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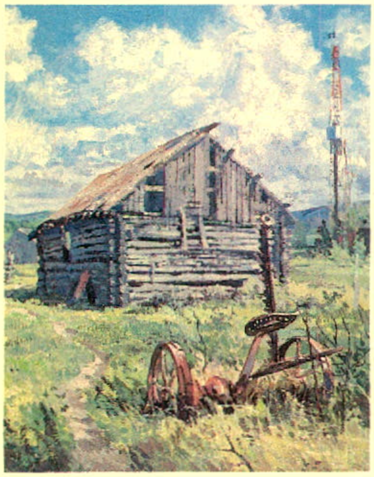
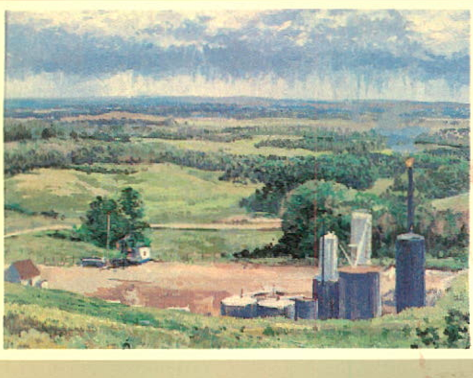


# MURPHY OIL COMPANY LTD.

## 1982 ANNUAL REPORT



# MURPHY
## OIL COMPANY LTD.

# ANNUAL REPORT 1982

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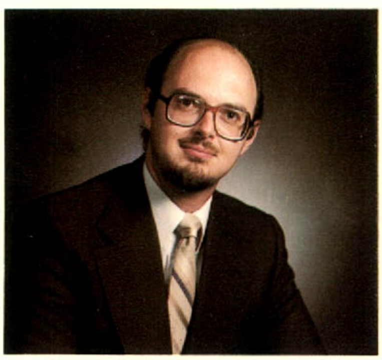


PETER ETRIL SNYDER

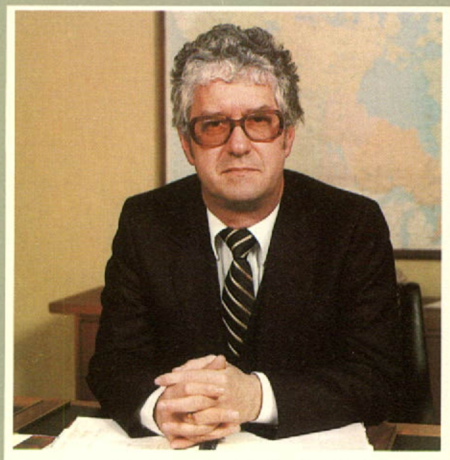
The paintings featured on the cover and throughout the Annual Report are the creations of Mr. Peter Etril Snyder who was commissioned by the Company in 1982 to paint these central Alberta scenes. His paintings and limited edition prints have found their way around the world into private collections, professional offices and many corporations.

# HIGHLIGHTS

| | 1982 | 1981 |
|---|---|---|
| | (In thousands of dollars except per share amounts) | |
| **FINANCIAL** | | |
| Revenues | **$190,482** | 152,039 |
| Net Income Before Extraordinary Items | **15,224** | 9,341 |
| Per Share | **2.42** | 1.48 |
| Net Income After Extraordinary Items | **15,224** | 9,941 |
| Per Share | **2.42** | 1.58 |
| Cash Flow | **42,595** | 28,783 |
| Per Share | **6.78** | 4.58 |
| Capital Expenditures | **38,498** | 23,410 |
| Working Capital* | **11,646** | 18,702 |
| Total Assets* | **250,675** | 219,494 |
| Shareholders' Equity* | **103,844** | 89,847 |
| **OPERATING** | | |
| Gross Crude Oil and Gas Liquids Produced (cubic metres per day) | **1 380** | 1 312 |
| Net Crude Oil and Gas Liquids Produced (cubic metres per day) | **976** | 880 |
| Gross Gas Sold (thousands of cubic metres per day) | **597** | 631 |
| Net Gas Sold (thousands of cubic metres per day) | **468** | 482 |
| Crude Processed (cubic metres per day) | **1 099** | 1 183 |
| Petroleum Products Sold (cubic metres per day) | **1 145** | 1 135 |

* Year-end

## LETTER TO THE SHAREHOLDERS



ROBERT G. FARQUHARSON
President and Chief Executive Officer

Before reflecting on favorable results achieved by Murphy during 1982, one should consider the economic climate affecting the industry and the Canadian economy for the year. During the first half of 1982, the detrimental effects of the National Energy Program (NEP) became painfully clear. The federal government's own watchdog on the oil industry, the Petroleum Monitoring Agency, documented that within this period income before income taxes had dropped 44 per cent and net income 54 per cent compared to the same period the year before.

On the other hand non-income taxes and royalties were up 13 per cent, operating costs 22 per cent and interest charges more than 100 per cent. Put another way, government income rose while the industry providing this income suffered alarming losses at a time when operating and finance costs had also increased substantially. Heavy front-end taxation at the wellhead sapped the ability of the oil industry to finance its efforts to replace production and add to Canada's petroleum reserves. Offered incentives, which partially offset this confiscation of profits, do not necessarily encourage sound geological evaluation. Neither the taxation nor the incentives reveal much understanding of the profitability of oil exploration and development.

Given the stated intent of the NEP to channel investment into oil exploration and development and to encourage an increasing presence of Canadian-owned firms in these activities, it must have been revealing to governments that investment by the oil industry declined for the first time in many years. The drop in profits of Canadian-owned firms was more severe than the regrettable, yet manageable, decline of profits for largely foreign-owned companies.

Into the bleak first half of the report year fell also the cancellation of mega-projects which were needed to contribute to economic recovery. As hopes for the job and capital intensive mega-projects evaporated and while the conventional oil industry in the traditional producing region of western Canada showed the full effects of the NEP, governments began to react. It is a process which is continuing as governments are beginning to realize the increasing need for job stimulation and an active oil industry during this time of high national unemployment and decreasing government revenues from its traditional sources of taxation.

In April, Alberta provided a welcome four-year tax relief and limited short-term incentives to stop an alarming decline of oil industry activity in the province. Activity had reached such a low level that the continuing viability of many oil and service companies seemed in doubt. A much smaller amount of tax relief was granted by the federal government the following month. Positive changes in government attitude occurred in Saskatchewan after a mid-year provincial election.

Equally important is the fact that the Alberta government, the Canadian Petroleum Association and the Independent Petroleum Association of Canada have jointly formulated a position paper on gas exports which has found a willing ear in Ottawa. This sense of joint purpose has been boosted by the decision of the National Energy Board (NEB) recognizing that Canada has an impressive surplus of 17.5 trillion $m^3$ of natural gas of which about two-thirds have been declared available for export, pending cabinet approval. The problem however is one of opening new markets for this surplus gas in the United States through a process that unfortunately will take time. Consequently, Murphy is aggressively promoting direct sales in the Canadian market.

Another hopeful sign of better government appreciation of market realities was an order by the NEB to grant export licences for heavy crudes for one-year terms. Still needed however is a translation of this understanding into effective policy. An NEB advisement issued this year for the possible export of light and medium gravity oils recognizes, to some extent, the uncertainty of domestic oil markets which threatens to reduce production and therefore cash flow needed for new investment.

The importance of the retrenchment from over-taxation, even if it is still insufficient to return industry activity to pre-NEP levels, and of the new purposeful attitude towards additional exports of oil and natural gas lies in the greater realism it reflects. Activity levels during the latter half of the report year had increased somewhat, but still left the industry's overall year-end results poor. Drilling activity for the year was 22 per cent lower than the previous year which had already seen a similar decline. With lower interest rates and higher oil and natural gas prices by year-end, the outlook for the first half of 1983 is for a gradual improvement in the oil sector provided international influences do not infringe on company profits through price rollbacks.

It would appear that, as the basic assumptions about future oil and gas prices in the world are changing, the energy pricing agreements between Ottawa and the producing provinces, built upon these assumptions, will also have to undergo fundamental changes. The curve of decreed increases for the price of so-called "old oil" and the curve depicted by declining world oil prices are surely to intersect shortly. This event should logically result in an open market which will let oil and gas find their own price levels according to demand. This would do away with the need for programs such as import compensation which have had an undesirable effect on domestic production and national finances.

Against the discouraging performance overall of the Canadian oil industry during the report year, Murphy has shown outstanding results. All Company departments contributed to record profits and cash generated from operations, both increasing approximately 50 per cent from the year before. At a time when many companies were scrambling merely to survive, Murphy pursued a vigorous investment program 64 per cent above the previous year with 91 per cent of that investment directed to exploration and production projects.

Murphy is presently emphasizing exploration aimed at new oil prospects with high reserve potential rather than clinging to the fringes of known and overpriced productive trends. As a consequence, Murphy maintained an ongoing program of highgrading Company lands while actively buying new acreage selected by its strengthened Exploration Department. Murphy was, in fact, among the top 10 buyers at Crown land sales during 1982. In addition, the Company is taking advantage of farmins which are now available from competitors less able or willing to engage in active drilling programs.

Recognizing that in the future western Canadian deposits of heavy crude will gain increasing importance against a background of rapidly decreasing conventional oil reserves, Murphy has directed nearly half of its drilling activity to the expansion and delineation of heavy oil reserves under Company lands. Drilling aimed at conventional oil was scattered throughout western Canada and led to significant new light and medium crude reserves, largely in Alberta. Favorably modified royalties and taxes in Saskatchewan, brought in by the newly elected government, improved the economics of drilling in that province. Murphy has increased its Saskatchewan activity accordingly. In southwest Manitoba, two oil wells were completed near the shallow Waskada oil play.

In the eastern offshore, Murphy participated with a five-per-cent interest in the Canterra et al Raleigh wildcat located 26 kilometres northeast of an earlier gas discovery on Company lands in Davis Strait. The targeted sands were found unproductive. The

Company considers the East Coast to be the most likely among the frontier areas to offer economic potential over the long term. With this in mind, Murphy is staying abreast of developments in the eastern offshore.

In summary, Murphy participated in 156 wells, up from 126 the previous year. On a net-well basis, drilling activity was increased by 47 per cent over 1981 to 65 wells with an 85 per cent success ratio. Murphy investment in exploration almost doubled in 1982 to $15.8 million. We expect the trend toward lower taxes and royalties will not be interrupted and that industry-wide improvement in exploration spending, including our own, can be maintained. This will lead to development of additional oil and gas reserves so that Canada will eventually lessen its dependence on oil imports while exports of natural gas will hopefully increase.

Active exploration and development drilling, along with a reduction of provincial royalties, contributed to an increase in net oil and natural gas liquids reserves for the first time in eight years. This more than replaced production which was up by over 10 per cent. Improved markets for light and medium crude and new completions contributed to our increased oil production. Better economics for heavy oil allowed the reactivation of low-productivity wells in Saskatchewan and Alberta. New drilling replaced production and added marginally to natural gas reserves of the Company. Gas production however declined by almost five per cent as many producers were affected by an uneven distribution of gas sales through area contracts, despite a small increase in overall demand during the year. The Alberta government is currently reviewing this situation.

The Supply and Transportation Department of the Company managed the expansion of the Manito pipeline system adding automation and tankage and tieing in new facilities. Application to the NEB led to approval of tariff increases effective January 1, 1983. Trucking operations doubled their contribution to Company revenues as a result of organizational and marketing changes. The addition of such services offers new sources of revenues to Murphy.

