MURPHY OIL COMPANY LTD.
ANNUAL REPORT 1984

CORPORATE PROFILE

Murphy Oil Company Ltd. is a federal Canadian corporation headquartered in Calgary, Alberta and listed on the Toronto and Montreal stock exchanges. The Company is engaged in the acquisition of petroleum and natural gas rights in Canada, and in the exploration, development and production of conventional and heavy crude oil and natural gas primarily from the western Canadian sedimentary basin. In association with those activities, the Company is also involved in the transportation and marketing of crude oil through pipeline and trucking facilities.

Murphy Oil Company Ltd. is affiliated with Murphy Oil Corporation of El Dorado, Arkansas, which owns 77.2 per cent of the outstanding shares of the Company.

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ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held in the Glencoe Room, Calgary Convention Centre, Calgary, Alberta at 4:00 p.m. (M.D.T.) on Thursday, 2nd day of May, 1985.

HIGHLIGHTS

FINANCIAL

(thousands of dollars except per share amounts)

	1984	1983
Revenues	$119,997	108,554
Net Income Before Extraordinary Item	20,020	21,250
Per Share	1.59	1.69
Net Income After Extraordinary Item	20,020	27,169
Per Share	1.59	2.16
Cash Flow	51,960	52,488
Per Share	4.13	4.17
Capital Expenditures	71,926	44,100
Working Capital*	12,547	31,983
Total Assets*	301,921	254,062
Shareholders' Equity*	145,354	129,405

OPERATING

	1984	1983
Gross crude oil and gas liquids produced (cubic metres per day)	1525	1432
Net crude oil and gas liquids produced (cubic metres per day)	1149	1043
Gross natural gas sold (thousands of cubic metres per day)	700	578
Net natural gas sold (thousands of cubic metres per day)	558	468

* Year-end.

LETTER TO THE SHAREHOLDERS

The 1983 Letter to the Shareholders pointed out that Murphy would now concentrate investment in upstream activities. A careful analysis of financial and operating performance of the Company will show measurable gains in that direction. A firm base of new opportunities has been developed.

Although net income and cash flow from operations were relatively flat, unlike the year before, 1984 produced solid results from ongoing business. The 1983 results benefitted significantly due to nonrecurring gains from the reduction of marketing inventories and a late year disposition of uncontracted reserves of natural gas.

In 1984 sustainable oil production was up by roughly 10 per cent and natural gas production exceeded 1983 by roughly 20 per cent. Oil reserves after replacing production, when audited by outside consultants, were higher at year-end for the first time in more than 10 years. Several late year discoveries showed promising opportunities for further development. Additions to land inventory exceeded leases relinquished and average participation in new plays was increased in an ongoing effort to control and influence direction of the Company.

Capital spending in 1984 reached a record of $72,000,000. Of this amount, $57,000,000 was directed to Board approved exploration and development programs, well up from the year before, and to the normal expansion of supply and transportation services. This level of spending is in keeping with a Company strategy to maintain investment levels for routine business matched closely to generated cash flows. The remaining capital investment was approved by the Board late in the year initiating a program to develop enhanced oil recovery of bitumens from a growing inventory of heavy oil in place under Company lands.

In November, Murphy, with FIRA approval, acquired F.W.B. Resources, Ltd. whose principal assets were lands in the Lindbergh area of south Cold Lake. The net effect was to consolidate Murphy ownership in an area surrounding our long-standing Lindbergh pilot. Murphy now owns a 100 per cent interest in land offsetting the pilot, which was expanded in 1984, and a 75 per cent interest in additional prospective land to the north. Fiscal agreements administering to enhanced oil recovery investment have been negotiated with governments in Edmonton and Ottawa. An application is before the Energy Resources Conservation Board of Alberta that will lead to a 400 cubic metre per day first stage commercial project scheduled to come on stream by year-end 1985, increasing production of the Company by more than 20 per cent. Economic and technical success may result in three expansion stages over a six year period, adding further to reserves and production. As a consequence, capital spending in 1985, while maintaining an active conventional exploration and development program, is likely to reach $80,000,000, another record level of investment.

The high level of capital spending has resulted in a draw down of working capital and a reduction of surplus funds. Projections indicate that the net result of 1985 investment will be a modest level of year-end debt to be serviced from new reserves and production. The Company will continue to restrain debt to a limit well below equity.

The exploration component of our business, strengthened by a growing technical capability and aggressive budget allocations, showed promising signs of

acceptable success. Murphy participated with working interest in 245 wells, and for the first time, over 100 on a net well basis. Forty of these wells were exploratory tests, with a scattering of success throughout Alberta and southern Saskatchewan. The exploration and development program of the Company has been heavily weighted to oil-prone prospects in areas of high industry activity. With a promise of improving markets for natural gas in several years time, more budget will now be diverted to gas-prone plays.

Total throughput to Murphy-operated pipelines in the heavy oil area and southern Alberta reached a new aggregate high. The Supply and Transportation Department provided record revenues from ongoing business by developing and expanding services that support other activities of the Company. New projects are likely to lead to pipeline extensions and expansion in 1985.

Drilling activity and growing competition at land sales indicate the industry has regained some measure of confidence. Along with a host of our competitors, Murphy looks to necessary modifications of government policy to encourage new activity. We are hopeful that the new federal government will introduce success-oriented taxation that provides the economic incentive for new investment. Independent studies have clearly shown that the energy industry is an influential factor in the economy and can provide jobs for Canadians. The industry has historically responded directly with investment from higher cash flows, and it is that factor alone that can attract growth.

