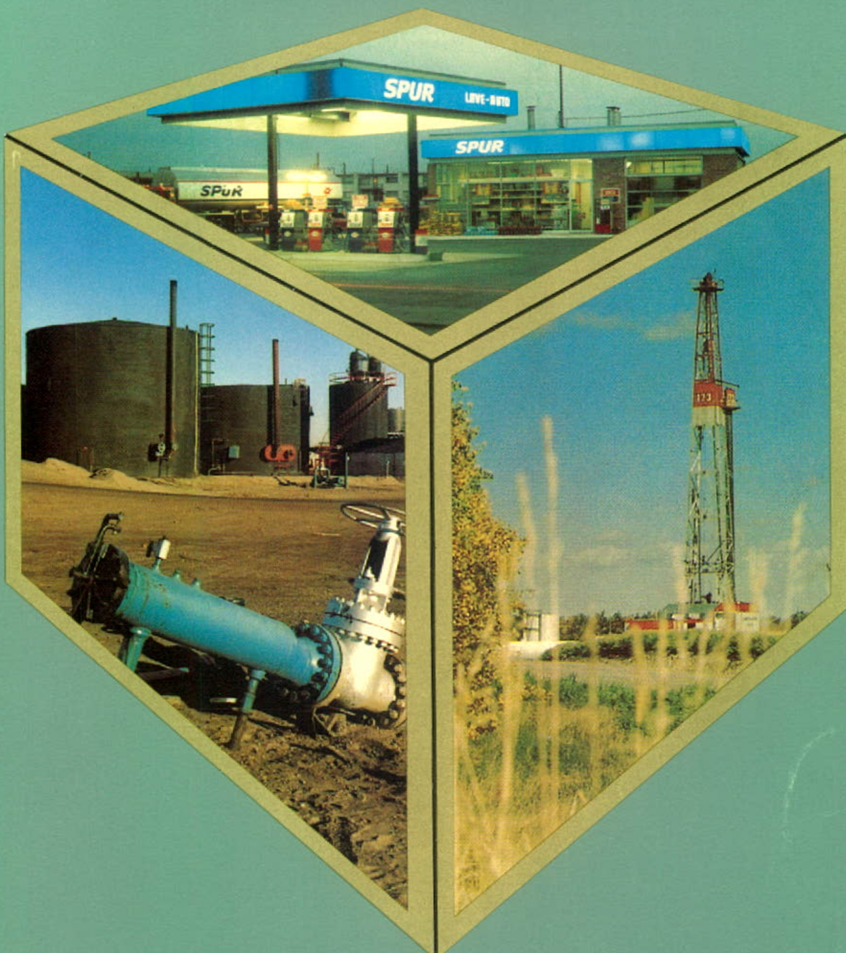
1980
ANNUAL
REPORT



MURPHY
OIL COMPANY LTD.

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OIL COMPANY LTD.

700, 540 Fifth Ave SW
P O Box 2721
Calgary, Alta T2P 2M7

1980 ANNUAL REPORT

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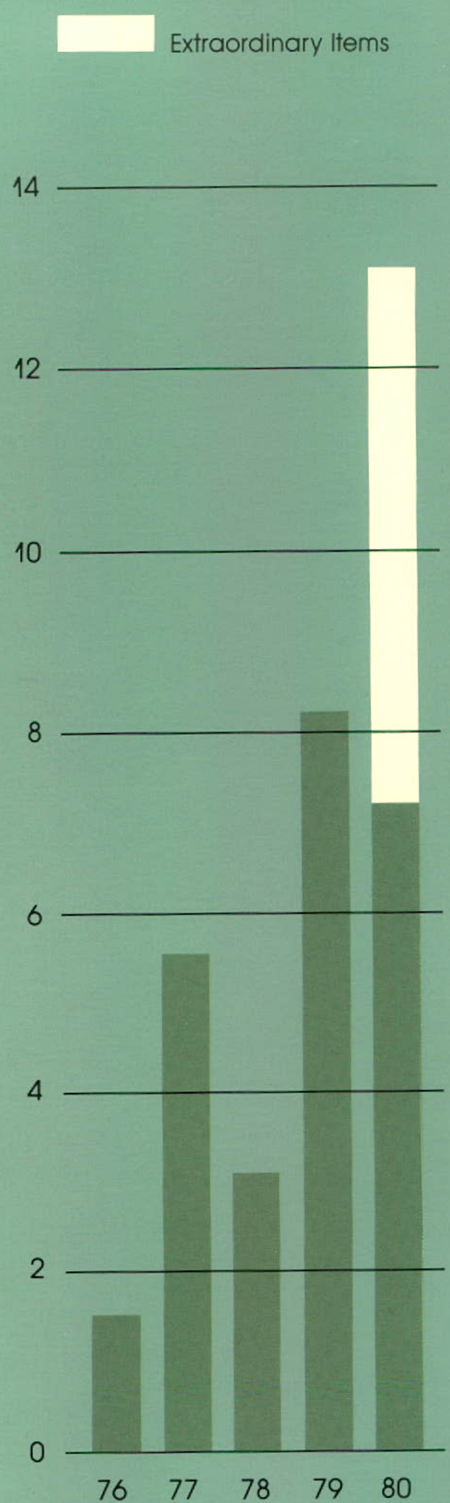
ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held in the second floor auditorium of the Aquitaine Tower, 540 Fifth Avenue S.W., Calgary, Alberta at 11:00 a.m. (M.D.T.) on April 29, 1981.

This Annual Report is available in French at our head office in Calgary, Alberta.

La traduction française de ce Rapport Annuel est disponible a notre bureau chef de Calgary, Alberta.

Net Income
Millions of Dollars



HIGHLIGHTS

	1980	1979
	(In thousands of dollars except per share amounts)	
FINANCIAL		
Revenues	**$133,838**	129,515
Net Income Before Extraordinary Items	**7,241**	8,183
Per Share	**1.15**	1.30
Net Income After Extraordinary Items	**13,081**	8,183
Per Share	**2.08**	1.30
Cash Flow	**34,108**	24,597
Per Share	**5.44**	3.92
Capital Expenditures	**44,028**	28,294
Working Capital*	**11,398**	3,660
Total Assets*	**203,260**	157,689
Shareholders' Equity*	**79,611**	66,492
OPERATING		
Gross Crude Oil and Gas Liquids Produced (cubic metres per day)	**1 575**	1 512
Net Crude Oil and Gas Liquids Produced (cubic metres per day)	**1 025**	981
Gross Gas Sold (thousands of cubic metres per day)	**653**	743
Net Gas Sold (thousands of cubic metres per day)	**481**	558
Crude Processed (cubic metres per day)	**1 339**	1 709
Petroleum Products Sold (cubic metres per day)	**1 390**	1 849

* Year End

SI CONVERSION TABLE

To convert from	To	Multiply by
Cubic metre (m^3)	barrel (bbl)	6.293
Thousands of cubic metres (10^3m^3)	thousand cubic feet (mcf)	35.494
Hectare (ha)	acre (ac)	2.471

Examples:
10^3m^3 = one thousand cubic metres
10^6m^3 = one million cubic metres
10^9m^3 = one billion cubic metres

Robert G. Farquharson,
President and Chief
Executive Officer

TO THE SHAREHOLDERS

Murphy approached the year 1980 and the new decade optimistically anticipating a record level of aggressive activity and unique opportunities. Capital spending reached an all time high exceeding 44 million dollars. Participation in the Hekja well off Baffin Island marked a determined return to the frontiers. Outside drilling funds were incorporated in a general program to extend exploration and development exposure. Although well participation was down slightly, net footage drilled increased. New approaches to exploiting heavy oil and oil sands potential were initiated.

With the May 1980 sale of the Ontario marketing operation, that segment of the business was contracted in size to a controllable profit centre. The surviving Quebec marketing operation contributed significantly to net profits through acceptable product margins and terminal throughput fees. The Supply and Transportation Division added budgeted levels of profit and contributed new opportunities for pipeline investment.

Net earnings for the year ending December 31, 1980 were 7.2 million dollars, down from the prior year 1979 record of 8.2 million dollars, directly reflecting the effects of high exploration exposure. The Company expensed as exploration cost the Hekja well which tested wet natural gas but anticipates further exploratory work on acreage earned. Including extraordinary items, net earnings reached a new high of 13.1 million dollars. Cash flow from operations for 1980 totalled 34.1 million dollars, an increase of 38 per cent over the prior year contribution of 24.6 million dollars.

Gross oil production was up 4.2 per cent over 1979 but natural gas production lagged the year before by 11.8 per cent as a result of market restrictions and despite new properties reaching stream. Price increases helped to raise revenue from the sale of oil and gas by 21.6 per cent over 1979. With the May sale of Ontario marketing properties, product sales declined to an average of 1 390 cubic metres a day, almost 25 per cent below the year before. Higher product prices held gross revenues to a value only 5.8 per cent below 1979.