Demand in the Quebec market for refined products declined by almost 15 per cent in 1982, resulting in the closure of refineries. Against fierce competition, Murphy was able to maintain its historic market share. Satisfactory margins were sustained under highly competitive conditions by concentrating on operating standards and service.

Murphy is pleased with the results of its operations during the report year. The Company will take advantage of its strong financial position and again direct its capital program largely toward exploration and production. Plays for conventional oil will receive priority while gas exploration will be expanded as new domestic markets are developed. Murphy continues to favor enlarging its asset base in the heavy oil area as a safe investment in large future oil reserve potential whose exploitation requires technical expertise for which we are well equipped. Major investments in new pipeline extensions are being considered.

The management of Murphy approaches the new year with confidence. The challenge to maintain markets in the face of price uncertainty is somewhat offset by small but clear signs of a trend to a slow recovery of the economy. Governments must reinforce this recovery with policies that will allow our industry to grow and contribute to the economy.

R. G. Farquharson

ROBERT G. FARQUHARSON
President and Chief Executive Officer

March 18, 1983
Calgary, Alberta

# EXPLORATION HIGHLIGHTS

## DRILLING

Murphy's participation in 156 gross wells in western Canada, compared to only 30 less in 1981, must be gauged against the general decline of drilling activity experienced by industry during 1982. Industry-wide exploration drilling dropped by 22 per cent, after the same drop in 1981, back to a level reached in 1976.

It must be hoped that governments will maintain the temporary reduction of much-too-high wellhead taxation. Also necessary is a sufficient response to the need for improved production income should world oil prices soften to the level which would make the 75-per-cent ceiling on old domestic production unrealistic. The governments have the basic choice of either lifting all ceilings on domestic oil prices or reducing their share of production revenue. The end result must remain the same, namely that producer income not be reduced but be improved over present returns.

Working interests were carried in 156 wells representing a net 64.9 wells to Murphy while at the same time maintaining an overriding royalty (ORR) in six additional wells. This compared to 1981-working-interest drilling of 126 wells (44.3 net wells) and 19 ORR wells. Eighty-five per cent of the net-working-interest wells were producers as compared to 78 per cent for 1981. Of the exploratory wells 59 per cent were cased for production compared with 47 per cent the previous year. Development locations increased from 88 gross or 31.1 net wells in 1981 to 112 gross or 45.6 net wells in 1982 with cased well percentage increasing from 91 per cent to 96 per cent.

Geographically, Murphy participated in 131 gross or 53.4 net wells in Alberta, 16 gross or 7.2 net wells in Saskatchewan, three gross or 0.6 net wells in British Columbia, two gross or two net wells in Ontario, one gross or 0.05 net wells in the Canadian Frontier and three gross or 1.7 net wells in Manitoba. By category, 85 gross (37.6 net) heavy oil wells, seven gross (5.9 net) shallow gas wells and 64 gross (21.4 net) conventional oil wells were drilled during the year.

During the past year, Murphy has restructured its exploration program to take a more aggressive approach towards financially promising wildcat plays for new oil. Murphy's exploratory drilling program for conventional oil came to 44 gross wells (38 in 1981) or 19.3 net wells (13.1 in 1981). Murphy's total net drilling activity increased by 47 per cent. Selected targets range from reef occurrences in central and northern Alberta, Devonian carbonate and sand plays fringing the Peace River Arch, Cretaceous channel sands to Jurassic sands in southern Alberta and to carbonate subcrop and overlying sand plays in southeastern Saskatchewan and southwestern Manitoba. A total of 85 wells were directed at evaluating and enlarging Murphy's stake in the heavy oil regions of Alberta and Saskatchewan.

### Alberta

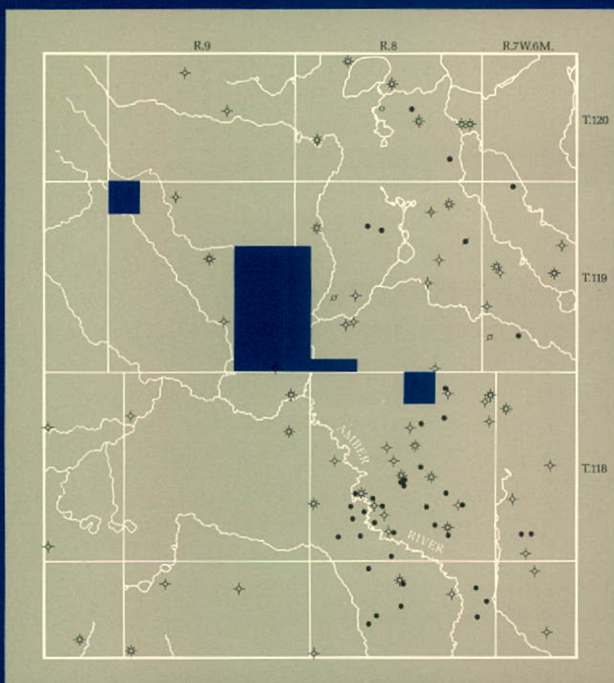
In southern Alberta a relatively high level of exploration drilling activity was maintained to test Cretaceous and Jurassic oil prospects. In this area the Company participated in 22 gross exploratory tests on widely distributed prospects. Of this total, four of the working-interest wells were cased as gas wells, nine as oil discoveries and one was cased as a dual oil and gas well. One of the most significant areas of attractive new oil reserves was found in the Buck Lake area where initial successful drilling of a Viking channel-sand prospect was followed by equally successful development drilling. In total nine wells were drilled and eight were cased as Viking oil wells with pays ranging up to 18 metres. Interesting new oil prospects were also encountered at Sylvan Lake in a Jurassic sandstone play, where three wells were cased, and in Cretaceous sandstone plays at Westerose, Princess and Grand Forks.

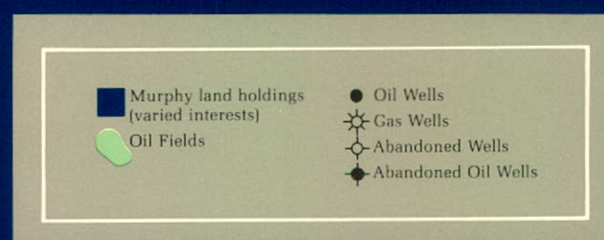
In addition three exploration tests were drilled at no cost to the Company in which Murphy retained a gross overriding royalty on future production. One of these wells was cased as a potential oil well. Areas of major land acquisitions were the Skiff, McGregor and Gilby areas, where a total of 4 237 net hectares of Crown lands were acquired.

In the shallow-gas area of northeastern Alberta where drilling was supported by the Drilling Fund, two wells were drilled and cased for gas at Heart Lake. During 1982, one of the most active areas for exploration in Alberta was the Golden-Red Earth area where multi-zone prospects for new oil exist. Here some 50 licences totalling approximately 100 000 hectares were purchased by the industry. Murphy was successful in acquiring 3 755 net

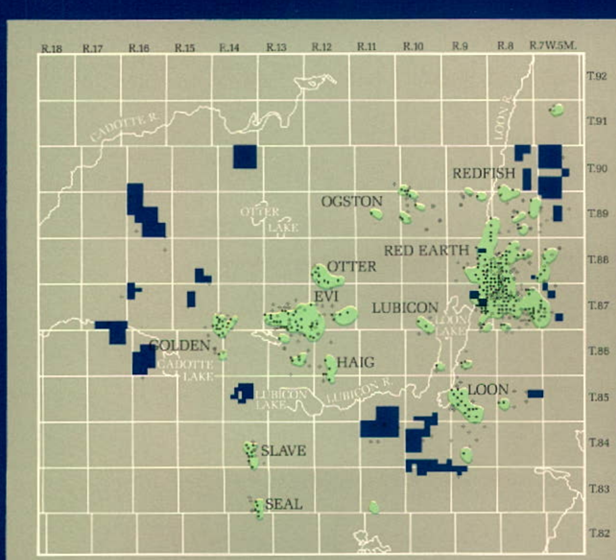
# ALBERTA ACTIVITIES

### SHEKILIE AREA

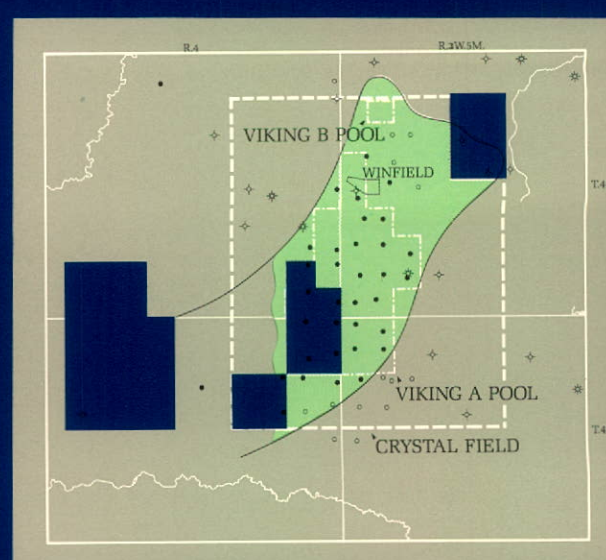



### GOLDEN-RED EARTH AREA




### BUCK LAKE AREA



hectares at Golden and 608 net hectares in the Red Earth area for potential oil prospects. Some of Murphy's first-quarter 1983 drilling will earn an additional 1 018 net hectares in this prospective area and further evaluations are ongoing. In this prospect Murphy will participate in the drilling of four wells some of which are currently under way.

Within the northern portion of the province in the oil prone Keg River pinnacle reef area of Shekilie, Murphy acquired a 20-per-cent working interest in a 2 752-hectare licence and a 50-per-cent interest in two other sections. Murphy will also be participating in seismic early in the first quarter of 1983 with the expectation of participating in the drilling of up to two wells in the Shekilie area later in the year. In the Rainbow area one well was drilled in late 1982 to test for Keg River oil potential but was subsequently cased for shallow gas after failing to encounter hydrocarbons at that depth. In addition, during 1983 Murphy will also head up a four-company group to explore on a regional basis for new Keg River oil reservoirs in the northernmost portion of the province.

**British Columbia**

In light of the poor economic returns in British Columbia, Murphy's exploration program was sharply curtailed during 1982. The Company participated in only three exploration wells in the province, two of which were cased, one for gas and the second for oil. This latter well is currently undergoing production testing and additional drilling in this area will depend on favorable results.

**Saskatchewan and Manitoba**

With the change in the Saskatchewan government and subsequent royalty and tax changes, Murphy has reevaluated its prospects in the Williston Basin on currently-held acreage and anticipates drilling in 1983.

In southwestern Manitoba Murphy has drilled three exploratory tests, two of which have been cased for oil potential in the Mississippian Amaranth formations. Extensive drilling by the industry in the Waskada area has extended the play close to Murphy's Dalny acreage. An additional 293 net hectares were acquired at land sales and 258 net hectares by farmin in the Gainsborough area where we have the option to earn a further 300 net hectares. Further drilling is anticipated by Murphy in Manitoba during 1983.

**Baffin-Labrador Area**

Murphy participated for its five-per-cent interest in the Canterra et al Ralegh N-18, a rank exploratory well located in Davis Strait. This well was drilled in 350 metres of water by the dynamically-positioned drillship "Petrel", located 85 kilometres east of Baffin Island and 26 kilometres northeast of the Aquitaine et al Hekja O-71 wet-gas discovery drilled in 1979 and 1980. The N-18 test was spudded on August 1 and abandoned on October 3, 1982 after having been drilled to a total depth of 3 858 metres. The sand which is gas bearing at Hekja was penetrated but found to be water bearing. Future activity in the area will depend on the final analysis of the results of the wells drilled to date and other exploration programs conducted in the area. This includes 1 754 kilometres of marine seismic that was shot in August 1982, but has yet to be interpreted.