A scrutiny of our financial results reveals some of the added cost of doing business in the Canadian energy sector. In 1984, our investors profited by $20 million in net income recovered from $52 million of cash flow. At the same time, the Company paid $33 million in royalties, $17 million in federal income taxes, $11 million in Petroleum and Gas Revenue Tax, $3 million in payroll taxes, $4 million in property taxes and $18 million of collected export tax. More than $11 million was returned to provincial coffers at land sales. Canadian resources are clearly under the control of Canadian governments which benefit from a system of economic rents that is one of the most onerous facing energy investors.

Further evidence of tax cost to the consumer is a comparison of gasoline prices in Canada and the northern United States. Even today with a depressed currency one Canadian dollar will buy 50 per cent more gasoline in Detroit than in Toronto. The difference is largely tax charges imposed at various stages from producing field to pump. The energy sector is often maligned with an unfair share of blame for energy cost to the consumer. The equation that balances revenues to governments with job creating investment is admittedly a complex one, however, we feel the bias should lean to putting Canadians to work, increasing the productive tax base and reducing transfer payments by encouraging more investment.

If I were to focus on one area of improved interface between governments and this industry, it would be to acknowledge a spirit of more productive discussions and negotiations of policy. We have progressed measurably from the confrontations that culminated in the imposition of NEP. That lesson must be heeded if Canada is to benefit from resource investment that can add to a standard of living which will lag potential if developable and marketable resources are left untouched in the ground. This can be clearly demonstrated with respect to heavy oils and oil sands projects which are generally labour intensive but will have to compete for markets with other world sources.

The dominant issue facing planners today questions the future of energy pricing. Our projections and our reading of the experts' suggest oil prices will hold within reason. Natural gas production will be responsive to pricing as well, but should provide incremental revenue from higher volumes as new markets are signed up.

In that almost half of the oil production of the Company is old oil presently sold at lower than world market prices, the pending deregulation of prices is likely to modestly enhance revenues from our existing production base. Some projected increase in gas sales should accrue to Murphy, supplemented by small new increments placed on stream near year-end. The Lindbergh project will develop new reserves and production, and impact favourably on cash taxes. Successful exploration is expected to continue to add new reserves.

On balance we look to an active and challenging future. Our projections encourage me to anticipate a rewarding year in 1985. Barring a significant decline in price, revenue from oil and gas sales can be expected to increase, supplemented by expanded service income. Although we have the confidence that our sophisticated exploration strategy will add to reserves, the longer term asset growth for Murphy from an existing inventory of lands is likely to take the form of enhanced oil recovery. The new year marks a measurable change in investment direction as more capital funds are employed to develop heavy oils. Key staff are maintaining an up-to-date strategy and plan intended to deal with heavy oil market and transportation problems. We feel we are ready for these challenges.

Robert G. Farquharson, P.Eng.
President and Chief Executive Officer

March 20, 1985

EXPLORATION / PRODUCTION SUMMARY

LAND HOLDINGS SUMMARY

(As of December 31)

	HECTARES			
	GROSS		NET	
	1984	1983	1984	1983
UNDEVELOPED PROPERTY				
British Columbia	72,307	66,746	30,393	29,469
Alberta	456,313	433,593	162,246	148,501
Saskatchewan	92,272	74,682	48,285	38,044
Manitoba	4,696	6,826	3,486	5,360
Ontario	1,344	1,343	1,284	1,284
Labrador	—	231,186	—	4,623
Davis Strait	474,797	474,797	23,740	23,739
TOTAL	1,101,729	1,289,173	269,434	251,020
PRODUCING PROPERTY				
British Columbia	8,755	8,424	3,452	3,352
Alberta	156,555	152,769	56,278	55,180
Saskatchewan	27,363	27,281	14,873	14,855
Manitoba	1,896	1,800	1,479	1,444
Ontario	2,014	2,014	1,821	1,820
TOTAL	196,583	192,288	77,903	76,651
GRAND TOTAL	1,298,312	1,481,461	347,337	327,671

WORKING INTEREST DRILLING RECORD

	1984		1983	
	Gross	Net	Gross	Net
EXPLORATION				
Conventional Oil Wells Completed	14	6.3	9	3.1
Heavy Oil Wells Completed	4	2.8	2	1.5
Gas Wells Completed	4	1.7	4	2.1
Dry Holes	18	8.1	22	11.1
	40	18.9	37	17.8
DEVELOPMENT				
Conventional Oil Wells Completed	92	12.7	37	6.5
Heavy Oil Wells Completed	80	60.0	60	42.0
Gas Wells Completed	1	1.0	5	1.8
Service Wells	10	3.3	5	1.4
Dry Holes	22	12.2	23	12.2
	205	89.2	130	63.9
TOTAL	245	108.1	167	81.7

EXPLORATION / PRODUCTION SUMMARY (Continued)

In keeping with improvements signalled by the economy and government policy, Murphy increased significantly its investment in exploration and production during 1984.

The Company drilled or held a working interest in 245 gross wells (108 net), compared to 167 gross (82 net), during 1983. The ratio of successful or potentially successful wells increased to over 80 per cent, up from 73 per cent the year before. In addition, 23 farm-out wells were drilled on Company lands.

On the exploration side, Murphy maintained an active land acquisition program resulting in an increase in undeveloped lands, net of dispositions, for the first time in 11 years. More than 5 600 kilometres of geophysical data was acquired during the year. A total of 40 exploratory wells were drilled resulting in 22 successful completions and a scattering of interesting discoveries. Although no single discovery has yet made a significant impact, the aggregate effect of new drilling has been to increase oil reserves and current production.

