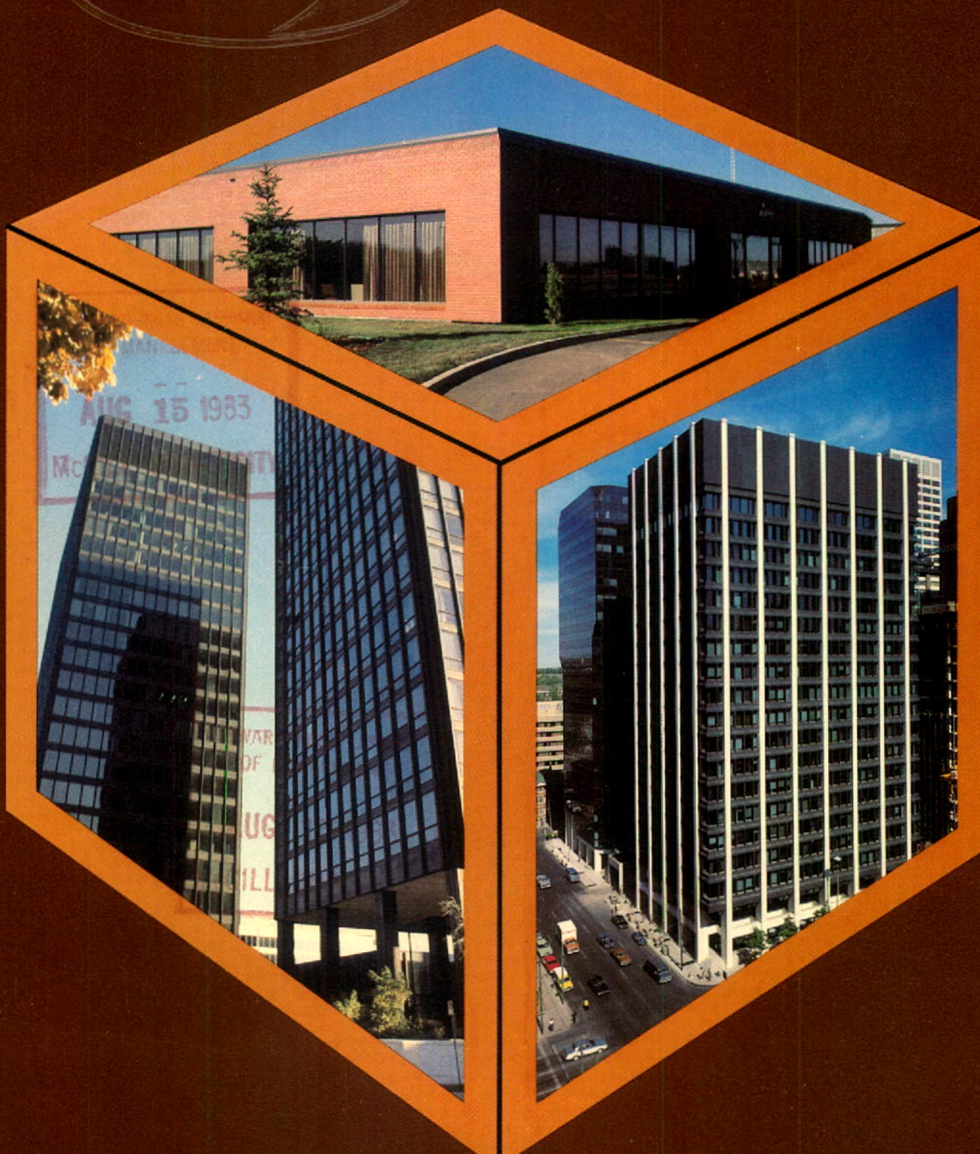
MURPHY
OIL COMPANY LTD.



ANNUAL REPORT 1981

MURPHY
OIL COMPANY LTD.

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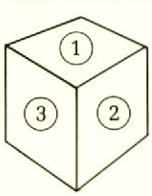
ANNUAL MEETING

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.S.T.) on Wednesday, 21st day of April, 1982.

THE COVER



1. Murphy's Production and Supply & Transportation Departments Lloydminster, Alberta office.
2. The Company's head office, Aquitaine Tower, Calgary, Alberta.
3. Marketing Department headquarters at Westmount Square, Montreal, Quebec.

HIGHLIGHTS

	1981	1980
	(In thousands of dollars except per share amounts)	
FINANCIAL		
Revenues	**$152,039**	133,838
Net Income Before Extraordinary Items	**9,341**	7,241
Per Share	**1.48**	1.15
Net Income After Extraordinary Items	**9,941**	13,081
Per Share	**1.58**	2.08
Cash Flow	**28,783**	34,108
Per Share	**4.58**	5.44
Capital Expenditures	**23,410**	44,028
Working Capital*	**18,702**	11,398
Total Assets*	**219,494**	203,260
Shareholders' Equity*	**89,847**	79,611
OPERATING		
Gross Crude Oil and Gas Liquids Produced (cubic metres per day)	**1 312**	1 575
Net Crude Oil and Gas Liquids Produced (cubic metres per day)	**880**	1 025
Gross Gas Sold (thousands of cubic metres per day)	**631**	653
Net Gas Sold (thousands of cubic metres per day)	**482**	481
Crude Processed (cubic metres per day)	**1 183**	1 339
Petroleum Products Sold (cubic metres per day)	**1 135**	1 390

*Year-End

TO THE SHAREHOLDERS

The reduced level of oil industry activity during the past year must leave an observer puzzled. Canada's oil reserves continued to decline for the 11th consecutive year. Its requirements for new oil supplies to replace the current decline are estimated to reach one million barrels per day by the end of this decade. On the other hand, Canada has the undisputed potential to become self-sufficient in oil production. Meanwhile, the situation differs for natural gas of which a substantial volume, surplus to Canadian needs and backed by a considerable potential for future discoveries, remains shut-in. Gas exports could greatly alleviate the financial drain on the national economy caused by oil imports, and other imports, as well as a negative current balance. It seems obvious that the national interest would be served best by encouraging a vigorous development of new sources of oil production and by facilitating additional gas exports.

Against this background it appears unjustified that decisions taken by both the federal government and the producing provinces continued to stifle, rather than encourage, industry activity. This is especially difficult to understand considering the positive stimulus which higher oil industry investment would give to the depressed oil service and manufacturing sectors of the nation. In our view, the results of these unsatisfactory policies are detrimental not only to the oil industry, one industry which could provide a much required stimulus to the national economy, but even more so to the Canadian consumer and taxpayer. He continues to face an insecure oil supply in future, as well as high oil import costs, a negative current account balance and higher unemployment – in spite of higher domestic prices for petroleum products and natural gas.

The negative impact of the National Energy Program (NEP) resulted from the confrontation between the federal government and the producing provinces with regard to taxation and jurisdiction over oil and gas. Alberta cut back its oil production until an energy pricing and taxation agreement with the federal government was reached in September, 1981, almost one year after the NEP was introduced. As a result of the policies of both levels of government, drilling in western Canada dropped by 25 per cent, and capital expenditures in exploration and development by 22 per cent. Industry's earnings and cash flows are reported to have declined by more than 20 per cent compared to the previous year. The energy agreements between the federal government and Alberta, Saskatchewan and British Columbia increased domestic prices but only modified the details of the other components of the NEP. Taxes remain high, especially for oil and gas discovered before December 31, 1980. Governments take 90 per cent of the scheduled incremental increases for this "old" production, leaving producers with less than is needed to even cover increases in operational costs and in inflation.

ROBERT G. FARQUHARSON
President and Chief Executive Officer

The policy clearly favors "new" oil discoveries but fails to provide the necessary cash flow from "old" production to finance new activities. Gas prices were lowered on a BTU basis relative to oil without providing additional markets. While the energy agreements do provide a firm framework over the short-term (to 1986), they do not give any guarantee that the same rules will apply thereafter. Ingredients of the NEP and of other regulatory measures seem aimed at increasing federal involvement in business decisions. As a result of the Canadianization aspect of the NEP several billions of dollars left the country to purchase foreign oil industry assets, money which would have been better spent in the search for new oil. Murphy is at a disadvantage when considering the Canadian content requirements to qualify for exploration incentives. It is unfortunate for the industry and the nation, that neither the governments nor the public have so far recognized the realities of the oil industry in Canada.

Notwithstanding the overall decline of the oil industry's income, Murphy faired well in 1981. Net income before extraordinary items increased by 29 per cent to $9,341,000 from $7,241,000 the previous year. After allowing for the sale of marketing operations in Ontario in 1980, and marketing tax credits in both years net income decreased to $9,941,000 compared to $13,081,000 in 1980. Total revenues increased to $152 million from $134 million. Cash flow declined by 15.6 per cent to $28,783,000 from $34,108,000 due to oil production cutbacks ordered by Alberta and the impact of the Petroleum and Gas Revenue Tax (PGRT). To keep these figures in perspective, our shareholders must realize that from Murphy's gross revenues of $200 million including royalties and taxes collected on behalf of the governments, only $28.8 million could be retained as cash flow available for reinvestment. Payments to governments in the form of royalties, taxes and subsidies came to $80 million, of which nearly half went to the federal government. As the Company has kept its debt to equity ratio low, the current high interest rates had relatively little negative effect on the balance sheet.