Record cash flow and an optimistic anticipation of the measures necessary to achieve a national goal of oil self-sufficiency resulted in a record level of capital expenditure with over 92 per cent employed in production and exploration activities. Drilling reached record footage with participation on a working interest basis in 224 wells. In addition, 24 farmout wells were drilled on Company lands during the year. Promising new discoveries and extensions were exploited in the channel sand plays of south and east Alberta. Heavy oil exploration located new reservoirs to develop. Gas reserves were added along the shallow trend of northeast Alberta, northeast British Columbia and the south reaches of the Elmworth play. The Company set a determined goal to increase exposure to higher reward prospects.

A critical year-end review has caused Company engineers to reduce proven reserves of oil and natural gas in certain areas despite additions of the 1980 program. The Company does not speculate as to probable or possible additions through extended recovery techniques or field extensions. It is worthy of note that less than half of one per cent of oil in place under Murphy heavy oil leases is counted as proven reserves today. Our experimental and heavy oil program is intended to exploit this potential in the future. Murphy is negotiating an outside funded tertiary recovery strategy for a portion of our heavy oil lands.

Although natural gas markets for new reserves remains weak in the intermediate term, take-or-pay contracts in place will see new Company deliveries in 1981 and 1982. Approximately 33 per cent of proven gas reserves of the Company are not yet contracted or have not been placed on production. Murphy as operator constructed plants at Dodsland in Saskatchewan and Glendon in Alberta in 1980.

The Federal Budget and National Energy Program (NEP) released October 28, 1980 have caused a predictable impact on our strategy and program for the year 1981. The uncertainties of the Federal-Provincial confrontation and negative impact of the NEP on cash flow have resulted in reduced direct capital spending and a change in strategy. Before the National Energy Program was disclosed, Murphy management had recommended a capital program in excess of record 1980 spending, largely for production and exploration projects. Our direct 1980 investment plan has since been reduced to the level of cash flow as eroded by new tax levies. Murphy, however, views the opportunities for exploration and development of new hydrocarbon reserves in this country with optimism. In order to maintain our current level of activity, a major joint venture and farmout package has been negotiated with eastern investors headed by SOQUIP. This arrangement offers the potential to achieve a program level consistent with that of 1980 and in keeping with the objectives of the National Energy Program. The Company is as well evaluating opportunities to increase exposure in frontier regions including tertiary recovery from oil sands which we consider to be a frontier.

The stated motives of the National Energy Program to secure energy supply, to offer to Canadians real opportunity to participate and to establish a fair sharing of energy revenues and rewards are natural and desirable objectives. We agree with the widespread consensus that the means described to achieve these objectives are unlikely to succeed. Major projects have been deferred. Incentives to explore for new oil reserves and develop new technologies by technically competent industry resources are discouraged. Inter-government confrontation perpetuates the atmosphere of uncertainty.

Aspects of the National Energy Program in its present form affect Murphy in a negative way. New taxing mechanisms reduce projected cash flow available for reinvestment. Incentive proposals discriminate against our level of foreign ownership. Despite these deterents the opportunities to develop new hydrocarbon reserves in Canada are substantial. Our present strategy is designed to work within the context of the National Energy Program with the hope that government differences will be resolved and will lead to an economic regime that will encourage the aggressive investment necessary to achieve energy self-sufficiency.

Murphy Oil Company Ltd. and its predecessor companies have invested in Canadian oil and natural gas development for almost thirty years. Over that time we have developed a strong Canadian staff and effective technical expertise particularly in certain areas notably heavy oil and oil sands development. Our major shareholder, Murphy Oil Corporation, makes available expert advice in the other areas of our operation. The Company has continued to reinvest cash flow and inject new capital to our program. We will continue to aggressively strive to use this base of assets effectively in the future.

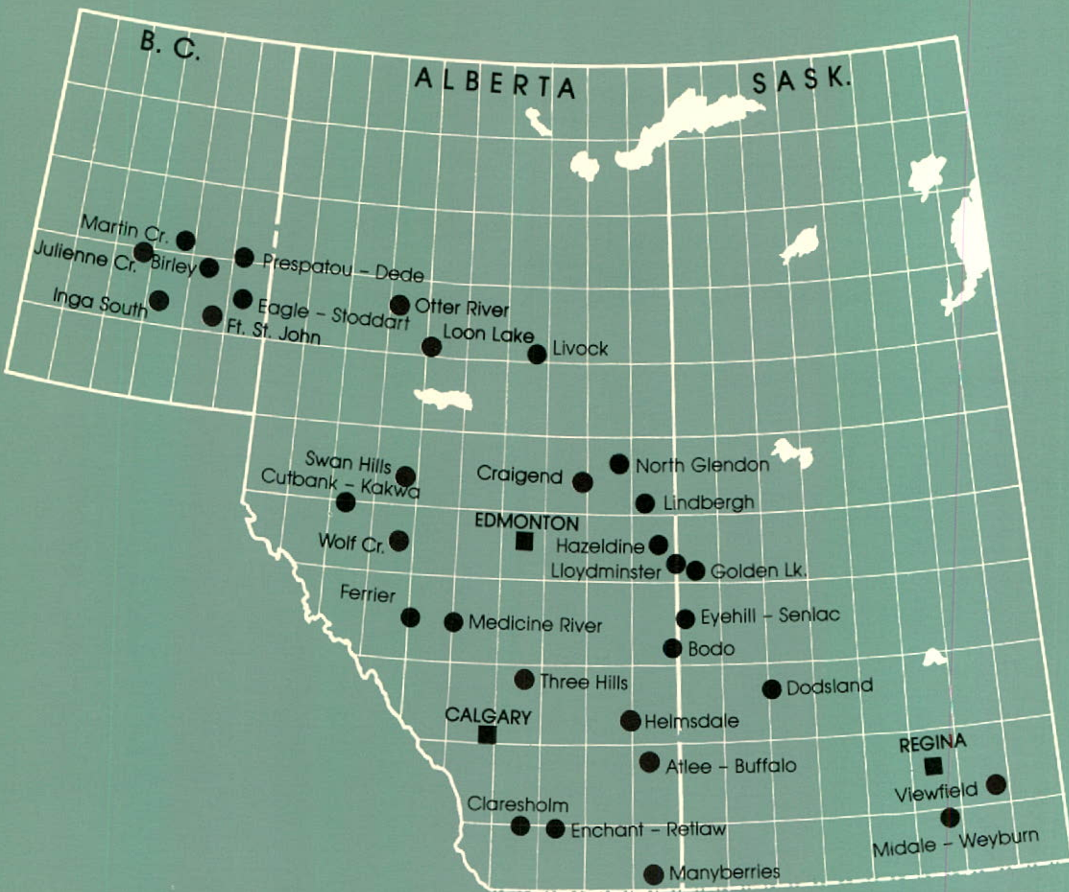
B.H. Monzingo has declined to stand for re-election to the Board of Directors and we express our gratitude for his many years of service to the Company. We were pleased to welcome G.M. Fedderson to our Board of Directors and we have benefited by his contribution during the past year. We take this opportunity to thank our staff for meeting the unusual challenges of the day. With their continued support and ideas, Murphy will meet the challenges currently facing the petroleum industry.

R. Farquharson

March 31, 1981
Calgary, Alberta

ROBERT G. FARQUHARSON
President and Chief Executive Officer

AREAS OF EXPLORATION ACTIVITY IN WESTERN CANADA IN 1980



NON-PRODUCING HECTARES
(as of December 31, 1980)

	Gross	Net
British Columbia	80 912	29 433
Alberta	676 129	231 439
Saskatchewan	168 002	79 824
Manitoba	2 981	2 924
Ontario	1 353	1 292
Labrador (Offshore)	231 189	4 624
Nova Scotia	31 987	10 437
Arctic Islands	2 363	1 181
Davis Strait (Hekja)	486 477	24 324
Total	1 681 393	385 478

WORKING INTEREST DRILLING RECORD

	1980 Gross	1980 Net	1979 Gross	1979 Net
Oil Wells Completed	**112**	**42.2**	112	50.0
Gas Wells Completed	**59**	**21.1**	58	18.1
Dry Holes	**52**	**22.8**	50	17.3
Other	**1**	**1**	11	3.4
Total	**224**	**86.2**	231	88.8

EXPLORATION AND PRODUCTION HIGHLIGHTS

DRILLING

In 1980 the Company maintained the record level of activity established in 1979 by participating in 224 working interest wells and 24 wells by the farmout of Company lands. Net participation was 86.2 wells similar to the 88.8 wells in 1979 and up from 68.2 in 1978. Working interest drilling resulted in 112 oil wells, 59 gas wells, 52 dry holes and one service well. On a net basis 42.2 oil wells were completed, 21.1 gas wells were cased and 22.8 wells were abandoned.

Drilling in the fourth quarter of 1980 was down 34 per cent from the corresponding quarter in 1979 due to the unsettling effect of the National Energy Program. The outlook for 1981 is at best clouded due to the negative impact of the NEP. In 1980 Murphy utilized funds from outside sources for a portion of its program. Because the Company intends to maintain an active program in 1981 an expansion of this type of funding will be used.