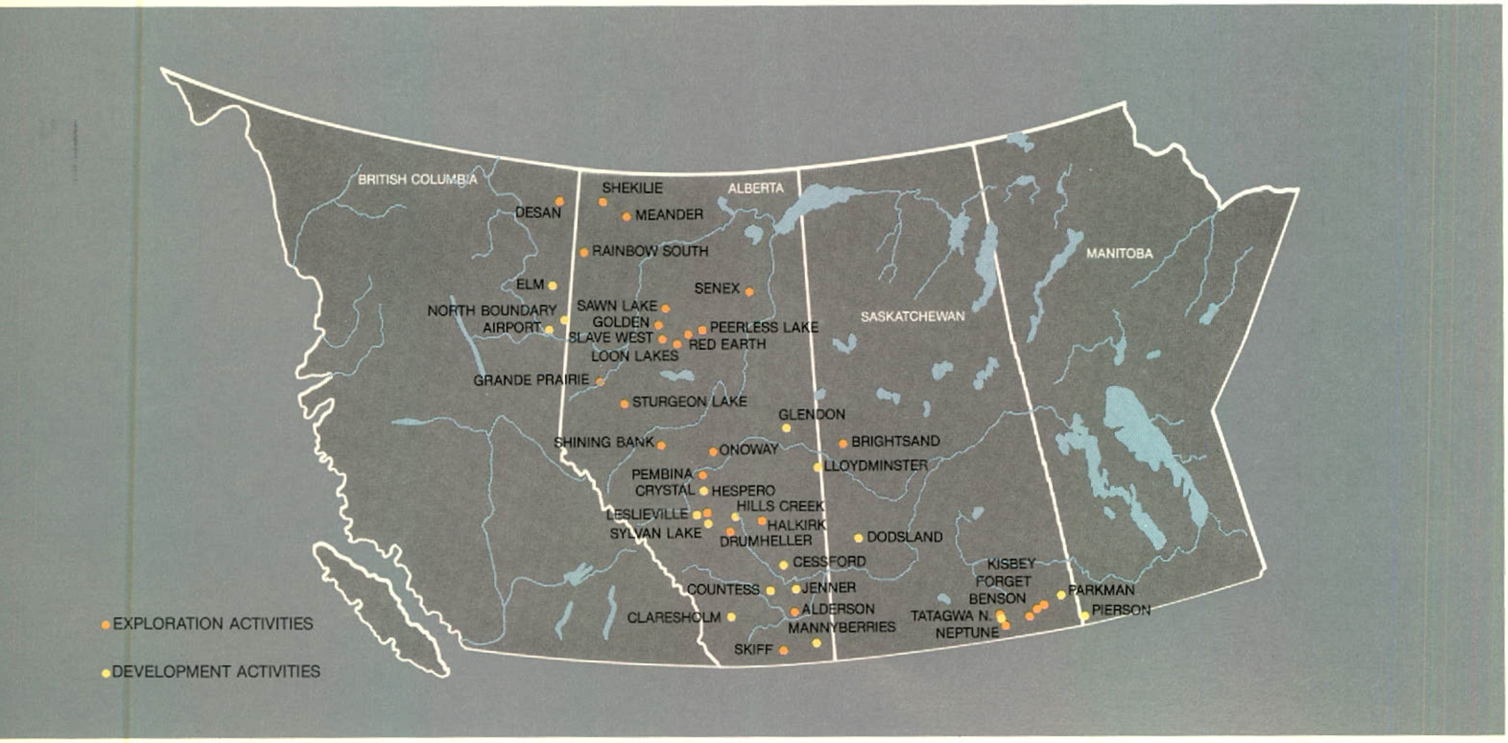
Development drilling totalled 205 wells during 1984 compared to 130 wells in 1983. Throughout the current year 92 conventional oil wells and 80 heavy oil wells were completed which added to production volumes and compensated for normal declines. This level of activity will continue into 1985 as new conventional discoveries are developed, additional heavy oil wells are drilled and an enhanced recovery project is expanded to commercial status at Lindbergh.

Highlights for 1984 included:

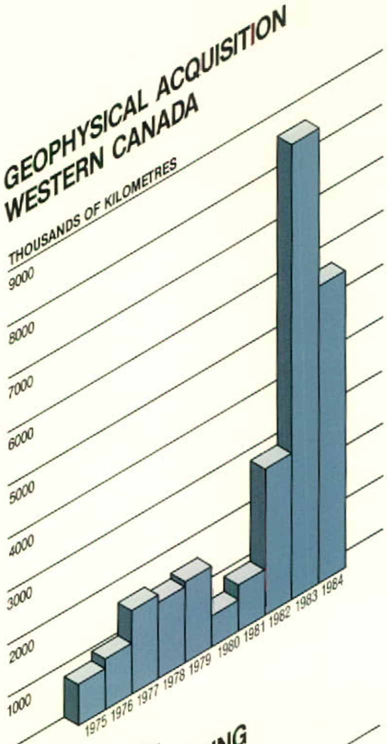
- Land consolidation at Lindbergh, Alberta by purchase of F.W.B. Resources, Ltd.
- Major farmin at Onoway, Alberta.
- Record drilling increasing audited oil reserves.
- Scattering of new development opportunities and promising exploration successes.

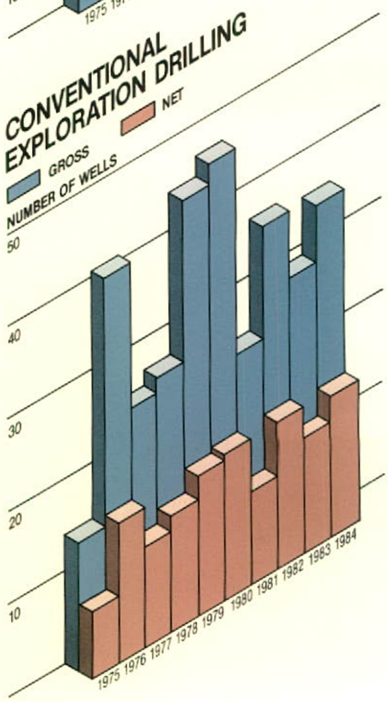
Exploration and development drilling and projects are discussed under separate headings.