In line with the mood of the industry, and to minimize the negative effects of the prevailing regulatory and fiscal conditions, capital expenditures were reduced by 46.8 per cent to $23,410,000 from the record high level of $44,028,000 in 1980, which, however, was somewhat distorted by the participation in the Hekja well off Baffin Island.

These are trying times for the oil industry during which the quality and dedication of our staff were especially valued. Our collective efforts made it possible for the Company to deal with the many problems suddenly confronting us. During the last year we restructured our exploration team and changed its assignments to emphasize oil-prone plays, largely in Alberta, to improve our potential asset base in the heavy oil deposits and to evaluate and develop gas prospects where early connection to markets can be obtained. We welcome E.S. Spurgeon as Vice-President of Exploration and the new leader of the team. Mr. Spurgeon has considerable experience in related positions in western Canadian oil exploration.

Successful drilling maintained gross gas reserves at 7.7 billion m^3. New gas was placed on stream at two plants compensating for a drop in demand and leaving production essentially unchanged from the previous year. Contract negotiations suggest that additional shut-in reserves can be placed on stream in 1983.

Reduced drilling activity only replaced about one half of the oil production of last year. Gross reserves of crude oil and natural gas liquids declined to 5 million m^3 from 5.4 million m^3 gross in 1980. Production of liquid hydrocarbons decreased by 17 per cent. Heavy crude production dropped for the first time in 10 years and by 20 per cent. These figures reflect Alberta production cutbacks and the effects of the NEP which, together with seriously reduced netbacks in Saskatchewan, led to the shut-in of many wells in the heavy oil area and also in the medium and light producing areas of that province. We anticipate recovering much of the loss in productivity as these restrictions are addressed during the current year.

As the markets for heavy crude remain clouded, the heavy oil properties of the Company will not yet play the role in our asset base that they are expected to play in future. Nevertheless, additions of heavy oil in place were made and our enhanced recovery pilots continued to offer encouragement. Murphy, due to its experience and land holdings in this area, is well positioned to benefit from the growing need to develop this resource when market inhibitions are resolved.

In the oil sands of Alberta, negotiations were concluded by year-end that may lead to construction of a mining operation at our Calumet lease owned 10.5 per cent by Murphy. The Company has agreed to sell this interest, but has retained a right to back into participation should the project proceed beyond the evaluation stage.

In October, Murphy, as operator, entered into a drilling agreement with SOQUIP, as general partner, and the Canada Life Assurance Co., Alcan Aluminum Co., Argus Resources Ltd., and SOQUIP as investors. The purpose of the agreement is to bring substantial investors into the evaluation and development of prospect areas throughout western Canada. The anticipated increase in drilling activity will be reflected in our next annual report.

To compliment our pipeline operations in the heavy oil region, Murphy participated in the construction of a 66-km pipeline between Cactus Lake in west central Saskatchewan to Kerrobert. Murphy will operate the joint venture with Petro Canada, Gulf Oil, Sask Oil and Manito Pipelines as partners. Other investments in the Manito system included the construction of a 9 000-m^3 condensate tank at Kerrobert and an eight-km lateral connecting the Sask Oil operated Neilburg field. Uncertainty within the petroleum industry did not affect the throughput of Manito Pipelines which transported in excess of 2 500 m^3/d of Lloydminster blend during 1981, compared to 2 000 m^3/d the previous year. Murphy is evaluating other substantial investment opportunities in the service segment of our business.

Our marketing base in Quebec contributed to Company profits. We continued to streamline the operation, disposing of marginal stations and increasing the throughput at our terminals, especially in the Montreal region. The challenge for the current year is to confront the realities of a declining market and continuing pressure on profit margins.

A tax dispute with the federal and provincial governments concerning marketing operations through the years 1970 to 1976 was resolved in our favor by a decision of the Supreme Court of Canada. This is reflected in a return of $10 million to our treasury.

We accepted with regret the resignation of Mr. C.S. Dunkley from our Board. Mr. Dunkley made a considerable contribution to Company policy. We extend our thanks to him and wish him well in his new pursuits.

I would like to close on a positive note. The industry is in an early stage of recovery from its most negative cycle so far. Murphy is well-positioned with a solid asset base to meet these challenges and anticipates a rewarding future. We feel that, given appropriate government policies, energy opportunities in Canada are substantial.

ROBERT G. FARQUHARSON
President and Chief Executive Officer

March 26, 1982
Calgary, Alberta

Production and ▶
drilling operations in
the Lloydminster area.

EXPLORATION AND PRODUCTION HIGHLIGHTS

DRILLING

Drilling activity in western Canada declined sharply last year. This reflects the restrictive aspects of the NEP and the atmosphere of confrontation between the federal government and the producing provinces before they concluded their energy pricing and taxation agreements. For Murphy, 1981 was a period of transition and re-orientation, following the Company's record drilling program in 1980 and preceding the inclusion of a drilling fund into our exploration program.

The agreement which the federal government concluded with Alberta last September, and the subsequent similar agreements with the other producing provinces, strongly favor exploration for new oil, while the restricted market for natural gas requires prospects which by virtue of their geographic location, size and deliverability are candidates for early sales contracts.

Last year, Murphy participated in 126 (versus 224 in 1980) working-interest and in 19 (24) farmout tests, which translate into 44.3 (86.2) net wells. These breakdown into 73 (19.6 net) oil completions, 32 (14.5 net) cased gas wells, 4 (0.3 net) service wells, and 36 (9.9 net) abandonments. Of the total, 38 were exploratory, resulting in 10 gas and 9 oil discoveries and 19 abandonments for a success ratio of 50 per cent. Geographically, Murphy participated in 108 wells in Alberta, 11 in Saskatchewan, 6 in northeast British Columbia, and 1 in Manitoba. By category, 60 wells were drilled in the heavy oil region of Alberta and Saskatchewan, 10 were completed in the shallow gas project at Princess in Alberta, while 56 fell into the general exploration and development program throughout western Canada. Exploration strategy at Murphy is increasingly being directed to financially rewarding rather than close-in but less profitable plays. Within the constraints of the new agreements and in response to incentives, which vary from province to province, the Company is active in the search for oil-prospective Cretaceous channel sands in southern Alberta (e.g. in the Enchant and Bindloss areas), for carbonate prospects around the Peace River Arch, for reef occurrences in northeast British Columbia and in Alberta, and in the heavy oil area of Lloydminster and surrounding districts.

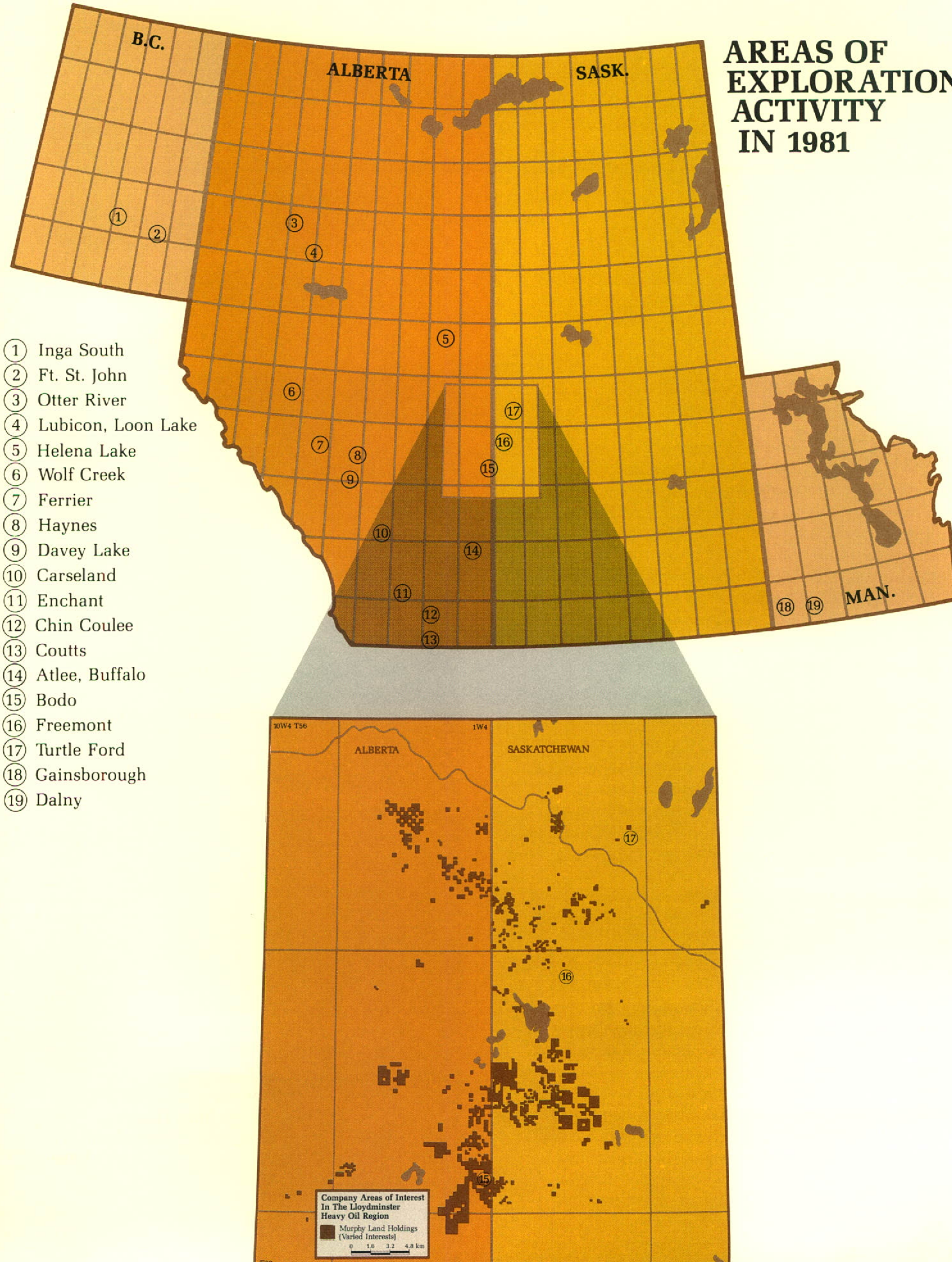
Alberta

Murphy participated in 34 (11.7 net) exploratory and 74 (25.2 net) development wells during 1981. In addition, 11 exploratory and 6 development wells were drilled on farmout acreage at no cost to the Company.