The Exploration Agreement negotiated with Canadian Oil and Gas Land Administration on 480 336 hectares, in which the Company has an interest, calls for the dropping of portions of lands at specified times and an ongoing exploration program. This requires continued assessment of these lands.

**WORKING INTEREST DRILLING RECORD**

| | 1982 | | 1981 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Oil Wells Completed | **101** | **44.3** | 66 | 19.6 |
| Gas Wells Completed | **22** | **10.6** | 26 | 14.5 |
| Dry Holes | **29** | **9.5** | 30 | 9.9 |
| Other | **4** | **.5** | 4 | .3 |
| Total | **156** | **64.9** | 126 | 44.3 |

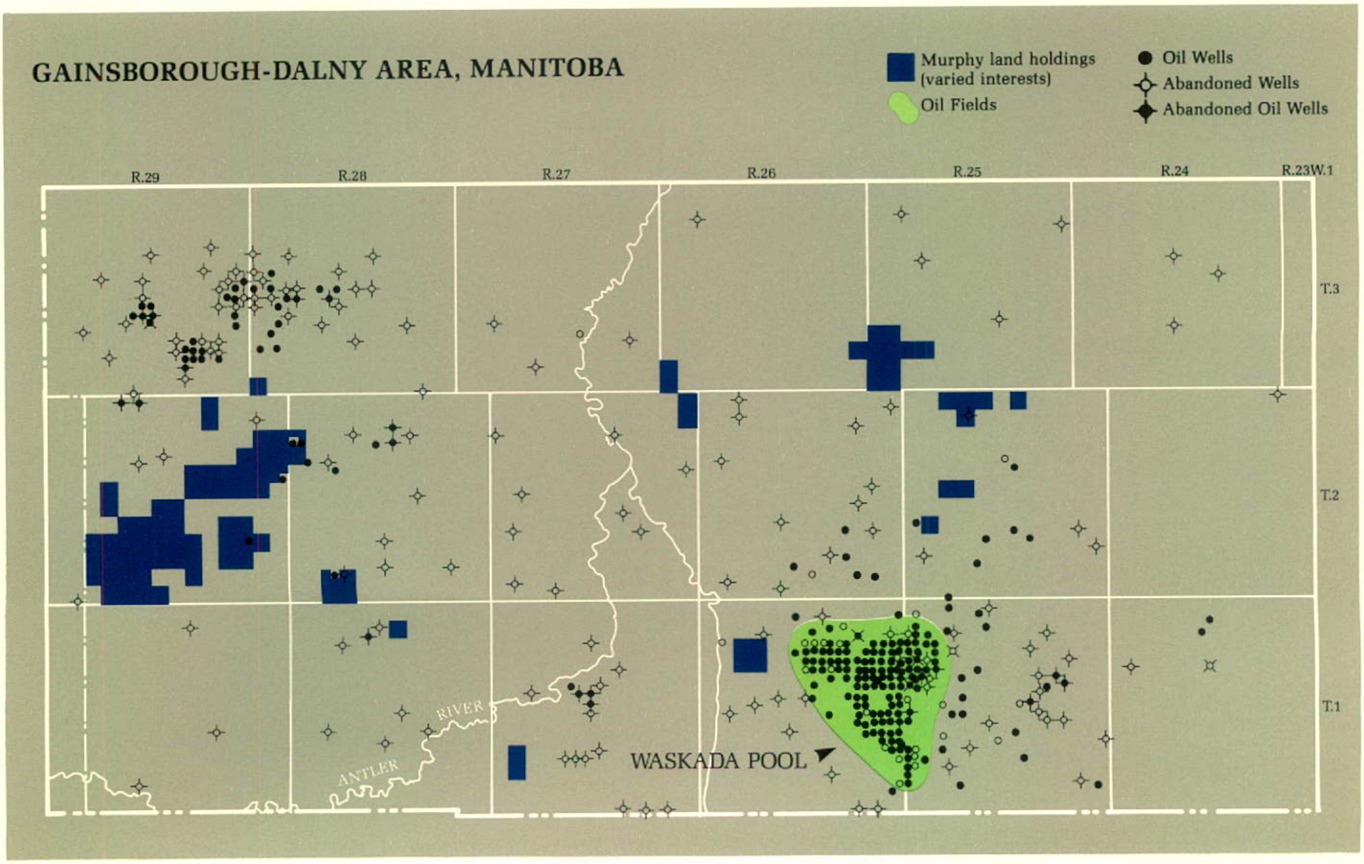
**Drilling Fund**

In September 1981, a Drilling Fund of $19 million was signed with major Canadian investors to explore and develop prospects on Company-held lands throughout the Western Canada Sedimentary Basin. A total of 33 645 net hectares in the conventional oil and gas areas and an additional 4 077 net hectares in the heavy oil areas of Alberta and Saskatchewan were committed to this operation. During 1982, the Drilling Fund participated in the drilling of 26 wells and eight seismic programs on Company lands. This program extended from Manitoba to British Columbia and resulted in 10 oil wells, six gas wells and 10 abandonments. Activity will carry on into 1983 with drilling or seismic currently planned for eight to 10 operating areas.

**GEOPHYSICAL ACTIVITY**

Alberta's geophysical incentive program was substantially upgraded in 1982. This might explain why the operating seismic crew count for industry was surprisingly high at 106 crews compared to 115 during the peak exploration year of 1980.

In total 4 630 kilometres of geophysical data was added to our corporate data base in 1982 of which 2 875 kilometres (1 380 kilometres in 1981) were in western Canada, principally in Alberta. Of this total, data for 1 705 kilometres (530 kilometres in 1981), principally in Alberta, were purchased from the industry. Murphy was directly involved in 1 170 kilometres (850 kilometres in 1981) of new seismic line profiling in western Canada.



Of these data, 560 kilometres were acquired in the Shekilie, Shekilie-Amber and Shekilie-Bistcho areas of Alberta. A larger regional survey of 285 kilometres was undertaken in southeastern Alberta during the final quarter. A significant geophysical inventory was also acquired on plays around the Peace River Arch in areas such as Red Earth, Loon and Golden. In the Baffin-Labrador area 1 754 kilometres of offshore marine data was acquired this past season.

Geophysical interpretative ability was augmented with the upgrading of existing exploration computer hardware. Terminal on-lining to large outside service computer hardware and software facilities was accomplished in September 1982. Significant reprocessing of Murphy's existing seismic data was undertaken. This enhances the value of our geophysical data base and improves map quality and geologic control obtained from proper use of the geophysical method.

**NON-PRODUCING PROPERTY**

| | Hectares | | | |
|---|---|---|---|---|
| | Gross | | Net | |
| | **Dec. 31 1982** | Dec. 31 1981 | **Dec. 31 1982** | Dec. 31 1981 |
| British Columbia | **84 477** | 103 292 | **33 636** | 41 055 |
| Alberta | **465 387** | 500 237 | **157 392** | 165 904 |
| Saskatchewan | **86 552** | 89 276 | **34 878** | 37 715 |
| Manitoba | **6 229** | 3 877 | **5 613** | 3 804 |
| Ontario | **1 351** | 1 384 | **1 291** | 1 303 |
| Nova Scotia | — | 31 987 | — | 10 437 |
| Arctic Islands | — | 2 363 | — | 1 181 |
| Labrador (Offshore) | **231 186** | 231 189 | **4 624** | 4 624 |
| Davis Strait | **474 797** | 474 797 | **23 740** | 23 740 |
| **TOTAL** | **1 349 979** | 1 438 402 | **261 174** | 289 763 |

**PRODUCING PROPERTY** (as of December 31, 1982)

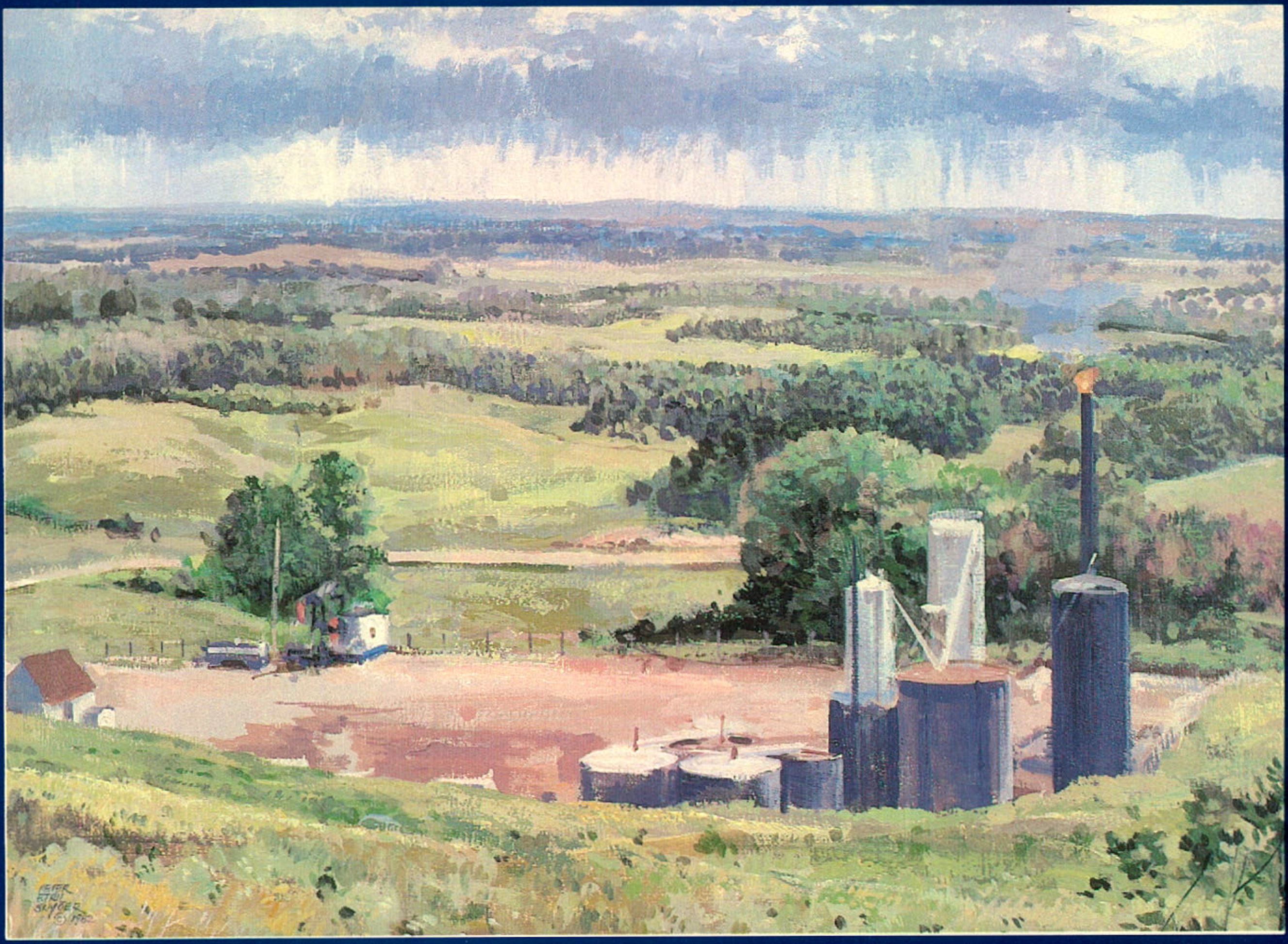
| | Hectares | |
|---|---|---|
| | Gross | Net |
| British Columbia | 10 166 | 5 114 |
| Alberta | 148 564 | 55 371 |
| Saskatchewan | 27 649 | 15 288 |
| Manitoba | 1 769 | 1 517 |
| Ontario | 2 014 | 1 821 |
| **TOTAL** | 190 162 | 79 111 |

## LAND

The key word to describe Murphy's land policy is "selectivity". With this in mind our lands were high graded, a number of leases (and obligations) dropped and new acreage acquired. Murphy was among the top 10 buyers expending $5.3 million at Crown land sales in western Canada during 1982. This contrasts with the generally decreasing sums paid by the depressed oil industry during the last two years. Bonuses paid by all bidders in western Canada decreased to a low $386 million in 1982 from $688 million in 1981 and $1,293 million in 1980. This trend reflects the introduction of the National Energy Program in late October 1980.