AREAS OF ACTIVITY IN WESTERN CANADA



CONVENTIONAL EXPLORATION





The 1983 Annual Report indicated that the exploration momentum generated in 1983 would be maintained in 1984. Exploration strategy included aggressive land acquisition at Crown sales, augmented by increased earning of land by farmins, maintenance of seismic activity at the 1983 level, and a 25 per cent increase in drilling activity with an emphasis on high return prospects in western Canada. The 1984 results met these goals.

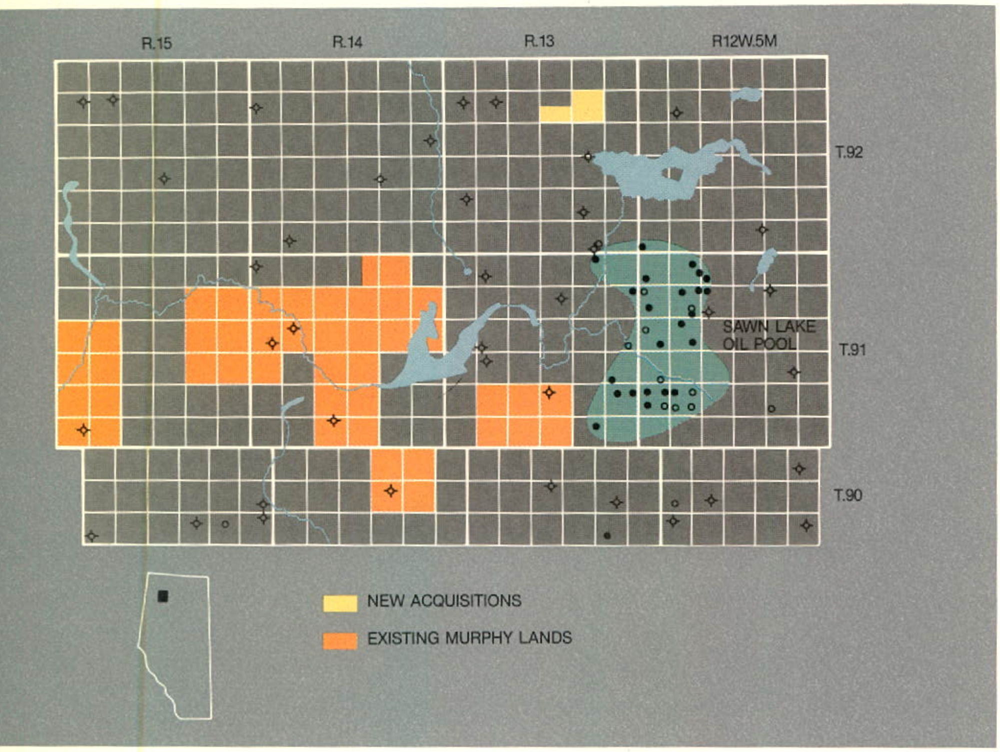
Murphy's main exploration target continues to be western Canada, with Alberta attracting the most attention. Efforts in Saskatchewan, however, were increased during 1984 as a consequence of an improved fiscal policy for oil and gas exploration, and as a direct consequence of oil discoveries made by Murphy in the Neptune area in late 1983.

In line with the objective to emphasize financially promising new plays, new prospective lands were added, most notably in the Senex, Peerless Lake, Sawn Lake, Hespero, Shining Bank, Drumheller and Alderson areas of Alberta, and at the Brightsand, Kisbey, Forget and Outram areas of Saskatchewan. In addition, Murphy obtained representation in the Desan oil play in northeastern British Columbia.