The Company continued to focus drilling in the Provost-Bodo area of eastern Alberta in an effort to expand heavy-crude reserves. Of the 49 (10.7 net) wells drilled, 31 (7.0 net) were completed as oil and 5 (1.0 net) as gas producers. Elsewhere in the heavy-crude region 18 (10.2 net) development and 4 (0.7 net) exploratory locations were drilled of which 13 (8.4 net) are oil, 1 (0.25 net) gas and 3 (0.4 net) service wells. Further improvements in the definition of seismic data employing sophisticated, in-house analysis, resulted in a high success ratio for the selected drilling locations. Design work is in progress for a pipeline into this region to improve the economics for the considerable primary and enhanced recovery potential of the already proven and prospective reserves.

A relatively high level of activity was also maintained in the Cretaceous sand plays in southern Alberta where the Company participated in nine exploratory tests on widely distributed holdings. Two of these working-interest wells were cased as gas discoveries and two more as dual oil and gas completions. An additional nine exploratory locations were drilled at no cost to the Company on farmouts in which Murphy retained a gross overriding royalty on future production. Three gas and two dual oil and gas finds resulted. At Enchant, two gas and one dual oil and gas well, in which the

AREAS OF EXPLORATION ACTIVITY IN 1981



1. Inga South
2. Ft. St. John
3. Otter River
4. Lubicon, Loon Lake
5. Helena Lake
6. Wolf Creek
7. Ferrier
8. Haynes
9. Davey Lake
10. Carseland
11. Enchant
12. Chin Coulee
13. Coutts
14. Atlee, Buffalo
15. Bodo
16. Freemont
17. Turtle Ford
18. Gainsborough
19. Dalny

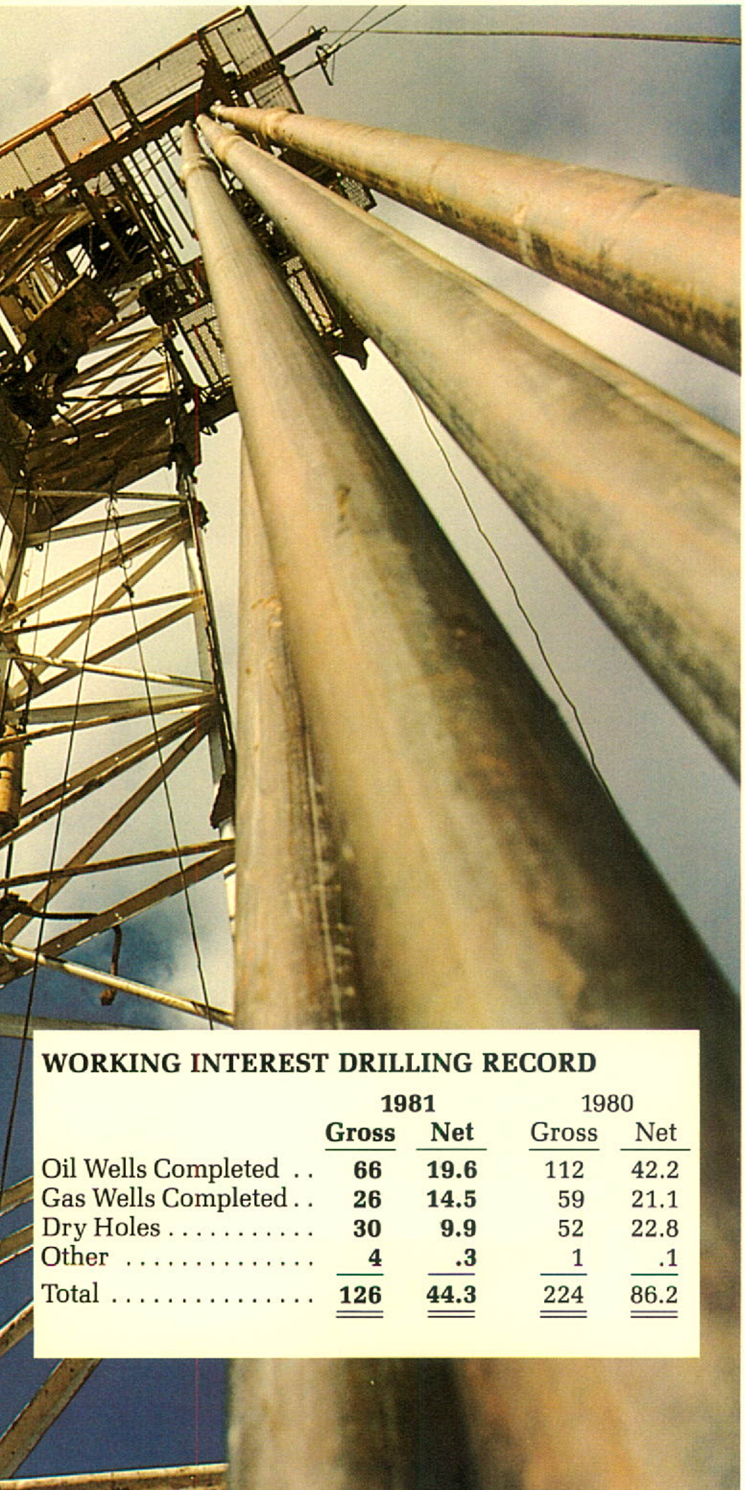
Company has a 50-per-cent ownership, were added. At Bindloss, drilling of a Glauconitic sand prospect was successful with one dual oil and gas discovery on an 80-per-cent farmin. An eight-section license was purchased in this play. A gas well was cased at Helmsdale (25 per cent) where Murphy also acquired the rights to the Belly River formation on lands in which the remaining rights are already held.

In the Wolf Creek area in central Alberta, a follow-up to a previous gas discovery in the D-2 failed to extend the same reservoir in the tested direction, but was nevertheless cased for further evaluation of promising new zones in the overlying section. Murphy retained a 12.5-per-cent interest in a farm-out gas well at Ferrier. A gas well (100 per cent) was completed in the Belly River formation at Davey Lake. Gross overriding royalties were retained in completions on farmed-out acreage at Drumheller (gas), Acme (gas) and at Kakwa (Cardium oil).

In the shallow gas region in northeast Alberta, two licenses comprising 4 352 ha were acquired for future drilling in the Charron area. In northern Alberta, continued exploration led to the acquisition of a 25-per-cent working interest in a 1 280 ha license in the Golden area. Among the multiple-zone prospects the basal Granite Wash sand and the overlying Slave Point carbonates are particularly promising. Geophysical investigations of acreage acquired during 1980 in the Otter River region have been completed and a drilling location selected for the coming year.

British Columbia

The first deep test to the Precambrian in the Fort St. John gas prospect missed the anticipated porosity development in the Devonian Wabamun formation. Further testing is warranted as the size and setting of this large fault structure presents a high potential for considerable reserves since it is similar to that of the prolific Parkland gas field eight miles to the east. Murphy acquired a 50-per-cent interest in an additional 4 700 ha permit in this play. At Maxhamish, the Company increased its exposure by pooling its lands and farmout. So far one dry test has been drilled on this acreage at no cost to the Company.



WORKING INTEREST DRILLING RECORD

	1981 Gross	1981 Net	1980 Gross	1980 Net
Oil Wells Completed	**66**	**19.6**	112	42.2
Gas Wells Completed	**26**	**14.5**	59	21.1
Dry Holes	**30**	**9.9**	52	22.8
Other	**4**	**.3**	1	.1
Total	**126**	**44.3**	224	86.2

Saskatchewan and Manitoba

Operations in Saskatchewan were severely curtailed during the federal-provincial impasse over pricing and revenue sharing. Industry negotiations with the provincial government over the fiscal regime in the province were still awaiting their successful conclusion at year-end. A total of 11 wells were drilled in the heavy-crude district of western Saskatchewan, of which 7 were oil completions.

Prospects in southwestern Manitoba have been enhanced by discoveries in the deeper formations in adjacent regions of the Williston Basin. As Manitoba is ideally located to oil markets, leads will be followed not only in the established Mississippian carbonate subcrop plays but also in lower formations, including Birdbear, Red River and Winnipegosis carbonates, and the Winnipeg and Deadwood sands. Additional acreage was obtained and a seismic program initiated.

Drilling Fund

A drilling fund was arranged with major Canadian investors to explore and develop prospects on Company-held lands throughout the western Canada sedimentary basin. A total of 13 750 net hectares in the conventional oil and gas areas and an additional 1 700 net hectares in the heavy crude areas of Alberta and Saskatchewan have been committed to this operation. Although the agreement was only concluded in October, seismic and drilling operations were conducted on 10 prospect areas by year-end. Two tests were completed as oil wells, three as gas wells, while two more were abandoned.