L to R. A.K. Murray, Land Manager; R.T. McLean, Production Manager; K.A. Lowell, Manager of Special Projects

Alberta

A total of 47 (14.8 net) exploratory wells and 95 (22.5 net) development wells were drilled in Alberta during 1980 in which the Company maintained a working interest. An additional 14 exploratory and seven development wells were drilled on acreage farmed out by the Company.

The Bodo area was the most active with 38 wells providing 28 completions and 10 abandonments. Additional seismic coverage was acquired to assist in defining new locations. The producing area was extended and significant heavy oil reserve additions were made by this drilling.

In the Atlee-Buffalo area 16 wells were drilled resulting in 13 oil wells, one gas and oil well, and two dry holes. Other areas of concentrated activity in southern Alberta were Claresholm where five wells resulted in two gas and oil completions and three gas wells, and Retlaw where one oil well and one gas and oil well were completed.

In central Alberta two gas wells were completed at Ferrier and four gas wells were completed at Westerose. At Wolf Creek a farmout well resulted in a significant gas discovery. In the Cutbank–Kakwa area, the Company participated in 12 wells, 10 of which were completed as gas wells and two as oil wells. The Company interest in these expensive wells is minor.

In northern Alberta a gas completion was drilled at Loon Lake and additional acreage acquired for future exploration at Otter River. At Craigend, Murphy drilled and completed three gas wells and at North Glendon, two wells resulted in one gas well and one abandonment. Seismic programs were initiated to define prospects for future drilling.

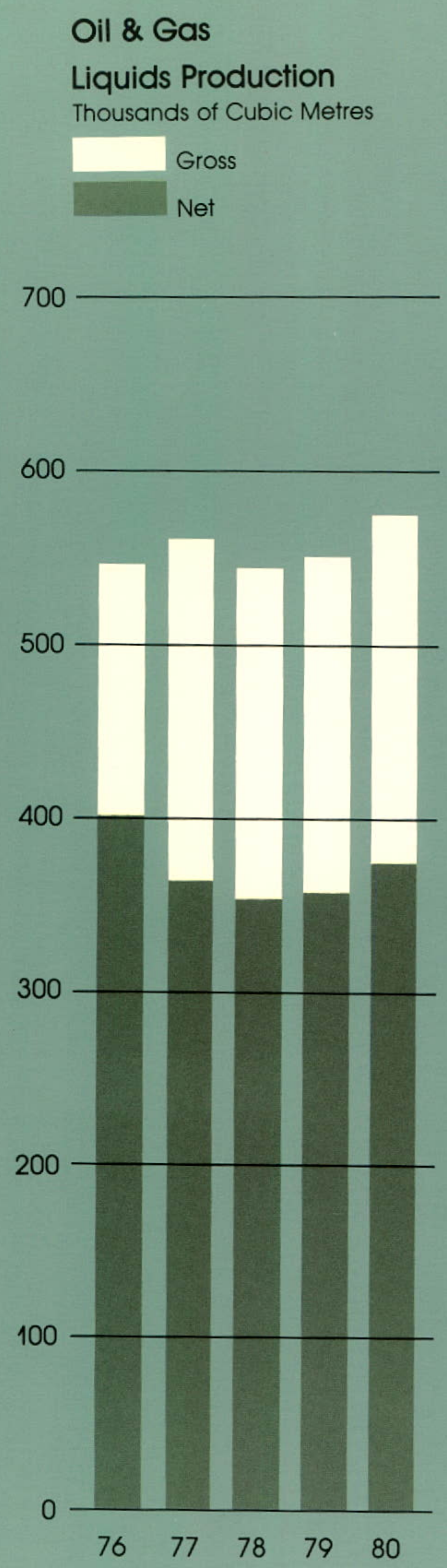
British Columbia

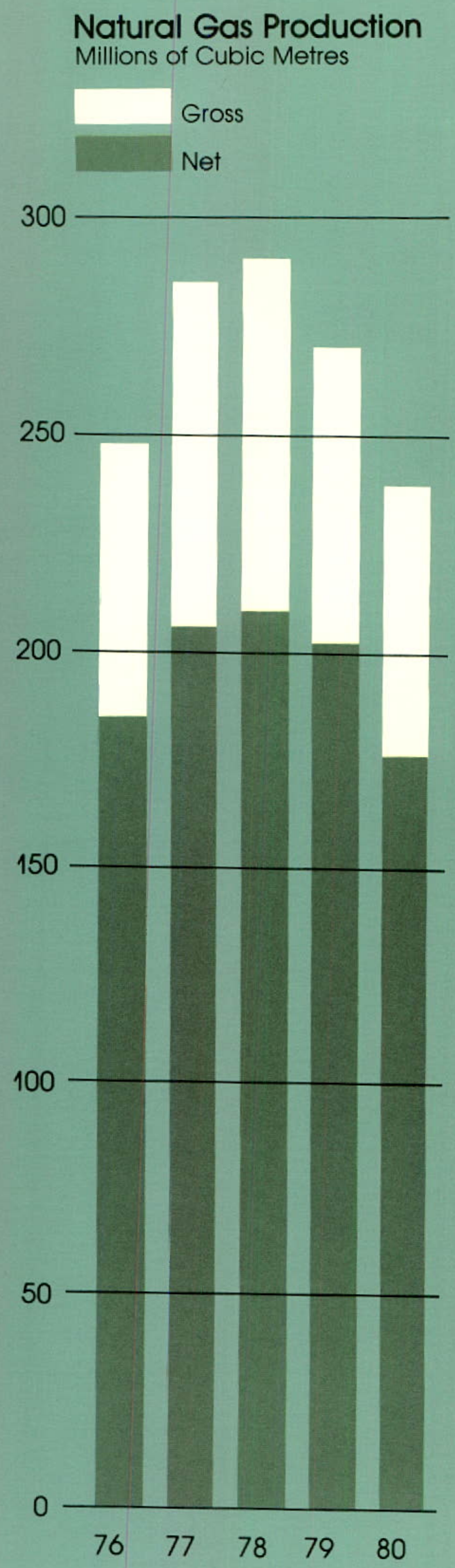
At Prespatou six wells were drilled on Company leases. Five 100 per cent wells resulted in four gas completions and one abandonment. A 16.67 per cent well was abandoned. Gas completions were recorded at Martin Creek, Ft. St. John, Julienne Creek and Cecil. Six additional wells were abandoned.

Exploration land acquisitions were made at Inga South, Dahl West, Birley and Prespatou during the year.

Saskatchewan

Murphy participated in 67 (39.5 net) working interest wells and farmed out one well in Saskatchewan in 1980. Two of these wells were in southeast Saskatchewan, four at Dodsland and the remaining 62 in the heavy oil area of


Oil & Gas
Liquids Production
Thousands of Cubic Metres
Gross
Net
700
600
500
400
300
200
100
0
76
77
78
79
80


Natural Gas Production
Millions of Cubic Metres
Gross
Net
300
250
200
150
100
50
0
76
77
78
79
80

western Saskatchewan. Of the total, 27 (13.8 net) wells were exploratory and 40 (25.7 net) were development wells. The farmout well was an exploratory test that was completed as an oil well. The two wells in the southeast area were completed as oil wells, the four Dodsland wells were gas completions, and in the heavy oil area 43 oil wells, one gas well and 17 dry holes were drilled.

The heavy oil areas with the greatest activity were Yonkers and Golden Lake with 10 wells each and Silverdale–Dulwich with nine wells. The Cosine and Senlac areas each had six wells. The remaining wells were spread throughout the Company lands.

Seismic programs were conducted in several areas to enhance prospects.

Federal Lands

Murphy participated in the Aquitaine et al Hekja 0-71 offshore Baffin Island test by taking a five per cent interest. The well was drilled to a total depth of 4 566 metres. Gas was tested through perforations at the 3 200 metre level. By participating in this well Murphy earned a five per cent interest in 486 477 hectares of Federal permits.

LAND

At year-end 1980 Murphy held land inventory of 1.7 million gross and 400 thousand net undeveloped hectares. Expiring permits in the Arctic Islands and offshore Eastern Canada significantly reduced the 1980 figures from prior year figures of 3.0 million gross and 1.1 million net undeveloped hectares.

Land bonuses paid for the acquisition of mineral rights in the western provinces were $5.0 million, up from a 1979 total of $4.1 million.

In British Columbia, Murphy paid $800,000 for a one-third interest in two drilling reservations located in the Inga area. We expect to drill the first well on this oil play during the 1981-82 winter drilling season.