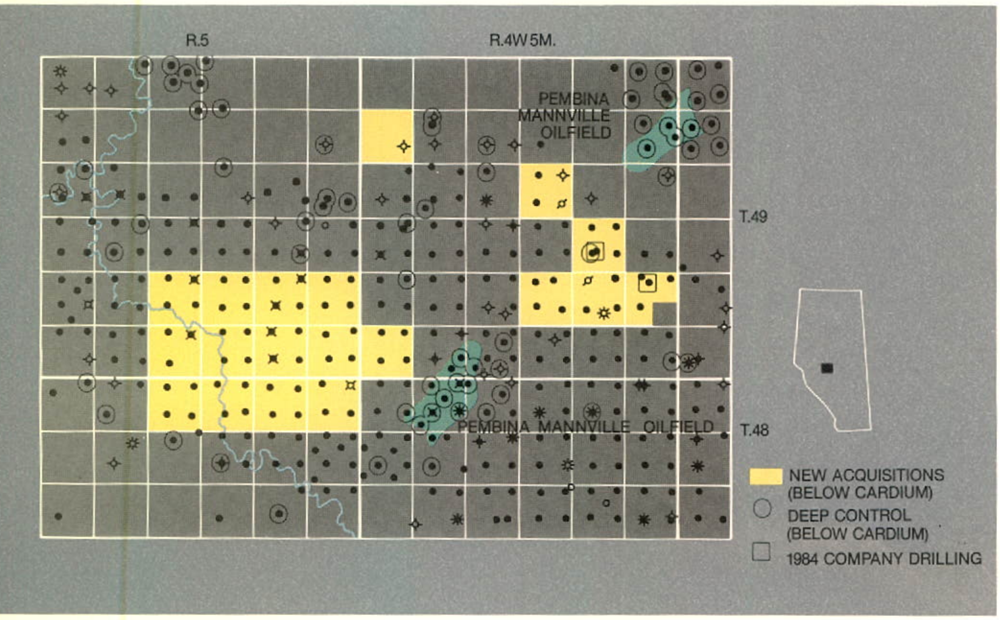
ALBERTA

- Murphy participated in 15 exploratory wells in southern Alberta on a variety of prospects. This drilling resulted in an addition to Murphy's oil and gas reserves in seven areas, the most notable at Halkirk where the Company holds a 50 per cent interest in over 1 500 hectares of petroleum and natural gas leases. In addition Murphy has retained an interest, at no cost to the Company, in six exploratory wells. Two of these wells, drilled in the Skiff area, were cased for oil production resulting in the retention of a 50 per cent working interest in these 1 920 hectares of petroleum and natural gas leases. The Company will participate in further exploratory and development drilling.
- In the Pembina* area of central Alberta, where multi-zone oil prospects exist, Murphy purchased 1 362 net hectares of petroleum and natural gas rights. Two wells were drilled on these lands in 1984 and both were cased as oil wells. The working interest in each of these completions was 37.5 per cent.
- In the Onoway* area of central Alberta, the Company reached agreement late in 1984 with Bonanza Oil & Gas Ltd., Bonanza Resources Ltd. and its partners to drill 17 exploratory wells, earning a 45 per cent interest from the farmors in approximately 110 sections of petroleum and natural gas lands with multi-zone oil and gas prospects. Drilling of the first of these tests was initiated late in 1984. The initial results of this drilling should be evaluated by mid-1985.
- In northern Alberta, Murphy participated in a significant gas discovery in the Grande Prairie* area. The Company holds a 50 per cent working

HAIG-SAWN LAKE AREA



PEMBINA AREA



interest in the well and, on average, a 38 per cent interest in over 5 560 hectares of Crown leases in the discovery area.

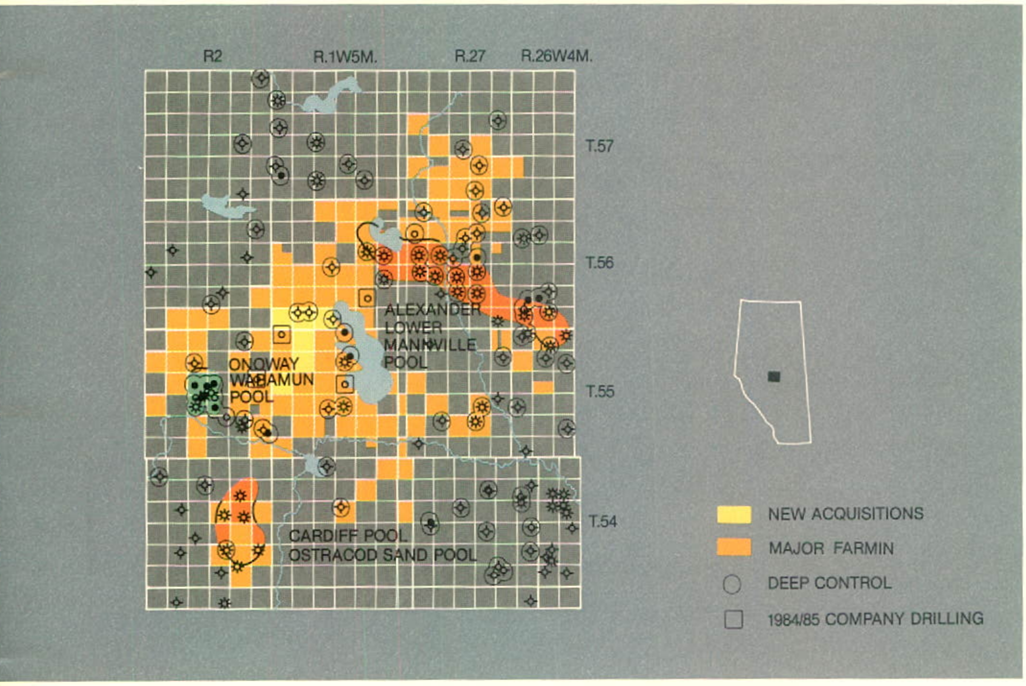
- In the vicinity of the Sturgeon Lake reef, where industry activity is very competitive, Murphy drilled a potential Devonian oil well, and is pursuing additional prospects in the region, shooting seismic and acquiring lands.
- In the Golden-Red Earth areas of northcentral Alberta, additional land was acquired with wells planned at Slave West, Red Earth, Golden and Sawn Lake* for 1985. One well drilled at Loon Lake south, in which Murphy owns a 38.79 per cent interest until payout, will be placed on production early in 1985, with further drilling planned.
- In the Senex and Peerless Lake* region, where several oil discoveries in the Keg River were made by industry last winter, Murphy has acquired an average working interest of 33 per cent in 44 sections of petroleum and natural gas lands. Further exploration, seismic and drilling is scheduled for the 1984/85 drilling season.
- In the northernmost part of the province, Murphy participated in drilling an oil well at Shekilie and plans to drill at Rainbow south and Meander River.