GEOPHYSICAL ACTIVITY

As a result of the adverse economic impact of the NEP geophysical activity dropped by one-quarter early in the report year, but improved after the federal-provincial agreements had finally been reached in the second half of the year. Approximately 850 km of seismic profiling was completed throughout western Canada. This was augmented by the purchase of 530 km of seismic data. Of the total, 1 250 km were interpreted during 1981.

Present key areas of interest include the Slave Point carbonate trend along the Peace River Arch, Mississippian stratigraphic traps in southwest Manitoba and Glauconitic channel sands in southern Alberta.

LAND

Murphy has endeavored to high-grade its land holdings with the result that gross hectares dropped from 1.681 million in 1980 to 1.438 million by the end of 1981 and net holdings from 385 000 ha to 290 000 ha. Through the western Canada sedimentary basin net hectares dropped from 344 000 to 248 000. The Company intends to maintain its land position at this current manageable level. Land prices and tenure rules suggest additions can offset normal attrition in ongoing business.

NON-PRODUCING PROPERTY

	Hectares			
	Gross		Net	
	Dec. 31/81	Dec. 31/80	**Dec. 31/81**	Dec. 31/80
British Columbia	**103 292**	80 912	**41 055**	29 433
Alberta	**500 237**	676 129	**165 904**	231 439
Saskatchewan	**89 276**	168 002	**37 715**	79 824
Manitoba	**3 877**	2 981	**3 804**	2 924
Ontario	**1 384**	1 353	**1 303**	1 292
Nova Scotia	**31 987**	31 987	**10 437**	10 437
Arctic Islands	**2 363**	2 363	**1 181**	1 181
Labrador (Offshore)	**231 189**	231 189	**4 624**	4 624
Davis Strait	**474 797**	486 477	**23 740**	24 324
TOTAL	**1 438 402**	1 681 393	**289 763**	385 478

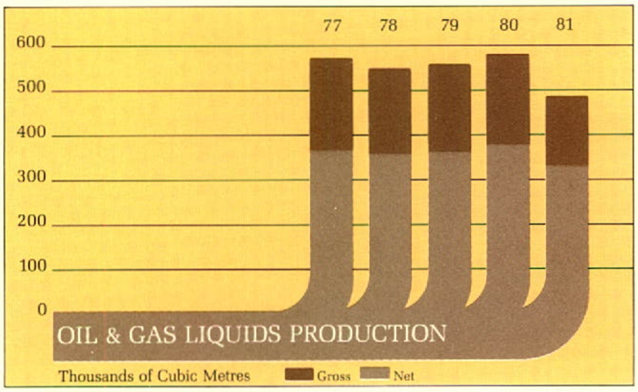
PRODUCING PROPERTY (as of December 31, 1981)

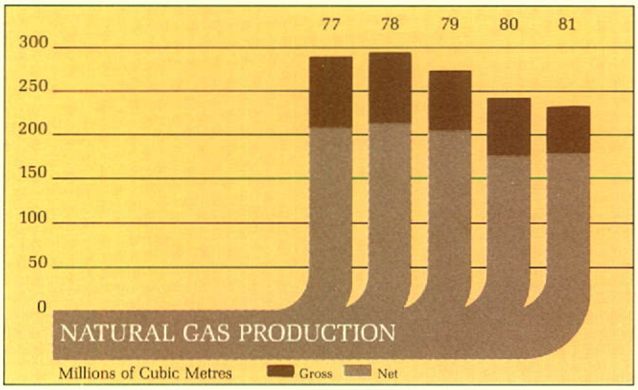
	Hectares	
	Gross	Net
British Columbia	9 499	5 010
Alberta	136 518	48 395
Saskatchewan	36 344	17 168
Manitoba	1 769	1 517
Ontario	2 162	1 899
TOTAL	186 292	73 989

PRODUCTION

Last year's industry-wide decline in the production of crude oil and natural gas liquids as well as of natural gas was the direct result of government policies, taxes and regulations. Murphy's production of crude oil and natural gas liquids declined to 1 312 m^3/d from 1 575 m^3/d in 1980, a drop of 17 per cent. Net production, after deducting provincial and freehold royalties, came to 880 m^3/d compared to 1 025 m^3/d the previous year. In Saskatchewan, many wells had to be shut-in because they had become uneconomic as a result of the ill effects of the NEP combined with high provincial royalties. In Alberta, the provincial government ordered production cutbacks which remained in force until the agreement with the federal government was signed in September. It is expected that production will return to 1980 levels during the current year.

The pressures gradually imposed by both levels of government are many and may well cause the loss of new opportunities or even existing markets of both crude oil and natural gas. The low wellhead return producers receive for oil and gas production established to the end of 1980, known as "old" oil and gas, does not keep pace with inflation and with the even faster rise in operational costs. The number of "marginal" wells will increase and governments will need an open mind to prevent premature shut-in. Pre-emptive taxes placed by both levels of government on "old" production, which leaves only 10 per cent of an incremental price increase in the hands of the producers, subject yet to the PGRT, do not provide the earnings needed to finance exploration for new reserves to replenish what has been used. Traditional ways of doing business, such as the relation between buyer and seller, or the principle of letting competition regulate prices, for instance in pipelining, or of establishing new markets, have been disrupted by governments. To mind comes the Alberta Petroleum Marketing Commission, the setting of pipeline tariffs based on the carriers' investment (efficient





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

construction is penalized, inefficient investment rewarded) and stifling export restrictions on heavy crude and natural gas. Seemingly left unconsidered is the eventual effect on the consumer price, that is whether the product will stay competitive or not.

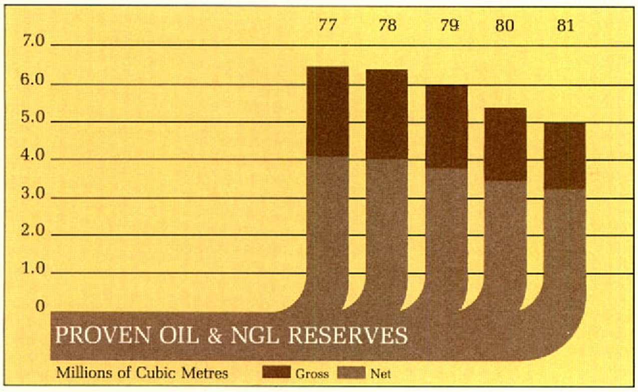
One of our most serious concerns is the federal government's energy direction discouraging a favorable U.S. export market for heavy crude for which little Canadian refining capacity exists. Unpredictable policies in the past have resulted in large demand swings and in a loss of additional opportunities which could have been created. It is unfortunately true that the Canadian government, after several years of market losses for heavy crudes in the northern tier refineries in the U.S., is still insisting on limited export permits in spite of U.S. requests for longer term commitments. Several former customers have been lost and one remaining substantial purchaser seems to be organizing alternate sources of supply. The market outlook for heavy crudes has become dismal as a direct result of an unwarranted export policy for a product which is surplus to Canadian needs. Similarly, potential gas exports have not been realized due to a rigid pricing policy and an unrealistic insistence on short-term export permits.

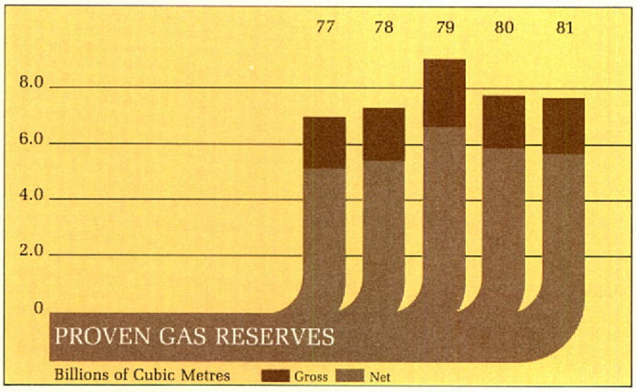
Although natural gas production in Canada continued to decline by approximately three per cent, Murphy succeeded in maintaining its gross (631 000 m^3/d) and net (482 000 m^3/d) production volumes at the level of the previous year. New production from Dodsland, Saskatchewan and from Glendon, Alberta compensated for cutbacks experienced elsewhere. Notwithstanding the decline in current demand, purchasers are contracting new reserves for the long-term as well as for peak periods over the short-term. The Company has entered into contracts with TransCanada Pipelines for most of its proven reserves, as well as with other purchasers in markets they dominate. In British Columbia, new agreements signed with the British Columbia Petroleum Marketing Commission resulted in higher prices for both "old" and "new" gas (as defined in that province), but also in a reduction of the contracted take-or-pay volumes. In Saskatchewan, Murphy is now receiving a higher price for its Dodsland production which is classified as "new" gas from a low-productivity reservoir. Negotiations are continuing with the hope of still better pricing in response to a submission to both the Department of Mineral Resources and the provincially-owned Saskatchewan Power Corporation.

RESERVES

In keeping with the national trend of recent years, the Comany's proven gross reserves of crude oil and natural gas liquids declined during the report year to five million m^3, although at a reduced rate (e.g. by 400 000 m^3 as compared with 600 000 m^3 the previous year). This trend can be reversed if economic conditions allow more exploratory drilling and further development of already discovered properties, especially if enhanced recovery becomes feasible on a larger scale. This is particularly true for the heavy-crude region but also for conventional oil reservoirs in which Murphy holds interests. Net reserves now stand at 3.25 million m^3.

