunities to improve cost effectiveness.

The results of all the activities of the Company in 1986 contributed significantly to achievement of our long-term strategic objectives despite the difficult business environment. These objectives are: growth in net income and return on investment; leadership in technology; leadership in product quality and service to our customers; and provision of a safe and productive environment for our people.

1986 highlights

Specific achievements in 1986, all of which are elaborated on within the following pages, included:

- Consolidated earnings of $154 million, an increase of $8 million over 1985.
- Oil Products earnings of $129 million, an increase of $75 million over the $54 million in 1985.
- Total cash generation of $961 million, up $438 million from $523 million in 1985.
- Early retirement of $200 million (U.S.) 14 1/8-per-cent sinking fund debentures.
- The highest exploration discovery experience in more than two decades in Alberta, resulting in replacement of 250 per cent of 1986 natural gas production. Among the successes was the Caroline field near Sundre, Alberta, one of the most important natural gas discoveries made in the Western Canadian Basin in the last 20 years.
- Completion of the first-stage commercial expansion of the Peace River oil sands complex, on schedule and under budget.
- Negotiation of new direct sales of natural gas to industrial customers in Canada and the United States.
- Acquisition of Shell Explorer Limited.
- Successful launch of Formula Shell gasolines, which we believe to be the most advanced in the world.
- A disabling injury frequency rate of 4.80 per million person-hours, down substantially from 5.90 in 1985.

Return on capital employed remained unacceptably low at 4.7 per cent. Substantial improvement in this measure of corporate performance continues to be a major goal.

Price remains uncertain

By year end, crude oil prices had recovered from the mid-1986 low of $9 (U.S.) a barrel to about $18 (U.S.) a barrel. It is encouraging that this higher price level is now being supported by OPEC production constraints. However, there is no certainty that this represents a floor for future prices or that prices will stabilize at this level in the short term.

We do believe that prices will strengthen as we move into the early 1990s.

In view of the short-term price uncertainty, the Company has constrained 1987 investment plans to those projects that appear profitable on the basis of prices that were experienced in late 1986 and that are consistent with long-term investment strategies. These strategies are to invest in the Resources segment for growth, to invest in Oil Products to improve Shell's competitive position in its markets, and to maintain the Chemicals business.

Investment plans adjusted

Consistent with these planning criteria, the Company anticipates capital and exploration expenditures for 1987 of about $420 million, down some $160 million from the 1986 level. Within this total, some $100 million will be invested in exploration in Western Canada, following on the successes of 1986. Further investments in high-cost frontier exploration and oil sands development activities have been deferred. Continued aggressive programs to enhance product quality and customer service will attract an investment of about $130 million in the Oil Products segment.

J.M. MacLeod

President and Chief Executive Officer

Complementing its investment plans, the Company is pursuing further opportunities to improve cost effectiveness. We will also be taking additional steps, at the appropriate times, to reduce the level and cost of debt.

Inherent in our plans is a capacity for flexibility to ensure financial resiliency and corporate growth. We are confident of our ability to succeed in the range of business environments that may develop.

The most critical ingredients for corporate success are the talents of our management teams and of all Shell people. We sincerely appreciate their dedication through the eventful and challenging year just completed and are certain of their commitment and contribution in the years ahead.

On behalf of the Board,

J. M. MacLeod
President and Chief Executive Officer
Calgary, Alberta
March, 1987

EARNINGS IN 1986 INCREASED $8 MILLION, WITH SIGNIFICANT IMPROVEMENT IN OIL PRODUCTS OFFSETTING A DECLINE IN RESOURCES. FLEXIBILITY IN MANAGING EXPENDITURES CONTRIBUTED TO THE PROFITABILITY GAIN IN A DEPRESSED PRICE ENVIRONMENT. AN IMPROVED LEVEL OF EARNINGS IS ANTICIPATED IN 1987, ASSUMING CONTINUATION OF PRICE AND MARGIN LEVELS.

Consolidated earnings for 1986 were $154 million or $1.24 per Class "A" Common Share compared with $146 million or $1.17 a share in 1985 and $158 million or $1.27 a share in 1984. The 1986 earnings were after unusual items of $24 million, representing the net after-tax gain of both the utilization of acquired tax deductions and an early debt redemption. The 1984 earnings were before an extraordinary item of $35 million after taxes, representing a portion of the cost to restructure the organization and relocate corporate offices to Calgary.

Shell's return on average capital employed remains unacceptably low at 4.7 per cent, although improved from 4.4 per cent in 1985 and 4.2 per cent in 1984 (based on earnings after the extraordinary item). The performance of the Oil Products segment, especially during the second half of 1986, was most encouraging, producing a return which increased to 6.9 per cent compared with 2.6 and 3.8 per cent in 1985 and 1984 respectively. Return in the Resources segment decreased to 4.2 per cent (11.5 per cent in 1985 and 10.2 per cent in 1984), reflecting the severe reduction in crude oil prices, reductions in prices and volumes of other commodities, and the impact of exploration write-offs. The return in the Chemicals segment was negative until the fourth quarter of 1986, largely because of significant losses in the styrene business.

The Corporation has continued to maintain its dividend rate at the 60 cents-a-share level, consistent with both 1985 and 1984.

Business segment earnings

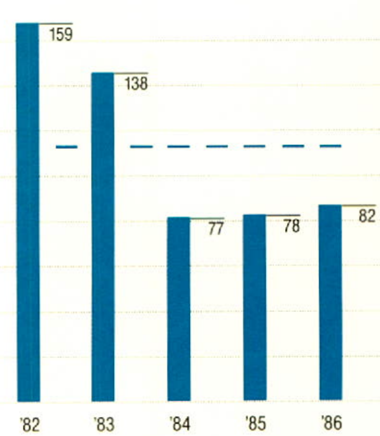
Resources earnings decreased to $74 million in 1986 from $192 million and $164 million in 1985 and 1984 respectively. The decline from both previous years resulted primarily from lower crude, natural gas and natural gas liquids prices, lower sulphur and crude volumes, and the impact of write-offs associated with the suspension of the East Coast offshore exploration program. These negative factors were mitigated somewhat by lower royalties and a reduced Petroleum and Gas Revenue Tax which, initially, was at a lower rate and then was eliminated on October 1, 1986. The Coal operation, while experiencing continuing adverse industry conditions and lower sales volumes, was again able to provide a positive cash contribution in 1986.

Oil Products earnings were $129 million, up from $54 million in 1985 and $71 million in 1984. This increase resulted from improved margins offset somewhat by both planned increases in marketing-related expenditures and by the federal government's elimination of the inventory allowance deduction early in 1986. Overall sales volumes were two per cent lower than in 1985, but two per cent higher than in 1984.

The Chemicals segment incurred a loss of $7 million in 1986 compared with a loss of $11 million in 1985 and earnings of $9 million in 1984. Sales volumes were up two per cent from 1985 and 26 per cent from 1984. Profitable performance of the polypropylene and industrial chemicals businesses was more than offset by a significant annual loss in styrene. However, by year end styrene price improvements had resulted in marginally positive styrene earnings.

Corporate expenses were impacted during 1986 by a positive inventory profit adjustment of $20 million after taxes compared with a downward adjustment of $20 million after taxes during 1985. Also included in the 1986 earnings before unusual items was the positive impact of a change in the method of accounting for pension expense. This change follows from recent authoritative pronouncements by accounting bodies within both Canada and the United States. It resulted in earnings improvements of $11 million and $10 million relative to pension expense for 1985 and 1984 respectively. Included in the 1985 Corporate segment was a $10 million gain relative to the sale of the Corporation's investment in Interprovincial Pipe Line Limited shares. Overall, Corporate expenses and financing costs during 1986 were lower than in either 1985 or 1984 by $23 million and $20 million respectively.

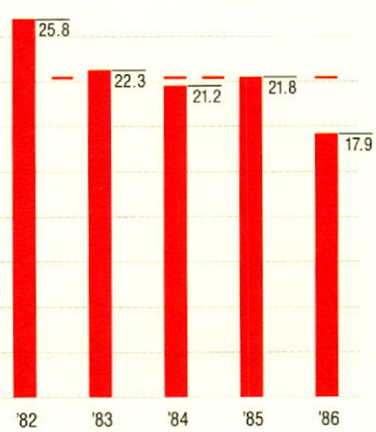
The unusual gains reported in 1986 comprised an after-tax gain of $71 million – generated by the claim of tax deductible amounts in excess of allocated costs from both the acquisition of Shell Explorer Limited and the purchase of other Canadian resource properties – offset by an after-tax loss of $47 million related to the early retirement of the $200 million (U.S.) $14^1/_8$-per-cent sinking fund debentures due in 1997. The Corporation purchased the shares of Shell Explorer from a related party during the fourth quarter of 1986 at a total cost of $112 million (Canadian). Through this transaction the Corporation acquired all of Shell Explorer's interests in Canadian frontier oil and natural gas properties, and was able to utilize tax deductions which had been earned by Shell Explorer through exploration activities and research expenditures in Canada. The total cash used to retire the $14^1/_8$-per-cent sinking fund debentures was $306 million (Canadian), including an early redemption premium. The funds for this redemption came entirely from existing cash reserves.



Reinvestment ratio

(%)

– – Five-year average 107%



Long-term debt as a percentage of total capital employed

– – Five-year average 21.8%

Cash generation high

The Corporation again experienced a high level of overall cash generation. Cash from operations increased in 1986 to $711 million from $600 million and $619 million in 1985 and 1984 respectively.

An increase in Oil Products cash flow more than compensated for the decrease in Resources. The overall 1986 cash flow from operating activities was $961 million, up significantly from $523 million in 1985 and $500 million in 1984. This marked increase resulted primarily from the cash impacts of reductions in the cost of inventory stemming from oil price declines.

Expenditures maintain Resources focus

Consolidated capital and exploration expenditures during 1986, including the $112 million acquisition of Shell Explorer Limited, increased to $581 million from $469 million in 1985 and $479 million in 1984. The Corporation's total reinvestment ratio equalled 82 per cent, an increase from 78 per cent in 1985 and 77 per cent in 1984.

Capital and exploration expenditures within the Resources segment were $361 million in 1986, down slightly from $367 million in 1985 but up 47 per cent from $246 million in 1984. The decrease from 1985 came as a result of lower expenditures for field facilities and the Peace River in-situ oil sands project, offset by an increase in development drilling. The increase from 1984 reflected increased development drilling and enhanced oil recovery expenditures, together with the expansion of the Peace River oil sands project.

Capital investment in Oil Products totalled $79 million compared with $40 million in 1985 and $144 million in 1984. Chemicals capital expenditures were $12 million, down from $23 million in 1985 and $74 million in 1984. The Oil Products investment, higher than in 1985, reflected capital programs at Montreal East refinery and the impact of planned, increased marketing-related expenditures. Chemicals expenditures during both 1986 and 1985 were held to minimum levels. The declines in Oil Products and Chemicals from 1984 levels stem from the completion in that year of the Scotford refinery and chemical complex.

Review and outlook

The rapid decrease in crude oil prices in 1986 caused significant difficulties and uncertainties within the industry. Despite such problems, the Corporation was able to improve its earnings level over 1985 and begin to strengthen its balance sheet.

As a response to the drop in crude prices, net capital and exploration expenditures were reduced from the budgeted amount of $667 million to $469 million – before the acquisition of Shell Explorer ($112 million).

The Corporation plans to continue to reduce the level and cost of debt. A preliminary step was the redemption of the $14\frac{1}{8}$-per-cent sinking fund debentures, thereby reducing long-term debt to approximately $900 million from $1.2 billion (17.9 per cent of total capital employed).

Key determinants of the 1987 results will be the behaviour of commodity prices, product margins and the effective rates of government royalties and taxation. Nevertheless, assuming a continuation of those prices and margins which were in evidence at the end of 1986 and in early 1987, Shell would anticipate an improved level of earnings in 1987.

Quarterly financial and stock-trading information	**1986**					1985				
	Quarter				**Total**	Quarter				Total
	1st	**2nd**	**3rd**	**4th**	**Year**	1st	2nd	3rd	4th	Year
Sales and other operating revenues ($ millions)	**1 390**	**1 200**	**1 095**	**1 113**	**4 798**	1 560	1 590	1 388	1 532	6 070
Earnings before income taxes ($ millions)	**87**	**56**	**26**	**123**	**292**	171	80	27	104	382
Earnings (loss) before unusual items ($ millions)	**40**	**18**	**16**	**56**	**130**	73	21	(6)	58	146
Earnings (loss) after unusual items ($ millions)	**40**	**18**	**16**	**80**	**154**	73	21	(6)	58	146
Earnings (loss) per share (dollars)	**0.32**	**0.13**	**0.11**	**0.68**	**1.24**	0.62	0.15	(0.09)	0.49	1.17
Cash dividends (dollars)										
Per Class "A" Common Share	**—**	**0.30**	**—**	**0.30**	**0.60**	—	0.30	—	0.30	0.60
Per Class "B" Common Share	**—**	**1.20**	**—**	**1.20**	**2.40**	—	1.20	—	1.20	2.40
Share prices* (dollars)										
High	**$24\frac{3}{4}$**	**25**	**$25\frac{1}{4}$**	**$27\frac{1}{8}$**	**$27\frac{1}{8}$**	$28\frac{1}{2}$	$29\frac{7}{8}$	28	$24\frac{3}{4}$	$29\frac{7}{8}$
Low	**$19\frac{1}{2}$**	**$21\frac{1}{2}$**	**$18\frac{3}{4}$**	**$22\frac{1}{8}$**	**$18\frac{3}{4}$**	$21\frac{1}{4}$	$25\frac{3}{8}$	$22\frac{3}{8}$	$22\frac{3}{8}$	$21\frac{1}{4}$
Close (end of period)	**$24\frac{1}{8}$**	**22**	**$22\frac{3}{8}$**	**26**	**26**	28	$27\frac{1}{4}$	$24\frac{3}{8}$	23	23
Shares traded** (thousands)	**4 243**	**2 263**	**1 814**	**3 276**	**11 596**	3 639	4 716	2 646	3 627	14 628

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

Among its 1986 achievements, Shell Canada completed expansion of the Peace River in-situ oil sands complex in Alberta. Ron Betnar (left) and Al Tarita work at a cluster of pumps on a single pad atop directionally drilled wells.

OPERATIONS REVIEW

SIGNIFICANT ADDITIONS WERE MADE IN 1986 TO OIL AND NATURAL GAS RESERVES. INTENSIFIED MARKETING EFFORTS WERE ALSO DEVELOPED IN RESPONSE TO DEREGULATED GAS PRICES AS WELL AS FALLING SULPHUR DEMAND. HOWEVER, CONTINUING LOW, UNPREDICTABLE WORLD CRUDE OIL PRICES ARE RESTRICTING EXPLORATION AND DEVELOPMENT ACTIVITIES PRIMARILY TO SELECTIVE PROGRAMS IN ALBERTA.