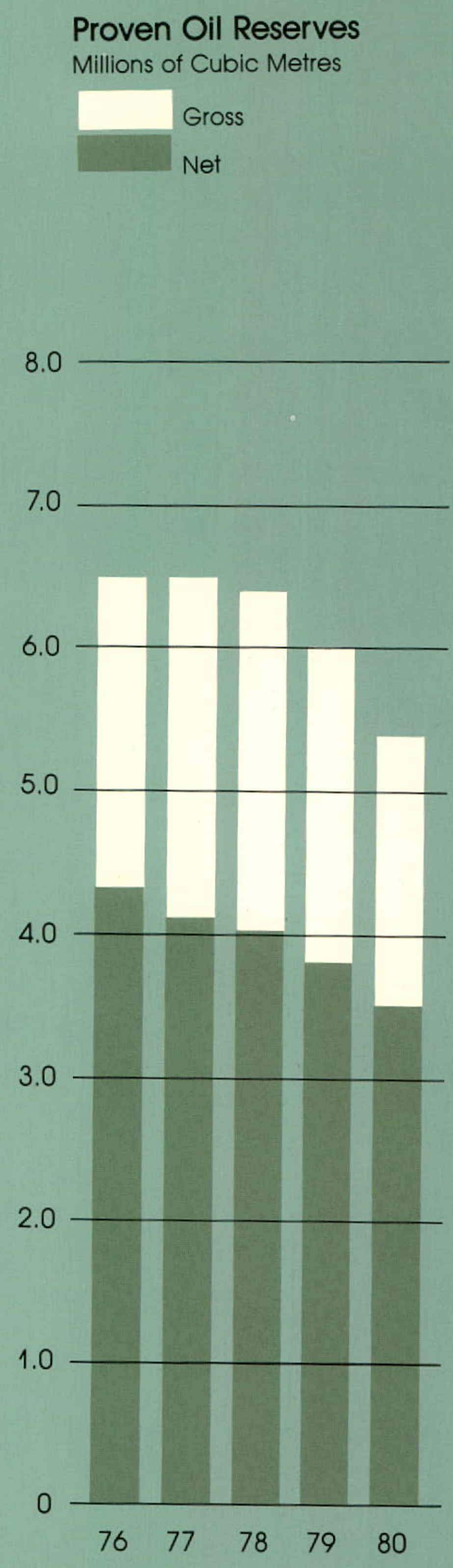
In Alberta Murphy spent $520,000 for a one-third interest in two licences located in the Otter River area and $206,000 for a 100 per cent interest in a licence at Chin Coulee. A total of $400,000 was spent in the Loon Lake area for a 100 per cent interest in a licence and a 12 per cent interest in two leases.

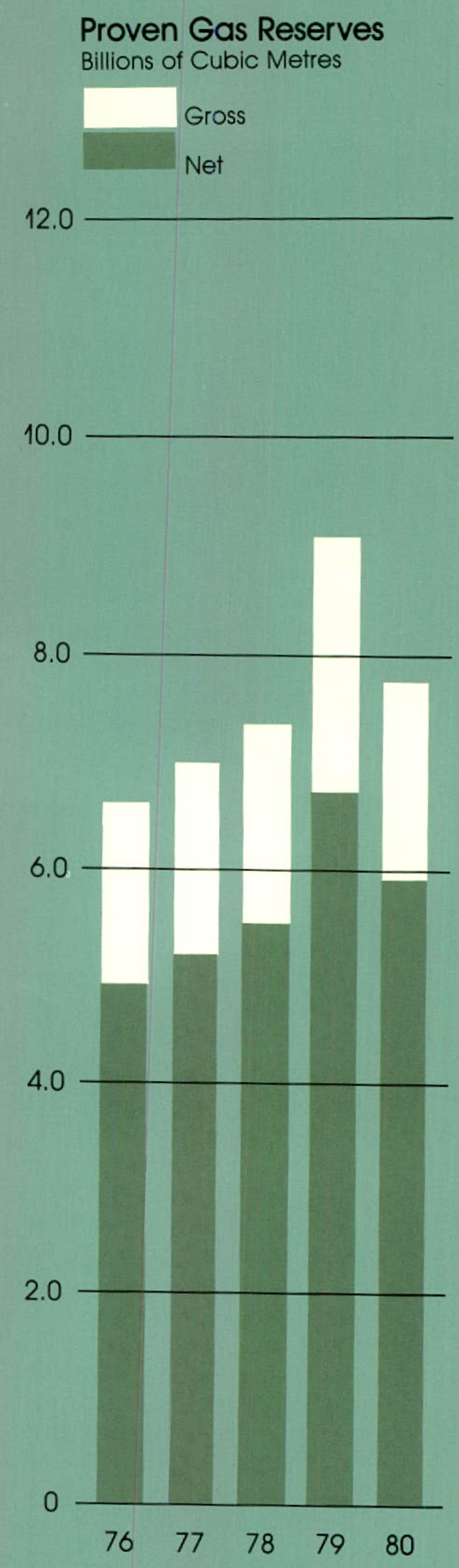
In Saskatchewan, Murphy paid $641,000 for two heavy oil leases located in Donegal East and $391,000 for three heavy oil leases in the Aberfeldy area.

PRODUCTION

Company gross oil and natural gas liquids production volumes of 1 575 cubic metres a day exceed prior year by four per cent. New drilling and aggressive other field development programs more than replaced normal field declines. Wells completed in the conventional oil areas of Eagle, British Columbia; Grand Forks, Alberta and Viewfield, Saskatchewan and the Lloydminster heavy oil area specifically in the West Lloyd, South Cosine, Epping and Silverdale fields contributed to this performance. The recent Federal Government's National Energy Program will negatively affect the outlook for the year 1981 with low productivity properties placed in a negative economic position and Provincial Government cutbacks compounded by a significant reduction of funds available for new drilling.

Gross and net natural gas production volumes of 653 thousands of cubic metres a day and 481 thousands of cubic metres a day respectively, fell behind prior year volumes by 12 per cent. An eight per cent declining


Proven Oil Reserves
Millions of Cubic Metres
Gross
Net
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0
76
77
78
79
80


Proven Gas Reserves
Billions of Cubic Metres
Gross
Net
12.0
10.0
8.0
6.0
4.0
2.0
0
76
77
78
79
80

natural gas market coupled with additional new gas properties coming on stream assuming their share of this decreasing market, along with the natural decline of the older reservoirs combined to give us these results.

Natural gas purchasers reduced their nominations during the year 1980 and have negotiated with industry further reductions in the take-or-pay provisions of contracts for years 1981 and 1982. Murphy's British Columbia production from the Yoyo Field experienced a serious export market reduction with a production cutback from 1979 of 46 per cent. Normal production declines in Princess shallow gas and the Winnifred Gas Unit were the other major contributors to our reduced performance. New production in Dodsland, Saskatchewan and Sugden, Alberta will maintain our current production levels in year 1981.

RESERVES

Company engineers have estimated gross proven year-end 1980 oil and natural gas liquids reserves at 5.4 millions of cubic metres, a decrease from year-end 1979 reserves of 6.0 millions of cubic metres. Liquids production during 1980 of 577 thousands of cubic metres was partially offset by new drilled reserves of 398 thousands of cubic metres. Downward revisions of 493 thousands of cubic metres, a result of reservoir performance, recent indepth property reviews and the National Energy Program, have been made by our technical staff. Enhanced recovery techniques, improved economic environment, and extensions of new discoveries will add proven reserves in the future.

Natural gas proven gross reserves are estimated to be 7.8 billions of cubic metres at year-end 1980, as compared to prior year estimates of 9.1 billions of cubic metres. The 1980 drilling added 734 millions of cubic metres replacing approximately three times the year's natural gas production volumes of 239 millions of cubic metres. Company engineers reduced gross natural gas reserves by 1.84 billions of cubic metres based upon reservoir performance, the disposition of reserves through a drilling fund farmout agreement and a thorough individual property review. On an equivalent volume basis, additions from the 1980 drilling program more than offset production for the year.

OPERATIONS

Natural Gas

New gas contracts and available gas transmission tie-ins required the installation of additional gas processing facilities. Two natural gas plants were constructed during the year. In Dodsland, Saskatchewan a 150 thousands of cubic metres a day plant and a gathering system for seven wells were completed and on stream prior to year-end. A 200 thousands of cubic metres a day compression and dehydration system was installed in the Glendon area of Alberta. Construction was completed in the latter part of the year and the delayed transmission system tie-in is expected in the second quarter of 1981.

Five Cessford shallow gas wells were flowlined and production initiated in late 1980. Further investment in Yoyo, B.C. and Three Hills, Carstairs, Ghost Pine, Winnifred areas of Alberta maintain our relative share of available natural gas markets. The shortage of gas markets is expected to continue for several years. New markets in eastern Canada and the United States should be fostered to relieve this situation and encourage exploration for new reserves. Murphy holds several take-or-pay contracts that should see new gas deliveries from shut-in properties of the Company during 1981.

Oil

Optimization of existing conventional oil reservoir performance continues to be of uppermost importance. The West Eagle pool in B.C. has been unitized to add enhanced recovery reserves by waterflooding.

Coutts, Medicine River and Willesden Green waterfloods have been analyzed by our technical staff who have recommended the drilling of infill wells and increased water injection rates to improve production and increase reserves.

Properties operated by others where Murphy holds a working interest are continually under review for ways to maintain or increase productivity and increase reserves. We are routinely faced with new investments in the properties for additional drilling and facilities intended to improve recovery.