That gross reserves of natural gas remained at approximately the same level as a year earlier, at 7.7 billion m^3 (7.8 billion m^3), reflects only the decline in new drilling, not the potential for new reserve additions. Net gas reserves have been calculated at 5.79 billion m^3.





OPERATIONS

Natural Gas

The Company's gas-producing property at Dodsland, Saskatchewan, where a gas plant and a gathering system were installed during the previous report year, has been in operation throughout 1981. For the current year, two additional wells are planned to increase the number of producing wells to nine. This will optimize the plant utilization and thus the economics for this low-pressure reservoir. Current negotiations with the Saskatchewan authorities are aimed at increasing the current paid field price to a level closer to the true market value of the gas.

Processing area at the Carstairs, Alberta natural gas processing plant.

The newly installed compression and dehydration system at Glendon, Alberta, which is designed for a daily throughput of 200 000 m^3, was placed on stream during the report year since the necessary tie-in to the transmission system was completed. As our partners increase their contracts, additional wells are expected to be tied-in, while additional compression will be added in accordance with the expected increase in contract volumes. In the shallow-gas area of Princess, Alberta, we expect to place a number of wells on stream during the current year in an effort to maintain our present overall production volume.

Oil

Improved recovery and operational performance continued to be a main concern at conventional oil properties. At the properties operated by the Company, two infill wells were completed in the waterflood project at Coutts, Alberta.

In field units operated by partners, Murphy is reviewing potential improvements of existing operations. These considerations include infill drilling in the West Eagle, Mitsue, Swan Hills and Rainbow fields. Miscible flooding is being studied for the Judy Creek and Swan Hills fields in Alberta and the Weyburn field in Saskatchewan. A number of new development locations have been budgeted in the Medicine River and Haynes areas for drilling during 1982.

Heavy Oil Operations

Much of the Company's production decline, which was caused by pricing and taxation disagreements between the federal government and the producing provinces, occurred in the heavy oil area. This was particularly true for Saskatchewan, where a high provincial royalty led to negative cash flows or uneconomic production from many wells. About 20 per cent was lost from the prior year's production level. Given the energy agreements and anticipating further financial improvement, especially in Saskatchewan, we expect to return to previously established production levels during the current year. The new, higher price paid to producers for "new" oil applies not only to newly discovered reserves, but also to the oil left behind by ordinary production methods which, in the case of the heavy crudes of Lloydminster, amounts to 90 per cent or more of the original oil in place. Murphy, well-positioned with its land holdings, is among the most experienced heavy oil operators in Canada and will benefit from new additions to its oil reserves and from enhanced recovery methods.

The Company took full advantage of a temporary assistance program for the ailing oil service industry in Saskatchewan in which the provincial government reimbursed operators for 65 per cent of approved expenditures for reworking and preparing wells. The drilling fund will add $6 million to Murphy's heavy oil program which can be used to drill some 30 wells on 10 prospects in a continuing program to prove and develop our heavy oil acreage.

An important part of the Company's efforts to turn its in-situ reserves of heavy crude into producible reserves goes towards research into enhanced recovery methods. Murphy participates in three thermal recovery pilot projects, one each at Lindbergh in the south Cold Lake district of eastern Alberta, at Bodo in the Lloydminster district of eastern Alberta, and at Eyehill on the Saskatchewan side of the same region.

The steam-stimulated Lindbergh project is performing well with a 7-spot pattern. Steam flooding has recently been initiated and is now being monitored. This pilot will be expanded as results of the program warrant. To reduce the surface working area, a number of slanted holes are planned for drilling from central locations. One slanted test hole will be drilled this year to establish appropriate local drilling procedures. The thermal pilot at Bodo employs a fireflood process which is showing excellent results. The pilot consists of a 9-spot pattern of wells, and will be extended and converted to seven 7-spot patterns during 1982 and 1983.

A combination process utilizing an in-situ combustion steam-stimulation approach is being tested at Eyehill with nine 5-spot patterns. Four air injection wells have been ignited and the surrounding producing wells placed on pumps. The remaining five injection wells will be ignited early this year bringing the pilot to full use. Early results are encouraging. Economics of the project require more favorable fiscal treatment from the provincial government than was the case during the report year.

In the oil sands area of northern Alberta the Company's Calumet leases are being considered for a possible oil sands mining project by a Canadian consortium. Negotiations with the project team are currently in progress to determine whether the Company's objective can be met.

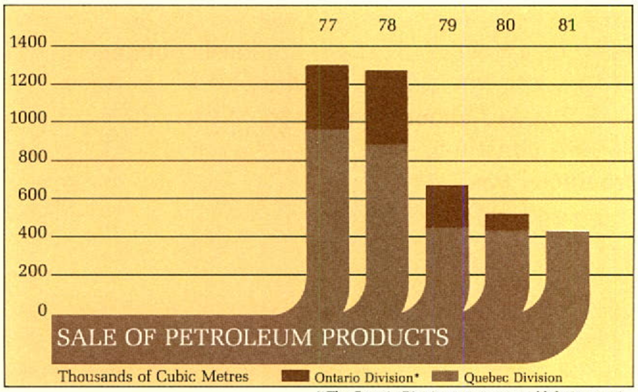
Self-serve station at ▶
Brossard in the South-
Shore area of Montreal
Island, Quebec.

MARKETING HIGHLIGHTS

The expected decline in the demand for petroleum products has been much steeper than anticipated. Canada is ending its price insulation and conservation efforts and fuel substitution programs have added their effects to the recession. The market has been plunged into an uncertain state due to a combination of these factors and also to other government programs. Among the latter, the oil import subsidy program has been a destabilizing factor from the producing to the downstream segments of the industry. Unfortunately, the long-overdue price increases have been largely taken up by additional government levies.

Yet, 1981 was a very satisfactory year for the Company. Better margins during the first two quarters complimented the Company's streamlining and efficiency efforts completed by late 1980. Expenses are being reduced by keeping inventories of heating oil in line with market demands. The total volumes sold were gratifying in view of the general market erosion during the report year, and considering that 1981 was the first full year following the sale of our Ontario marketing operations.

Most of the market decline in Quebec occurred during the latter half of the report year. Quebec demand was reduced by 8 per cent for gasoline, 12 per cent for light heating oils and 7 per cent for heavy fuels. The situation was further aggravated by the fact that adjustment in refinery runs were only about half of the actual market decrease, resulting in larger inventories and accordingly higher market pressures. This decline in demand requires a flexible adaptation to market conditions, rationalization of downstream operations and the search for export markets for spot surplus of distillates and heavy fuel as these are being rapidly displaced by natural gas and electricity. One would expect that the same government which is encouraging this substitution process will also realize the need for export markets so as to allow for an orderly transition to the changing market demands. Heavy oil upgrading facilities are being studied, but for the immediate future they cannot yet be depended upon to alleviate imbalances at the refining end.



(*The Ontario Division assets were sold during 1980)

Another immediate marketing concern is unrealistic price-cutting. Crude and operating costs are higher and margins are thin due to the deteriorating market, a development to which government pricing regulations and the onerous burden of Quebec's ad valorem tax have contributed. The contraction in demand will take place regardless of a shift in prices of a few pennies either way. While the industry is struggling to recover its costs, the direct tax on motor fuels has approached 22¢ per litre in Quebec. A reflection of Quebec's high road tax level was demonstrated in the western part of the province where our previously successful stations had lost heavily to Ontario stations frequented by motorists so as to avoid the high Quebec prices.

MARKETING REPRESENTATION

	1981	1980
Retail Outlets		
Company-owned and Leased Stations	**97**	97
Branded and Unbranded Independent Dealers	**45**	41
Total Retail Outlets	**142**	138
Wholesale and Commercial		
Tank Wagon Distributors	**65**	51
Commercial Consumers	**7**	5
Total Other Outlets	**72**	56
TOTALS	**214**	194

Average sales per controlled service station compared reasonably well with levels obtained in 1980, notwithstanding a province-wide decrease in demand of about six per cent. Although Spur stations constitute only 1.9 per cent of the provincial total, our share of the market has remained at 3.2 per cent. However, strong market pressures are anticipated during the current year.

Some of the important developments which had an impact on our performance included:

— Uneconomic properties were eliminated.

— Two controlled stations were added under long-term leases. Numerous retail stations received facelifts to attract and retain customers. As a result, the efficiency of our outlets was improved. As consumers become more demanding at a time of rising prices, we shall continue the upgrading and volume throughput of our outlets.

— Where possible we support dealers through complimentary businesses, such as convenience stores and automotive parts outlets.

— We succeeded in replacing independent dealers lost for various reasons in a highly competitive environment in which all companies are trying to hold on to or improve their market share. We have hopes of increasing our representation.

— We have shifted emphasis towards becoming predominantly a gasoline-oriented marketer as the demand for distillates and bunker fuels is expected to decline more rapidly in relation to motor fuels.

— Diesel facilities were added to many stations, bringing the total to 36 by year-end. Diesel fuel may provide the only growth area now, and also offers refineries the opportunity to replace heating oil sales.

— Increased revenues from terminal throughput agreements reduced overall operating costs per volume unit.

— General operating costs were held below levels achieved last year in spite of strong inflationary pressures in all areas of our operations.