Oil and natural gas revenues, and investment planning in the Resources Group, were substantially affected in 1986 by the sharp fall in international crude oil prices. Forecast low and volatile prices for the balance of the decade will continue to restrict exploration and development activities.

Shell Canada's strategy is to continue to focus on selective exploration and development in the Western Basin that appear profitable even under present low price conditions. Investments in frontier exploration and in a number of long-term, higher-cost projects are being deferred. Staffing levels were reduced in 1986 and planned capital and exploration expenditures were reduced by about $160 million to $361 million.

Governments initiated tax and royalty changes in the year. The federal government on October 1 eliminated Petroleum and Gas Revenue Taxes and, later, the Alberta and Saskatchewan governments adjusted their royalty regimes. While these changes are welcomed, the investment economics in exploration and production have been diminished, primarily due to low oil and gas prices.

Deregulation of Canada's natural gas industry, effective November 1, allows market forces to exert a more significant impact on the business in both Canadian and U.S. markets. Although gas prices declined in late 1986 and are expected to remain depressed in 1987, Shell is confident of retaining and improving market share. The Corporation has intensified its gas marketing program, which includes direct sales for interruptible volumes as well as major sales under traditional, long-term contracts. Transactions are being developed covering potential sales of up to three million cubic metres daily into the U.S. Pacific Northwest and California.

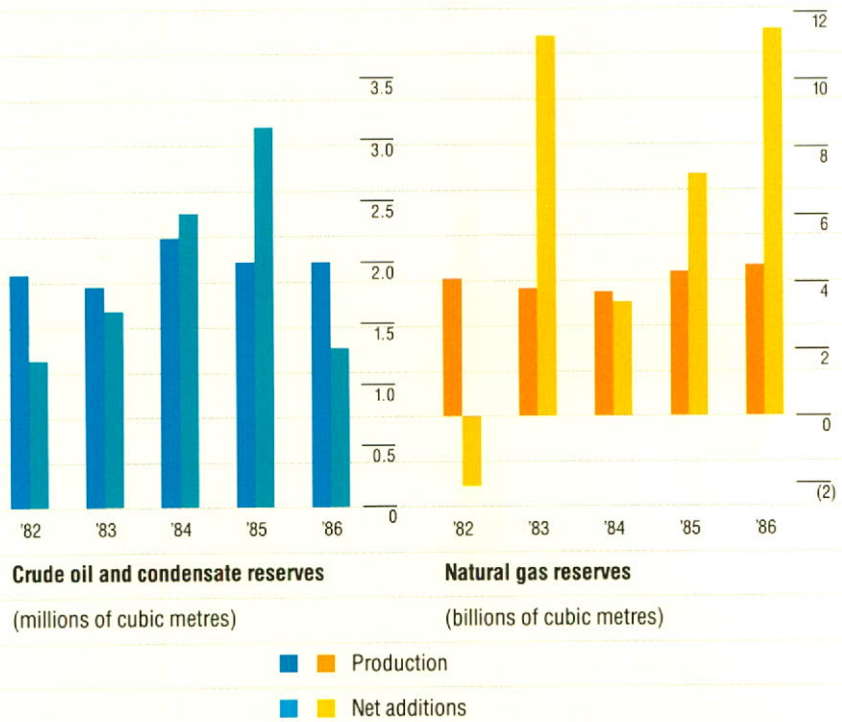
Approval was also obtained for the removal of Alberta gas for delivery to the New England area of the eastern United States. U.S. regulatory approvals were being sought at year end. Shell's project involves converting to natural gas service an out-of-use oil pipeline linking Montreal and Portland, Maine. Subject to the necessary approvals, gas could be delivered on an interruptible basis in 1987 and on a firm basis the following year.

Under deregulation and conditions of plentiful current gas supplies, Canadian gas producers will face export challenges in 1987. However, U.S. gas exploration activity and additions to reserves have been declining. These trends could result in tighter U.S. domestic supply availability in the 1987-88 period.

Reserves and drilling performance

A goal for petroleum companies is to find new economic reserves of oil and natural gas over time that will enable them to maintain or, under the right conditions, increase production.

Shell Canada's 1986 exploratory drilling program in Western Canada, on its own account and in joint ventures, was the most successful in many years. A net total of six oil



Crude oil and condensate reserves

(millions of cubic metres)

Natural gas reserves

(billions of cubic metres)

and three natural gas discovery wells were drilled. Overall, 105 exploration and development wells were drilled during the year, resulting in 58 successful oil and 20 successful gas wells.

The discoveries and field extensions from this drilling, plus additions from improved recovery methods, resulted in 115 per cent replacement of production of crude oil and condensate. This was significantly offset by a negative revision of previous estimating, due largely to the effect of reduced crude prices on the profitability of planned projects and on the economic lives of mature fields. As a result, net proved developed plus undeveloped crude oil and condensate reserves decreased slightly by three per cent in 1986 to 21.4 million cubic metres.

The 11.5 billion cubic metres of natural gas added by discoveries, extensions and revisions in Shell's very successful drilling and development program represented 250 per cent replacement of production. Total developed plus undeveloped natural gas reserves were up 8.4 per cent to 89.9 billion cubic metres. The most important discovery was at Caroline in Alberta where three successful exploration wells have added net proved undeveloped reserves of 2.4 billion cubic metres of natural gas, 800 000 cubic metres of condensate and 2.3 million tonnes of sulphur. Significant reserves additions from this field can be expected with further drilling. With possibly 55 billion cubic metres of raw gas in place, this discovery has the potential of being one of the largest in the Western Basin in two decades.

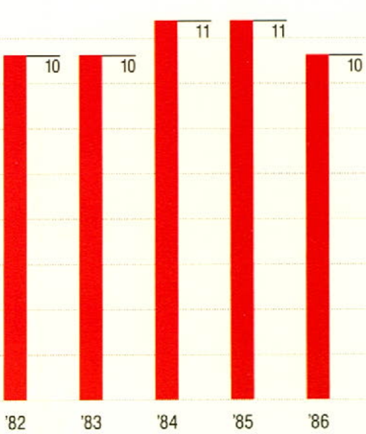
Natural gas developments

In west-central Alberta, Shell's 1986 exploration activities resulted in discoveries of natural gas, with liquids and some sulphur, at Hamburg, Sakwatamau, Haddock (Groat) and Caroline.

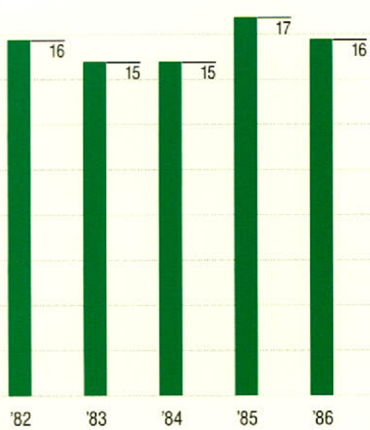
The 100-per-cent-owned Hamburg gas plant was placed in production during the third quarter, processing gas from the initial pool discovered in 1981. Exploration and development drilling is continuing about 10 kilometres southwest to delineate reserves in new pools discovered in 1985.

Resources financial profile

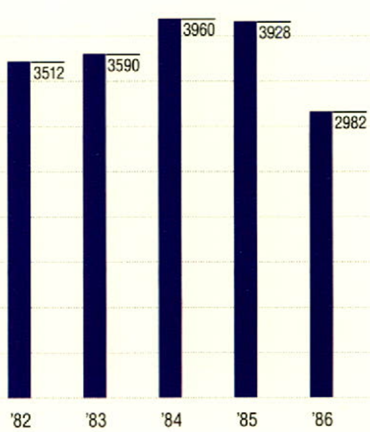
($ millions)	**1986**	1985	1984
Revenues	**1 040**	1 454	1 345
Earnings	**74**	192	164
Capital employed	**1 789**	1 745	1 617
Capital and exploration expenditures	**361**	367	246
Return on average capital employed (%)	**4.2**	11.5	10.2



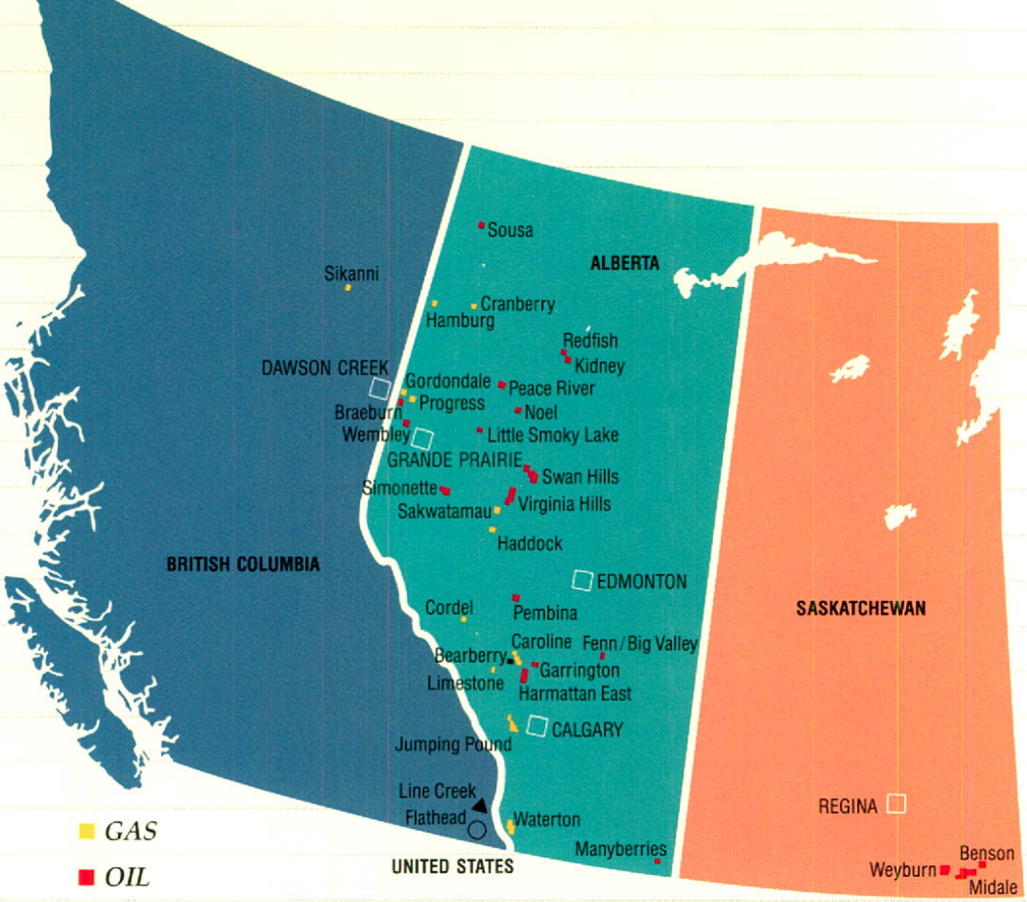
Gross production of crude oil and natural gas liquids
(thousands of cubic metres daily)



Gross natural gas volumes produced and sold
(millions of cubic metres daily)



Sulphur sales
(tonnes daily)



Western Canadian exploration and development activities

In the Waterton area, construction of pipelines and additional facilities was completed to reactivate a number of wells in the north end of the field and an active drilling program was also undertaken. Two delineation wells were successful in new pool areas and three rigs were drilling at the end of the year.

Development drilling to maximize gas deliverabilities under existing contracts continued in Jumping Pound West, Limestone, Simonette and Cranberry, with 10 successful wells drilled. New reserve-proving wells were completed in Cordel, Limestone and Progress. At year end two delineation wells were being drilled in the new Caroline pool; additional wells are planned and development can be expected in the late 1980s or early 1990s.

Sulphur demand softens

Sulphur demand declined during the year as a result of over-supply in the international phosphate fertilizer industry, aggravated by worldwide agricultural product surpluses. Over the longer term, a revitalized sulphur market is anticipated and sales of Canadian sulphur will increasingly become supply-constrained.

Shell plans a demonstration sulphur recovery project in the Bearberry area, about 100 kilometres northwest of Calgary, where gas with a high hydrogen sulphide content was discovered in 1969. If regulatory approvals are obtained, the Corporation, with partners, will construct and operate the $40 million, 200-tonnes-daily facility, the first of its kind in Canada. Production could begin in 1989. The project is intended to demonstrate the technical and economic feasibility for commercial-scale development of these sulphur reserves.

Crude oil activities

In north-central Alberta, oil discoveries were made at Redfish, Kidney, Noel, Sousa, Gordondale and Little Smoky Lake. Development drilling was at a high level, continuing the momentum of 1985, although the pace slowed late in the year because of low oil prices.

Infill drilling in mature fields was continued with a total of 28 wells in the Midale and Benson fields of Saskatchewan and the Pembina, Swan Hills, Virginia Hills and Fenn/Big Valley fields in Alberta. A similar program in the outside-operated Weyburn field in Saskatchewan resulted in 50 oil wells.

Outstep drilling in Shell-operated Alberta fields resulted in seven successful wells at Simonette, Wembley, Gordondale, Garrington and Manyberries. The Simonette well is producing 125 cubic metres of oil a day from a new pool in the Devonian Leduc formation.

Enhanced oil recovery

Investigation of the potential of enhanced oil recovery projects in a number of existing fields continued in 1986.

At Midale, Saskatchewan, the Corporation proceeded with its pilot project to evaluate the use of carbon dioxide as a solvent in miscible flooding. The project will continue through the first half of 1987 and could lead to commercial-scale carbon dioxide recovery programs in the future.

■ *Areas of Shell Canada Resources lands*

A small-scale commercial hydrocarbon flood in the Simonette field began in late 1986. Shell received regulatory approval for miscible flood projects in Harmattan East, Virginia Hills and Manyberries. However, deteriorating oil prices led to deferral of the latter two. The Harmattan East project, where waste carbon dioxide from the field's gas processing plant is to be used, will move forward in 1987.

Exploratory drilling was continued in 1986 in the Flathead Valley of southeastern British Columbia in the search for naturally occurring carbon dioxide. Although the results, in terms of carbon dioxide flow rates and possible reserves, have been more modest than hoped for, well tests have indicated the potential for hydrocarbon gas reserves. Data obtained in the last several years will be analyzed in 1987 to determine the nature and scope of future activity.

Peace River expansion

The first phase of expansion of the Peace River in-situ oil sands complex in northern Alberta was completed in September, on schedule and under budget. The expansion, begun in 1985, involved construction of a processing plant and related facilities and the drilling of more than 200 wells.