SASKATCHEWAN

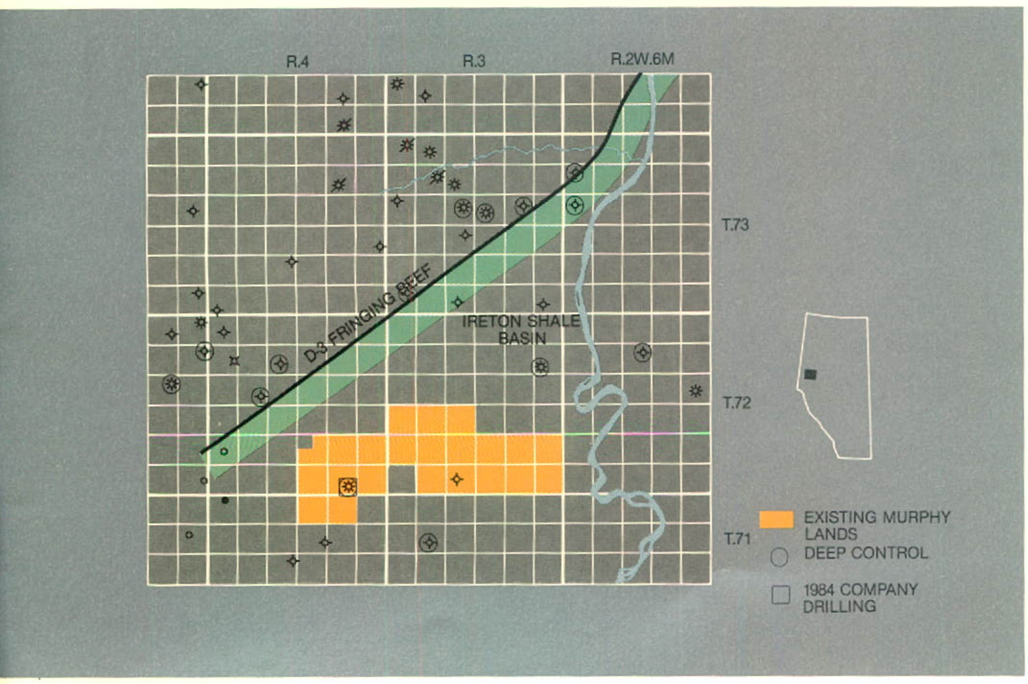
The continued royalty and tax regulation changes introduced in 1982 have brought about a dramatic increase of activity in Saskatchewan. Murphy earlier acquired significant land holdings in the Neptune, Tribune and Bromhead* areas, and will aggressively continue to acquire high-graded leases.

- At Neptune five wells were drilled in 1984 with four being cased for oil

ONOWAY AREA



GRANDE PRAIRIE AREA



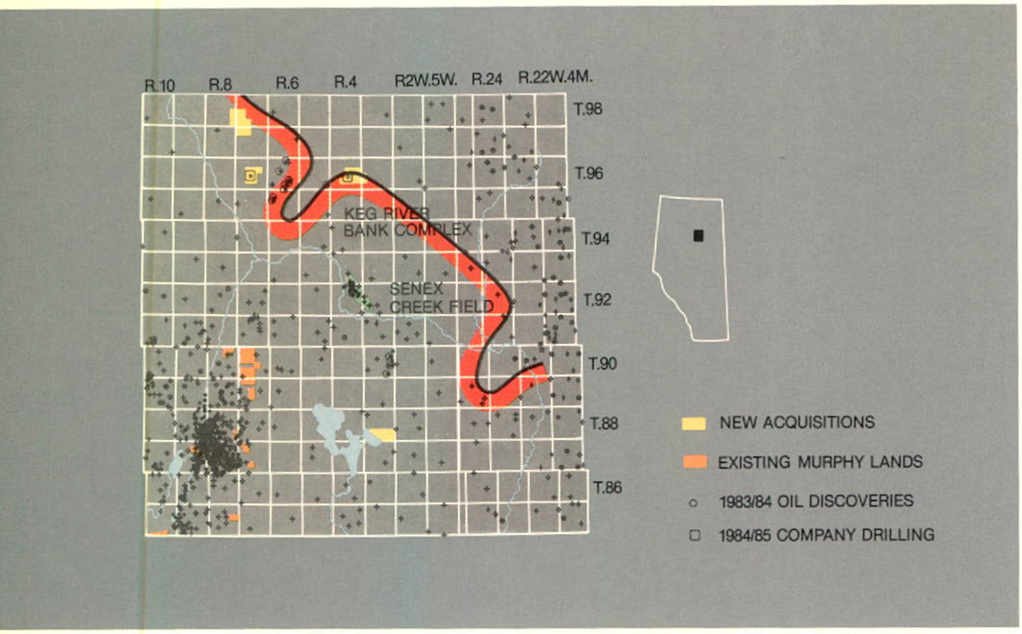
production, bringing the total Neptune program to seven producing wells. Murphy's interest in these wells ranges from 20 per cent to 35.72 per cent. Further development drilling is expected in 1985. At Bromhead to the southeast, where Murphy has a 50 per cent interest, one new oil well is producing and will be followed up with additional drilling. At Kisbey a promising well, drilled on 100 per cent lands, was cased for oil and awaits testing. Further exploration is planned for other untested leases in this area.

- An additional 1 084 net hectares of new lands were acquired in the Tatagwa North, Neptune, Bensen, Outram and Bienfait areas, and a 2 914 hectare permit was acquired in the Brightsand area to evaluate gas potential in the shallow sands.