We have faced difficult times in the past and have met the challenge. Our operations are lean and efficient and will remain so. We feel that we are in control of our business and aware of the opportunities available to alert and responsive marketers. We have the experience, resources, attitude and resolve to succeed in a rapidly changing environment, one in which the weak will not survive.

We express our gratitude to our devoted employees and to our loyal customers who have turned 1981 into a satisfactory year under very trying circumstances.

SPUR

SUPPLY AND TRANSPORTATION HIGHLIGHTS

The uncertainty experienced by the oil industry during the report year did not affect deliveries of Manito Pipelines Ltd. which transported 2 546.7 m^3/d of Lloydminster blend crude during the year compared to 2 067.5 m^3/d during 1980. The increased throughputs made it a difficult year to acquire the necessary volumes of condensate/pentanes plus used as a diluent for Lloydminster-blend crude oil. As the year closed, the Alberta Petroleum Marketing Commission informed the petroleum industry in Alberta that effective January 1, 1982 condensate/pentanes plus must be delivered to the Commission. This new direction should stabilize receipts for 1982.

Expansion of the system continued in 1981 with the construction of a 9 000-m^3 condensate tank at the Kerrobert terminal and an eight-km lateral connecting Sask Oil's producing properties near Neilburg, Saskatchewan. This line was completed during the fourth quarter of 1981.

To compliment our pipeline operations in the heavy oil area, Murphy participated in the construction of a dual 66-km condensate and heavy oil blend line between the Cactus Lake field in west central Saskatchewan and the Manito Pipeline Kerrobert terminal. The project is a joint venture of Petro Canada Exploration Inc., Gulf Canada Resources Inc., Saskatchewan Oil & Gas Corporation and Manito Pipelines Ltd. Murphy Oil Company Ltd. is a major owner of Manito Pipelines Ltd. and will be operator of the new line. To facilitate this expansion, contracts were let during the fourth quarter for automation of the Manito pipeline system.

Currently, engineering and design for additional pipeline connections in the Hazeldine and Bodo areas in Alberta are under evaluation. Construction could start as early as the third quarter of 1982 if economic and market conditions justify the capital investment.

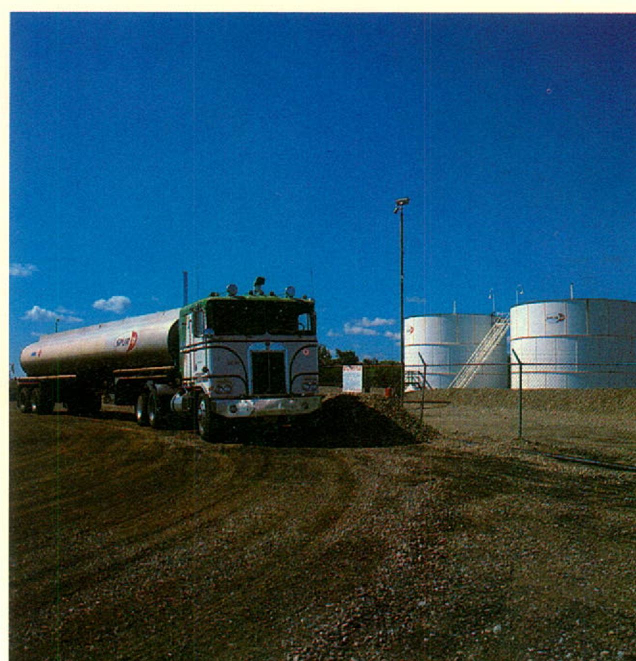
◀ Construction of Cactus Lake Pipeline in south western Saskatchewan.

Our pipeline facilities at Milk River, Alberta continued to operate at capacity. While the Wascana pipeline system was inactive throughout 1981, its terminal at Regina, Saskatchewan was under a throughput agreement with a local refiner. The agreement will remain for three additional years.

The Company's trucking and asphalt sales program for the year did not meet budget projections. The weather, a reduced provincial highways budget and the uncertainties arising from the federal-provincial disagreements were the main causes. We expect an improvement for the current year, partly from a reorganization and a new market approach.

A major impact upon our operations would result from a successful conclusion of current negotiations toward an upgrader for heavy crude in Saskatchewan. Upgrading is a necessary ingredient to cause long-term additions to heavy oil sales.

The general outlook for 1982 is favorable for all aspects of the Supply and Transportation Division.



Murphy's Milk River crude oil truck terminal serving southern Alberta.

FINANCIAL REVIEW

EARNINGS

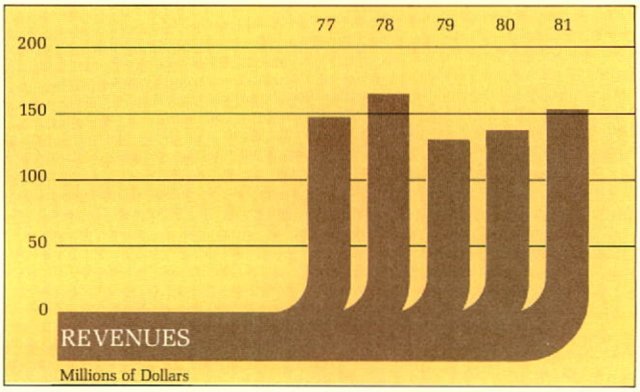
Net income for 1981 of $9,341,000, before an extraordinary item, represents an increase of 29 per cent over the comparable net income of 1980. After extraordinary items for both years, net income for 1981 was $9,941,000 and for 1980, $13,081,000. The 1981 extraordinary item of $600,000 represents a reduction of income tax resulting from marketing losses carried forward from prior years. The 1980 extraordinary item of $5,840,000 was due to a gain on the sale of Ontario marketing assets net of tax and a reduction of income tax on application of marketing losses carried forward.

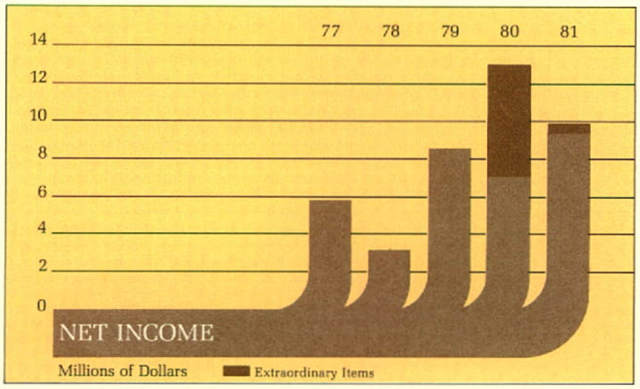
Earnings from the exploration and production segment were improved compared to the prior year. Additional revenue from price increases and lower exploratory costs were partially offset by the imposition of the Petroleum and Gas Revenue Tax and lower production volumes. Gross crude oil and natural gas liquids production averaged 1 312 m^3/d for 1981 compared to 1 575 m^3/d for 1980. The lower rate of production was due to a mandatory cutback ordered by the Province of Alberta in response to the NEP, as well as a result of lower netbacks in Saskatchewan, caused also by the NEP.

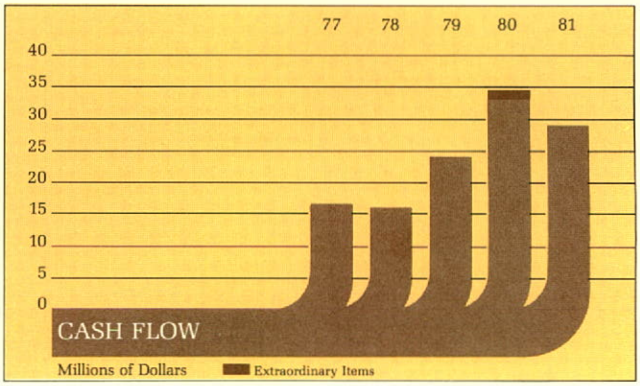
The marketing segment reported improved earnings for 1981 as compared to 1980 before extraordinary items in both years. During 1980 and 1981 this segment was successful in disposing of marginal stations and optimizing profitable outlets. Costs were significantly reduced by additional throughput agreements at Company terminals, the negotiation of more favorable terms for processing and more effective control of operating costs.

Earnings from supply and transportation were below those achieved in 1980. Primarily this was the result of lower margins and handling fees from trading of crude oil. However, this was partially offset by higher profits from pipeline operations caused by a greater throughput.

Higher taxes and interest rates increased corporate expenses compared to the previous year. Although the total debt decreased from 1980 to 1981, the sharp increase in general interest rates resulted in additional interest cost. Comparative revenues and earnings by segment are detailed in Note 10 to the financial statements.







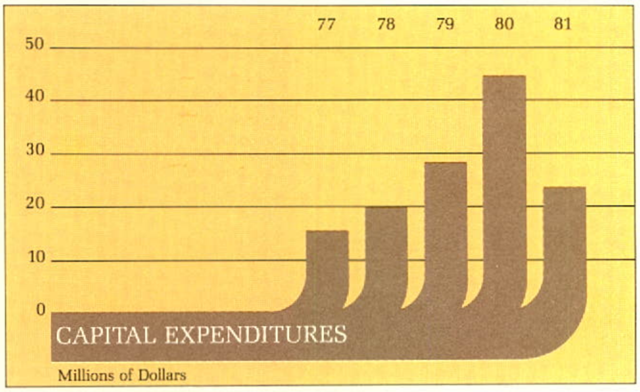
FINANCIAL POSITION

Funds provided from operations during 1981 were less than the prior year primarily due to the adverse effects of the NEP and higher current taxes and interest expense. This necessitated a significant reduction in capital expenditures for 1981. Total capital expenditures of $23,410,000 were 53 per cent of the amount expended during 1980.