A pilot plant, started up in 1979, effectively demonstrated the feasibility of a pressure-cycle, steam-drive recovery technique. The new expansion increases production capability to 1600 cubic metres of bitumen daily from the pilot plant's peak rate of about 400 cubic metres a day. Future expansions have been deferred pending an improved outlook for oil prices.

East Coast operations suspended

The Corporation suspended its East Coast offshore exploration operations in October, 1986. Although further discoveries were made in 1986, current energy pricing projections do not support further exploration and development. Land holdings on and adjacent to the discoveries will be maintained to enable the Corporation to resume activity when prices stabilize at acceptable levels.

On the Nova Scotia continental slope in 1986, Shell et al Tantallon M-41 was drilled in 1506 metres of water, a record depth for offshore Canada. The well was abandoned after encountering no signs of hydrocarbons. Shell surrendered all deep-water acreage off the East Coast late in 1986.

On the Nova Scotia shelf, Shell and partners drilled three wells, all encountering hydrocarbons. Glenelg N-49, north of the discovery well Glenelg J-48, tested gas from three zones at rates varying from 870 000 to 470 000 cubic metres a day. Triumph B-52 tested gas at 770 000 cubic metres daily with minor condensate from one zone. Panuke B-40 tested oil from one zone at 970 cubic metres a day.

In the Arctic Islands, Shell participated in North Buckingham L-71, operated by Panarctic Oils. This well was dry. In the Mackenzie Delta, Shell drilled Unak L-28 to a depth of 3259 metres; it encountered a number of oil- and gas-bearing zones but was abandoned following discouraging test results.

Difficult coal market

Intense competition and pressure on coal prices continued through 1986. Crows Nest Resources pursued a policy of productivity improvements and cost reductions at its Line Creek mine in southeastern British Columbia. The mine produces metallurgical coal for customers in Japan and Korea and thermal coal for Korean customers.

During the year Crows Nest shipped 1 006 000 tonnes of metallurgical coal and 834 000 tonnes of thermal coal from Line Creek. These shipments compare with 1 069 000 tonnes and 1 252 000 tonnes respectively in 1985.

Shipments in 1987 are expected to remain close to those in 1986 as international markets continue to be over-supplied.

Formula Shell banners and signs festoon this busy Toronto service station. Aggressive promotion of the new gasolines and enhanced customer service are combined in a marketing program expected to result in increased market share for Shell.

HIGHER OIL PRODUCTS EARNINGS IN 1986 RESULTED FROM IMPROVED MARGINS AND EFFICIENCIES. INCREASED RETAIL MARKET SHARE IS EXPECTED FROM THE SUCCESSFUL MID-YEAR LAUNCH OF FORMULA SHELL GASOLINES. IN CHEMICALS, THERE WERE STRONG RESULTS IN POLYMERS AND SUSTAINED SALES IN INDUSTRIAL CHEMICALS. HOWEVER, LOSSES CONTINUED IN STYRENE BECAUSE OF INTERNATIONAL OVER-SUPPLY.

OIL PRODUCTS

Shell Canada Products recorded a year of intense activity, innovation and improved profitability during 1986. This was highlighted by the launch of Shell's new breakthrough gasolines, Formula Shell and Super Formula Shell. Gains in productivity and efficiency were made and the customer focus theme in marketing was further enhanced and strengthened.

The steep slide in world crude oil prices during the first and second quarters brought gasoline prices under persistent media, government and public scrutiny early in the year. Pressures rose to reflect reduced crude costs in lower product prices, with the result that prices fell well in advance of the depletion of higher-cost crude inventory. Although retail prices steadily declined into the third quarter, various organizations and government ministries called on Shell, and the industry in general, to explain pricing policies related to crude costs. Shell attended a number of hearings and meetings conducted by various provinces and a Senate standing committee to give the Corporation's position on crude oil and product prices.

A more positive element in the industry's increased public profile came with the release in June of the Restrictive Trade Practices Commission report into the competitive nature of the Canadian petroleum industry. After thousands of hours of testimony extending over five years, the public inquiry headed by O.G. Stoner virtually exonerated the industry of allegations that consumers had been over-charged billions of dollars between 1958 and 1973.

The inquiry found no evidence of collusion in any sector of the industry, no cases of artificial price structuring and no victimization of independent dealers by the major companies. Although the Stoner report noted that a number of mergers and pricing practices had adversely affected competition, it concluded that marketing restrictions on the industry would be contrary to the public interest.

'The Move Is On'

In step with a new marketing slogan, The Move Is On, the Oil Products organization in mid-summer launched its largest program, the Formula Shell gasolines. The result of eight years of research and development at Shell laboratories around the world, Formula Shell contains a unique potassium-based "spark enhancer" compound to stimulate faster and smoother engine performance as well as improved detergent additives to clean the carburetor and fuel inlet systems.

The new product was introduced nationally to the media in early August, followed throughout the fall with aggressive advertising and information campaigns. Formula Shell is available only at Shell-branded outlets. Early consumer response has been positive and Shell Canada believes the new gasolines will result in increased market share similar to market improvements reported in other countries where Formula Shell is being sold.

A number of initiatives were undertaken to reduce operating costs in Oil Products, with particular emphasis at the retail outlet level and internal support infrastructure.

Increased customer focus

Implementation of new marketing strategies was a major undertaking in 1986. A series of programs placed renewed emphasis on improved customer service. Training schools were established to assist a range of personnel from service station attendants to sales representatives and district sales managers. The training program will be expanded to cover Shell Canada's entire dealer and marketing network by the end of 1987.

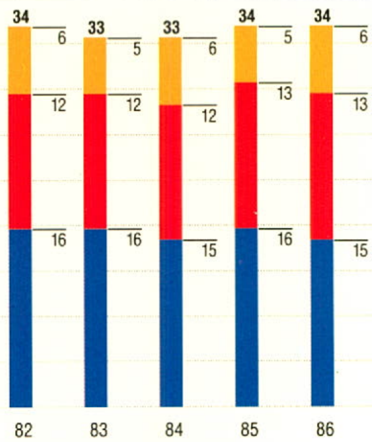
Paralleling the training initiative, the Corporation instituted several new approaches aimed at improving retail service. Included in these are special rewards to recognize performance excellence and a mystery shopper program to evaluate service levels and identify areas where service can be improved. In addition, the internal reward systems are being revised to recognize achievements in providing customer service.

Following an extensive study of its capability to deal with customer complaints, Oil Products set up a centralized inquiry- and complaint-handling service as a pilot test. This customer satisfaction project offers a central toll-free phone number through which specially trained personnel effectively and quickly handle individual complaints. British Columbia is the current test area and, subject to evaluation in early 1987, a decision will be made on a national approach.

Successful testing of retail split service – giving customers the option of either self-serve or full service at a single location – was completed in Victoria, London and Montreal. During 1987 the concept will be expanded to include additional established stations and some new retail locations in other markets.

Oil Products financial profile

($ millions)	**1986**	1985	1984
Revenues	**3 592**	4 504	4 127
Earnings	**129**	54	71
Capital employed	**1 700**	2 029	2 095
Capital expenditures	**79**	40	144
Return on average capital employed (%)	**6.9**	2.6	3.8



Petroleum product sales

(thousands of cubic metres daily)

A new cardlock and fleet service program was established nationally by Shell Canada in 1986. It offers commercial accounts 24-hour access to fuel pumps, a superior industry invoicing system and other value-adding services. The program has improved customer satisfaction and is expected to attract significant numbers of new commercial accounts to Shell.

During the year the Corporation expanded gasoline retailing in combination with extended services, particularly convenience food stores. A licensing agreement was signed with Circle K, an international food store chain, whereby Shell's existing and new convenience stores in Western Canada will carry the Circle K logo. In return, Shell receives the chain's management and marketing expertise. In Eastern Canada Shell entered a joint venture with Southland

Corporation to develop 7/Eleven convenience stores on Shell automotive sites in Ontario. The move is expected to enhance Shell's marketing position in the province. Shell also has an existing agreement with Provigo for further expansion of convenience stores at Shell retail locations in Quebec.

Refinery utilization

On average, Shell refineries in Quebec, Ontario, Alberta and British Columbia were operating near capacity in 1986. At Scotford, near Edmonton, where start-up difficulties and plant debottlenecking have been resolved, capacity rose some 10 per cent to 8900 cubic metres a day. The new refinery posted a perfect safety record in its first full year of operation.

At the Montreal East refinery completion of the new residual catalytic cracking unit in the fall of 1987, at a cost of $80 million, will decrease the amount of heavy fuel oil produced, improve energy efficiency and enable the refinery to meet legislated restrictions on gasoline lead content. The federal government has set a target for the removal of all lead in gasoline by 1993.

Volatile international crude oil prices made feedstock acquisition at favourable prices critical to the industry where it takes up to 90 days before refined products reach buyers. One approach adopted by Shell Canada's supply and planning group involves futures trading to hedge against unexpected price swings and ensure that crude costs are competitive.

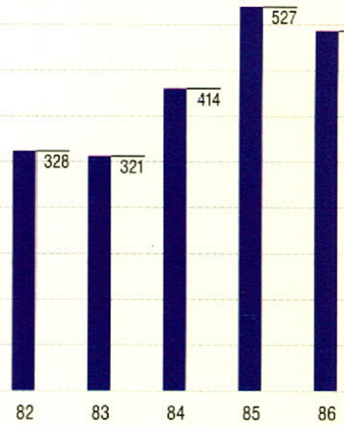
Lubricants growth continues

The lubricants division of Shell Canada Products posted continued growth and substantially improved profitability in 1986. The Corporation's capability to use a variety of imported crudes to make quality lubricants permitted the purchase of crudes at optimum prices.

Export volumes of lubricants were higher, in part because Shell Canada is one of two approved international Shell sources of multi-grade piston engine aircraft lubricants. Domestically, sales increased for the Corporation's premium motor oil, TLO, supported by a vigorous promotion campaign involving professional motor sport events.

Chemicals financial profile

($ millions)	**1986**	1985	1984
Revenues	**494**	527	414
Earnings (loss)	**(7)**	(11)	9
Capital employed	**842**	943	977
Capital expenditures	**12**	23	74
Return on average capital employed (%)	**—**	—	1.0



Chemical product sales revenues

($ millions annually)

CHEMICALS

Improved sales performance was reported in all Chemicals activities in 1986. In recognition of the development of export markets, an essential part of the strategy for growth in the Corporation's chemical business, Shell was named for an Export Canada Award, sponsored by the federal external affairs department to honour companies achieving outstanding export performance during the last three years.

Polymers business

In terms of volumes and revenues, the polymers business centre again reported strong results. The Corporation's polypropylene manufacturing unit at Sarnia, Ontario, operated at full capacity to meet continuing high domestic and international demand, particularly in major markets in Pacific Rim countries. A domestic market increase exceeding 19 per cent was largely attributed to new housing starts. New housing creates a demand for carpeting, in which polypropylene is used as both a backing and a face fibre. Domestic demand is expected to remain strong through 1987 and overseas markets, which are anticipated to grow by more than five per cent, should continue to ensure that the plant remains fully loaded.

New random copolymers, which have the potential for use in a wide range of packaging applications, replacing such traditional material as tin and glass, are now produced in Sarnia and should exhibit exceptional growth.

In response to worldwide opportunities for polypropylene, the Sarnia unit will be further debottlenecked during 1987 and 1988.

Industrial chemicals business

Industrial chemicals remained profitable, despite some price fluctuations during the year. Domestic tonnages produced and sold were comparable to 1985's record levels.

New areas of product application included offshore drilling, where the use of low toxicity hydrocarbons improves drill bit efficiency; the food industry, where high-quality hexane is used in vegetable oil extraction; and the use of isopropyl alcohol as a co-solvent in gasoline.

Styrene business

Of continuing concern are difficulties being experienced in the styrene business. Further losses were reported in 1986, although firming markets resulted in significant improvements in prices in the second half, driven by plant shutdowns elsewhere in the world and by a slight tightening of worldwide styrene supply and demand.

A detailed evaluation of the styrene outlook has been completed. Although recent styrene prices have strengthened, the evaluation suggests that sustained improvement in profitability may be several years away because of surplus international capacity.

Shell Canada has established a strong marketing network for styrene, concentrating its efforts in Pacific Rim countries and the United States. Earlier production problems at Scotford in Alberta have been corrected and the plant is running at peak efficiency and high throughput. Capacity at Scotford is 308 000 tonnes a year.

Using computerized equipment, Shell researchers carry out a project to reduce drilling material failures. Karol Szklarz, a senior scientist at Calgary, reviews computer data while technologist John Kelly tests the fatigue crack propagation rate of a piece of drill pipe.

EFFECTIVELY DEVELOPING AND EQUIPPING SHELL PEOPLE FOR FULLER INVOLVEMENT IN MEETING BUSINESS GOALS IS A MAJOR CORPORATE COMMITMENT. SPECIAL EMPHASIS IS BEING GIVEN AS WELL TO HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION. BY PURSUING ITS BASIC ECONOMIC PURPOSE, SHELL IS ABLE TO GENERATE BROAD BENEFITS FOR SOCIETY IN GENERAL.

Managing rapidly-changing business circumstances and improving the Corporation's productivity are major challenges facing Shell Canada. Success depends on continued efforts to ensure that Shell people are adequately prepared and equipped to meet the challenges. In 1986 several programs focusing on organization effectiveness and individual development in support of these objectives were introduced by Human Resources.

A new performance and development review process, introduced in late 1986, places greater emphasis on regular communication between supervisor and staff for work planning, coaching and skill development. This process will provide an improved basis for linking compensation with performance.

A company-wide audit of policies and practices was undertaken in 1986 to identify any potential impediments to the recruitment or career progression of employees, with special emphasis on women, native people, disabled persons and visible minorities. Strategies intended to increase the representation of these groups are being developed. Shell Canada is committed to the concept of employment equity as a fundamental value in the management of its people.

The results of a 1985 survey of employee opinions on the overall effectiveness of the Shell organization served as a catalyst for a number of initiatives in 1986. A renewed focus on internal communication and management training was among these undertakings.

Human Resources also continued to support major operating locations in ensuring greater participation by employees in operating decisions and training to perform a wider range of tasks.

The focus of Human Resources, in the current uncertain economic environment, will be to ensure the continued development and involvement of people in meeting the Corporation's business goals.

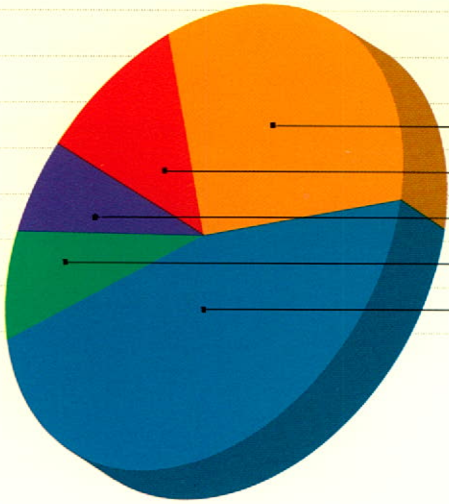
Health, safety and environment

Human health and safety, as well as environmental concerns, received special emphasis in 1986. A new policy was developed, reflecting Shell's continuing commitment to operate in a responsible way in an increasingly complex social, technological and economic setting.