Murphy's continuing upgrading of its land holdings reduced our 1981 gross holdings of 1.4 million hectares (290 000 net) to 1.3 million hectares (261 000 net) in 1982. The new figures include acquisitions at Crown sales of 23 000 gross hectares (11 600 net) and the earning of 25 000 gross hectares (8 000 net) through farmins.

Newly introduced work commitments on land held in the Arctic Islands and offshore Nova Scotia have persuaded the Company to surrender the acreage in view of expenditures we felt unable to justify.



# PRODUCTION HIGHLIGHTS

## PRODUCTION

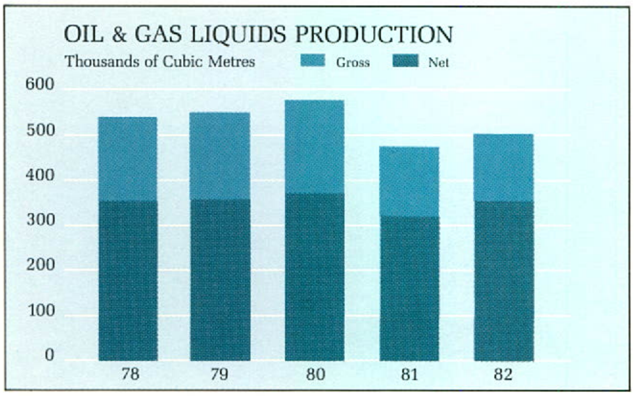
Federal and provincial agreements signed in the spring of the report year improved the operating environment. This resulted in Company oil production volumes of 1 380 $m^3$ gross per day or 976 $m^3$ net per day, a 5.2 per cent and 10.9 per cent increase over the prior year's volumes, respectively. Higher Company net volumes relative to gross volumes are a result of reductions in provincial royalties during the year. A return to production of heavy-oil wells in Saskatchewan which previously had been uneconomic to produce accounted for the increase in oil production volumes.

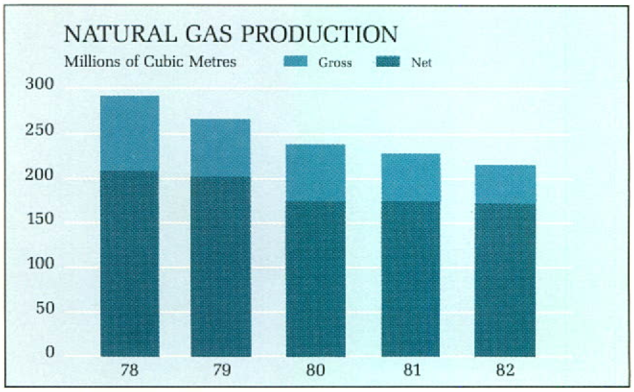
Conventional oil production remained essentially the same as last year due to energy conservation and the recession. Last year's volumes were reduced due to cutbacks by the Alberta government during its confrontation with the federal government.

Gross natural gas production of 597 000 $m^3$ per day or net volumes of 468 000 $m^3$ per day decreased 5.4 per cent gross and 2.9 per cent net. The decline was experienced in spite of an industry growth of approximately four per cent from 1981. This was due to the development of new gas produced by other companies under the existing area contracts which are taking a larger share of available markets.

The Company has executed the TransCanada Pipe-Lines Limited "Topgas Agreement". This new financial arrangement resulted in receipt of payments for contracted take-or-pay gas volumes to the period ending October 31, 1982. However, it also essentially eliminated TransCanada's future take-or-pay obligations. Prepaid gas volumes will commence delivery in the contract year 1984 - 1985.

New gas markets have been contracted during the year. Upon receiving the necessary approvals and completion of the transportation system, new volumes will commence delivery. The dedicated production in 1983 will approach 140 000 $m^3$ per day. These markets are expected to increase during the next several years. This situation is a unique opportunity for the Company since existing markets have been shrinking and production capabilities have been increasing which squeezed our market share. The new markets could add 25 per cent to our production volumes in the next two years.



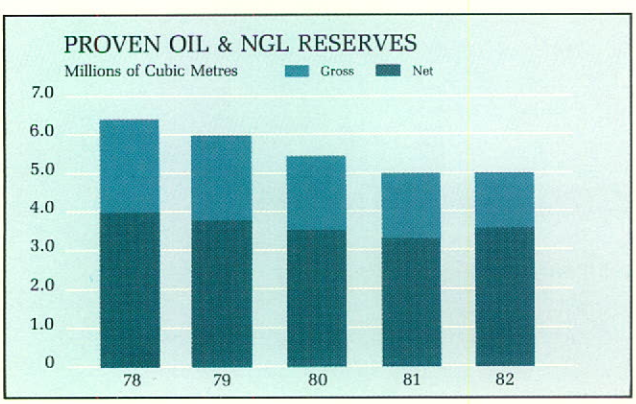



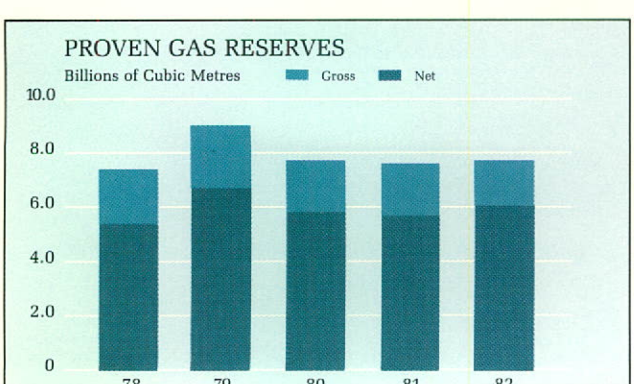
## RESERVES

The Company's proven gross reserves of oil and natural gas liquids declined marginally to 4 991 000 $m^3$ from the 1981 level of 5 004 000 $m^3$. Net oil and natural gas liquid reserves increased to 3 559 000 $m^3$ or 9.4 per cent. The trend set during recent years of declining oil reserves has been reversed with increased drilling complemented by improved success. Net reserves increased more dramatically than gross estimates as provinces lowered their royalty levy.

Gross gas reserves, estimated at 7.8 billion $m^3$, remained essentially the same as last year while net natural gas reserves increased 4.6 per cent to 6.1 billion $m^3$. Again, increased net volumes reflect lower provincial royalties.

These reserve estimates are net of the year's production volumes and illustrate a growth in the assets of the Company.




*(Dispositions of 1 billion gross cubic metres (.9 billion net) occurred during 1980.)*

## OPERATIONS

### Natural Gas

The Company continues to emphasize two main objectives in optimizing our position in the currently tight natural gas market. Existing contracted lands are being developed with additional wells and facilities in order to maintain our present production volumes. New gas markets and contracts are being pursued in an effort to convert our shut-in properties to cash-flow-generating producing properties.

This year's major activities, which optimized existing contracted lands, included: the drilling and tieing-in of seven Princess shallow gas wells; the purchase and tieing-in of three wells and the drilling of two additional wells in the Dodsland field of Saskatchewan; the installation of an additional 1,200-horsepower compressor in Glendon, Alberta; and new facilities to bring on new production in the Claresholm and Kakwa areas of Alberta. This activity was complemented by gas price increases in Saskatchewan and a lowering of Alberta's provincial royalties for low-productivity gas.

Murphy has been successful in obtaining a new gas contract for which production is scheduled to commence in 1983. An application for export has been heard by the Energy Resources Conservation Board and a positive decision is expected shortly. Field facilities will be installed in the upcoming year. Future contracts, commencing in 1984, are under discussion and hold a promising opportunity for the Company.

## Oil

Conventional oil assets increased during the year resulting from development drilling, improved economics in southern Saskatchewan, higher oil prices and lower Alberta royalties for "old oil".

Delineation and optimization of existing oil reserves led to the drilling of a number of development wells during the year. Alberta development wells were drilled in Three Hills (1), Grand Forks (4), Manyberries (7), Medicine River (1) and in the Swan Hills (1) and Rainbow (3) units. The major development for the year resulted from the drilling of three Sylvan Lake area wells and the Crystal Viking field (Buck Lake) of central Alberta. These areas add significant oil reserves and productivity to the Company. Two Becher, Ontario stepouts from our producing pool, cable-tool drilled in the fourth quarter of the year, proved unsuccessful. Enhanced oil recovery projects, including miscible flooding, are now being considered by a number of the major units following further concessions on royalties made by Alberta and Saskatchewan.

### Heavy Oil

Agreements between the federal government and the producing provinces in the spring of 1982 improved the economics of oil and returned Saskatchewan wells to an economic position. Approximately 100 Saskatchewan wells were again placed on production adding, on average, some 64 $m^3$ of net oil per day for the year. The agreements reduced provincial royalties and increased heavy oil prices necessary to recover the high operating cost of high-viscosity oil. These improved economics and Alberta's development drilling incentive plan encouraged area drilling.

The Company drilled 18 Morgan (Hazeldine) 100 per cent wells and 40 non-operated wells in the Provost area of Alberta. Twenty-one of the Provost wells were drilled in the Bodo fireflood expansion. The remaining 19 further delineated the Hayter pool, the North Bodo channel sand and the Bodo-East Lloydminster sand pool. Nine wells were drilled under the Drilling Fund which continues to evaluate our heavy oil properties. This resulted in five oil wells and four dry holes. In addition, 1982 drilling included four Golden Lake - Forest Bank heavy oil wells and four Tangleflags area wells on expiring heavy oil acreage resulting in three oil wells and one dry hole. This drilling developed follow-up locations which will be drilled during 1983. Two non-operated oil wells were completed during the year, one in Marsden and the other in the Evesham - Senlac area of south Lloydminster. One experimental dry hole was drilled at Lindbergh.

The operator of our 50-per-cent owned west Lloydminster pool installed a gas conservation scheme which will add gas revenue to present oil sales.

Murphy continues to retain and upgrade our large in-place assets of heavy oil. Special emphasis has been placed on our tertiary pilot projects with a view to establishing successful processes to convert in-place oil to producible reserves. The Lindbergh steam project, a seven-well pattern, successfully completed the first phase of steam stimulation and the second stage of steam flooding was initiated. The new process has provided our technical staff with new challenges. Difficult treating of the oil has resulted in a shutdown of production and the design and installation of a new treating vessel. The unit is presently under start-up. Success in this phase of the project will lead to pilot expansion with the ultimate goal of moving into a commercial project as soon as possible.

The Eyehill thermal project, comprising nine five-spot patterns under a combination fireflood-steam-stimulation-recovery process, operated at minimal production rates during the year as treating and environmental problems were encountered. Having successfully addressed this situation the pilot productivity is currently being optimized. Oil production quadrupled by the end of the year and our efforts will be directed at improving operating efficiencies. Pilot success, which may take a number of years, will lead to project expansion and the installation of new commercial projects in similar reservoirs.