HEAVY OIL OPERATIONS

For another year Murphy heavy oil production showed an increase resulting from an active drilling program. In addition Murphy continues aggressive research intended to convert heavy oil assets into proven reserves by means of tertiary recovery. The Company is negotiating to have tertiary recovery work done on our behalf by farmout arrangement to a major oil company.

Construction of the 14.5 million dollar Eyehill combination insitu combustion-steam stimulation project has been completed and start-up problems essentially solved. The project consists of nine 5-spot patterns designed to improve productivity and recoveries from a heavy oil reservoir with bottom water. The project will evaluate new fluid handling techniques both down hole with experimental pumping systems and on surface with new designs in fluid measuring equipment and oil treating facilities. The experimental project will also monitor reservoir performance of steam and/or condensate stimulation under fireflood conditions. Various completion techniques will be evaluated in an effort to optimize reservoir performance.

One pattern has been ignited, the reservoir is burning and the four producers have shown encouraging initial results. The National Energy Program will have a significant adverse effect upon project economics and the rate of development.

The Lindbergh steam stimulation-flood pilot has progressed satisfactorily during the year. Steam flooding from the centre well of the seven-spot pattern has been initiated following an average of five steam stimulation cycles per well. Steam flooding will continue until termination of the project, at which time ultimate steam process recoveries will have been established. For the first time the Lindbergh pilot contributed a small measure of operating profit before the NEP took affect.

The Silverdale insitu combustion project initiated in 1973 was terminated during the year. Valuable technical data has been obtained during the seven year life of the experimental pilot. Many problems common in tertiary recovery processes were encountered and solved with others still under review. Flood efficiencies have been estimated and ultimate reserves established with a reasonable certainty. Additional pilot technical data did not warrant the anticipated expenditures required, hence work was stopped.

The Bodo project is responding favorably to the combustion process. Extensive laboratory analyses are currently being performed with a view to expanding the fireflood from its present single nine-spot pattern and/or initiating a steam stimulation project to improve reservoir performance. Technical information regarding processes and environmental considerations are being prepared for government approvals. The scheduling of this activity will largely depend upon the eventual outcome of the Provincial-Federal negotiations.

Producing oilwell at the Lindbergh steam stimulation-flood pilot

MARKETING HIGHLIGHTS

1980 was a year of contrast and dramatic change. The year began with severe oil product shortages world-wide, causing spot prices to be some $20 per barrel over posted price. The year ended with the world awash in oil despite sharply lower OPEC production and virtual elimination from the supply scene of Iraq and Iran due to their ongoing confrontation.

Before the year was out, major refining centres were experiencing difficulty breaking even on 'average cost' crudes in a complete about-face.

While consumption of energy declined sharply throughout the western world, Canada remained anomalous in its appetite for fossil fuels with demand only beginning to fall toward year-end.

Insulated by artifically low energy costs, demand in Eastern Canada is expected to decline by approximately three per cent on gasolines, seven per cent on light heating oils and 10 per cent on heavy fuel oils. The very large subsidy on imported crudes and severe cold during late 1980 minimized what would have been a sharper decline in consumption.

Marketing faces a decade of negative growth due to the introduction toward year-end of government levies on crude oils, a sluggish economy, continuing inflation, an increasing number of smaller vehicles offering greater kilometres per litre, reduced travel and a growing shift away from heating oils toward natural gas and electricity.

Inventory surpluses of distillate and bunkers resulted in some price softening in Eastern Canada due to the absence of export opportunities such as existed earlier in the year. In contrast, unleaded gasolines continued to be very tight. One of the most serious challenges confronting the industry in Canada is the growing demand for unleaded gasolines while the remainder of the barrel becomes increasingly difficult to market. Crude diets are becoming heavier thus compounding the problem until upgrading plants are built. The reduction in domestic availability of sweeter crudes will further aggravate an already serious supply balance problem. Hopefully, government differences over energy policies will be resolved and soon.

L to R. F.G. Archambault, Vice-President of Spur Oil Limited; N. Di Tomaso, President of Spur Oil Limited; A.W. Grant, Supply and Transportation Manager of Spur Oil Limited

MARKETING REPRESENTATION

	1980	1979
Retail Outlets		
Company-owned and Leased Stations	97	135
Branded and Unbranded Independent Dealers	41	123
Total Retail Outlets	138	258
Wholesale and Commercial		
Tank Wagon Distributors	51	57
Commercial Consumers	5	44
Total Other Outlets	56	101
TOTALS	194	359

Note: 1980 representation excludes facilities disposed of in Ontario through our asset sale and facilities in Quebec eliminated through our marketing contraction program.

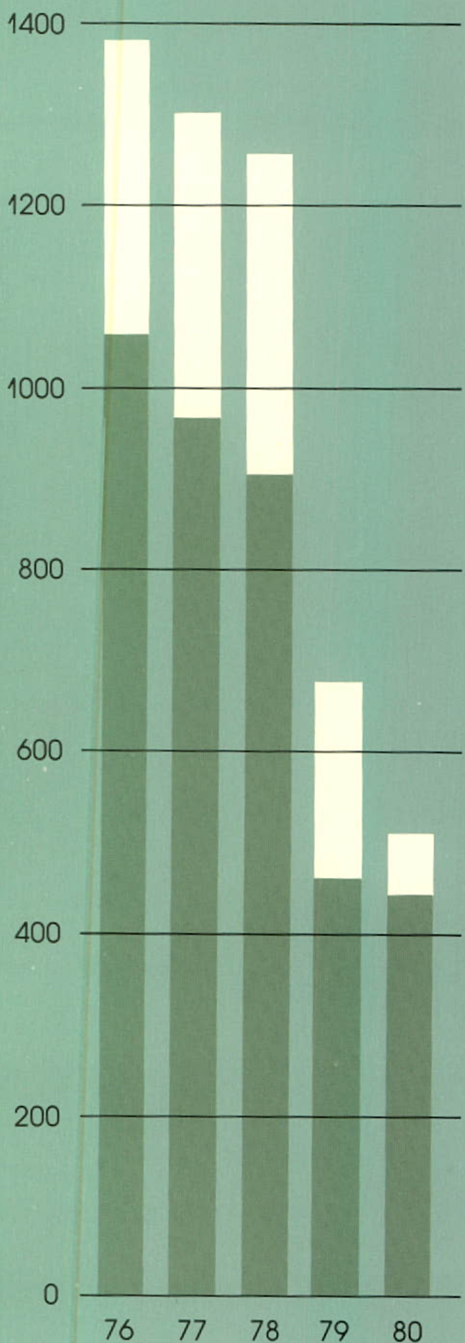
Manito Pipeline scrapper trap at the Blackfoot cleaning plant

Sale of Petroleum Products

Thousands of Cubic Metres

ONTARIO DIVISION*

QUEBEC DIVISION



*(*The Ontario Division assets were sold during 1980)*

1980 was a most eventful year considering the difficulties confronting downstream operations. Here are some of the highlights for 1980:

— The Ontario Division marketing assets were sold by late May, restricting operations to Quebec and to the region of Ontario east of Kingston. Marketing thus became more centralized and operated at a more efficient level.

— Retail operations were further evaluated resulting in termination of activities at seven company-controlled and 11 independent dealer locations for competition and economic reasons. This action resulted in our attaining average volume per station record levels despite declining demand.

  In an environment of high inflation and reducing demand, only highly efficient and strong volume outlets will survive.

— We increased sales to independent fuel oil resellers displacing volumes previously sold through direct fuel distribution.

— We entered into important product throughput agreements resulting in more efficient use of our terminal facilities.

— Convenience stores and self-serves continue to be an important development strategy and by year-end we had placed 10 of each in operation.

— Many properties were upgraded in appearance, improving our share of the market while lowering maintenance costs.

— By year-end, we had installed diesel facilities at 30 per cent of our Company outlets so as to service the petroleum product expected to grow in demand during the 1980's at the expense of gasoline.

— General operating expenses were sharply lowered through a reduction in personnel, disposal of undesirable properties and continuing efficiencies in all cost control areas of our business.

— Highly effective credit control and careful dealer selection contributed to improved performance.

1980 was a gratifying year and our employees and dealers are to be congratulated for an outstanding performance throughout a difficult marketing contraction process.

We are in a strong position to satisfy changing consumer patterns and are confident of maintaining an effective place in the market.

We entered 1981 with a positive attitude and with a resolve to continue to make a satisfactory and important contribution to the overall results of the Company.

Cote St. Luc Service Station in Montreal, Quebec


SELF SERVE
SPUR
Unleaded

SUPPLY AND TRANSPORTATION HIGHLIGHTS

The pace of drilling activity in the heavy oil region of Western Canada continued through the third quarter of 1980 and tapered off over the last quarter following the announcement of the National Energy Program.

The drilling activity was reflected in the average throughput deliveries of Manito Pipelines Ltd. This system transported 2 067.5 cubic metres a day of Lloydminster blend crude oil during 1980 as compared to 1 777.8 cubic metres a day during 1979.

Our long range construction program continued with the completion of two new pump stations. The pump stations are located at Neilburg and Grill Lake, Saskatchewan. Although construction was initiated in 1979, the program was not completed until the end of the second quarter 1980. To complement the expansion program and increased deliveries, a 96,000 barrel tank was constructed at the Unity station.