The policy states, in part: "No activity in Shell Canada is more important than ensuring that practical and effective measures are in place to protect the health and safety of our employees, customers, contractors and those who live close to our operations. In implementing this policy, Shell Canada not only complies with relevant legislation but also encourages other initiatives for protecting the health, safety and environment of those affected by its activities."

A continued trend to improved safety performance in the Corporation is attributed to the strong commitment of all employees, under the guidance of a Health, Safety and Environment steering group. In 1986 Shell Canada's disabling injury frequency rate showed an outstanding 20-per-cent reduction.

New corporate policies established during the year require contractors on Shell projects to use Health, Safety and Environment standards and procedures acceptable to the Corporation.



Shell Canada added value to the Canadian economy in 1986 amounting to $1 288 million

Employees' wages and salaries	382	(30%)
Interest to lenders of capital	143	(11%)
Dividends to shareholders	82	(6%)
Retained in the business	105	(8%)
Royalties and taxes to governments	576	(45%)

The Corporation endorsed and co-operated fully in an in-depth year-long medical environmental review in Alberta conducted by a research team from McGill University, Montreal, and an international advisory group of respected health experts. Their report concluded that people living in the vicinity of Shell's Waterton gas plant in southwest Alberta did not exhibit any abnormal health patterns. In fact, the study says, the people involved were as healthy as those in the average community anywhere in Alberta or Canada.

Employee fitness centres in Calgary and Toronto reported a successful year of operation, with climbing membership and participation rates. As part of a philosophy that healthy employees are productive employees, smoking cessation and stress management programs received greater emphasis in 1986 and a policy to limit smoking in office facilities is being implemented.

Workplace advances

Consistent with its people emphasis, Shell continues to utilize information technology to improve job content and work quality while making the necessary data available for decision-making. A number of new computer systems, providing a wider capability for technical and administrative activities, were implemented by Information and Computing during the year.

A strategic plan, completed in 1986, emphasizes the development of advanced information systems to enhance business performance and customer services.

Such systems provide exploration and production professionals with improved access to seismic, geological, well, petrophysical and land data, permitting them to display the information graphically. In the downstream, supply staff are being given new technological tools to deal competitively in increasingly complex international crude oil markets.

New on-line systems implemented in 1986 will increase efficiencies in the areas of payroll and personnel records and in financial accounting. Programs being initiated in production accounting and in marketing distribution will result in more highly automated systems for recording production, order entry and billing, and for faster handling of customer inquiries.

Research and technology

New opportunities in technological innovation, to achieve short- and long-term corporate goals, are at the centre of Research and Technology's role in providing competitive advantage to Shell Canada.

In keeping with a greater accent on product quality and service to the customer, the Oakville Research Centre in 1986 conducted numerous pre-launch performance tests of Formula Shell gasolines. Researchers confirmed the gasolines' outstanding results under Canadian driving conditions. The Formula Shell tests represent just one example of work done at Oakville to support oil and chemical products.

At the Calgary Research Centre, which provides research support for exploration and production operations, work continued to improve the economic performance of the Peace River in-situ oil sands complex and conventional oil reservoirs. In terms of Shell's sulphur producing capability, efforts were also under way to support development of a demonstration project to verify producibility of natural gas fields with extremely high concentrations of hydrogen sulphide.

As with the development of Formula Shell in various laboratories of Shell's international research community, Shell Canada actively contributes to and benefits from research-based technological developments around the world. A cost-sharing agreement with Shell Internationale Research made available to Shell Canada approximately $670 million worth of innovations and developments from other Shell laboratories.

Shell Canada's research and development expenditures in 1986, including the Shell Internationale agreement, were $44 million compared with $34 million in 1985. Capital expenditures were about $2 million.

Shell in society

A fundamental measure of the Corporation's contribution to society is the degree to which it is successful in pursuing its economic purpose. That underlying purpose is to be the most efficient company in the business, to achieve growth in earnings and return on shareholders' investment and to offer products and services of the highest quality.

From being a sound business enterprise, Shell Canada is able to contribute in a variety of ways to the broader economic and social goals of the country generally and the communities in which it operates.

Significant benefits continue to flow to the Canadian economy from Shell's activities. The Corporation, for example, contributed about $889 million to Canada's balance of payments in 1986 through the exports of crude oil, natural gas liquids, natural gas, sulphur, petroleum and chemical products and coal.

Shell also added value amounting to $1.3 billion to the economy in 1986 by creating products from natural resources. Of the value added total, governments received the largest share in taxes and royalties amounting to some $576 million.

At the level of community involvement, Shell directly invested more than $2 million in numerous projects during 1986. This financial investment in national and local groups served to enhance the community relations initiatives of all segments of Shell's business.

A special emphasis was placed in 1986 on the Shell Canada Community Service Fund, designed to provide supplementary financial support to community organizations in which Shell people volunteer their personal time. More than 250 active or retired employees, dealers or agents received grants for their community projects, including for example Canadian native education programs and help for children with learning disabilities.

Shell Canada will be a sponsor of the 1988 Winter Olympics in Calgary. Nearly 500 rare artifacts of early Canadian Indian and Inuit cultures will be repatriated from around the world to form an unprecedented exhibition. As an official sponsor of this Olympic Arts Festival project, the Corporation believes it will contribute to a better understanding of Canadian native heritage.

Shell Canada's community involvement includes the obligation to contribute to public policy discussion of economic and social issues where it has relevant knowledge and experience. In addition to communicating directly with governments and their agencies, the Corporation shares its findings and analyses through publications and through briefings and speeches by senior executives.

It also regularly carries out information exchanges with community groups interested in and affected by proposed developments.

Underscoring these diverse programs is the belief that the basis for sound regulatory and policy approaches in the energy field can be best achieved through productive communication between the industry, public and government agencies.

Accounting policies

Shell Canada's consolidated financial statements are prepared in accordance with generally accepted accounting principles 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 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 and amortization

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

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 and investment tax credits

Petroleum Incentive Program grants, investment tax credits and other 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 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	**1986**	1985	1984
Revenues			
Sales and other operating revenues	**4 798**	6 070	5 734
Dividends, interest and other income	**20**	32	28
	4 818	6 102	5 762
Expenses			
Purchased crude oil, petroleum products and other merchandise	**2 383**	3 686	3 552
Operating expenses	**891**	856	741
Selling and general expenses	**641**	577	500
Exploration and predevelopment expenses	**182**	121	99
Depreciation, amortization and retirements	**240**	229	169
Interest on long-term debt	**143**	128	131
Petroleum and gas revenue taxes	**46**	123	118
Income taxes (Note 12)	**162**	236	294
	4 688	5 956	5 604
Earnings			
Earnings before unusual items	**130**	146	158
Unusual items, after income taxes (Note 2)	**24**	—	—
Earnings before extraordinary item	**154**	146	158
Extraordinary item, after income taxes (Note 3)	**—**	—	35
Earnings for the year	**154**	146	123
Earnings per Class "A" Common Share (dollars)			
Before extraordinary item	**1.24**	1.17	1.27
After extraordinary item	**1.24**	1.17	0.96

CONSOLIDATED STATEMENT OF EARNINGS RETAINED IN THE BUSINESS (*$ millions*)

Year ended December 31	**1986**	1985	1984
Earnings retained			
Balance at beginning of year	**1 490**	1 427	1 387
Earnings for the year	**154**	146	123
	1 644	1 573	1 510
Dividends paid (Note 9)	**82**	83	83
Balance at end of year	**1 562**	1 490	1 427

The accompanying notes are an integral part of these statements.

Shell Canada Limited

CONSOLIDATED STATEMENT OF CASH FLOWS *($ millions)*

Year ended December 31	**1986**	1985	1984
Cash flow from operating activities			
Earnings before unusual and extraordinary items	**130**	146	158
Exploration and predevelopment expenses	**182**	121	99
Expenses not requiring any outlay of cash			
Depreciation, amortization and retirements	**240**	229	169
Deferred income taxes [1]	**103**	73	175
Other items	**56**	31	18
Cash from operations	**711**	600	619
Movement in working capital excluding cash [2]			
(Increase) decrease in accounts receivable	**203**	(46)	(75)
(Increase) decrease in inventories	**366**	83	(299)
(Increase) decrease in prepaid expenses	**(8)**	(9)	(4)
Increase (decrease) in accounts payable and accrued liabilities	**(248)**	82	121
Increase (decrease) in income and other taxes payable [3]	**(23)**	(168)	116
Increase (decrease) in long-term debt due within one year	**(5)**	4	(3)
Deferred gas production revenue	**(35)**	(23)	25
	961	523	500
Cash flow invested			
Capital and exploration expenditures [4]	**(581)**	(469)	(479)
Investments, long-term receivables and other [5]	**6**	88	(150)
Sales of properties, plant and equipment and miscellaneous items	**23**	58	15
	(552)	(323)	(614)
Dividends paid			
Preferred shares	**(15)**	(16)	(16)
Common shares	**(67)**	(67)	(67)
	(82)	(83)	(83)
Cash flow from financing activities			
Capital stock	**—**	—	2
Long-term debt [6]	**(320)**	58	(13)
	(320)	58	(11)
Increase (decrease) in cash [2]	**7**	175	(208)
Cash at December 31 [7]	**209**	202	27

1 Excludes deferred tax reductions of $69 million for 1986 unusual items and $17 million for 1984 extraordinary item.

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

3 Excludes current tax reductions of $12 million for 1986 unusual items.

4 Including acquisition of Shell Explorer Limited (See Notes 2 and 7).

5 Includes $35 million in 1984, reflecting extraordinary item expense adjusted for non-cash amounts.

6 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 2).

7 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	**1986**	1985	1984
Assets			
Current assets			
Cash	**136**	59	107
Short-term investments, at cost which approximates market	**73**	143	—
Accounts receivable	**651**	854	808
Inventories			
Crude oil, products and merchandise	**563**	927	1 018
Materials and supplies	**51**	53	45
Prepaid expenses	**36**	28	19
	1 510	2 064	1 997
Investments, long-term receivables and other	**129**	173	296
Properties, plant and equipment (Note 5)	**3 586**	3 562	3 483
	5 225	5 799	5 776
Liabilities			
Current liabilities			
Short-term borrowings	**—**	—	80
Accounts payable and accrued liabilities	**492**	844	762
Note payable to affiliate	**104**	—	—
Income and other taxes payable	**—**	35	203
Long-term debt due within one year	**13**	18	14
	609	897	1 059
Deferred gas production revenue	**206**	241	264
Long-term debt (Note 6)	**825**	1 070	998
Deferred income taxes	**971**	1 049	976
	2 611	3 257	3 297
Shareholders' investment			
Capital stock (Note 9)	**761**	761	761
Contributed surplus	**291**	291	291
Earnings retained in the business	**1 562**	1 490	1 427
	2 614	2 542	2 479
Commitments and contingencies (Notes 10 and 14)			
	5 225	5 799	5 776

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

1. Accounting policies

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

2. Unusual items

During the fourth quarter of 1986, the Corporation realized a net unusual gain of $24 million, representing the net impact of two items.

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 7) and resource properties from three pension funds. In addition, earned depletion deductions of $153 million, which under the energy prices prevailing at December 31, 1986 are not expected to be claimed before 1990, and for which no portion of the purchase price was allocated, are available to reduce taxable incomes of future years.

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.

3. Extraordinary item

The extraordinary item in 1984 represented the costs of $70 million less income taxes of $35 million associated with restructuring the Corporation's organization, relocating corporate headquarters to Calgary and reducing staff, including severance pay, relocation costs, the present value of additional pensions to those not otherwise entitled to early retirement and the gain on disposal of the Head Office building in Toronto.

4. Other statement of earnings information

The following amounts were included in the determination of earnings:

($ millions)	**1986**	1985	1984
Sales revenues attributable to exports	**889**	1 244	870
Maintenance and repair expenses	**174**	168	130
Short-term interest expenses	**1**	2	2
Research and development expenses	**44**	34	28

5. Segmented information

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

Resources comprises exploration and production 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, pipeline investments, 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. However, such inter-segment sales and the associated estimated profits are eliminated from total revenues and operating profit respectively on consolidation.

Financial results
($ millions)
Sales and other revenues
Inter-segment sales
Total revenues
Operating profit (loss)
Depreciation, amortization and retirements
Interest on long-term debt
Petroleum and gas revenue taxes
Income taxes
Earnings before unusual and extraordinary items
Unusual items, after income taxes
Earnings before extraordinary item
Extraordinary item, after income taxes
Earnings 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		
1986	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984
834	1 249	1 345	**3 474**	4 307	3 975	**494**	527	414	**16**	19	28	**4 818**	6 102	5 762
206	205	—	**118**	197	152	**—**	—	—	**—**	—	—	**—**	—	—
1 040	1 454	1 345	**3 592**	4 504	4 127	**494**	527	414	**16**	19	28	**4 818**	6 102	5 762
361	753	701	**278**	128	134	**30**	20	34	**52**	(39)	1	**721**	862	870
117	118	105	**63**	61	37	**44**	44	18	**16**	6	9	**240**	229	169
—	—	—	**—**	—	—	**—**	—	—	**143**	128	131	**143**	128	131
46	123	118	**—**	—	—	**—**	—	—	**—**	—	—	**46**	123	118
124	320	314	**86**	13	26	**(7)**	(13)	7	**(41)**	(84)	(53)	**162**	236	294
74	192	164	**129**	54	71	**(7)**	(11)	9	**(66)**	(89)	(86)	**130**	146	158
—	—	—	**—**	—	—	**—**	—	—	**24**	—	—	**24**	—	—
74	192	164	**129**	54	71	**(7)**	(11)	9	**(42)**	(89)	(86)	**154**	146	158
—	—	—	**—**	—	—	**—**	—	—	**—**	—	(35)	**—**	—	(35)
74	192	164	**129**	54	71	**(7)**	(11)	9	**(42)**	(89)	(121)	**154**	146	123
1 905	1 906	1 781	**1 975**	2 612	2 703	**857**	966	1 006	**488**	315	286	**5 225**	5 799	5 776
1 789	1 745	1 617	**1 700**	2 029	2 095	**842**	943	977	**285**	185	28	**4 616**	4 902	4 717

Cost			Accumulated depreciation[2]			Net book value			Capital expenditures		
1986	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984
1 952	1 862	1 707	**689**	626	551	**1 263**	1 236	1 156	**313**	308	236
481	441	384	**69**	56	39	**412**	385	345	**48**	59	10
2 433	2 303	2 091	**758**	682	590	**1 675**	1 621	1 501	**361**	367	246
1 239	1 201	1 184	**406**	345	292	**833**	856	892	**35**	4	120
484	454	450	**234**	223	215	**250**	231	235	**44**	36	24
1 723	1 655	1 634	**640**	568	507	**1 083**	1 087	1 127	**79**	40	144
909	901	873	**169**	124	81	**740**	777	792	**12**	23	74
142	116	94	**54**	39	31	**88**	77	63	**129**[3]	39	15
5 207	4 975	4 692	**1 621**	1 413	1 209	**3 586**	3 562	3 483	**581**	469	479

[2] Principal depreciation and amortization rates:
Resources segment – unit of production
Other segments – straight-line 4% to 13%

[3] Includes acquisition of Shell Explorer Limited.