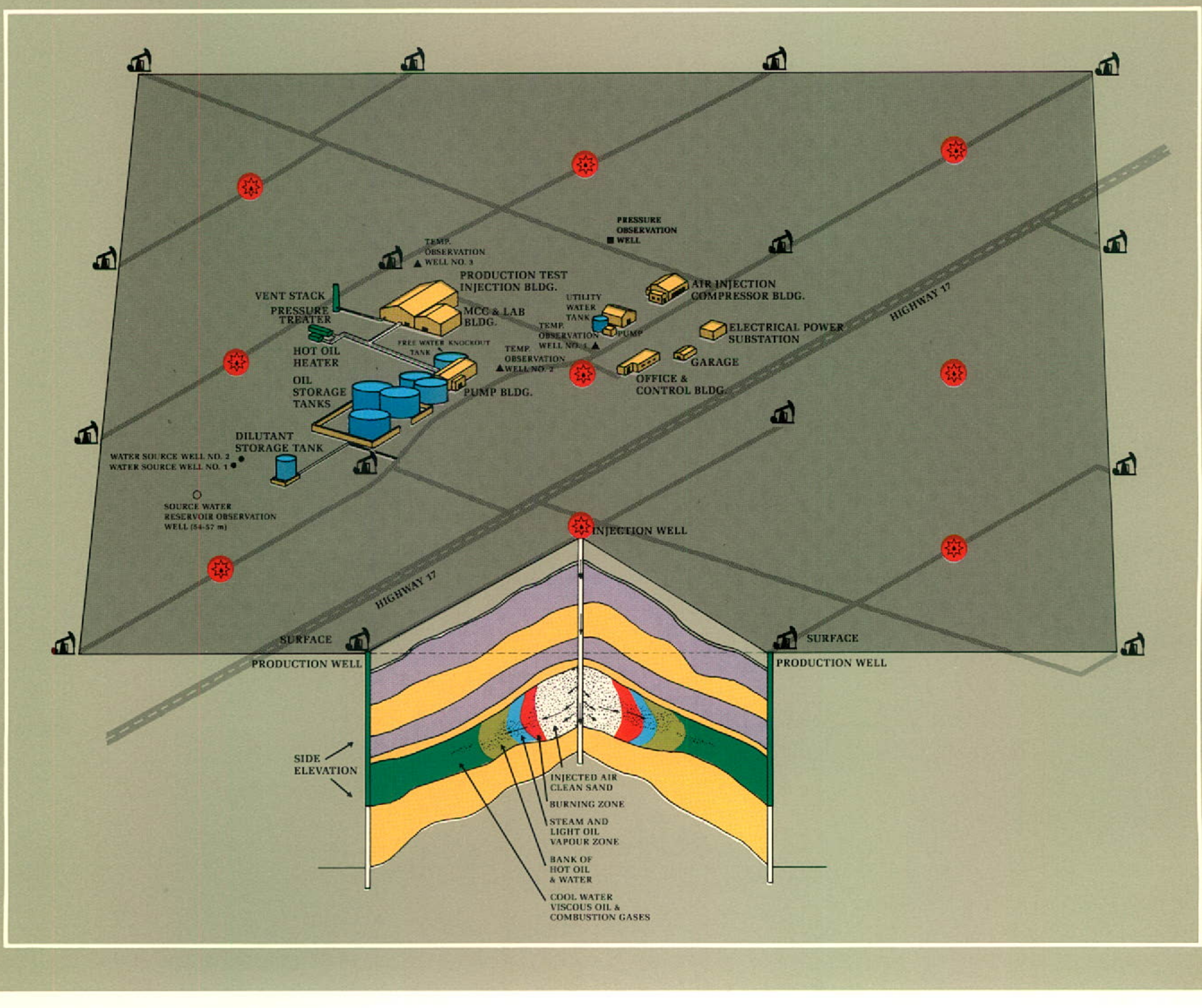
The Bodo fireflood, a nine-spot pilot with a successful performance, has led to an expansion of the area. A total of 19 project wells were drilled by the operator during the year and equipment was installed. The producing wells will be placed on pump and the injection wells ignited in early 1983.

Monitoring activity in the heavy oil area has given the Company opportunities to review farmins from other companies and farmouts to interested parties. This activity led to the sale, during the year, of our interest in the Calumet lease in the Athabasca Oil Sands. It is our intent, in 1983, to add to and upgrade our considerable heavy oil holdings.

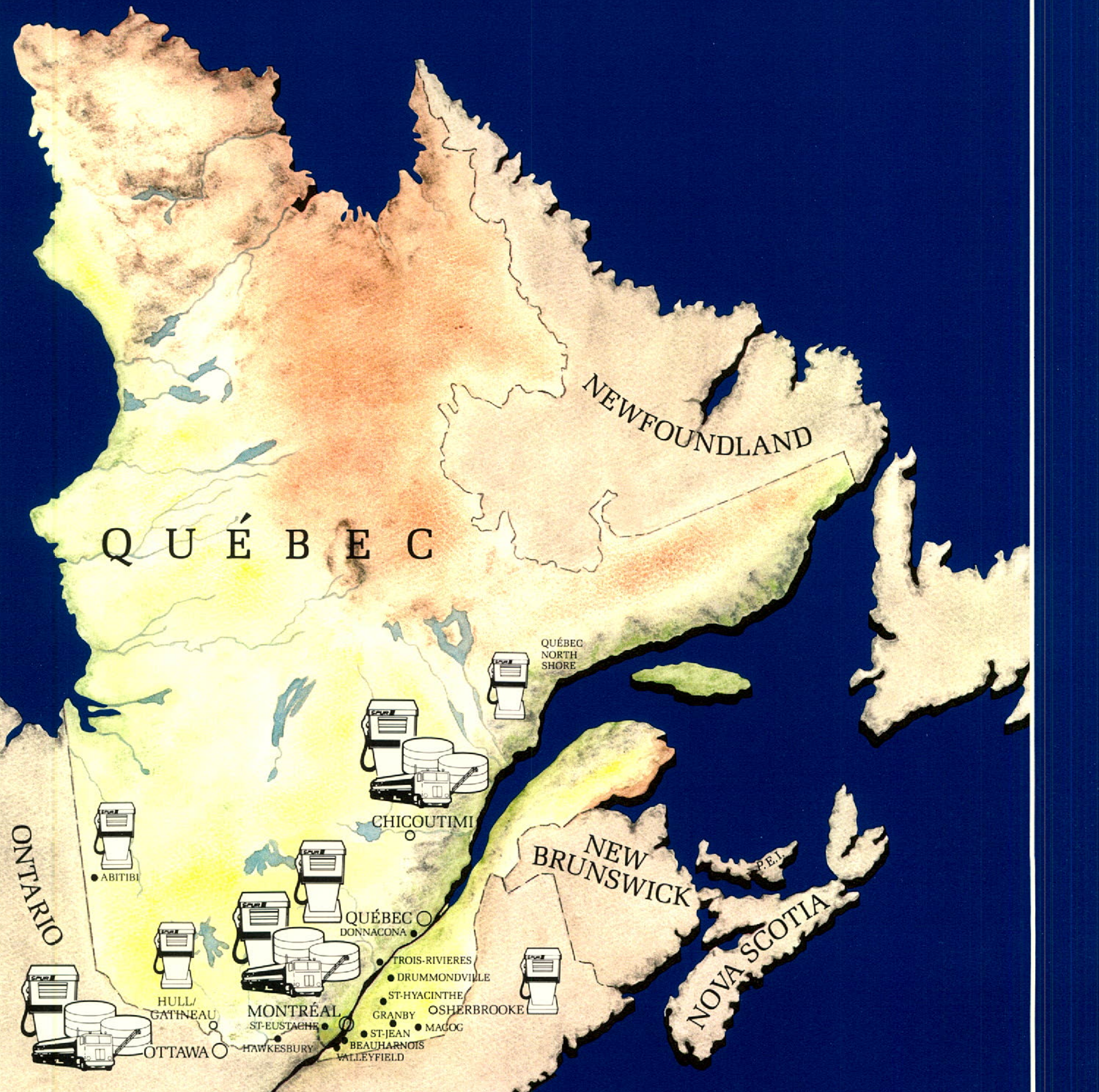
**SI CONVERSION TABLE**

| 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 |

## EYEHILL EXPERIMENTAL IN SITU COMBUSTION PILOT
## MACKLIN, SASKATCHEWAN

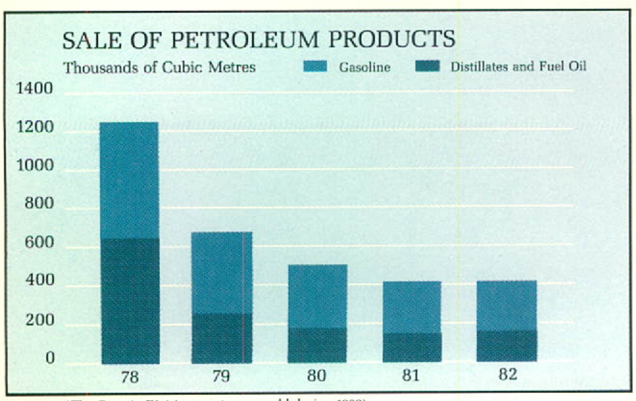


# MARKETING HIGHLIGHTS

Unfortunately, demand for petroleum products continued its decline during the report year. An ongoing trend to conservation and fuel-efficient cars, the effects of the recession and the federally supported substitution of oil with natural gas contributed to a depressed market for petroleum products. Because the recession and the slow adjustment of domestic oil prices are coinciding, their combined effect on the market is, perhaps, greater than it would have been had Canada not been sheltered from world oil prices during an economically more favorable time. Notwithstanding the sheltered domestic crude oil price, product prices within our market area are among the highest in North America due to their heavy tax burden.

Demand in Quebec and Ontario contracted sharply by about 15 per cent following an eight-per-cent decline in 1981. Particularly suppressed were sales of gasoline and heating oils. No strong recovery is anticipated during 1983 even if the economy began its ascent from the recession. The refining industry is still readjusting to the new market conditions. Three refineries will be closed this coming year in Quebec and another in Ontario. Other plants are upgrading their product yields. Competition for the reduced market volumes intensified with the growth of Petro-Canada's market share which has particularly affected major refiners. Price wars have punctuated this fiercely competitive situation in which severe volume dislocations have occurred. Independent outlets were encouraged by the offer of supplies at distress prices. Downstream margins have halved to a meagre two per cent of sales at a time of sharply rising taxes and capital requirements. Unprofitable discounting will, of course, only worsen the situation. Survival dictates cost conscious debt-to-equity ratios, a lean operation and managerial flexibility. In this survival of the fittest we are confident of being fitter than most competitors.