Engineering and design work for four lateral pipeline connections, automation of the system and additional tankage is currently underway. Construction contracts are scheduled to be let by the second quarter 1981.

Pipeline facilities at Milk River, Alberta continued running at capacity levels. Discussions are on-going with government sources as to future possible market restrictions.

Throughput in the Wascana Pipeline system did not materialize as expected. Following first quarter deliveries, crude oil exchange agreements were discontinued and the system was shut-in to the end of the year. However, the terminal at Regina, Saskatchewan was utilized under a throughput lease with a local refiner.

Beginning with the second quarter of 1980, the Alberta Petroleum Marketing Commission exercised control over all wellhead purchases and pipeline deliveries from crown leases within the Province of Alberta. This Government intervention had an adverse affect on our light gravity crude oil acquisition program. However, the adverse affect was partially offset by increased activity in the other producing provinces. Along with increased purchases from provinces other than Alberta, we were able to negotiate a supply agreement with the Alberta Petroleum Marketing Commission, making the volume of light gravity crude oil available sufficient enough to meet our licensed requirements for Montreal throughout the year.

Meeting our condensate requirement, which we use as diluent for Lloydminster crude, became increasingly more difficult as the year progressed. The difficulty was caused by a reduction in supply due to curtailed natural gas production and increased demand by eastern Canadian refiners. Although the future is not any brighter, we are confident that we will be able to secure adequate condensate supply to meet our Lloydminster crude oil blending requirements.

An active and progressive asphalt sales program was initiated throughout the year. Contracted volumes were above projections, however, weather conditions were a continual detriment. Although sales volumes were down, we did manage to hold near our budgeted revenue estimates. Our program will remain as aggressive for 1981 as it was in 1980.

Murphy is evaluating new pipeline opportunities in the heavy oil area. Studies are underway to project reserve and throughput potential to determine support for new capital requirements.

L to R. R.B. Dobson, Pipeline Operations Supervisor; L.E. Pasychny, Vice President, Supply and Transportation; J.S. McKay, Manager, Crude and Product Sales

Manito Pipeline terminating at the Kerrobert Terminal

L to R. D.R. Craig, Vice President and Controller and J.A. Gould, Vice President and Treasurer

FINANCIAL REVIEW

EARNINGS

Net income for 1980 was $13,081,000, or $2.08 per share. This amount includes $5,840,000 of extraordinary gains from the sale of the Ontario marketing assets net of income tax and the reduction of income tax on application of marketing losses carried forward from prior years.

The following table sets out comparative earnings from the various segments of the Company.

NET INCOME SUMMARY
(thousands of dollars)

	1980	1979	Increase (Decrease)	%
Oil & gas production	**$14,594**	15,729	(1,135)	(7)
Marketing	**10,547***	1,520	9,027*	594
Supply & transportation	**1,057**	1,306	(249)	(19)
Gross income	**26,198**	18,555	7,643	41
Unallocated expenses				
General & administrative	**754**	807	(53)	(7)
Interest	**5,592**	4,413	1,179	27
Income tax	**6,771**	5,152	1,619	31
Net Income	**$13,081**	8,183	4,898	60

*Includes extraordinary items totalling $5,840,000

Crude oil production improved over last year while natural gas production decreased. In addition comparatively modest price increases were received all resulting in an increase in production revenue. This improvement was more than offset by higher operating and exploratory costs. Marketing Division earnings have improved significantly compared to 1979 (before extraordinary items) due to higher selling prices and the sale of marginal operations.

REVENUES

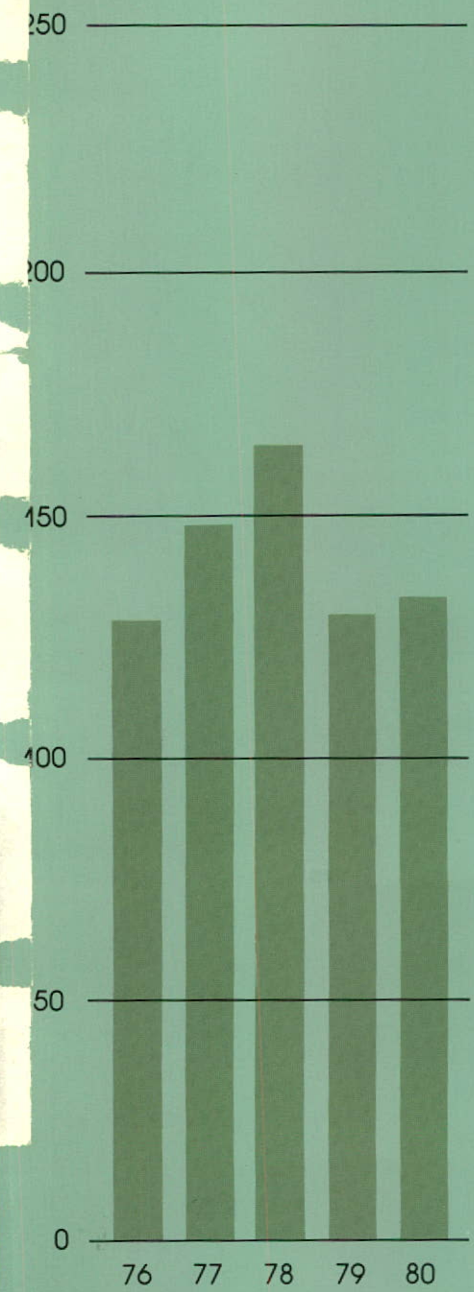
Gross revenues increased three per cent as compared to the prior year. Revenue by operating segment is set out below.

REVENUE SUMMARY
(thousands of dollars)

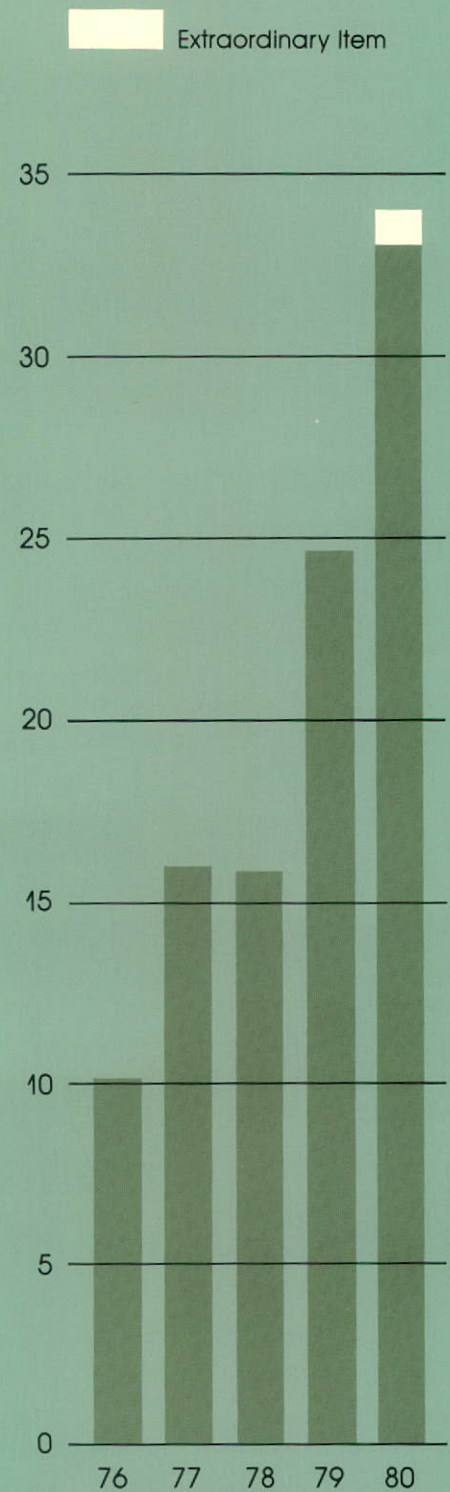
	1980	% of Total	1979	% of Total
Crude oil, natural gas & natural gas liquids	**$ 49,141**	**37**	40,424	31
Petroleum products	**80,908**	**60**	85,899	66
Supply & transportation	**3,218**	**2**	2,394	2
Other revenue	**571**	**1**	798	1
Total Revenue	**$133,838**	**100**	129,515	100

The increase in crude oil, natural gas and natural gas liquids revenue is the result of both volume and price increases. Petroleum product revenue decreased as a result of lower volume brought about by the sale of the Ontario operations. This was partially offset by increased prices.