6. Long-term debt

($ millions)	Maturity	1986	1985	1984
Debentures [1]				
$15^3/_4$% (1986 – U.S. $96; 1985 – U.S. $96; 1984 – U.S. $96)	1991	**133**	134	127
$14^3/_8$% (1986 – U.S. $125; 1985 – U.S. $125; 1984 – U.S. $125)	1992	**174**	175	165
$11^3/_4$%	1988	**100**	100	100
$11^1/_4$% [2]	1992	**75**	75	—
Sinking fund debentures				
Series 1 – $7^1/_2$% (1986 – U.S. $45; 1985 – U.S. $49; 1984 – U.S. $52)	1994	**62**	68	69
Series 2 – $9^1/_4$% (1986 – U.S. $58; 1985 – U.S. $64; 1984 – U.S. $69)	1996	**80**	89	91
$14^1/_8$% (1985 – U.S. $200; 1984 – U.S. $200)	1997	**—**	280	264
$9^3/_8$%	2003	**114**	119	119
Promissory notes				
Floating rate [3]	1992	**100**	100	100
Other long-term obligations	Varying dates	**38**	33	34
		876	1 173	1 069
Included in current liabilities as due within one year		**13**	18	14
Unamortized balance of exchange gains and losses		**38**	85	57
Total		**825**	1 070	998

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. Subsequent to the year end an additional interest rate swap was entered into through which the effective interest rate has been fixed at approximately $8^3/_4$%.

3 Interest is payable monthly at three-quarters of one per cent below prime rates prevailing at Canadian chartered banks to August, 1987, 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 $876 million long-term debt, the aggregate amount of payments necessary to meet sinking fund or retirement provisions will be:

$ 13 million in 1987; $113 million in 1988;
$ 15 million in 1989; $ 17 million in 1990;
$153 million in 1991.

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, 1986, 1985 and 1984 respectively. Unrealized gains and losses arising on translation of long-term debt are deferred and amortized over the remaining term of the debt.

7. Transactions with affiliated companies

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. The terms of settlement were to pay $5 million (U.S.) in cash on the transaction date and $75 million (U.S.) by January 2, 1987. 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. The purchase price was allocated to the anticipated savings in taxes which will arise as a result of claiming these income tax deductions.

During 1986, the Corporation purchased $300 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. These purchases were made at commercial rates and terms. Current amounts payable in respect of such purchases at December 31, 1986 were $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.

8. 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. The Corporation's policy is that all normal funding requirements, as determined by an annual independent actuarial review, are contributed to the pension fund during the year. In 1986 such contributions totalled $18 million. Pension fund assets are comprised primarily of common shares, fixed income securities and real estate.

Commencing in 1986, the Corporation revised its method of accounting for pensions in accordance with accounting recommendations issued by the Canadian Institute of Chartered Accountants, and the Financial Accounting Standards Board. These recommendations set forth specific guidelines for the determination of pension expense, and serve to separate expense recognition from funding. These new policies have been applied prospectively and result in the determination of 1986 pension expense as follows:

($ millions)	1986
Service costs – benefits earned during the year	7
Interest cost on projected benefit obligation	47
Actual return on plan assets	(48)
Net amortization and deferral[1]	(2)
Net pension expense	4

1 Net amortization and deferral includes the difference between actual and estimated returns on plan assets, together with the amortization of a net pension asset identified on the initial application of these policies over the employees' average remaining service life.

Had these new policies not been applied, total 1986 pension costs would have been $17 million. These amounts compare to the 1985 and 1984 charges to earnings of $26 million and $23 million respectively.

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

($ millions)	1986	1985
Actuarial present value of benefit obligations:		
Accumulated benefit obligation including vested benefits of $540 and $518 for 1986 and 1985 respectively.	563	540
Projected benefit obligation	614	589
Plan assets at fair market value	685	603
Plan assets in excess of projected benefit obligation	71	14
Unrecognized net gain	(39)	
Unrecognized net asset existing at January 1, 1986	(18)	
Prepaid pension cost recognized in the Statement of Financial Position	14	

Pension expense under the new policy was based on measurements as of January 1, 1986 for both the projected benefit obligation and the fair market value of plan assets. As a part of such measurements, the discount rate, average rate of compensation growth, and long term rates of return on plan assets have been estimated to be 8%, 5%, and 8% respectively.

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

9. Capital stock

($ millions)	1986 Issued	1986 Dividends	1985 Issued	1985 Dividends	1984 Issued	1984 Dividends
10 000 000 Series "A" Preferred Shares	**250**	**15**	250	16	250	16
100 4% Preference Shares	**1**	**—**	1	—	1	—
75 222 331 Class "A" Common Shares (1985 – 75 215 511; 1984 – 75 201 911)	**481**	**45**	481	45	481	45
9 087 039 Class "B" Common Shares	**29**	**22**	29	22	29	22
Total	**761**	**82**	761	83	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.

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.

10. Commitments and contingencies

At December 31, 1986, the Corporation had non-cancelable 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 1987; $ 43 million in 1988;
$37 million in 1989; $ 32 million in 1990;
$19 million in 1991; $178 million thereafter.

The Corporation has agreed to guarantee indebtedness, totalling $29 million, incurred by major petroleum product customers.

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 $68 million, could be accelerated; such payment would have the effect of eliminating the debt service component of the contract.

In late 1985, the Corporation committed to the construction of a residue catalytic cracker at Montreal East refinery to meet the lead phase-down requirements in gasoline. The total estimated cost is $80 million of which $25 million was incurred to December 31, 1986. Start-up is scheduled for October 1987.

11. Taxes and royalties

The following amounts were charged to earnings before unusual and extraordinary items:

($ millions)	1986	1985	1984
Items reported separately:			
Income taxes	**162**	236	294
Petroleum and gas revenue taxes	**46**	123	118
Items included in purchased crude oil, petroleum products and other merchandise, and operating expenses:			
Crown royalties and mineral taxes	**164**	255	227
Royalties paid to private leaseholders	**35**	49	49
Petroleum compensation charges	**—**	364	286
Oil import compensation received	**—**	(94)	(116)
Canadian ownership charges	**—**	55	89
Federal sales taxes	**291**	267	220
Other taxes	**53**	57	48
Total	**751**	1 312	1 215
Items not included in revenues and expenses:			
Retail sales taxes collected for governments	**792**	669	580
Royalties paid in kind to the Alberta government	**62**	151	165

12. 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)	1986	1985	1984
Statutory rate (weighted average)	**49.7**	48.8	48.1
Increases (decreases) resulting from:			
Non-deductibility of crown royalties and other payments to provinces	**35.7**	43.5	39.7
Non-deductibility of petroleum and gas revenue taxes	**7.9**	15.7	12.6
Resource allowance and other abatement measures partially to offset non-deductibility of crown royalties	**(28.1)**	(35.3)	(31.3)
Depletion earned by exploration and development expenditures	**(3.7)**	(2.4)	(0.7)
Inventory allowance	**(0.8)**	(3.9)	(2.3)
Adjustments arising from re-assessments	**0.7**	(1.7)	0.5
Manufacturing and processing credit	**(5.5)**	(0.7)	—
Other	**(0.5)**	(2.2)	(1.5)
Effective income tax rate reflected in earnings before unusual items	**55.4**	61.8	65.1

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:

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 8) is larger under United States accounting principles than it is 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 on the redemption of the 14$^1/_8$% sinking fund debentures (see Note 2) would have been treated as an extraordinary item.

An extraordinary provision of $35 million was charged against 1984 earnings to cover certain costs to restructure the Corporation's organization, relocate the corporate headquarters to Calgary and reduce staff. Prior to 1986, additional pension costs net of income taxes under the enhanced retirement program were being charged against earnings in future years (1985 – $3 million). Under United States accounting principles, this extraordinary item together with the additional pension costs, totalling $66 million after income taxes, would have been included as an unusual item in earnings before extraordinary item in the 1984 consolidated statement of earnings and would not have been shown net of applicable income taxes.

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:

December 31 ($ millions)	1986	1985	1984
Earnings before unusual and extraordinary items as reported	**130**	146	158
Adjustments, net of applicable income taxes:			
Foreign currency translation	**18**	(22)	(26)
Capitalization (amortization) of interest	**(2)**	(7)	49
Decrease in pension expense	**4**	—	—
Pension contribution	**—**	(2)	(5)
Unusual items as adjusted	**71**	3	(66)
Earnings before extraordinary items as adjusted	**221**	118	110
Extraordinary items as adjusted	**(29)**	—	—
Earnings as adjusted	**192**	118	110
Earnings attributable to preferred shares	**(15)**	(16)	(16)
Earnings attributable to Class "A" Common Shares as adjusted	**177**	102	94
Earnings per Class "A" Common Share as adjusted (dollars)	**1.58**	0.91	0.85

14. 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. 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.

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, 1986, 1985 and 1984 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, 1986. 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, 1986, 1985 and 1984 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, 1986 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 8 to the financial statements.

Price Waterhouse

Price Waterhouse
Calgary, Alberta
February 10, 1987

Shell Canada Limited

FIVE-YEAR FINANCIAL DATA

Statement of earnings *($ millions)*

	1986	1985	1984	1983	1982
Revenues					
Petroleum products	**3 337**	4 155	3 820	3 594	3 531
Natural gas	**491**	593	559	575	616
Crude oil and natural gas liquids	**177**	443	646	569	465
Chemicals	**494**	527	414	321	328
Other operating revenues	**299**	352	295	241	209
Sales and other operating revenues	**4 798**	6 070	5 734	5 300	5 149
Dividends, interest and other income	**20**	32	28	36	40
	4 818	6 102	5 762	5 336	5 189
Expenses					
Purchased crude oil, petroleum products and other merchandise	**2 383**	3 686	3 552	3 409	3 249
Operating expenses	**891**	856	741	660	638
Selling and general expenses	**641**	577	500	467	525
Exploration and predevelopment expenses	**182**	121	99	88	157
Depreciation, amortization and retirements	**240**	229	169	140	119
Interest on long-term debt	**143**	128	131	133	76
Petroleum and gas revenue taxes	**46**	123	118	114	125
Income taxes – current	**59**	163	119	14	(47)
– deferred	**103**	73	175	209	199
	4 688	5 956	5 604	5 234	5 041
Earnings					
Earnings before unusual items	**130**	146	158	102	148
Unusual items, after income taxes	**24**	—	—	—	(17)
Earnings before extraordinary item	**154**	146	158	102	131
Extraordinary item, after income taxes	**—**	—	(35)	—	—
Earnings for the year	**154**	146	123	102	131

Statement of cash flows *($ millions)*

	1986	1985	1984	1983	1982
Cash flow from operating activities					
Cash from operations	**711**	600	619	539	639
Working capital excluding cash	**285**	(54)	(144)	132	(71)
Deferred gas production revenue	**(35)**	(23)	25	42	99
	961	523	500	713	667
Cash flow invested					
Capital and exploration expenditures	**(581)**	(469)	(479)	(746)	(1 014)
Investments, long-term receivables and other	**6**	88	(150)	(10)	(77)
Sales of properties, plant and equipment and miscellaneous items	**23**	58	15	22	35
	(552)	(323)	(614)	(734)	(1 056)
Dividends paid					
Preferred shares	**(15)**	(16)	(16)	(17)	(24)
Common shares	**(67)**	(67)	(67)	(64)	(90)
	(82)	(83)	(83)	(81)	(114)
Cash flow from financing activities					
Capital stock	**—**	—	2	291	—
Long-term debt	**(320)**	58	(13)	(19)	593
	(320)	58	(11)	272	593
Increase (decrease) in cash	**7**	175	(208)	170	90
Cash at December 31	**209**	202	27	235	65

Shell Canada Limited

FIVE-YEAR FINANCIAL DATA (continued)

Financial position at year end ($ millions)

	1986	1985	1984	1983	1982
Working capital					
Cash and short-term investments	**209**	202	107	235	65
Short-term borrowings	**—**	—	(80)	—	—
Other working capital	**692**	965	911	767	899
	901	1 167	938	1 002	964
Capital employed					
Investments, long-term receivables and other	**129**	173	296	204	180
Properties, plant and equipment – net	**3 586**	3 562	3 483	3 289	2 805
Total capital employed	**4 616**	4 902	4 717	4 495	3 949
Less: Deferred gas production revenue	**206**	241	264	239	197
Long-term debt	**825**	1 070	998	1 002	1 019
Deferred income taxes	**971**	1 049	976	817	608
Series "A" Preferred Shares	**250**	250	250	250	250
4% Preference Shares	**1**	1	1	1	1
Common shareholders' investment at book value	**2 363**	2 291	2 228	2 186	1 874
Total assets	**5 225**	5 799	5 776	5 240	4 660
Data per common share (dollars)*					
Earnings – before extraordinary item	**1.24**	1.17	1.27	0.83	1.07
– after extraordinary item	**1.24**	1.17	0.96	0.83	1.07
Dividends paid	**0.60**	0.60	0.60	0.60	0.90
Shareholders' investment	**21.18**	20.53	19.97	19.61	18.68
Common shares outstanding at year end (millions)	**112**	112	112	111	100
Shareholders (number at year end)	**10 931**	12 594	13 836	13 773	15 734
Ratios					
Return on average capital employed (%) 1	**4.7**	4.4	4.2	4.1	4.9
Earnings attributable to common shares as % of average common shareholders' equity 2	**6.0**	5.8	4.8	4.2	5.8
as % of revenues 3	**2.9**	2.1	1.9	1.6	2.1
Common share dividends as % of earnings attributable to common shares 4	**48.3**	51.4	62.6	74.6	83.7
Current assets to current liabilities 5	**2.5**	2.3	1.9	2.3	2.4
Long-term debt as % of total capital employed 6	**17.9**	21.8	21.2	22.3	25.8
Interest coverage 7	**2.6**	4.0	3.9	3.5	4.5
Reinvestment ratio (%) 8	**82**	78	77	138	159
Employee data					
Salaries, wages and employee benefits ($ millions)	**382**	371	393	376	394
Employees (number at year end)	**7 011**	7 142	7 136	7 975	8 611
Capital employed per employee ($ thousands)	**658**	686	661	564	459

*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 and exploration expenditures divided by cash from operations.