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

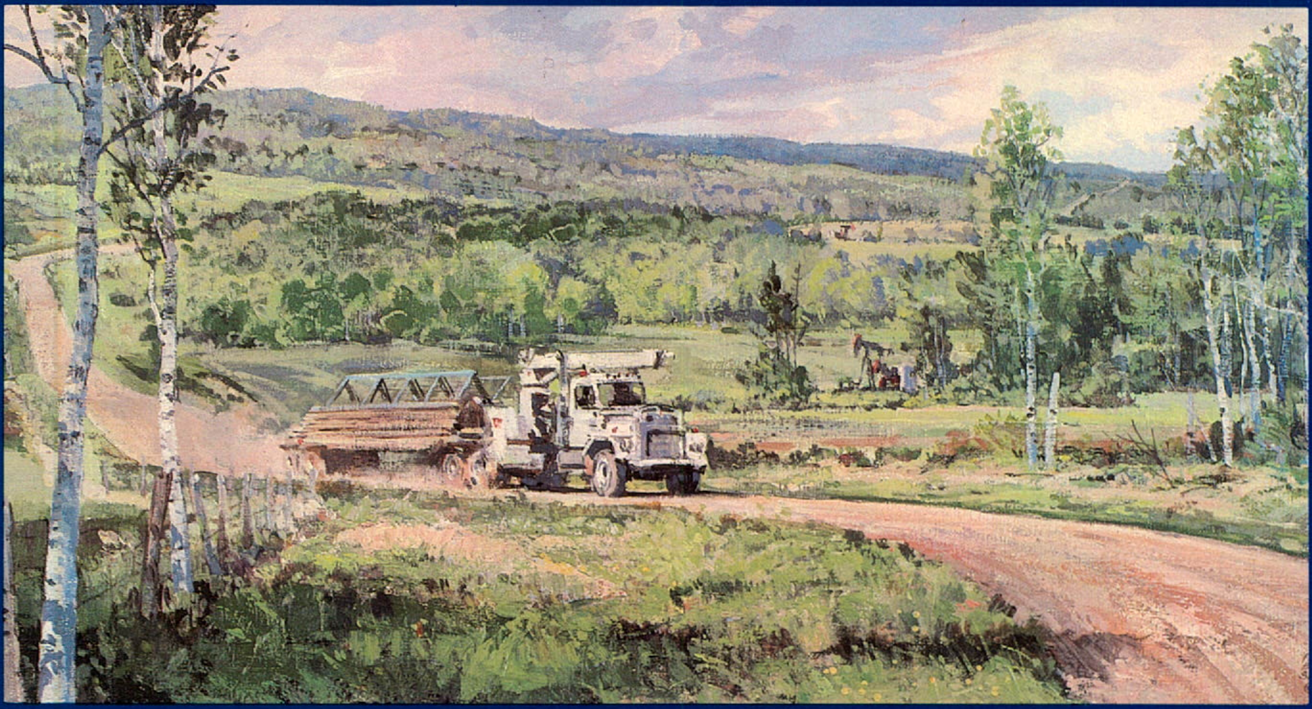
Against this background the Company has enjoyed a most satisfactory year. Murphy anticipated the change in the business and market environment early on with a rationalization and contraction of our operations during the last four years. Thus we maintained our historic market share of 3.4 per cent while still not exceeding our 1.9-per-cent share of the industry's outlets. Our controlled business volume losses were trending down toward six per cent at year-end, a significantly better showing than the industry average. Although the number of retail outlets decreased generally, the Company penetrated new market areas with the addition of two high-volume stations and six branded dealers. By year-end we had also signed offers to develop two sites with a high market potential continuing our drive to improve upon our rate of return.

Higher operating efficiency reduced our cost and personnel requirements and let us maintain high operating and service standards under very competitive conditions. Careful inventory control and an effective administration of credit lowered capital commitments and has left us virtually free of bad debts. An important throughput agreement was signed with a refiner to improve the economy of scale at our Chicoutimi marine terminal. Our 1982 marketing volume of 417 500 000 litres consisted of 231 400 000 litres of gasoline, 123 000 000 litres of distillates and 63 100 000 litres of bunker fuels. With gasoline sales of 55 per cent we have sustained the highest gasoline ratio in this market.

Although the problems associated with the marketing of petroleum products are expected to continue, we anticipate a repeat of our successful 1982 results during the coming year.

**MARKETING REPRESENTATION**

| | **1982** | 1981 |
|---|---|---|
| **Retail Outlets** | | |
| Company-owned and Leased Stations | **98** | 97 |
| Branded and Unbranded Independent Dealers | **50** | 45 |
| Total Retail Outlets | **148** | 142 |
| **Wholesale and Commercial** | | |
| Tank Wagon Distributors | **39** | 65 |
| Commercial Consumers | **6** | 7 |
| Total Other Outlets | **45** | 72 |
| **TOTALS** | **193** | 214 |



# SUPPLY AND TRANSPORTATION HIGHLIGHTS

Expansion of the Manito pipeline system highlighted an active 1982. Through the first quarter we put into operation an eight-kilometre lateral and a new 9 000-$m^3$ condensate tank. We also took over the operations of the Cactus Lake pipeline system. The Manito pipeline system transported 3 131 $m^3$ per day of Lloydminster-blend crude oil during 1982 compared to 2 547 $m^3$ per day during 1981. With the Alberta Petroleum Marketing Commission controlling sales of condensate/pentanes plus, our supply stability was definitely more advantageous than in previous years. Further expansion continued through the year with the construction of a third 15 200-$m^3$ crude-oil-blend tank at Kerrobert, Saskatchewan complemented by expansion of the Unity and Grill Lake pump stations. The construction year was concluded with the installation of a new automated pipeline supervisory control system.

As a result of the extensive construction program and increased operating costs due to inflation, application to the National Energy Board was made for an increase in tariff effective January 1, 1983. The application was granted.

Our pipeline facilities at Milk River, Alberta continued to operate at capacity. Although the Wascana pipeline system remained inactive throughout 1981, the terminal at Regina, Saskatchewan was in operation under a throughput agreement with a local refiner.

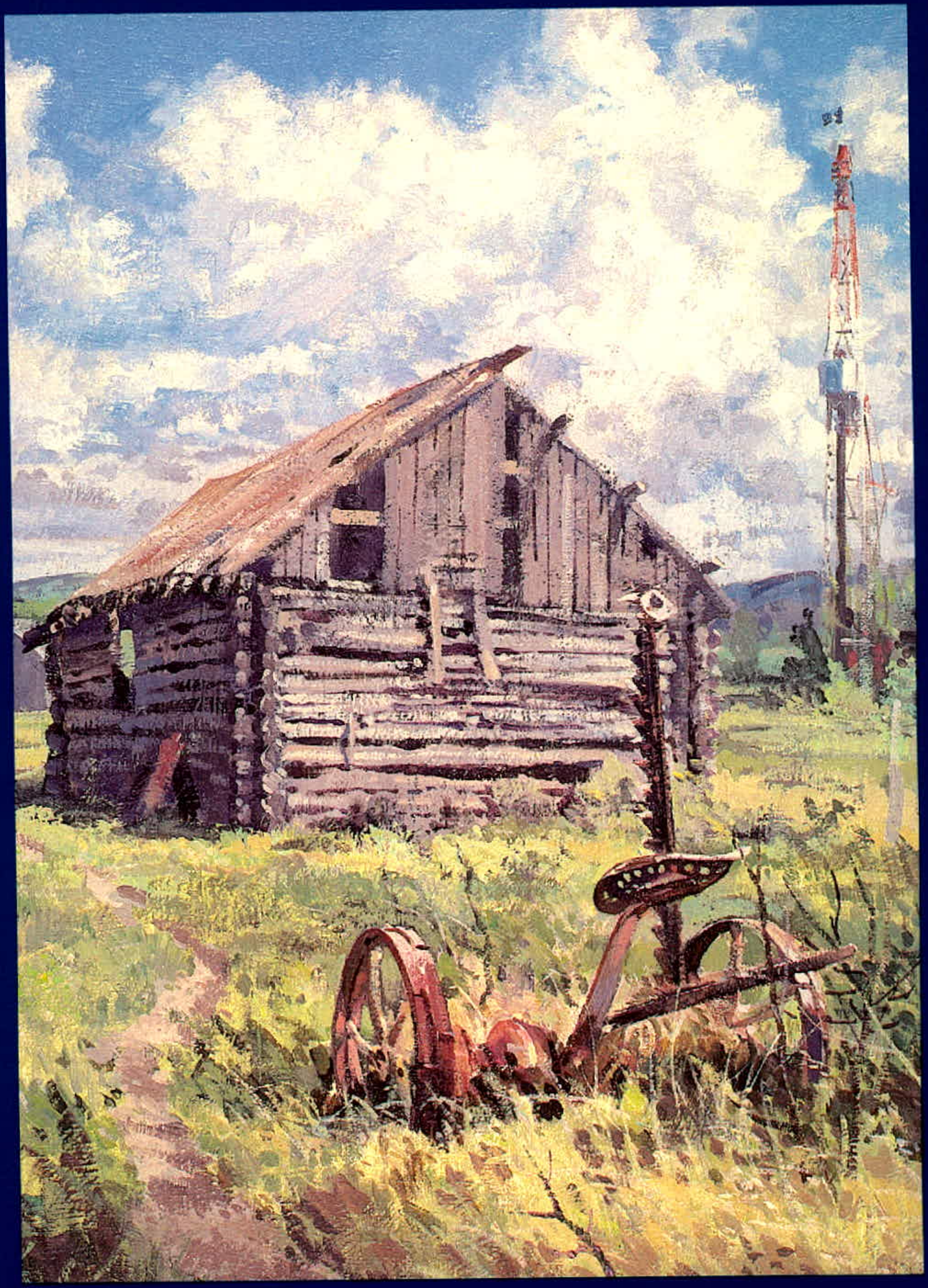
The Cactus Lake pipeline system exceeded first-year projections. Official start-up date was March 31, 1982, and throughput averaged 681 $m^3$ per day from that date.

A reorganization and new marketing approach in the Company's trucking operation resulted in doubling the previous year's revenue contribution. To complement our expanding operation we purchased additional trailer units which service our pipeline network in both Alberta and Saskatchewan.

The asphalt sales program did not meet budget projections for the second straight year. To turn this trend around, additional facilities were constructed enabling us to provide a more superior product. We expect an improvement in sales for the coming year.

Currently, economic analysis and discussions with various government agencies are underway toward construction of an upgrader for heavy crude oil. Preliminary analysis of our returns are very encouraging.

The coming year is projected to continue on a favorable basis for all aspects of the Supply and Transportation Department.

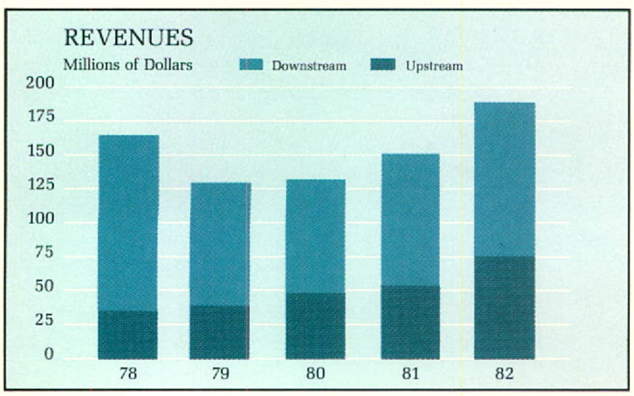


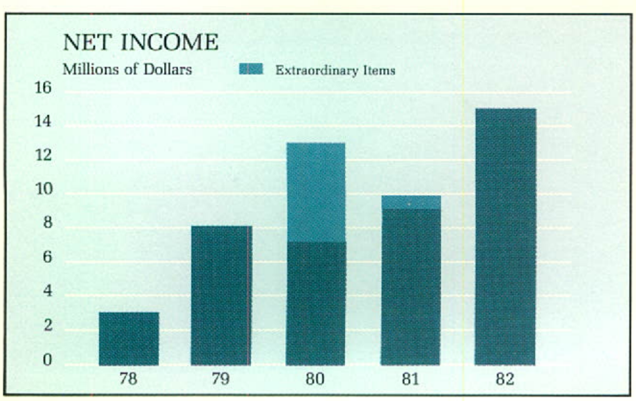
# FINANCIAL
# REVIEW

## NET INCOME

Net income for 1982 reached a record high at $15,224,000 and represents an increase of 53 per cent over net income for 1981 after including an extraordinary item in the prior year. The 1981 extraordinary item of $600,000 represented a reduction of income tax resulting from marketing losses carried forward from prior years. There were no extraordinary items included in the 1982 net income.