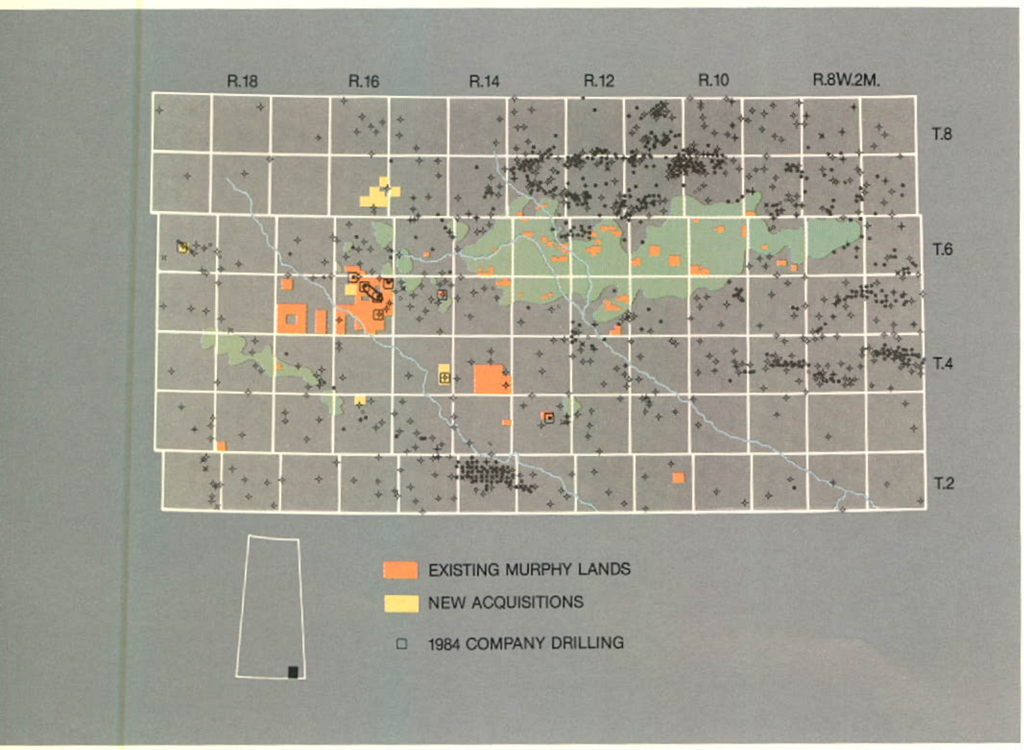
BRITISH COLUMBIA

The prior year's activity in the oil-prone Desan area generated considerable speculation and land sale bidding. Murphy has acquired a land position of 7 728 gross hectares and plans to drill two wells along the Debolt-Shunda oil trend on lands in which the Company holds a 10 per cent and 25 per cent working interest.

SENEX AREA



NEPTUNE AREA



SUMMARY AND OUTLOOK

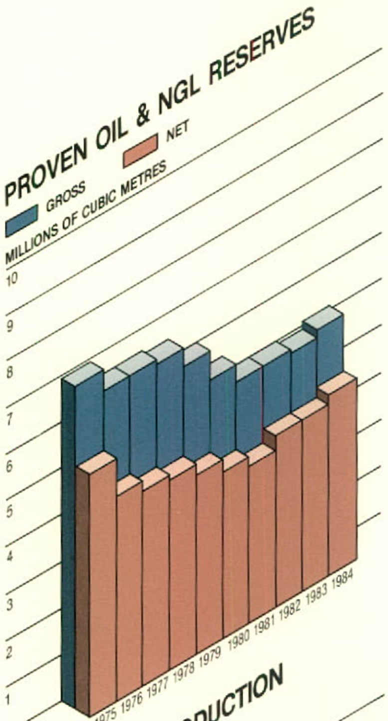
In total, exploratory drilling for conventional oil and gas reached 35 wells, up six wells, or 21 per cent from the 1983 total of 29 gross wells. In keeping with the objective of retaining a significant working interest in new plays, the Company kept an average 43.9 per cent working interest in these 35 tests. An additional 11 exploratory wells were drilled at no cost to Murphy on Company lands, four of which were cased for oil and one for gas.

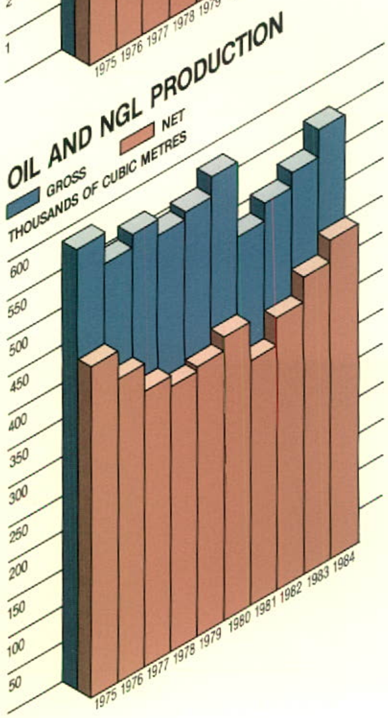
Geophysical activity during 1984 was maintained at 1983 levels with a total of 5 648 kilometres of new data acquired in an effort to develop new plays and provide a high level of technical confidence on prospects. In all, 24 199 net hectares of new exploratory lands were acquired during 1984 in western Canada.

The exploration momentum generated over the last two years will be maintained in 1985. An aggressive land acquisition strategy at Crown sales will be continued, but increased emphasis will be directed to earning lands by farmin. The Company intends to maintain seismic activity in 1985 at a high level, and to retain a significant working interest in the more promising prospects. Drilling activity should be at a level comparable to 1984.

*Indicates map in this section.

PRODUCTION OPERATIONS





Production of oil and natural gas liquids was higher once again as markets remained reasonably strong and new wells were placed on stream. Gross crude oil production reached an average daily volume of 1 525 m³ per day (1 149 m³ per day net after royalties), up 6.5 per cent (10.2 per cent net) over the prior year. Conventional oil volumes were held at 1983 levels by new drilling. An active heavy oil drilling program along with expansion of tertiary pilots contributed most significantly to higher rates of recovery.