Shell Canada Limited

SUPPLEMENTAL OIL PRODUCTS AND CHEMICALS DISCLOSURE *(unaudited)*

	1986	1985	1984	1983	1982
Production					
Crude oil processed by Shell refineries (thousands of cubic metres daily)	**37.9**	37.5	33.6	31.9	36.2
Rated refinery capacity at year end (thousands of cubic metres daily)	**43.9**	42.9	42.9	35.0	46.8
Average rated refinery capacity utilization (%)	**88**	87	93*	76*	77
Sales					
Petroleum product sales (thousands of cubic metres daily)					
Gasolines	**15.3**	15.9	14.8	15.5	16.1
Middle distillates	**12.8**	13.2	12.4	12.2	12.1
Lubricants, asphalts, heavy fuel oils and greases	**5.6**	5.3	5.7	4.8	5.7
	33.7	34.4	32.9	32.5	33.9
Petroleum product sales ($ millions)					
Gasolines	**1 711**	2 087	1 901	1 846	1 830
Middle distillates	**1 186**	1 507	1 329	1 280	1 227
Lubricants, asphalts, heavy fuel oils and greases	**440**	561	590	468	474
	3 337	4 155	3 820	3 594	3 531
Retail outlets (number at year end)	**3 507**	3 473	3 478	3 433	3 512
Chemical sales (tonnes daily)	**2 105**	2 062	1 667	1 378	1 346
Chemical sales ($ millions)					
Aromatics	**211**	236	124	79	84
Solvents and intermediates	**124**	144	137	118	118
Polymers and resins	**158**	146	129	104	78
Other	**1**	1	24	20	48
	494	527	414	321	328

*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)*

	1986	1985	1984	1983	1982
Production					
Crude oil and natural gas liquids (thousands of cubic metres daily)					
Gross	**10.0**	10.7	11.4	10.1	10.0
Net	**7.7**	7.7	7.9	7.0	6.7
Natural gas (millions of cubic metres daily)					
Gross	**16.2**	16.7	14.5	15.2	16.4
Net	**12.2**	11.8	10.0	10.5	11.2
Sulphur – gross (thousands of tonnes daily)	**3.5**	3.5	3.1	3.3	3.2
Clean coal – gross (thousands of tonnes daily)	**4.3**	5.7	6.2	4.0	2.2
Sales					
Sulphur – gross (thousands of tonnes daily)	**3.0**	3.9	4.0	3.6	3.5
Coal – gross (thousands of tonnes daily)	**5.0**	6.4	5.7	3.8	2.0

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, 1986		Exploration rights		Leases	
(thousands of hectares)		Gross	Net	Gross	Net
Onshore within the provinces					
Conventional oil and gas:	Alberta	250	209	1 308	782
	Other	393	272	537	370
Synthetic oils:	Oil sands – mining			20	10
	– in-situ			162	81
Canada Lands					
East Coast offshore:	Nova Scotia	314	129		
	Newfoundland	229	183		
	Baffin Bay and Davis Strait	863	863		
Northwest and Yukon Territories:	Mackenzie Delta	436	406		
West Coast offshore		5 598	2 642		
Arctic Islands:	Cape Allison	18	4		
	North Buckingham	455	25		
		8 556	4 733	2 027	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 321 000 gross hectares or 114 000 net hectares in Western Canada, primarily in Alberta, are classified as developed lands.

Coal at December 31, 1986	Licences and leases	
(thousands of hectares)	Gross	Net
Alberta	103	103
British Columbia	55	55
Saskatchewan	3	3
	161	161

EXPLORATION AND DEVELOPMENT WELLS DRILLED (CONVENTIONAL OIL AND GAS)

	1986		1985		1984		1983		1982	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration										
Oil	10	6	5	4	6	5	2	2	4	4
Gas	5	3	7	5	3	1	2	1	2	2
Dry	26	20	35	27	11	10	14	11	19	17
	41	29	47	36	20	16	18	14	25	23
Development										
Oil	131	52	108	56	43	19	32	17	15	9
Gas	22	17	12	10	11	9	7	6	12	9
Dry	10	7	6	5	6	4	10	4	2	1
	163	76	126	71	60	32	49	27	29	19
Total wells drilled	204	105	173	107	80	48	67	41	54	42

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.

SUPPLEMENTAL OIL, GAS AND COAL DISCLOSURE

(continued)

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

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 Canadian government and provincial government 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 coast, Arctic Islands and other frontier areas) are all located in Canada, with approximately 90 per cent in Alberta.

Net proved developed and undeveloped crude oil and condensate reserves declined by three per cent from 1985. Production in 1986 was approximately nine per cent of remaining reserves, similar to the utilization rate of recent years. The decline in reserves was also a result of downward revisions to previous estimates, due largely to the effect of reduced crude oil prices on the profitability of planned projects and on the economic lives of mature fields. These reductions were partially offset by positive revisions of reserves due to improved performance of the Innisfail, Fenn/Big Valley and Harmattan Elkton fields and by infill drilling programs in Virginia Hills and Pembina.

A significant addition was realized in the improved recovery category as a result of a hydrocarbon miscible flood in the Nipisi field. New oil reserves were added due to recent discoveries at Gordondale, Redfish, Simonette, Noel and Kidney.

Substantial condensate reserve additions occurred in conjunction with natural gas reserve increases at Waterton and the new sour gas discovery at Caroline.

Shell increased net natural gas production by five per cent in 1986. Of greater significance, however, were the reserve additions achieved. A total of 11.5 billion cubic metres of net natural gas reserves was added in 1986, partly as a result of the significant discoveries of Caroline and, to a lesser extent, South Hamburg and Haddock (Groat). Also contributing to the reserves additions was the recognition of the Panther and Clearwater fields, for which development plans to bring production on-stream are under way.

Extensions and positive revisions to existing fields also contributed to enlarging the reserves base. Specifically, Hamburg, Limestone, Progress, Jumping Pound West, Cranberry and Simonette Dunvegan fields benefited from either drilling success or better-than-anticipated reservoir performance.

Additions to net reserves resulting from royalty reduction in all gas fields also contributed to some degree.

Overall, 1986 net natural gas reserves additions replaced 1986 production by more than 250 per cent and increased the entire reserves base at year end by more than eight per cent.

In the sulphur business, significant reserves additions in 1986 further strengthened the Company's position as a leading producer in Canada. Additions to sulphur reserves of 4.1 million tonnes replaced 1986 production by more than 450 per cent and increased the entire sulphur reserves base by more than 17 per cent. The bulk of the reserves additions was due to Shell's discovery in Caroline, and to extensions in the Waterton field.

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)		
1986	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984
22.1	21.0	20.8	**7.2**	7.2	—	**8.8**	8.6	9.7	**82.9**	80.0	80.3	**18.3**	18.0	18.6
(1.0)	2.5	0.7	**0.8**	—	—	**(0.4)**	0.6	(0.4)	**3.0**	5.2	2.2	**0.8**	1.2	0.5
1.4	0.5	1.5	—	—	7.2	**0.2**	0.3	—	**8.5**	2.0	1.2	**3.3**	0.2	—
0.9	0.1	0.2	—	—	—	—	—	—	—	—	—	—	—	—
(2.0)	(2.0)	(2.2)	**(0.1)**	—	—	**(0.8)**	(0.7)	(0.7)	**(4.5)**	(4.3)	(3.7)	**(0.9)**	(1.1)	(1.1)
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
19.1	18.0	18.5	**0.2**	0.2	—	**7.7**	7.3	8.6	**64.7**	61.2	63.7	**14.8**	13.9	15.1
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
28.2	29.5	29.2	**8.4**	8.4	8.4	**10.2**	10.8	11.0	**112.9**	110.2	111.8	**23.6**	21.0	20.8

Other reserves	Coal (million tonnes)			Oil sands mining (million cubic metres)			Oil sands in-situ (million cubic metres)		
At end of year	**1986**	1985	1984	**1986**	1985	1984	**1986**	1985	1984
Net proved	**44**	46	48	—	—	—	—	—	—
Net probable	**127**	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.

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 5.

Capitalized costs

December 31 ($ millions)	1986	1985	1984
Unproved oil and gas properties	337	402	383
Proved oil and gas properties	1 615	1 460	1 324
	1 952	1 862	1 707
Accumulated depreciation and amortization	689	626	551
Net capitalized costs	1 263	1 236	1 156

Costs incurred

Year ended December 31 ($ millions)	1986	1985	1984
Property acquisition	26	40	36
Exploration costs	132	118	111
Development costs	155	150	89
Total costs incurred	313	308	236

Results of operations from producing activities

Year ended December 31 ($ millions)	1986	1985	1984
Revenues	762	1 060	975
Less: Operating expenses	220	201	176
Exploration expenses	181	120	96
Depreciation, amortization and retirements	103	102	89
Petroleum and gas revenue taxes	46	123	118
Income taxes	128	322	327
Results of operations from producing activities	84	192	169

Amounts from in-situ and coal operations, the contributions from which were $(10) million in 1986, nil in 1985, and $(5) million in 1984, are excluded from the above revenues and expenses but are included in the Resources segment financial results reported in Note 5.

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)	1986	1985	1984
Future cash inflow[1]	**11 920**	16 283	15 667
Less: Future operating and development costs	**3 892**	3 929	3 581
Future petroleum and gas revenue taxes	**—**	142	1 794
Future income taxes	**3 517**	5 889	6 002
Future net cash flows	**4 511**	6 323	4 290
Less: 10% annual discount for estimated timing of cash flows	**2 372**	3 257	2 292
Standardized measure of discounted future net cash flows from proved oil and gas reserves	**2 139**	3 066	1 998

Changes in net cash flows

	1986	1985	1984
Sales, net of operating costs[2]	**(496)**	(736)	(681)
Net changes in prices and operating costs	**(2 511)**	32	208
Extensions, discoveries and improved recovery, less related costs[2]	**434**	126	156
Development costs incurred during the period	**155**	150	89
Revisions of previous quantity estimates[2]	**23**	456	112
Petroleum and gas revenue taxes	**81**	640	(100)
Accretion of discount	**602**	479	462
Net changes in income taxes	**1 260**	(161)	(227)
Other	**(475)**	82	31
Net increase (decrease) for the year	**(927)**	1 068	50

[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.

Accounting for inflation

For more than 10 years, Shell Canada has provided detailed presentations of the methodologies proposed by the Canadian Institute of Chartered Accountants and other authoritative bodies. The presentation below focuses attention on the areas most affected by inflation. Management continues to advise that this methodology involves a number of fundamental assumptions which do not properly portray, particularly in the case of companies having natural resource reserves, replacement costs for these assets. Consequently, the methodology fails to reflect a fair determination of the effects of inflation.

Earnings on Current Cost basis

Year ended December 31 ($ millions)	**1986**	1985
Earnings as reported	**154**	146
Adjustments required to reflect higher current costs in the year		
– purchases	**233**	(15)
– depreciation, amortization and retirements	**(104)**	(102)
Earnings – adjusted	**283**	29

Other financial data	Historical Cost	Current Cost	
December 31 ($ millions)	**1986**	**1986**	1985
Inventories	**614**	**628**	1 016
Properties, plant and equipment – net	**3 586**	**5 135**	5 306
Capital employed	**4 616**	**6 179**	6 693

Current Cost amounts were estimated by applying specific industry indices to Historical Cost carrying values. No adjustment was made to current or deferred income tax expense.

A net decrease in inventory and property, plant and equipment of $215 million was recorded in 1986 as opposed to an increase of $205 million in 1985, and the amount attributable to general inflation was $184 million ($226 million in 1985). Purchasing power gain was $62 million ($84 million in 1985). A negative financing adjustment to income of $62 million was reflected for 1986 ($64 million positive in 1985) and a negative adjustment of $69 million for 1986 ($72 million positive in 1985) to inventories and property, plant and equipment.

Interpretation of results

As indicated above, the financial results computed on a Current Cost basis have, for the first time, reflected a net positive adjustment of $129 million to Historical Cost-based earnings. This was caused by the sharp decline in international crude oil prices during the first half of 1986. However, higher Current Cost depreciation continued to erode Shell's Historical Cost-based earnings.

As a result of inflation, Shell's cost to replace its property, plant and equipment would be almost 50 per cent more than Historical Cost values recorded in the accounts. The cost of replacing reserves in the ground, which are unique and finite, was determined by applying inflation indices to the exploration and development costs recorded. However, these calculated values fail to approximate the current costs of finding and developing similar reserve quantities. This failing greatly reduces the usefulness of the methodology for resources assets.

In summary, the results determined above only partially demonstrate the relative magnitude of the impact on earnings and cash flow as a result of inflation.

OFFICERS

at December 31, 1986

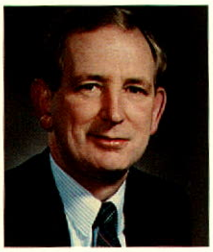
J.M. MacLeod
President and Chief
Executive Officer
Calgary

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

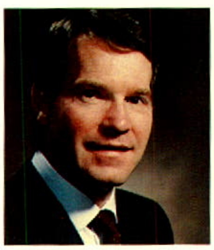
Donald J. Taylor
Executive
Vice President
(Products)
Calgary

D.G. Stoneman
Senior Vice President
(Business
Development)
Calgary

R.F. Taylor
Senior Vice President
(Business Services)
Calgary



G.B. Darou
Vice President
(Finance) and
Treasurer
Calgary



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

G.L. Peterson
Controller
Calgary

PRINCIPAL OPERATING MANAGEMENT

Resources

R.P. Cej
Vice President
Production Development

R.A. MacDonell
Vice President
Operations

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

R.R. Picard
Vice President
Human Resources

C.J. Tooker
Vice President
Information and Computing

Research

L.F. Bolger
Vice President
Research

Corporate

F.W.D. Shannon
Vice President
Corporate Strategies

BOARD OF DIRECTORS

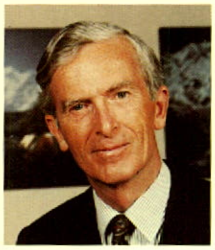
at December 31, 1986

Non-employee Directors:

Peter J.G. Bentley

C. William Daniel

Dr. James M. Ham



Peter F. Holmes

Walter F. Light

Lorne K. Lodge

Margaret Southern

Antoine Turmel

L.C. van Wachem

Audit Committee

Composed of Messrs. Bentley, Lodge and Turmel, 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.