Earnings from the exploration and production segment of the Company were higher than in the prior year due to increased crude oil production volumes and generally increased netbacks from production. These were partially offset by reduced volumes of natural gas sales. The improvement in netbacks resulted from higher prices, reduced royalty rates and reductions in government levies at both the federal and provincial level. Exploration and production earnings were also enhanced by a nonrecurring gain of approximately $2,000,000 in each year from the sale of Alberta leases.



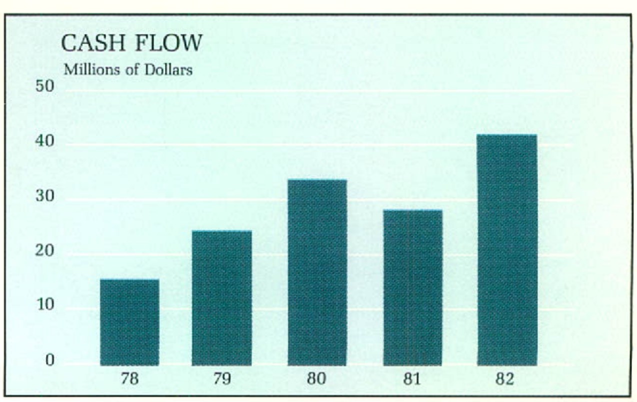




Earnings attributable to the marketing operations were less than in the prior year resulting from lower margins on product sales. Gasoline sales volumes were less than last year while fuel oil sales were higher resulting in total sales volumes being approximately the same as in 1981.

Earnings from the supply and transportation operations were significantly higher than in the prior year. This resulted from higher profit margins and volumes of crude oil traded and increased throughput in Company-operated pipelines. Because of increased operating costs and new capital programs associated with the Manito pipeline system, which the Company operates, an application was submitted for a rate hearing before the National Energy Board. That hearing occurred in the fall of 1982 and resulted in a significant increase in pipeline tariff effective January 1, 1983.

General and administrative expenses were higher than in the prior year and were partially offset by lower interest and income-tax expense. Interest cost was reduced as a result of a concerted effort to decrease long-term debt in order to overcome the high interest rates in 1982. The effective rate of income tax was lower as compared to 1981 due to improvements, from the Company's standpoint, in provincial and federal tax structures.

Segmented financial information compared with the prior year can be found in Note 10 to the financial statements.



**SOURCES AND USES OF FUNDS**

The primary source of corporate funds was from operations and totalled $42,595,000, an increase of 48 per cent compared to 1981. The disposition of those funds included capital expenditures of $38,498,000, an increase of 64 per cent compared to last year, retirement of long-term debt net of additions in the amount of $14,991,000 and a payment of common share dividends of 20 cents per share totalling $1,257,000. Working capital decreased during the year by $7,056,000 to a total of $11,646,000 at the end of 1982.

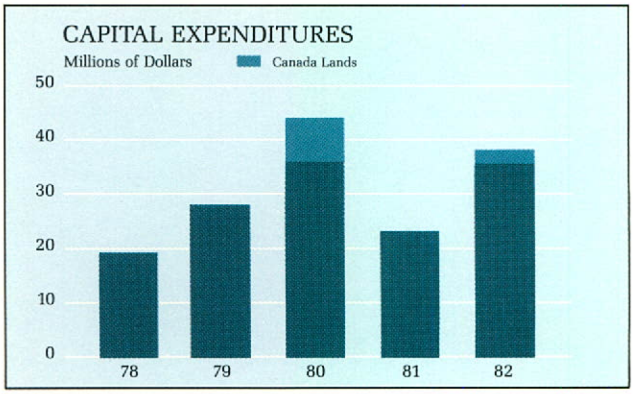
The current level of working capital does not reflect the Company's liquidity position since crude oil and finished product inventories are assigned relatively low historical costs under last-in, first-out accounting. At December 31, 1982, the difference in value between inventories on a LIFO accounting basis and inventories on a current cost basis amounted to $8,173,000.

The dividend mentioned above represents the first common share dividend paid in the Company's history. It is the intention of the Board of Directors to make this dividend an annual occurrence.

**FINANCIAL CONDITION**

Total assets increased by $31,181,000 to a total of $250,675,000. Included in this total was an increase in property, plant and equipment, net of depreciation, depletion and amortization, of $16,435,000 to a total of $145,562,000. Long-term debt at the end of 1982 totalled $26,664,000. The shareholders' equity exceeded the $100,000,000 mark to a total of $103,844,000.

During this period of unsettled economic conditions the Company is in a strong financial position to carry on its active capital program primarily with funds generated from operations.




## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Murphy Oil Company Ltd. as at December 31, 1982 and 1981 and the consolidated statements of income, 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, 1982 and 1981 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 10, 1983

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

## CONSOLIDATED STATEMENTS OF INCOME

**Years ended December 31, 1982 and 1981**
(thousands of dollars)

| | 1982 | 1981 |
|---|---|---|
| **REVENUES** | | |
| Sales and operating revenues | **$184,063** | 146,546 |
| Interest and other income | **6,419** | 5,493 |
| Total revenues | **190,482** | 152,039 |
| **COSTS AND DEDUCTIONS** | | |
| Crude oil, products and related operating expenses | **117,829** | 96,465 |
| Exploration costs including amortization of undeveloped leaseholds | **11,622** | 7,628 |
| Selling, general and administrative | **10,294** | 8,645 |
| Interest on long-term debt | **4,479** | 5,603 |
| Interest — other | **2,073** | 2,677 |
| Depreciation and amortization | **6,396** | 4,512 |
| Depletion | **5,746** | 3,849 |
| Total costs and deductions | **158,439** | 129,379 |
| **Income Before Taxes and Extraordinary Item** | **32,043** | 22,660 |
| **TAXES** | | |
| Petroleum and gas revenue tax and incremental oil revenue tax | **8,387** | 4,144 |
| Income taxes | | |
| Current | **3,434** | 6,257 |
| Deferred | **4,998** | 2,918 |
| Total income taxes | **8,432** | 9,175 |
| Total taxes | **16,819** | 13,319 |
| **Income Before Extraordinary Item** | **15,224** | 9,341 |
| Extraordinary item | **—** | 600 |
| **NET INCOME** | **$ 15,224** | 9,941 |
| Income per share | | |
| Income before extraordinary item | **$2.42** | 1.48 |
| Extraordinary item | **—** | .10 |
| Net income | **$2.42** | 1.58 |

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

**Years ended December 31, 1982 and 1981**
(thousands of dollars)

| | 1982 | 1981 |
|---|---|---|
| Retained earnings, beginning of year | **$ 86,377** | 76,436 |
| Net income | **15,224** | 9,941 |
| Dividends | **(1,257)** | — |
| Retained earnings, end of year | **$100,344** | 86,377 |

*See accompanying notes.*

## CONSOLIDATED BALANCE SHEETS

**December 31, 1982 and 1981**
(thousands of dollars)

| | 1982 | 1981 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and short-term deposits | $ — | 11,100 |
| Accounts receivable | 59,100 | 36,700 |
| Due from parent company | 5,518 | 6,375 |
| Inventories | 33,178 | 29,230 |
| Deferred income taxes | 3,706 | 3,235 |
| Total current assets | 101,502 | 86,640 |
| Property, plant and equipment — net | 145,562 | 129,127 |
| Other assets — at cost | 3,611 | 3,727 |
| | $250,675 | 219,494 |
| **LIABILITIES** | | |
| Current liabilities | | |
| Outstanding cheques less cash on deposit | $ 4,023 | — |
| Bank loans | 10,000 | 17,500 |
| Accounts payable and accrued liabilities | 58,726 | 34,548 |
| Income and other taxes payable | 5,583 | 10,865 |
| Current portion of long-term debt | 11,524 | 5,025 |
| Total current liabilities | 89,856 | 67,938 |
| Long-term debt | 15,140 | 30,131 |
| Deferred credits | | |
| Deferred income taxes | 32,166 | 26,697 |
| Other | 9,669 | 4,881 |
| Total deferred credits | 41,835 | 31,578 |
| **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 6,285,313 shares; 1981 — 6,284,319 shares | 3,500 | 3,470 |
| Retained earnings | 100,344 | 86,377 |
| Total shareholders' equity | 103,844 | 89,847 |
| | $250,675 | 219,494 |

Approved on behalf of the Board of Directors

Director                                Director

*See accompanying notes.*

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

**Years ended December 31, 1982 and 1981**
(thousands of dollars)

| | **1982** | 1981 |
|---|---|---|
| **SOURCES OF FUNDS** | | |
| From operations | **$ 42,595** | 28,783 |
| Proceeds from sale of property, plant and equipment | **161** | 804 |
| Increase in other deferred credits | **4,788** | 1,149 |
| Increase in long-term debt | **20,000** | 10,916 |
| Issue of common shares | **30** | 295 |
| Decrease in other assets | **116** | 8,792 |
| Total sources of funds | **67,690** | 50,739 |
| **USES OF FUNDS** | | |
| Capital additions | | |
| Oil and gas properties | **27,441** | 15,322 |
| Exploration | **7,514** | 2,973 |
| Supply and transportation | **542** | 3,759 |
| Marketing | **3,001** | 1,356 |
| Retirement of long-term debt | **34,991** | 20,025 |
| Dividends | **1,257** | — |
| Total uses of funds | **74,746** | 43,435 |
| **INCREASE (DECREASE) IN WORKING CAPITAL** | **(7,056)** | 7,304 |
| Working capital, beginning of year | **18,702** | 11,398 |
| Working capital, end of year | **$ 11,646** | 18,702 |

*See accompanying notes.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 1982 and 1981**

## 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 an 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 income 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 or 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 federal and provincial governments, relative to exploration activities, are accounted for as a reduction of capital expenditures.

g) Income per common share

Income per common share is calculated on the weighted average method. If the outstanding share options had been exercised at the beginning of the year, income 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

| | 1982 | 1981 |
|---|---|---|
| | (thousands of dollars) | |
| Finished products | **$13,294** | 18,358 |
| Crude oil | **18,878** | 9,625 |
| Other | **1,006** | 1,247 |
| | **$33,178** | 29,230 |

Inventories valued at cost under the last-in, first-out method totalled $33,178,000 at December 31, 1982 and $29,230,000 at December 31, 1981. These amounts were $7,318,000 and $6,823,000 respectively, less than such inventories would have been valued using the first-in, first-out method.