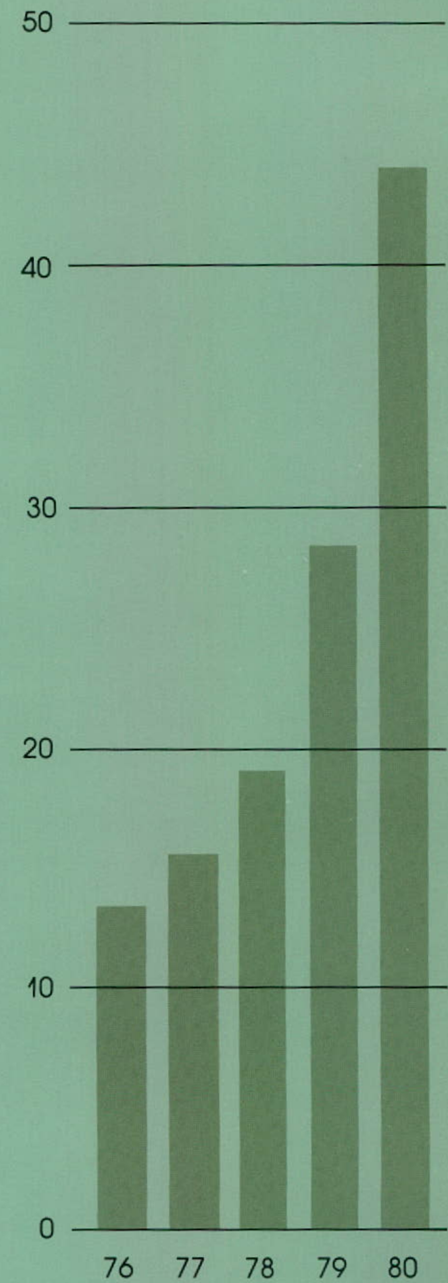
Revenues
Millions of Dollars



Cash Flow
Millions of Dollars



Capital Expenditures
Millions of Dollars



COSTS AND EXPENSES

Total costs and expenses for the current year were $119, 826,000, an increase of three per cent over 1979. Production operating costs and exploratory costs were significantly higher than last year partially offset by lower marketing costs as a result of the sale of the Ontario assets in the first half of the current year.

Interest costs were higher than the prior year primarily due to increased long term borrowing. The additional borrowing is due to the significant increase in capital expenditures. Depreciation, depletion and amortization was increased compared to the prior year reflecting the higher level of capital expenditures.

CAPITAL EXPENDITURES

Capital expenditures increased by $15,734,000, or 56 per cent compared to 1979 and are detailed by function below.

CAPITAL EXPENDITURE SUMMARY

(thousands of dollars)

	1980	1979
Oil & gas capital & related additions	**$40,754**	25,063
Marketing capital & related additions	**1,284**	1,490
Pipeline capital & related additions	**1,501**	1,329
Other	**489**	412
Total Capital Expenditures	**$44,028**	28,294

SALARIES AND WAGES

At December 31, 1980 the Company had 264 employees compared to 276 at December 31, 1979. Total salaries and wages paid during 1980, including cost of all benefit programs, were $7,201,000 compared with $6,546,000 in 1979.

TRADING RANGE OF COMMON SHARES

The Company's common shares are traded on the Toronto and Montreal Stock Exchanges. The following table sets out the trading range during 1980 and 1979.

	Toronto		Montreal	
	High	Low	High	Low
1980	$ 43	20½	$ 39	25½
1979	$ 27¼	11¾	$ 29½	13½

MURPHY OIL COMPANY LTD.

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 1980 and 1979
(thousands of dollars)

	1980	1979
REVENUES		
Sales and operating revenues	$133,267	128,717
Investment and other	571	798
Total revenues	133,838	129,515
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	86,917	89,496
Exploration costs including amortization of undeveloped leaseholds	12,208	7,252
Selling, general and administrative	7,303	8,079
Interest on long-term debt	4,166	3,659
Interest – other	1,464	796
Depreciation and amortization	4,630	4,273
Depletion	3,138	2,625
Total costs and deductions	119,826	116,180
Earnings Before Income Taxes	14,012	13,335
INCOME TAXES		
Current	(238)	1,990
Deferred	7,009	3,162
	6,771	5,152
Earnings Before Extraordinary Items	7,241	8,183
Extraordinary items	5,840	—
NET EARNINGS	$ 13,081	8,183
Earnings per share		
Earnings before extraordinary items	$1.15	1.30
Extraordinary items	.93	—
Net earnings	$2.08	1.30

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1980 and 1979
(thousands of dollars)

	1980	1979
Retained earnings, beginning of year	$ 46,669	38,486
Transfer from contributed surplus	16,686	—
Net earnings	13,081	8,183
Retained earnings, end of year	$ 76,436	46,669

See accompanying notes.

MURPHY OIL COMPANY LTD.

CONSOLIDATED BALANCE SHEETS

December 31, 1980 and 1979
(thousands of dollars)

	1980	1979
ASSETS		
Current assets		
Cash and short-term deposits	$ 2,429	1,626
Accounts receivable	39,798	25,434
Due from parent company	4,309	7,844
Inventories	22,121	20,470
Deferred income taxes	1,137	—
Total current assets	69,794	55,374
Property, plant and equipment – net	120,947	98,521
Other assets – at cost	12,519	3,794
	$203,260	157,689
LIABILITIES		
Current liabilities		
Bank loans	$ 7,000	1,500
Notes payable	10,000	11,000
Accounts payable and accrued liabilities	33,119	27,277
Income and other taxes payable	3,254	6,884
Current portion of long-term debt	5,023	5,053
Total current liabilities	58,396	51,714
Long-term debt	39,240	20,486
Deferred credits		
Deferred income taxes	22,281	17,211
Other	3,732	1,786
Total deferred credits	26,013	18,997
SHAREHOLDERS' EQUITY		
Preferred shares		
Authorized unlimited shares without par value issuable in series; issued Nil		
Common shares		
Authorized unlimited shares without par value; issued and outstanding 6,275,572 shares; 1979 – 6,274,354 shares	3,175	3,137
Contributed surplus	—	16,686
Retained earnings	76,436	46,669
Total shareholders' equity	79,611	66,492
Commitments and contingencies (Note 7)		
	$203,260	157,689

Approved on behalf of the Board

B. Harold Monzingo
Director

Director

See accompanying notes.

MURPHY OIL COMPANY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1980 and 1979
(thousands of dollars)

	1980	1979
FUNDS PROVIDED		
From operations	$ 34,108	24,597
Proceeds from sale of property, plant and equipment	5,645	2,308
Increase in other deferred credits	1,946	997
Increase in long-term debt	27,500	—
Issue of common stock	38	—
Total funds provided	69,237	27,902
FUNDS APPLIED		
Capital additions		
Oil and gas properties	32,803	21,617
Exploration	8,147	3,858
Supply and transportation	1,501	1,329
Marketing	1,577	1,490
Retirement of long-term debt	8,746	5,106
Increase (decrease) in other assets	8,725	(544)
Total funds applied	61,499	32,856
INCREASE (DECREASE) IN WORKING CAPITAL	7,738	(4,954)
Working capital, beginning of year	3,660	8,614
Working capital, end of year	$ 11,398	3,660

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Murphy Oil Company Ltd. as at December 31, 1980 and 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. 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 company as at December 31, 1980 and 1979 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
February 12, 1981

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

MURPHY OIL COMPANY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1980 and 1979

1. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of Murphy Oil Company Ltd. and its subsidiary companies, each of which is wholly-owned. The Company operates as a fully integrated oil and gas company.

b) Property, plant and equipment

The Company follows the successful efforts method of accounting for costs of oil and gas properties. Costs of drilling and equipment related to successful exploratory wells and all development wells are capitalized. Exploratory dry hole costs, lease rentals and geological and geophysical expenditures and other exploration expenditures are capitalized as incurred and are charged to earnings when determined to be unsuccessful.

The costs of undeveloped leaseholds are capitalized when acquired and are amortized over estimated holding periods based upon experience. If such properties are surrendered, the costs are charged against the allowance for amortization. When leaseholds are proven to be productive, the costs are transferred to the developed oil and gas leasehold account and together with drilling and equipment costs, are written off by the unit-of-production method based upon estimated proven recoverable oil and gas reserves as calculated by Company engineers.

Depreciation of the following assets is computed on a straight-line method based upon their estimated useful lives:

Marketing properties	5% to 33%
Pipelines	5%
Other	5% to 50%

c) Inventories

The inventories are stated at lower of cost and net realizable value. Finished products and crude oil are valued at cost on a last-in, first-out basis and other inventories are stated at average cost.

d) Joint ventures

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

e) Take-or-pay agreements

Proceeds received from gas take-or-pay agreements are deferred and taken into income as production occurs or upon expiration of the contract period.

f) Oil and gas incentive recoveries

The amounts received relative to the oil and gas incentive regulations of the Province of Saskatchewan are accounted for as a reduction of provincial royalties.

The incentive recoveries due from Provincial Governments, relative to exploration activities, are accounted for as a reduction of capital expenditures.

g) Earnings per common share are calculated on the weighted average method. If the outstanding share options had been exercised at the beginning of the year, earnings per share would not have been changed by a material amount.

h) Effective February 29, 1980, the Company was continued under the Canada Business Corporation Act. Under the Articles of Continuance shares no longer have a par value and the balance of contributed surplus has been transferred to retained earnings.