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

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

C. William Daniel
Corporate Director/Consultant
Toronto

Dr. James M. Ham
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
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
President
Spruce Meadows Equestrian Centre
Calgary

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

Antoine Turmel
Corporate Director
Montreal

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

C

SHELL CANADA LIMITED

400 - 4TH AVENUE S.W.
CALGARY, ALBERTA
CANADA T2P 0J4

NOTICE OF ANNUAL MEETING
OF HOLDERS OF
CLASS "A" COMMON SHARES
CLASS "B" COMMON SHARES
4% CUMULATIVE REDEEMABLE PREFERENCE SHARES

Notice is hereby given that an Annual Meeting of the holders of Class "A" Common Shares, Class "B" Common Shares and 4% Cumulative Redeemable Preference Shares of Shell Canada Limited will be held in the Alberta Room, The Palliser Hotel, 133 - 9 Avenue S.W., Calgary, Alberta, on the 29th day of April 1987, at 2:00 o'clock in the afternoon, local time, for the following purposes:

(1) to receive the Annual Report and the Financial Statements of the Corporation and its subsidiaries for the year ended December 31, 1986 and the report of the auditors thereon;

(2) to elect directors for the ensuing year;

(3) to appoint auditors for the ensuing year and to authorize the directors to fix the auditors' remuneration;

(4) to transact such further or other business as may properly be brought before the Meeting or any adjournment or adjournments thereof.

DATED at Calgary this 3rd day of April, 1987.

BY ORDER OF THE BOARD

H. W. LEMIEUX
Secretary

If you are unable to be present personally, kindly complete and return an instrument of proxy to our Transfer Agent and Registrar, National Trust Company, 1008 Home Oil Tower, 324 - 8 Avenue S.W., Calgary, Alberta T2P 2Z2. An envelope and a form of proxy is enclosed, but any other proper form of proxy may be used. A proxy in favour of the persons named in the enclosed form of proxy will be voted in accordance with your instructions as indicated on the proxy.

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

(first mailed to shareholders on or about April 3, 1987)

SHELL CANADA LIMITED

400 - 4TH AVENUE S.W.
CALGARY, ALBERTA
CANADA T2P 0J4

a corporation governed by
the Canada Business Corporations Act

SOLICITATION OF PROXIES

This management information circular and proxy statement is furnished to shareholders in connection with the solicitation of proxies by the management of Shell Canada Limited (hereinafter called the "Corporation") for use at the Annual Meeting (the "Meeting") of holders of Class "A" Common Shares, Class "B" Common Shares and 4% Cumulative Redeemable Preference Shares of the Corporation. The Meeting will be held on the 29th day of April, 1987 at 2:00 o'clock in the afternoon (local time), in the Alberta Room, The Palliser Hotel, 133 - 9 Avenue S.W., Calgary, Alberta. The cost of solicitation of proxies will be borne by the Corporation.

To be effective proxies must be received by National Trust Company before the time of the Meeting.

On any ballot that may be called for, the shares represented by a proxy in favour of the persons named in the enclosed form of proxy will be voted or withheld from voting in accordance with the shareholder's direction as indicated on the proxy. In the absence of such direction the shares will be voted for the election as directors of those persons listed below under the heading "Information Concerning Nominees for Election to the Board of Directors"; for the appointment as auditors of Price Waterhouse and for the directors' authorization to fix the auditors' remuneration.

The enclosed form of proxy confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters that may properly come before the Meeting. At the date hereof, the management of the Corporation knows of no such amendments, variations or other matters to come before the Meeting.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and officers of the Corporation. A shareholder has the right to appoint a person (who need not be a shareholder of the Corporation), other than one of the persons named in the enclosed form of proxy, as nominee to attend and act for and on behalf of such shareholder at the Meeting. To exercise this right, the shareholder should draw a line through the printed names and insert the name of the shareholder's nominee in the blank space provided.

A shareholder who appoints a proxy may revoke the appointment by instrument in writing executed by the shareholder or by his attorney authorized in writing and deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting at which the proxy is to be used, or any adjournment thereof, or with the Chairman of such Meeting on the day of the Meeting or adjournment thereof, or in any other manner permitted by law. If a shareholder who has completed and returned a proxy attends the Meeting in person, any votes cast by the shareholder will be counted and the proxy will be disregarded.

VOTING SHARES AND PRINCIPAL HOLDERS AND CERTAIN BENEFICIAL OWNERS THEREOF

The Corporation's outstanding voting shares, each of which carries the right to one vote per share, are 75,415,714 Class "A" Common Shares, 9,087,039 Class "B" Common Shares and 100 4% Cumulative Redeemable Preference Shares. Shell Petroleum N.V. ("SPNV"), a Netherlands company, holds directly, or indirectly through a wholly owned Canadian subsidiary, Shell Investments Limited ("SIL"), the following shares of the Corporation: 68.0% of the Class "A" Common Shares or 51,319,170 shares of that class; 100% of the Class "B" Common Shares; and 100% of the 4% Cumulative Redeemable Preference Shares, representing 71.6% of the outstanding voting shares of the Corporation. SPNV is owned 40% by The "Shell" Transport and Trading Company, Public Limited Company ("Shell T & T"), an English company, and 60% by Royal Dutch Petroleum Company ("Royal Dutch"), a Netherlands company, these latter together being hereinafter referred to as the "Parent Companies". The address of SIL is 400 - 4th Avenue S.W., Calgary, Alberta T2P 0J4, the address of SPNV and Royal Dutch is 30 Carel van Bylandtlaan, 2596 HR, The Hague, The Netherlands and the address of Shell T & T is Shell Centre, London, England SE1 7NA.

To the knowledge of the directors or officers of the Corporation, no other person beneficially owns or exercises control or direction over voting securities of the Corporation carrying more than five percent of the votes attached to such securities.

The list of shareholders will be prepared as of the close of business on April 2, 1987, being the record date established for notice of the Meeting. A person who has acquired ownership of shares since April 2, 1987 may establish such ownership and, not later than ten days before the Meeting, arrange that the person's name be included in the list of shareholders.

As of March 6, 1987, each director or nominee director, and all directors, nominee directors and officers as a group owned beneficially, directly or indirectly, or exercised control or direction over the number of Class "A" Common Shares of the Corporation and Priority and/or Ordinary Shares of the Parent Companies set forth in the following table. The information in the table is based upon data furnished to the Corporation by, or on behalf of, the persons referred to in the table and includes shares held on the individuals' behalf in the Shell Savings Fund and under the Corporation's Stock Purchase Plan.

	Class "A" Common Shares of the Corporation	Shares of Royal Dutch		Ordinary Shares of Shell T & T
		Priority	Ordinary	
Peter J.G. Bentley	2,000	—	—	—
J.E. Czaja	2,977[1]	—	—	—
C. William Daniel	75,715[2]	—	—	—
James M. Ham	250	—	—	—
Peter F. Holmes	—	—	—	111,000[3]
Walter F. Light	200	—	—	—
Lorne K. Lodge	400	—	—	—
J.M. MacLeod	45,718[4]	—	—	—
Margaret Southern	250	—	—	—
Donald J. Taylor	3,725[5]	—	—	—
Antoine Turmel	1,000	—	—	—
L.C. van Wachem	—	6	9,600[6]	—
Directors, nominees and officers as a group (includes 12 named above)[7]	157,053[8]	6	9,600	111,000

NOTES

1. Class "A" Common Shares beneficially owned include the right to acquire beneficial ownership of 2,000 shares within 60 days of March 6, 1987.
2. Class "A" Common Shares beneficially owned include the right to acquire beneficial ownership of 75,565 shares within 60 days of March 6, 1987.
3. Ordinary Shares of Shell T & T beneficially owned include the right to acquire beneficial ownership of 110,000 shares within 60 days of March 6, 1987.
4. Class "A" Common Shares beneficially owned include the right to acquire beneficial ownership of 39,670 shares within 60 days of March 6, 1987.

5. Class "A" Common Shares beneficially owned include the right to acquire beneficial ownership of 3,500 shares within 60 days of March 6, 1987.
6. Ordinary Shares of Royal Dutch beneficially owned include the right to acquire beneficial ownership of 8,500 shares within 60 days of March 6, 1987.
7. The directors and nominees, individually, and the directors, nominees and officers as a group, own less than one percent of the total number of Class "A" Common Shares of the Corporation and less than one percent of the Ordinary Shares of both Royal Dutch and Shell T & T and less than one percent of the Priority Shares of Royal Dutch.
8. Excludes 200 shares beneficially owned by the spouse of an officer and of which the officer disclaims beneficial ownership. Includes the right to acquire beneficial ownership of 143,978 Class "A" Common Shares within 60 days of March 6, 1987.

ELECTION OF DIRECTORS

The Board of Directors is elected annually and may consist of such number as may be fixed from time to time by the directors being not less than 10 nor more than 15 directors. By a resolution of the Board the number of directors to be elected at the Meeting is currently fixed at 11. The term of office for each person elected is until the next annual meeting or until his or her successor is duly elected or appointed. All nominees have consented to being named in this Management Information Circular and Proxy Statement and to serve as directors if elected. Management does not contemplate that any of the nominees for director will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for other nominees in accordance with their best judgment.

INFORMATION CONCERNING NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

The following table sets out information concerning each person the management of the Corporation proposes to nominate for election as a director. All nominees are currently directors of the Corporation.

Name and residence	Age	Major positions with Corporation and significant affiliates	Principal occupation during last five years	Director of the Corporation during the following periods
PETER J.G. BENTLEY Vancouver, British Columbia	57	Member of the Audit Committee and Management Resources and Compensation Committee	Chairman and Chief Executive Officer, Canfor Corporation (since 1985) President and Chief Executive Officer, Canfor Corporation (1983 to 1985) President and Chief Executive Officer, Canadian Forest Products Ltd., a predecessor company (1975 to 1983)	April 30, 1975 to date
J.E. CZAJA Calgary, Alberta	56	Executive Vice President Vice President and Director, SIL Director, Shell Canada Products Limited	Executive Vice President, Shell Canada Limited (since 1982) Senior Vice President, Shell Canada Limited (1981 to 1982)	January 28, 1983 to date

Name and residence	Age	Major positions with Corporation and significant affiliates	Principal occupation during last five years	Director of the Corporation during the following periods
DR. JAMES M. HAM Toronto, Ontario	66	—	Professor, University of Toronto, Professional Engineer - Consultant (since 1983) President, University of Toronto (1978 to 1983)	April 30, 1981 to date
PETER F. HOLMES London, England	54	Chairman and Director, SIL	Chairman (since 1985) and Managing Director (since 1982), Shell T & T Director, Shell International Petroleum Company Limited and other companies affiliated with The Royal Dutch/Shell Group (since 1981)	April 24, 1985 to date
WALTER F. LIGHT Toronto, Ontario	63	Member of the Management Resources and Compensation Committee	Retired Chairman, Northern Telecom Limited (since 1985) Chairman, Northern Telecom Limited (1984 to 1985) Chairman and Chief Executive Officer, Northern Telecom Limited (1982 to 1984) President and Chief Executive Officer, Northern Telecom Limited (1979 to 1982)	April 25, 1984 to date
LORNE K. LODGE Toronto, Ontario	56	Member of the Audit Committee	Chairman of the Board, IBM Canada Ltd. (since 1986) Chairman and Chief Executive Officer, IBM Canada Ltd. (1982 to 1986) Chairman and President, IBM Canada Ltd. (1976 to 1982)	April 25, 1984 to date

Name and residence	Age	Major positions with Corporation and significant affiliates	Principal occupation during last five years	Director of the Corporation during the following periods
JOHN M. MACLEOD Calgary, Alberta	55	President President and Director, SIL Director, Shell Canada Products Limited Member of the Management Resources and Compensation Committee	President and Chief Executive Officer, Shell Canada Limited (since 1985) Natural Gas Co-ordinator, Shell International Petroleum Company Limited (1983 to 1985) Executive Vice President, Shell Canada Limited (1982 to 1983) Senior Vice President, Shell Canada Limited (1977 to 1982)	April 27, 1978 to February 28, 1983 April 24, 1985 to date
MARGARET SOUTHERN Calgary, Alberta	56	—	President, Spruce Meadows Equestrian Centre (since 1975)	April 24, 1980 to date
DONALD J. TAYLOR Calgary, Alberta	52	Executive Vice President Vice President, Director and Treasurer, SIL President and Director, Shell Canada Products Limited	Executive Vice President, Shell Canada Limited (since 1982) Senior Vice President, Shell Canada Limited (1979 to 1982)	April 24, 1980 to date
ANTOINE TURMEL Montreal, Quebec	68	Member of the Audit Committee and Management Resources and Compensation Committee	President, Turan Investments Inc. (since 1985) Chairman of the Board and Chief Executive Officer, Provigo Inc. (1969 to 1985)	April 24, 1980 to date
L.C. VAN WACHEM Wassenaar, The Netherlands	55	—	President (since 1982) and Managing Director (since 1977), Royal Dutch Managing Director (since 1977), The Shell Petroleum Company Limited Chairman (since 1984) and Principal Director (since 1977), SPNV Chairman (since 1982) and Director (since 1976), Shell Internationale Petroleum Maatschappij B.V. and Chairman and/or Director, other companies affiliated with The Royal Dutch/Shell Group (since 1976)	April 28, 1982 to date

Certain directors of the Corporation are also directors of other reporting companies under the U.S. *Securities Exchange Act of 1934* or of companies registered under the U.S. *Investment Company Act of 1940*, as follows: Peter F. Holmes, Shell T & T and Shell Oil Company; L.C. van Wachem, Royal Dutch and Shell Oil Company; Walter F. Light, Northern Telecom Limited, Air Products & Chemicals, Inc., Inco Limited, The Procter & Gamble Company, Moore Corporation Limited, The Royal Bank of Canada; Lorne K. Lodge, the Toronto Dominion Bank.

The principal businesses of all Shell and Royal Dutch companies named above are oil, natural gas, chemicals and coal. Canfor Corporation is principally engaged in the forest products industry. Northern Telecom Limited is principally engaged in the manufacture and installation of communication equipment. IBM Canada Ltd. is principally engaged in the manufacture of computers, data processing equipment and related software. The principal business of Spruce Meadows is the operation of an equestrian centre. Provigo Inc. is a holding company which, through subsidiaries, engages in the general distribution of a range of consumer goods. Turan Investments Inc. is a private holding company.

BOARD OF DIRECTORS

The Board of Directors met eight times during 1986 and each director attended 75% or more of the total number of meetings of the Board and of all Committees of the Board held during the period he or she was a director or committee member.