Long-term debt at December 31, 1981 was $35,156,000. This was a reduction from the end of the prior year of $9,107,000.

During the year the Company received a favorable ruling from the Supreme Court of Canada regarding an income tax assessment by federal and provincial tax authorities for the years 1970 through 1976. As a result, a tax deposit of $9.1 million was reclassified on the 1981 Consolidated Balance Sheet to current assets.

Working capital at December 31, 1981 was $18,702,000 and reflects an increase of $7,304,000 from the end of the prior year.



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Murphy Oil Company Ltd. as at December 31, 1981 and 1980 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 31,1981 and 1980 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 11, 1982

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31, 1981 and 1980
(thousands of dollars)

	1981	1980
REVENUES		
Sales and operating revenues	$146,546	133,267
Interest and other income	5,493	571
Total revenues	152,039	133,838
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	96,465	86,917
Petroleum and gas revenue tax	4,144	—
Exploration costs including amortization of undeveloped leaseholds	7,628	12,208
Selling, general and administrative	8,645	7,303
Interest on long-term debt	5,603	4,166
Interest — other	2,677	1,464
Depreciation and amortization	4,512	4,630
Depletion	3,849	3,138
Total costs and deductions	133,523	119,826
Earnings Before Income Taxes and Extraordinary Items	18,516	14,012
INCOME TAXES		
Current	6,257	(238)
Deferred	2,918	7,009
	9,175	6,771
Earnings Before Extraordinary Items	9,341	7,241
Extraordinary items	600	5,840
NET EARNINGS	$ 9,941	13,081
Earnings per share		
Earnings before extraordinary items	$1.48	1.15
Extraordinary items	.10	.93
Net earnings	$1.58	2.08

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1981 and 1980
(thousands of dollars)

	1981	1980
Retained earnings, beginning of year	$ 76,436	46,669
Transfer from contributed surplus	—	16,686
Net earnings	9,941	13,081
Retained earnings, end of year	$ 86,377	76,436

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 31, 1981 and 1980

(thousands of dollars)

	1981	1980
ASSETS		
Current assets		
Cash and short-term deposits	**$ 11,100**	2,429
Accounts receivable	**36,700**	39,798
Due from parent company	**6,375**	4,309
Inventories	**29,230**	22,121
Deferred income taxes	**3,235**	1,137
Total current assets	**86,640**	69,794
Property, plant and equipment — net	**129,127**	120,947
Other assets — at cost	**3,727**	12,519
	$219,494	203,260
LIABILITIES		
Current liabilities		
Bank loans	**$ 17,500**	7,000
Notes payable	**—**	10,000
Accounts payable and accrued liabilities	**34,548**	33,119
Income and other taxes payable	**10,865**	3,254
Current portion of long-term debt	**5,025**	5,023
Total current liabilities	**67,938**	58,396
Long-term debt	**30,131**	39,240
Deferred credits		
Deferred income taxes	**26,697**	22,281
Other	**4,881**	3,732
Total deferred credits	**31,578**	26,013
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 6,284,319 shares; 1980 — 6,275,572 shares	**3,470**	3,175
Retained earnings	**86,377**	76,436
Total shareholders' equity	**89,847**	79,611
	$219,494	203,260

Approved on behalf of the Board of Directors

Director

Director

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1981 and 1980
(thousands of dollars)

	1981	1980
FUNDS PROVIDED		
From operations	$ 28,783	34,108
Proceeds from sale of property, plant and equipment	804	5,645
Increase in other deferred credits	1,149	1,946
Increase in long-term debt	10,916	27,500
Issue of common shares	295	38
Total funds provided	41,947	69,237
FUNDS APPLIED		
Capital additions		
Oil and gas properties	15,322	32,803
Exploration	2,973	8,147
Supply and transportation	3,759	1,501
Marketing	1,356	1,577
Retirement of long-term debt	20,025	8,746
Increase (decrease) in other assets	(8,792)	8,725
Total funds applied	34,643	61,499
INCREASE IN WORKING CAPITAL	7,304	7,738
Working capital, beginning of year	11,398	3,660
Working capital, end of year	$ 18,702	11,398

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1981 and 1980

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 from provincial governments, relative to exploration activities, are accounted for as a reduction of capital expenditures.

g) Earnings per common share

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) Retained earnings

Retained earnings include contributed surplus of $16,686,000.

2. INVENTORIES

	1981	1980
	(thousands of dollars)	
Finished products	**$18,358**	14,376
Crude oil	**9,625**	6,237
Other	**1,247**	1,508
	$29,230	22,121

3. PROPERTY, PLANT AND EQUIPMENT

		December 31, 1981			
		Allowance for			
	Cost	Depreciation	Depletion	Amortization	Net Book Value
		(thousands of dollars)			
Developed oil and gas properties	$135,937	15,354	33,302	—	87,281
Undeveloped oil and gas properties	25,368	—	—	10,556	14,812
Marketing properties	25,275	9,531	—	—	15,744
Pipelines	11,117	2,779	—	—	8,338
Other properties	4,239	1,287	—	—	2,952
	$201,936	28,951	33,302	10,556	129,127

		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

4. LONG-TERM DEBT

	1981	1980
	(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 1/4 per cent. Although the loan is payable on demand, the bank has agreed to accept annual payments of $5,000,000	**$ 35,000**	24,084
Notes payable, bearing various rates of interest. During 1981 the rates ranged from 14.5 per cent to 22.65 per cent.	—	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	**156**	179
	35,156	44,263
Less current portion	**5,025**	5,023
	$ 30,131	39,240

5. INCOME TAXES

The total income taxes charged to earnings of $9,175,000 in 1981 and $6,771,000 in 1980 resulted in an effective rate of 50 per cent and 48 per cent respectively. These totals are different from the amount of $9,220,000 in 1981 and $7,007,000 in 1980 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:

	1981	1980
	(thousands of dollars)	
Computed "expected" tax expense	$ 9,220	7,007
Additions to income taxes resulting from		
Royalties, lease rentals and mineral taxes payable to the Crown, net of provincial rebates	7,642	8,756
Petroleum and Gas Revenue Tax	2,110	—
Other	—	749
	18,972	16,512
Reductions in income taxes resulting from		
Resource allowance on Canadian production income	6,327	6,401
Earned depletion on Canadian production income	3,399	2,468
Government incentives	—	872
Other	71	—
	$ 9,175	6,771

The Company's wholly owned subsidiary, Spur Oil Ltd., has received advice from Canadian income tax authorities of their agreement to consent judgments in favor of the subsidiary with respect to all income taxes in dispute for the tax years 1971 to 1976 inclusive. In late September, 1981, the subsidiary had received final judgment in its favor on its appeal to the Federal Court of Appeals in respect to the 1970 tax year. Taxes involved, aggregating approximately $9,100,000 and accrued interest of approximately $4,400,000, had never been charged against the subsidiary earnings in the Company's financial statements. A deposit of the tax amount had been placed with the appropriate tax authorities and was reported as "Other Assets" on the Balance Sheet at December 31, 1980. As a result of the favorable judgment, the tax deposit has been reclassified on the Balance Sheet as "Accounts Receivable" along with the interest earned on the deposit.

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, 1981, the following options, excercisable in the 10 year period ending February 16, 1990, were outstanding.

	1981	1980
Common shares at an exercise price of $16.00	21,660	37,860
Common shares at an exercise price of $27.50	14,260	17,600
Common shares at an exercise price of $29.00	16,200	—
Common shares at an exercise price of $31.50	1,500	1,500
Common shares at an exercise price of $36.00	5,000	—
	58,620	56,960

During the 1981 year options to purchase 26,000 shares were granted, 13,180 forfeited and options to purchase 11,160 shares were exercised. The net number of shares issued relating to the exercised options was 8,747 shares (gross 11,160 shares) valued to the Company at $295,269. For 1980 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

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 $618,000 to $55,000. In addition, the leases provide that the Company is responsible for the payment of property taxes, insurance and certain other charges.

8. RELATED PARTY TRANSACTIONS

Included in sales and operating revenues of $146,546,000 in 1981 and $133,267,000 in 1980 are handling charges for refinery feedstock amounting to $333,000 in 1981 and $374,000 in 1980 representing amounts charged to Murphy Oil Corporation.

9. EXTRAORDINARY ITEMS

	1981	1980
Recognition of tax benefits of prior years' losses carried forward	**$600,000**	3,978,000
Gain on the sale of Ontario marketing properties net of income taxes of $902,000	**—**	1,862,000
	$600,000	5,840,000

10. SEGMENT DATA

The Company operations are entirely within Canada. The exploration and production operations are primarily in the western provinces while marketing operations are primarily in the province of Quebec. Although supply and transportation operations are primarily in the western provinces, these operations provide the connecting link between the production of crude oil in the west and the supply of crude oil in Quebec for processing.

The following tables of revenues and earnings are presented with intersegment transfers eliminated to reflect revenues and earnings as reported in the consolidated statements of earnings.