2. INVENTORIES

	1980	1979
	(thousands of dollars)	
Finished products	**$14,376**	11,430
Crude oil	**6,237**	6,863
Other	**1,508**	2,177
	$22,121	20,470

3. PROPERTY, PLANT AND EQUIPMENT

	December 31, 1980				
		Allowance for			
	Cost	Depreciation	Depletion	Amortization	Net Book Value
		(thousands of dollars)			
Developed oil and gas properties	$123,839	13,283	29,453	—	81,103
Undeveloped oil and gas properties	22,974	—	—	6,738	16,236
Marketing properties	24,642	8,462	—	—	16,180
Pipelines	7,358	2,288	—	—	5,070
Other properties	3,328	970	—	—	2,358
	$182,141	25,003	29,453	6,738	120,947

	December 31, 1979				
		Allowance for			
	Cost	Depreciation	Depletion	Amortization	Net Book Value
		(thousands of dollars)			
Developed oil and gas properties	$101,984	11,144	26,315	—	64,525
Undeveloped oil and gas properties	14,228	—	—	4,996	9,232
Marketing properties	29,663	10,772	—	—	18,891
Pipelines	5,881	1,942	—	—	3,939
Other properties	2,805	871	—	—	1,934
	$154,561	24,729	26,315	4,996	98,521

4. LONG-TERM DEBT

	1980	1979
	(thousands of dollars)	
Bank loan, secured by an assignment of the Company's interest in certain oil and gas reserves and bearing interest at prime plus ¼ per cent. Although the loan is payable on demand, the bank has agreed to accept annual payments of $5,000,000	$ 24,084	25,000
Notes payable, bearing various rates of interest. During 1980 the rates ranged from 13.925 per cent to 17.175 per cent. These notes are payable in eight semi-annual instalments of $2,500,000 commencing January 24, 1982	20,000	—
Obligations under capital leases bearing annual interest at rates varying from 6.25 per cent to 9.5 per cent repayable in monthly instalments to May 1997	179	483
Other	—	56
	44,263	25,539
Less current portion	5,023	5,053
	$ 39,240	20,486

5. INCOME TAXES

The total income taxes charged to earnings of $6,771,000 in 1980 and $5,152,000 in 1979 resulted in an effective rate of 48 per cent and 38 per cent respectively. These totals are different from the amount of $7,007,000 in 1980 and $6,258,000 in 1979 computed by applying the combined expected Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1980	1979
	(thousands of dollars)	
Computed "expected" tax expense	$ 7,007	6,258
Additions to income taxes resulting from		
Royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	8,756	6,884
Other	749	—
	16,512	13,142
Reductions in income taxes resulting from		
Resource allowance on Canadian production income	6,401	5,127
Earned depletion on Canadian production income	2,468	2,216
Government incentives	872	562
Other	—	85
	$ 6,771	5,152

6. SHARE OPTION PLAN

Under the terms of the share option plan, 100,000 common shares of the Company are reserved for issuance to key employees of the Company. In lieu of purchasing the amount of shares granted in the option, the optionee may elect to receive the "net value of the option" in shares, in return for surrendering the option. The "net value of the option" means the difference in the market price of the share and the option price stipulated in the option.

At December 31, 1980, the following options, excercisable in the ten year period ending February 16, 1990 were outstanding.

	1980	1979
Common shares at an exercise price of $16.00	37,860	45,900
Common shares at an exercise price of $27.50	17,600	—
Common shares at an exercise price of $31.50	1,500	—
	56,960	45,900

During the 1980 year options to purchase 19,400 shares were granted, 6,060 forfeited and options to purchase 2,280 shares were exercised. The net number of shares issued relating to the exercised options was 1,218 shares (gross 2,280 shares) valued to the Company at $37,879.

7. COMMITMENTS AND CONTINGENCIES

The Company has entered into long-term contracts to lease certain marketing outlets and office buildings. The approximate annual rentals for each of the next five years decrease from $1,126,000 to $344,000. In addition, the leases provide that the Company is responsible for the payment of property taxes, insurance and certain other charges.

The Company has guaranteed the bank indebtedness of affiliated companies in the aggregate amount of $1,450,000 and has assigned its shares in these companies to the bank.

The Canadian income tax authorities have reassessed or indicated their intention to reassess a subsidiary company in the amount of approximately $13,500,000 for income taxes and interest in respect of operations during the years 1970 to 1976. The Company has paid and recorded $9,100,000 as other assets representing the principal amount of taxes assessed to date. Interest of $4,400,000 relating to these assessments has not been recorded in the consolidated financial statements. With respect to 1970, the Company has received an unfavorable judgment from the Federal Court of Canada – Trial Division. The Company on advice of its tax counsel is contesting the reassessments and will appeal the decision of the Federal Court judgment as described above. If the Company is unsuccessful in the appeal, the total amount will be charged to retained earnings.

8. RELATED PARTY TRANSACTIONS

Included in sales and operating revenues of $133,267,000 is a handling charge for refinery feedstock amounting to $374,000 representing amounts charged to Murphy Oil Corporation.

9. EXTRAORDINARY ITEMS

Gain on the sale of Ontario marketing properties net of income taxes of $902,000	$ 1,862,000
Recognition of tax benefits of prior years' losses carried forward ...	3,978,000
	$ 5,840,000

FIVE YEAR STATISTICAL SUMMARY

(In thousands of dollars except per share amounts)

FINANCIAL

	1980	1979	1978	1977	1976
Revenues					
Oil and gas sales	$ 49,141	40,424	35,766	30,622	23,924
Petroleum products sales	80,908	85,899	126,073	115,137	102,731
Supply and transportation	3,218	2,394	1,950	1,515	993
Other income	571	798	613	852	815
Total revenues	133,838	129,515	164,402	148,126	128,463
Earnings before extraordinary items	7,241	8,183	3,139	5,589	1,492
Earnings per share before extraordinary items	1.15	1.30	.50	.89	.24
Extraordinary items	5,840	—	—	—	—
Net earnings**	13,081	8,183	3,139	5,589	1,492
Net earnings per share	2.08	1.30	.50	.89	.24
Cash flow	34,108	24,597	15,755	16,040	10,159
Cash flow per share	5.44	3.92	2.51	2.56	1.62
Capital expenditures					
Production and exploration	40,950	25,475	15,427	12,619	8,953
Marketing	1,577	1,490	3,375	2,548	4,358
Supply and transportation	1,501	1,329	276	405	8
Total capital expenditures	44,028	28,294	19,078	15,572	13,319
Working capital*	11,398	3,660	8,614	15,327	14,761
Total assets*	203,260	157,689	140,598	149,680	131,349
Long-term debt*	44,263	25,539	30,646	35,000	35,000

SHAREHOLDERS AND EMPLOYEES

	1980	1979	1978	1977	1976
Number of common shares outstanding*	6,275,572	6,274,354	6,274,354	6,274,354	6,274,354
Number of shareholders*					
Common	1,439	1,429	1,566	1,565	1,497
Preferred	—	—	—	—	—
Number of employees*	264	276	296	326	297
Salaries, wages and benefits	$ 7,201	6,546	6,462	5,764	4,937

OPERATING

	1980	1979	1978	1977	1976
Gross crude oil and gas liquids produced (thousands of cubic metres)	577	552	545	562	548
Net crude oil and gas liquids produced (thousands of cubic metres)	375	358	354	362	401
Gross natural gas produced (millions of cubic metres)	239	271	291	286	248
Net natural gas produced (millions of cubic metres)	176	203	210	206	185
Oil and gas wells owned*	930	868	800	751	704
Net Undeveloped acreage* (thousands of hectares)	385	1 053	1 183	1 192	1 213
Gross proven oil and gas liquid reserves* (millions of cubic metres)	5.4	6.0	6.4	6.5	6.5
Net proven oil and gas liquid reserves* (millions of cubic metres)	3.5	3.8	4.0	4.1	4.3
Gross proven natural gas reserves* (billions of cubic metres)	7.8	9.1	7.4	7.0	6.6
Net proven natural gas reserves* (billions of cubic metres)	5.9	6.7	5.5	5.2	4.9
Crude processed at other refineries (thousands of cubic metres)	490	624	978	1 192	1 329
Petroleum products sold (thousands of cubic metres)					
Gasoline	316	421	610	630	578
Distillate	134	182	486	466	572
Residuals	59	72	158	206	232
Total petroleum products sold	509	675	1 254	1 302	1 382
Retail outlets*					
Leased and owned	97	135	149	162	166
Other	41	123	149	228	249

* *Year-end*

** Restated for 1978 and prior years to reflect successful efforts method of accounting

Seated L to R. Directors C.S. Dunkley, R.J. Sweeney, President R.G. Farquharson, Directors F.R. Matthews, B.H. Monzingo and G.S. Dembroski. Standing L to R. Directors L.C. Webster and G.M. Fedderson.

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Vice-President and Controller

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Secretary

PRINCIPAL SUBSIDIARY

Spur Oil Limited

REGISTRAR and TRANSFER AGENT

National Trust Company, Limited
Calgary, Toronto, Montreal, Winnipeg
and Vancouver

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