COMMITTEES OF THE BOARD OF DIRECTORS

In 1986 the Audit Committee was comprised of Messrs. P.J.G. Bentley, L.K. Lodge and A. Turmel. It recommends independent auditors and reviews the scope and results of their audit; it reviews all financial statements and reports prepared by or on behalf of the Corporation, the adequacy of the Corporation's internal control systems and compliance with professional accounting and reporting standards. The Audit Committee held three meetings during 1986.

In 1986 the Management Resources and Compensation Committee was comprised of Messrs. P.J.G. Bentley, W.F. Light, J.M. MacLeod and A. Turmel. It is responsible for reviewing senior management salary administration and considering new pension and other benefit plans, stock option and incentive programs, directors' remuneration and senior management succession planning. The Management Resources and Compensation Committee held one meeting during 1986.

The Corporation does not have a nominating committee.

CERTAIN TRANSACTIONS

In 1986 the Corporation purchased for $80 million (U.S.) from Pecten International Company ("Pecten") all the issued shares of Pecten's wholly owned subsidiary, Shell Explorer Limited. Pecten is a wholly owned subsidiary of Shell Oil Company, which is wholly owned by SPNV. The purchase price was negotiated at fair market value.

In the course of its regular business, the Corporation engages in routine transactions at standard commercial rates with certain companies affiliated with the Parent Companies including provision of technical services, charters of ocean tankers, purchases of foreign crude oil and agency services in connection with certain coal sales. The Corporation is party to a research cost sharing agreement with a subsidiary of SPNV. Such transactions are not material in relation to the Corporation's overall activities.

In the ordinary course of business during 1986, the Corporation and its subsidiaries have incurred indebtedness to and/or obtained other banking services from a number of banking institutions including The Bank of Montreal, The Royal Bank of Canada, the Toronto Dominion Bank and the National Bank of Canada. Mr. Bentley is a director of The Bank of Montreal, Mr. Light is a director of The Royal Bank of Canada, Mr. Lodge is a director of the Toronto Dominion Bank and Mr. Turmel is a director of the National Bank of Canada.

EXECUTIVE OFFICERS

Name and municipality of residence	Age	Office	Office held since
J.M. MacLeod Calgary, Alberta	55	President & Chief Executive Officer	1985
J.E. Czaja Calgary, Alberta	56	Vice President	1977
Donald J. Taylor Calgary, Alberta	52	Vice President	1977
D.G. Stoneman Calgary, Alberta	55	Vice President	1978
R.F. Taylor Calgary, Alberta	46	Vice President	1980
H.W. Lemieux Calgary, Alberta	42	Vice President and Secretary	1986
G.B. Darou Calgary, Alberta	44	Vice President and Treasurer	1984
G.L. Peterson Calgary, Alberta	47	Controller	1980

Vice Presidents are designated by the Board as "Executive" or "Senior" or with functional indicators such as "General Counsel" or "Finance", full details as to which may be found on page 43 of the 1986 Annual Report to Shareholders. All executive officers have been actively engaged for more than five years in the affairs of the Corporation or its affiliates in their present positions or in other executive or employee capacities.

DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION AND ITS SUBSIDIARIES

CASH COMPENSATION

The following table presents the cash remuneration paid to the five highest paid executive officers of the Corporation in respect of the financial year ended December 31, 1986. All currency figures contained in this Management Information Circular and Proxy Statement are expressed in Canadian dollars:

FIVE HIGHEST PAID EXECUTIVE OFFICERS OF THE CORPORATION DURING 1986

Name of individual	Capacities in which served	Cash compensation[1]
John M. MacLeod	President, Chief Executive Officer and Director	$402,667
Donald J. Taylor	Executive Vice President and Director	$315,000
J. Edward Czaja	Executive Vice President and Director	$302,167
Douglas G. Stoneman	Senior Vice President	$236,333
Robert F. Taylor	Senior Vice President	$215,833

The aggregate cash remuneration paid by the Corporation to the nine[2] executive officers of the Corporation for services rendered during 1986 was $1,943,800. No subsidiary of the Corporation paid any cash remuneration. All directors have since 1982 been entitled to receive an annual retainer of $17,000, plus a $5,000 retainer for members of each of the Audit Committee and the Management Resources and Compensation Committee. The elected chairman of meetings of the Board of Directors is entitled to receive, in addition, special remuneration of $10,000 per annum. The three salaried officers who were directors during 1986 did not receive directors' fees.

NOTES:

1. The amounts shown include salaries, vacation pay and incentive plan payments.
2. Includes J.M. Killey, who was Vice President and Secretary of the Corporation until he retired on March 31, 1986 and H.W. Lemieux, who replaced J.M. Killey, for the period April 1, 1986 to December 31, 1986.

COMPENSATION PURSUANT TO PLANS AND PLAN DESCRIPTIONS

Directors as such do not participate in any pension, retirement or other plan of the Corporation and its subsidiaries.

The estimated aggregate cost to the Corporation during the last completed financial year of all benefits proposed to be paid under any pension or retirement plan to the executive officers of the Corporation upon retirement at normal retirement age was $215,766.

The subsidiaries of the Corporation did not incur any cost in 1986 in respect of benefits under any pension or retirement plan for their respective officers, nor did any of the subsidiaries make any other remuneration payments to such persons.

SAVINGS FUND PLAN

The Corporation's Savings Fund is registered with Revenue Canada as a deferred profit-sharing plan. After two years completed service, the Corporation and its participating subsidiaries pay into the fund an amount equal to a percentage of the individual's basic earnings, according to the length of his accredited service; namely at a rate of five percent during the third, fourth, fifth and sixth year of service and at a rate of ten percent thereafter, with a maximum payment of $2,500 per year to a maximum of 35 years. These payments on behalf of executive officers during the Corporation's last completed financial year amounted to $17,532.

PENSION PLAN

The Corporation's Retirement and Savings Program (including the Savings Fund described above) applies to all employees of the Corporation, and certain other subsidiaries. The program is designed to provide a regular pension annuity ascertained by taking that percentage of an individual's average final earnings (basic salary for the best five consecutive years of the last ten years of service) arrived at by multiplying the number of years of his accredited service (maximum 35) by 2% and by deducting from the resulting annuity the straight-life annuity that can be provided by the balance standing to his credit in the Savings Fund on account of corporate contributions and earnings thereon and by the value of any payments that he has elected to receive in lieu of Savings Fund contributions prior to retirement.

Under the Program employees are allowed, at specified intervals, to elect to forego corporate contributions to the Savings Fund and to receive payments from the Corporation. The value of payments received with assumed earnings thereon will be deducted in calculating pension benefits upon retirement.

In 1986 one of the five highest paid executive officers of the Corporation made such an election: Mr. D.G. Stoneman received $19,900. This was the only such payment made by the Corporation to all executive officers as a group.

The following table sets forth the years of accredited service and basic salary during 1986 of each of the five highest paid executive officers of the Corporation. Basic salary does not include bonuses or incentives of any kind and the amounts shown here may be less than the amounts set forth in the cash compensation table above.

Name of individual	Years of service	Basic salary
John M. MacLeod	32	$346,667
Donald J. Taylor	31	$270,000
J. Edward Czaja	31	$254,167
Douglas G. Stoneman	32	$207,333
Robert F. Taylor	19	$189,833

It is the Corporation's practice to retire senior executives at age 60. In light of this earlier than normal retirement age, a special supplementary provision for senior executives allows the individual who continues to work until age 60 to elect to receive either:

(i) a lump-sum payment equivalent to one and one-half years' terminal salary, or

(ii) a supplementary pension equivalent to the straight-life annuity that can be provided by one and one-half years' terminal salary.

The following table shows estimated annual benefits (assuming full Savings Fund balances are applied to an annuity) payable upon normal retirement from the Corporation's Retirement and Savings Program. Annual benefits are reduced by a portion of government pension benefits payable.

Average of best 5 consecutive years' salary	Years of accredited service				
	15	20	25	30	35
$200,000	$ 60,000	$ 80,000	$100,000	$120,000	$140,000
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000

STOCK OPTION PLANS

The Incentive Stock Option Plan, established in 1956 (the "1956 Plan"), was terminated by the Corporation, with shareholder approval, as of April 30, 1984. No options were granted under the 1956 Plan after that date, but outstanding options were not affected. Under the 1956 Plan, senior officers and key employees of the Corporation and its subsidiaries were eligible to receive options to purchase authorized but unissued Class "A" Common Shares of the Corporation as an incentive related to improvement in the Corporation's results. The 1956 Plan was administered by the Board of Directors upon recommendation of the Management Resources and Compensation Committee of the Board. The number of shares that were issuable to any employee during his career could not exceed 135,000. The option price, with respect to options granted prior to May 27, 1977, is not less than 90% of the fair market value of the shares on the date the option was granted and, with respect to options granted on and after that date, is the fair market value. Each option is exercisable in whole or in part for a maximum period of 10 years from the date of grant. No options were granted to directors as such and no options were granted in respect of any securities of any subsidiary of the Corporation.

The Corporation, with shareholder approval, established on May 1, 1984 the Long Term Incentive Plan (the "Plan"). The Plan, which replaces the 1956 Plan, is intended to provide a long term incentive to senior officers and key employees of the Corporation and its wholly owned subsidiaries related to improvement in the Corporation's results. 1,000,000 Class "A" Common Shares have been set aside to fund the Plan. The Plan is administered by a subcommittee of the Management Resources and Compensation Committee (the "Subcommittee"). The Subcommittee consists of three members of the Board of Directors, none of whom is eligible to participate in the Plan.

Under the Plan, the Subcommittee is empowered to grant options to purchase Class "A" Common Shares of the Corporation to full-time employees of the Corporation or any of its wholly owned subsidiaries who, in the judgment of the Subcommittee, could have a significant effect on the current and long term growth and prosperity of the Corporation. No options are granted to directors as such and no options are granted in respect of any securities of any subsidiary of the Corporation. The option price of the Class "A" Common Shares subject to options granted under the Plan will be their fair market value on the date of the grant and options granted under the Plan must be exercised within periods that may extend to 10 years of the date of the grant.

The Plan empowers the Subcommittee to include Share Appreciation Rights ("SARs") in any option granted under the Plan. A SAR permits its holder to surrender an unexercised option to purchase all or a specified number of shares and to receive from the Corporation either shares or cash, or a combination of the two, equal in value to the excess of the fair market value (on the date the SAR is exercised) of the shares as to which such option is surrendered over the aggregate option price of such shares. The Plan empowers the Subcommittee to permit holders of unexercised options granted under the 1956 Plan to surrender such unexercised options in exchange for an equal number of options with SARs under the Plan, which options have the same prices and expiry dates as the surrendered options.

The table set forth below shows, as to each of the five highest paid executive officers of the Corporation and to all executive officers as a group, certain information with respect to stock options and SARs granted during 1986 pursuant to the Plan and with respect to the exercise of options and SARs pursuant to the Plan and the now defunct 1956 Plan.

	John M. MacLeod	Donald J. Taylor	J. Edward Czaja	Douglas G. Stoneman	Robert F. Taylor	All executive officers as a group (9 persons)
Options granted during 1986						
Number of shares with SARs	11,600	7,700	7,300	4,900	4,500	43,600
Number of shares without SARs	—	—	—	—	—	—
Average per share option price ($)	$21.25	$21.25	$21.25	$21.25	$21.25	$21.25
Options or SARs exercised during 1986	4,020	—	—	—	—	4,020
Net value realized (market value less any exercise price) or cash realized	$32,462.50	—	—	—	—	$32,462.50

As of March 6, 1987 79,225 Class "A" Common Shares were under option to executive officers of the Corporation pursuant to the Plan and 20,688 Class "A" Common Shares were under option to such executive officers pursuant to the now defunct 1956 Plan.

INCENTIVE PLAN

The Corporation maintains an incentive plan for the senior officers and key employees who are designated by the Management Resources and Compensation Committee. Payments pursuant to this plan are fully discretionary and based upon results of operations or the achieving of certain financial objectives. During 1986 the Corporation made payments totalling $254,000 under this plan to all executive officers as a group. Payments made are included in the cash compensation table and in the aggregate cash remuneration reported on page 10.

OTHER COMPENSATION

The amount of compensation not paid in cash and not pursuant to the terms of a plan did not exceed the lesser of 10 percent of cash compensation or $25,000 per individual for any of the named executive officers, nor did such compensation exceed the lesser of $10,000 times the number of members included in the group of executive officers or 10 percent of the aggregate cash remuneration paid to the group.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Liability insurance in the amount of $10,000,000 per policy year was purchased for the benefit of the directors and officers of the Corporation against liability incurred by them in their capacity as a director or officer of the Corporation or of a subsidiary. There is no lesser limit specified for any individual insured.

In 1986, the approximate amount of the insurance premium paid by the Corporation was $205,000. The premium is payable without distinction as to directors as a group or officers as a group and the total cost of the insurance is paid by the Corporation.

In respect of wrongful acts for which the Corporation is not permitted by law to reimburse an insured individual, the deductible is $1,500 per individual, with an aggregate limit of $50,000 per occurrence. Where the Corporation is permitted to reimburse the insured, the deductible is $1,000,000.

AUDITORS

Unless it is specified in a proxy that shares represented thereby be voted against or abstained from voting in respect of the appointment of auditors, shares represented by properly executed proxies in favour of the persons designated in the enclosed form of proxy will be voted for the reappointment of Price Waterhouse as independent auditors of the Corporation to hold office until the next annual meeting of shareholders and to authorize the directors to fix the remuneration of such auditors.

To the knowledge of the Corporation, neither Price Waterhouse nor any of its partners have any direct or indirect financial interest in the Corporation or any of its subsidiaries. Representatives of Price Waterhouse are planning to attend the Meeting and will have the opportunity to make a statement if they so desire and to respond to appropriate questions.

1988 ANNUAL MEETING OF SHAREHOLDERS

Shareholder proposals must be received in the office of the Secretary of the Corporation by January 29, 1988 to be considered for inclusion in the Management Information Circular and Proxy Statement and form of proxy for the 1988 Annual Meeting of Shareholders which is expected to be held in April, 1988.

AVAILABILITY OF DOCUMENTS

Copies of the Corporation's Annual Information Form for 1986, the comparative financial statements for 1986 together with the auditors' report thereon, and this Management Information Circular and Proxy Statement are available upon request from the Corporation's Secretary.

DIRECTORS' APPROVAL

The contents and the sending of this Management Information Circular and Proxy Statement have been approved by the directors of Shell Canada Limited.

Dated: March 25, 1987

H.W. LEMIEUX, Secretary

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 is 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 2:00 p.m. Wednesday, April 29, 1987, Alberta Room, The Palliser Hotel, Calgary, Alberta.

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 1986, 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, 1986)

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 79-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 72 per cent.

The publicly-held Class "A" Common Shares (approximately 23.9 million) constitute 21 per cent ownership and 28 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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Printed in Canada