REVENUES
(thousands of dollars)

	1981	**% of Total**	1980	% of Total
Crude oil, natural gas and natural gas liquids	**$ 52,502**	**35**	49,141	37
Petroleum products	**91,538**	**60**	80,908	60
Supply and transportation	**2,506**	**2**	3,218	2
Other revenue	**5,493**	**3**	571	1
Total revenue	**$152,039**	**100**	133,838	100

EARNINGS before extraordinary items
(thousands of dollars)

	1981	1980	Increase (Decrease)	%
Exploration and production	$ 20,122	14,594	5,528	38
Marketing	5,555	4,707	848	18
Supply and transportation	276	1,057	(781)	(74)
Gross income	25,953	20,358	5,595	27
Unallocated expenses				
General and administrative	1,021	754	267	35
Interest — net	6,416	5,592	824	15
Income tax	9,175	6,771	2,404	36
Net earnings before extraordinary items	$ 9,341	7,241	2,100	29

DEPLETION, DEPRECIATION AND AMORTIZATION DEDUCTED IN ARRIVING AT GROSS INCOME
(thousands of dollars)

	1981	1980
Exploration and production	$ 9,445	8,120
Marketing	1,482	1,659
Supply and transportation	491	345
Other	468	486
	$ 11,886	10,610

ASSETS (thousands of dollars)

	1981	1980
Exploration and production	$116,255	117,667
Marketing	56,679	50,485
Supply and transportation	35,460	32,679
Other	11,100	2,429
	$219,494	203,260

CAPITAL EXPENDITURES (thousands of dollars)

	1981	1980
Exploration and production	$ 18,295	40,950
Marketing	1,356	1,577
Supply and transportation	3,759	1,501
	$ 23,410	44,028

FIVE YEAR STATISTICAL SUMMARY

(In thousands of dollars except per share amounts)

FINANCIAL

	1981	1980	1979	1978	1977
Revenues					
Oil and gas sales	**$ 52,502**	49,141	40,424	35,766	30,622
Petroleum products sales	**91,538**	80,908	85,899	126,073	115,137
Supply and transportation	**2,506**	3,218	2,394	1,950	1,515
Other revenue	**5,493**	571	798	613	852
Total revenues	**152,039**	133,838	129,515	164,402	148,126
Earnings before extraordinary items	**9,341**	7,241	8,183	3,139	5,589
Earnings per share before extraordinary items	**1.48**	1.15	1.30	.50	.89
Extraordinary items	**600**	5,840	—	—	—
Net earnings**	**9,941**	13,081	8,183	3,139	5,589
Net earnings per share	**1.58**	2.08	1.30	.50	.89
Cash flow	**28,783**	34,108	24,597	15,755	16,040
Cash flow per share	**4.58**	5.44	3.92	2.51	2.56
Capital expenditures					
Production and exploration	**18,295**	40,950	25,475	15,427	12,619
Marketing	**1,356**	1,577	1,490	3,375	2,548
Supply and transportation	**3,759**	1,501	1,329	276	405
Total capital expenditures	**23,410**	44,028	28,294	19,078	15,572
Working capital*	**18,702**	11,398	3,660	8,614	15,327
Total assets*	**219,494**	203,260	157,689	140,598	149,680
Long-term debt*	**35,156**	44,263	25,539	30,646	35,000

SHAREHOLDERS AND EMPLOYEES

	1981	1980	1979	1978	1977
Number of common shares outstanding*	**6,284,319**	6,275,572	6,274,354	6,274,354	6,274,354
Number of shareholders*					
Common	**1,407**	1,439	1,429	1,566	1,565
Preferred	—	—	—	—	—
Number of employees*	**276**	264	276	296	326
Salaries, wages and benefits	**$ 8,191**	7,201	6,546	6,462	5,764

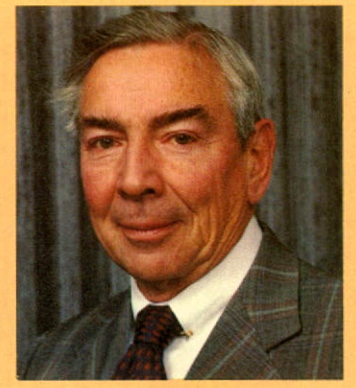
OPERATING

	1981	1980	1979	1978	1977
Gross crude oil and gas liquids produced (thousands of cubic metres)	**479**	577	552	545	562
Net crude oil and gas liquids produced (thousands of cubic metres)	**322**	375	358	354	362
Gross natural gas produced (millions of cubic metres)	**230**	239	271	291	286
Net natural gas produced (millions of cubic metres)	**176**	176	203	210	206
Net oil and gas wells owned*	**965**	930	868	800	751
Net undeveloped acreage* (thousands of hectares)	**290**	385	1 053	1 183	1 192
Gross proven oil and gas liquid reserves* (millions of cubic metres)	**5.0**	5.4	6.0	6.4	6.5
Net proven oil and gas liquid reserves* (millions of cubic metres)	**3.3**	3.5	3.8	4.0	4.1
Gross proven natural gas reserves* (billions of cubic metres)	**7.7**	7.8	9.1	7.4	7.0
Net proven natural gas reserves* (billions of cubic metres)	**5.8**	5.9	6.7	5.5	5.2
Crude processed at other refineries (thousands of cubic metres)	**432**	490	624	978	1 192
Petroleum products sold (thousands of cubic metres)					
Gasoline	**247**	316	421	610	630
Distillate	**112**	134	182	486	466
Residuals	**55**	59	72	158	206
Total petroleum products sold	**414**	509	675	1 254	1 302
Retail outlets*					
Leased and owned	**97**	97	135	149	162
Other	**45**	41	123	149	228

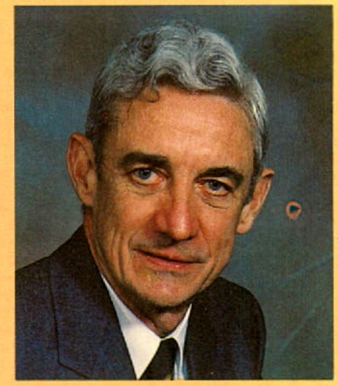
* Year-end

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

ROBERT G. FARQUHARSON

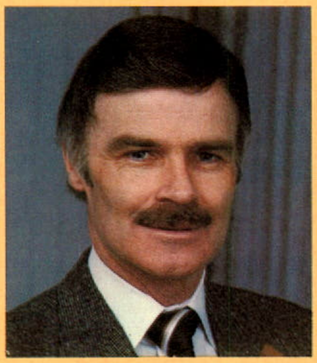


F. RICHARD MATTHEWS, Q.C.

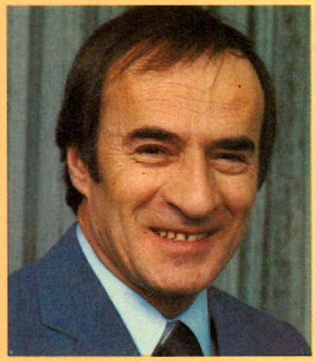


ROBERT J. SWEENEY

LORNE C. WEBSTER



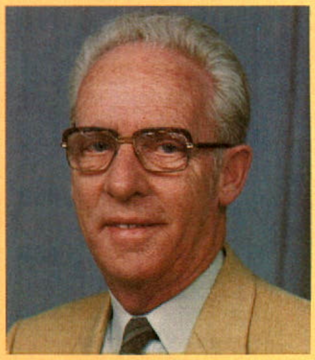
ROBERT T. McLEAN



NICK Di TOMASO

LEONARD E. PASYCHNY

MURPHY



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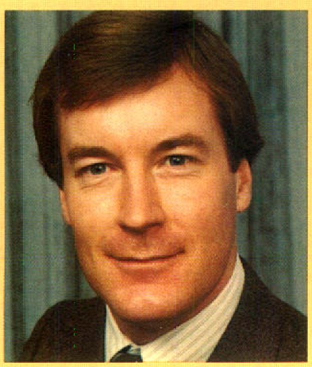

ALLAN K. MURRAY

DIRECTORS

ROBERT G. FARQUHARSON
President & Chief Executive Officer
Murphy Oil Company Ltd.
Calgary, Alberta
Board Member Since April, 1981

F. RICHARD MATTHEWS, Q.C.
Secretary, Murphy Oil Company Ltd.
Partner in MacKimmie Matthews
Barristers, Solicitors and Notaries
Calgary, Alberta
Board Member Since October, 1961

ROBERT J. SWEENEY
President & Chief Operating Officer
Murphy Oil Corporation
El Dorado, Arkansas
Board Member Since January, 1973

LORNE C. WEBSTER
Chairman of the Board
& Chief Executive Officer
Prenor Group Ltd.
Montreal, Quebec
Board Member Since July, 1976

GEORGE S. DEMBROSKI
Vice-Chairman
Dominion Securities Ames Limited
Toronto, Ontario
Board Member Since May, 1977

GLENN M. FEDDERSON
Vice-President, Production & Exploration
Murphy Oil Corporation
El Dorado, Arkansas
Board Member Since May, 1980

OFFICERS & EXECUTIVE STAFF

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President & Chief Executive Officer

ROBERT T. McLEAN
Vice-President, Production

NICK Di TOMASO
Vice-President, Marketing

LEONARD E. PASYCHNY
Vice-President,
Supply & Transportation

ERNEST S. SPURGEON
Vice-President, Exploration

F. RICHARD MATTHEWS, Q.C.
Secretary

JOHN A. GOULD
Vice-President and Treasurer

DONALD R. CRAIG
Vice-President and Controller

VERA N. POULOS
Executive Assistant

ALLAN K. MURRAY
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