## 3. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 1982 | | | | |
|---|---|---|---|---|---|
| | | Allowance for | | | |
| | Cost | Depreciation | Depletion | Amortization | Net Book Value |
| | | | (thousands of dollars) | | |
| Developed oil and gas properties | $156,940 | 18,154 | 39,035 | — | 99,751 |
| Undeveloped oil and gas properties | 30,459 | — | — | 12,735 | 17,724 |
| Marketing properties | 28,017 | 10,913 | — | — | 17,104 |
| Pipelines | 11,463 | 3,358 | — | — | 8,105 |
| Other properties | 4,450 | 1,572 | — | — | 2,878 |
| | $231,329 | 33,997 | 39,035 | 12,735 | 145,562 |

| | 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 |

## 4. LONG-TERM DEBT

| | 1982 | 1981 |
|---|---|---|
| | (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 | $ 6,533 | 35,000 |
| Notes payable, bearing various rates of interest. During 1982 the rates ranged from 11.25 per cent to 17.60 per cent. These notes are payable in four semi-annual installments of $3,250,000 commencing January 24, 1983, followed by two semi-annual installments of $3,500,000 | 20,000 | — |
| Obligations under capital leases bearing annual interest at rates varying from 6.25 per cent to 9.50 per cent repayable in monthly installments to May 1997 | 131 | 156 |
| | 26,664 | 35,156 |
| Less current portion | 11,524 | 5,025 |
| | $ 15,140 | 30,131 |

## 5. INCOME TAXES

The total income taxes charged to earnings of $8,432,000 in 1982 and $9,175,000 in 1981 resulted in an effective rate of 26 per cent and 40 per cent respectively. These totals are different from the "expected" tax expense 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:

| | 1982 | 1981 |
|---|---|---|
| | (thousands of dollars) | |
| Computed "expected" tax expense | $ 16,021 | 11,330 |
| Additions to income taxes resulting from | | |
| Royalties, lease rentals and mineral taxes payable to the Crown | 11,274 | 9,221 |
| Other | — | 616 |
| | 27,295 | 21,167 |
| Reductions in income taxes resulting from | | |
| Resource allowance on Canadian production income | 8,055 | 6,327 |
| Earned depletion on Canadian production income | 2,089 | 3,399 |
| Royalty credit and rebates receivable from the provinces | 5,444 | 2,048 |
| Incremental oil revenue | 1,610 | — |
| Investment tax credits | 732 | 218 |
| Other | 933 | — |
| | $ 8,432 | 9,175 |

## 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, 1982, the following options, excercisable to the period ending August 12, 1992, were outstanding.

| | 1982 | 1981 |
|---|---|---|
| Common shares at exercise price of $16.00 | **17,940** | 20,640 |
| Common shares at exercise price of $18.00 | **26,400** | — |
| Common shares at exercise price of $25.00 | **4,500** | — |
| Common shares at exercise price of $27.50 | **13,860** | 14,360 |
| Common shares at exercise price of $29.00 | **16,200** | 16,700 |
| Common shares at exercise price of $31.50 | **1,500** | 1,500 |
| Common shares at exercise price of $36.00 | **5,000** | 5,000 |
| | **85,400** | 58,200 |

During the 1982 year, options to purchase 30,900 shares were granted, 1,300 forfeited and options to purchase 2,400 shares were exercised. The net number of shares issued relating to the exercised options was 994 shares (gross 2,400 shares) valued to the Company at $29,815. For 1981, options to purchase 26,500 shares were granted, 14,100 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 $295,292.

## 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 $1,312,000 to $1,297,000. In addition, the leases provide that the Company is responsible for the payment of property taxes, insurance and certain other charges.

During 1982 the Company recognized a gain into income on the sale of its interest in three leases in the Athabasca area to a consortium developing a tar sands mining project. In the event that this project is approved by the Alberta government and is developed by the consortium, the Company may elect to reacquire its interest by refund of the proceeds of the 1982 sale and payment of its share of accumulated capital expenditures. Should the Company elect not to participate in the developed project it would receive additional funds based on estimated minable reserves. If the project is abandoned, the funds received on the sale are non-refundable.

## 8. RELATED PARTY TRANSACTIONS

Included in sales and operating revenues of $184,063,000 in 1982 and $146,546,000 in 1981 are handling charges for refinery feedstock amounting to $920,400 in 1982 and $333,000 in 1981 representing amounts charged to Murphy Oil Corporation.

## 9. EXTRAORDINARY ITEM

| | 1982 | 1981 |
|---|---|---|
| Recognition of tax benefits of prior years' losses carried forward | **$ —** | 600,000 |

## 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 income are presented with intersegment transfers eliminated to reflect revenues and income as reported in the consolidated statements of income.

**REVENUES**
(thousands of dollars)

| | 1982 | % of Total | 1981 | % of Total |
|---|---|---|---|---|
| Crude oil, natural gas and natural gas liquids | **$ 71,006** | **37** | 52,502 | 35 |
| Petroleum products | **106,103** | **56** | 91,538 | 60 |
| Supply and transportation | **6,954** | **4** | 2,506 | 2 |
| Other revenue | **6,419** | **3** | 5,493 | 3 |
| Total revenue | **$190,482** | **100** | 152,039 | 100 |

**INCOME** before extraordinary items
(thousands of dollars)

| | 1982 | 1981 | Increase (Decrease) | % |
|---|---|---|---|---|
| Exploration and production | **$ 24,221** | 20,122 | 4,099 | 20 |
| Marketing | **2,899** | 5,555 | (2,656) | (48) |
| Supply and transportation | **4,158** | 276 | 3,882 | 1,407 |
| Gross income | **31,278** | 25,953 | 5,325 | 21 |
| Unallocated expenses | | | | |
| General and administrative | **2,293** | 1,021 | 1,272 | 125 |
| Interest — net | **5,329** | 6,416 | (1,087) | (17) |
| Income tax | **8,432** | 9,175 | (743) | (8) |
| Net income before extraordinary item | **$ 15,224** | 9,341 | 5,883 | 63 |

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

| | 1982 | 1981 |
|---|---|---|
| Exploration and production | **$ 11,295** | 9,445 |
| Marketing | **2,139** | 1,482 |
| Supply and transportation | **656** | 491 |
| Other | **856** | 468 |
| | **$ 14,946** | 11,886 |

**ASSETS**
(thousands of dollars)

| | 1982 | 1981 |
|---|---|---|
| Exploration and production | **$135,432** | 116,255 |
| Marketing | **49,095** | 56,679 |
| Supply and transportation | **66,148** | 35,460 |
| Other | — | 11,100 |
| | **$250,675** | 219,494 |

**CAPITAL EXPENDITURES**
(thousands of dollars)

| | 1982 | 1981 |
|---|---|---|
| Exploration and production | **$ 34,955** | 18,295 |
| Marketing | **3,001** | 1,356 |
| Supply and transportation | **542** | 3,759 |
| | **$ 38,498** | 23,410 |

# FIVE YEAR STATISTICAL SUMMARY

(In thousands of dollars except per share amounts)

## FINANCIAL

| | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Oil and gas sales | **$ 71,006** | 52,502 | 49,141 | 40,424 | 35,766 |
| Petroleum products sales | **106,103** | 91,538 | 80,908 | 85,899 | 126,073 |
| Supply and transportation | **6,954** | 2,506 | 3,218 | 2,394 | 1,950 |
| Other revenue | **6,419** | 5,493 | 571 | 798 | 613 |
| Total revenues | **190,482** | 152,039 | 133,838 | 129,515 | 164,402 |
| Income before extraordinary items | **15,224** | 9,341 | 7,241 | 8,183 | 3,139 |
| Income per share before extraordinary items | **2.42** | 1.48 | 1.15 | 1.30 | .50 |
| Extraordinary items | **—** | 600 | 5,840 | — | — |
| Net income** | **15,224** | 9,941 | 13,081 | 8,183 | 3,139 |
| Net income per share | **2.42** | 1.58 | 2.08 | 1.30 | .50 |
| Cash flow | **42,595** | 28,783 | 34,108 | 24,597 | 15,755 |
| Cash flow per share | **6.78** | 4.58 | 5.44 | 3.92 | 2.51 |
| Capital expenditures | | | | | |
| Production and exploration | **34,955** | 18,295 | 40,950 | 25,475 | 15,427 |
| Marketing | **3,001** | 1,356 | 1,577 | 1,490 | 3,375 |
| Supply and transportation | **542** | 3,759 | 1,501 | 1,329 | 276 |
| Total capital expenditures | **38,498** | 23,410 | 44,028 | 28,294 | 19,078 |
| Working capital* | **11,646** | 18,702 | 11,398 | 3,660 | 8,614 |
| Total assets* | **250,675** | 219,494 | 203,260 | 157,689 | 140,598 |
| Long-term debt* | **26,664** | 35,156 | 44,263 | 25,539 | 30,646 |

## SHAREHOLDERS AND EMPLOYEES

| | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Number of common shares outstanding* | **6,285,313** | 6,284,319 | 6,275,572 | 6,274,354 | 6,274,354 |
| Number of shareholders* | | | | | |
| Common | **1,179** | 1,407 | 1,439 | 1,429 | 1,566 |
| Preferred | **—** | — | — | — | — |
| Number of employees* | **296** | 276 | 264 | 276 | 296 |
| Salaries, wages and benefits | **$ 9,973** | 8,191 | 7,201 | 6,546 | 6,462 |

* Year-end

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

# FIVE YEAR STATISTICAL SUMMARY — Continued

## OPERATING

| | **1982** | 1981 | 1980 | 1979 | 1978 |
|---|---|---|---|---|---|
| Gross crude oil and gas liquids produced (thousands of cubic metres) | **504** | 479 | 577 | 552 | 545 |
| Net crude oil and gas liquids produced (thousands of cubic metres) | **356** | 322 | 375 | 358 | 354 |
| Gross natural gas produced (millions of cubic metres) | **218** | 230 | 239 | 271 | 291 |
| Net natural gas produced (millions of cubic metres) | **171** | 176 | 176 | 203 | 210 |
| Net oil and gas wells owned* | **1,019** | 965 | 930 | 868 | 800 |
| Net undeveloped acreage* (thousands of hectares) | **261** | 290 | 385 | 1 053 | 1 183 |
| Gross proven oil and gas liquid reserves* (millions of cubic metres) | **5.0** | 5.0 | 5.4 | 6.0 | 6.4 |
| Net proven oil and gas liquid reserves* (millions of cubic metres) | **3.6** | 3.3 | 3.5 | 3.8 | 4.0 |
| Gross proven natural gas reserves* (billions of cubic metres) | **7.8** | 7.7 | 7.8 | 9.1 | 7.4 |
| Net proven natural gas reserves* (billions of cubic metres) | **6.1** | 5.8 | 5.9 | 6.7 | 5.5 |
| Crude processed at other refineries (thousands of cubic metres) | **401** | 432 | 490 | 624 | 978 |
| Petroleum products sold (thousands of cubic metres) | | | | | |
| Gasoline | **231** | 247 | 316 | 421 | 610 |
| Distillate | **123** | 112 | 134 | 182 | 486 |
| Residuals | **64** | 55 | 59 | 72 | 158 |
| Total petroleum products sold | **418** | 414 | 509 | 675 | 1 254 |
| Retail outlets* | | | | | |
| Leased and owned | **98** | 97 | 97 | 135 | 149 |
| Other | **50** | 45 | 41 | 123 | 149 |

* Year-end

## DIRECTORS

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

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

THOMAS S. DOBSON
Chairman of
Easton United Securities Ltd.
Calgary, Alberta
*Board Member Since April, 1982*

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

B. HAROLD MONZINGO
President & Chief Executive Officer of
Deltic Farm & Timber Co., Inc.
El Dorado, Arkansas, U.S.A.
*Board Member Since April, 1982*

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

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

## OFFICERS

ROBERT G. FARQUHARSON
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 & Treasurer

DONALD R. CRAIG
Vice-President & Controller

**PRINCIPAL SUBSIDIARY**
SPUR OIL LIMITED

**REGISTRAR AND TRANSFER AGENT**
NATIONAL TRUST COMPANY, LIMITED
Calgary, Alberta

**AUDITORS**
PEAT, MARWICK, MITCHELL & CO.
Calgary, Alberta

**ANNUAL MEETING**

The Annual Meeting of the Shareholders of the Company will be held in the Glencoe Room of the Four Seasons Hotel (9th Avenue & Centre Street South), Calgary, Alberta, at 4:00 p.m. (M.S.T.) on Wednesday, the 20th day of April, 1983.

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**MURPHY**
**OIL COMPANY LTD.**

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