Toward year-end, significant additions to oil production reached market from new properties. Promising wells were completed in southern Saskatchewan and central Alberta that are likely to lead to further development early in the new year. Initial performance of the Lindbergh pilot expansion is encouraging. With an active drilling program scheduled for the first half of 1985, the projection is for continued growth of production volumes from new drilling and new discoveries of both heavy and light crude in 1985.

Natural gas production averaged 700 000 m³ per day gross (558 000 m³ per day net) in 1984, up roughly 20 per cent from the year before. Increases resulted from a modest growth in demand, development drilling setting higher deliverability in several redetermined contracts, and placing two new properties on stream near year-end. Additional new volumes of natural gas production will reach market early in 1985.

An increase in revenue from the sale of oil and natural gas production was roughly 50 per cent from higher volume deliveries, and the remainder a result of higher prices. An expanded definition of new oil and a changing Canadian dollar relationship to U.S. currency increased average oil price by $12.90 per m³, seven per cent higher than 1983. The mix of natural gas production and improved pricing saw gas unit prices exceed 1983 by almost 20 per cent. Oil production of the Company is roughly 50 per cent old and 50 per cent NORP oil. We expect prices after deregulation to show a modest overall average gain.

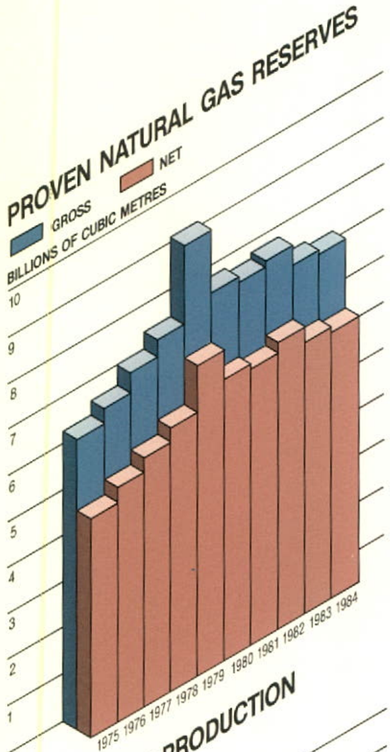
DEVELOPMENT DRILLING

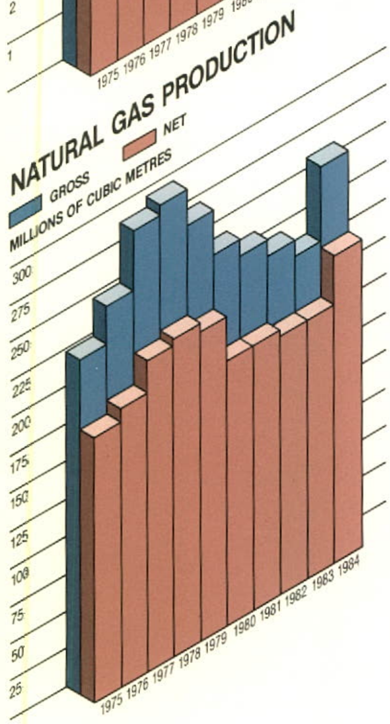
Of the 245 working interest wells (108 net) drilled during 1984, 205 were development locations for oil or gas production or service requirements. On a net basis, over 86 per cent of the development tests were cased, up from 81 per cent the year before. Heavy oil drilling once again dominated the statistics, with 58 per cent of the activity on a net well basis managed from Lloydminster.

As usual, Murphy's heavy oil development drilling was scattered along the fringes of Company-operated pools. Noted concentrations were at Wildmere, Hazeldine and Bodo in Alberta, along with Tangleflags and Eyehill in Saskatchewan.

Drilling in the conventional area resulted in a scattering of new wells largely in central Alberta with measurable gains at Countess, Three Hills and Sylvan Lake, and Neptune in Saskatchewan. Several discoveries at year-end are promising development opportunities for the new year.

Infill and pattern locations are being drilled at EOR projects such as at Swan Hills and at new enhanced recovery schemes such as Crystal to increase the potential of oil recovery. In that Murphy holds some interest in a broad scattering





of old quality properties, the Company expects this trend of new engineering reserve additions to continue well into the future.

RESERVES

The Company's gross oil and natural gas liquids year-end 1984 reserves of 5 081 000 m³ are up 160 000 m³, more than replacing production of 558 000 m³ and reversing a long-standing downward trend. On a net basis crude oil and natural gas liquids reserves reached 3 804 000 m³, up 219 000 m³ from year-end 1983. The net gain reflects the benefit of lower royalty new oil.

Additions result from active drilling, revisions due to improved recovery schemes including waterflood and miscible flooding, and adjustments based on recent engineering data. A backlog of development locations near recent discoveries should result in further additions.

Gross natural gas reserves at year-end 1984 totalled 7.2 billion m³, down .08 billion m³ from the estimate one year ago. Although 1984 drilling more than replaced the gross production of .256 billion m³, a negative revision to low economic value reserves in Saskatchewan offset the gains. A portion of the Dodsland Viking gas cap reverted to the original freehold owner without economic incentive to drill. The equivalent net Company gas reserves of 5.6 billion m³ were down by .15 billion m³ for the same reason.

Reserves as reported are estimates based on analyses by Company engineers. These estimates were audited late in 1984 by a major engineering company that determined Company estimates, on an equivalent barrel basis, to be reasonable and marginally understated. It is Murphy's intent to evaluate new additions by outside audit on an annual basis with a full audit every third year.

Murphy does not recognize probable reserves.

CONVENTIONAL OIL OPERATIONS

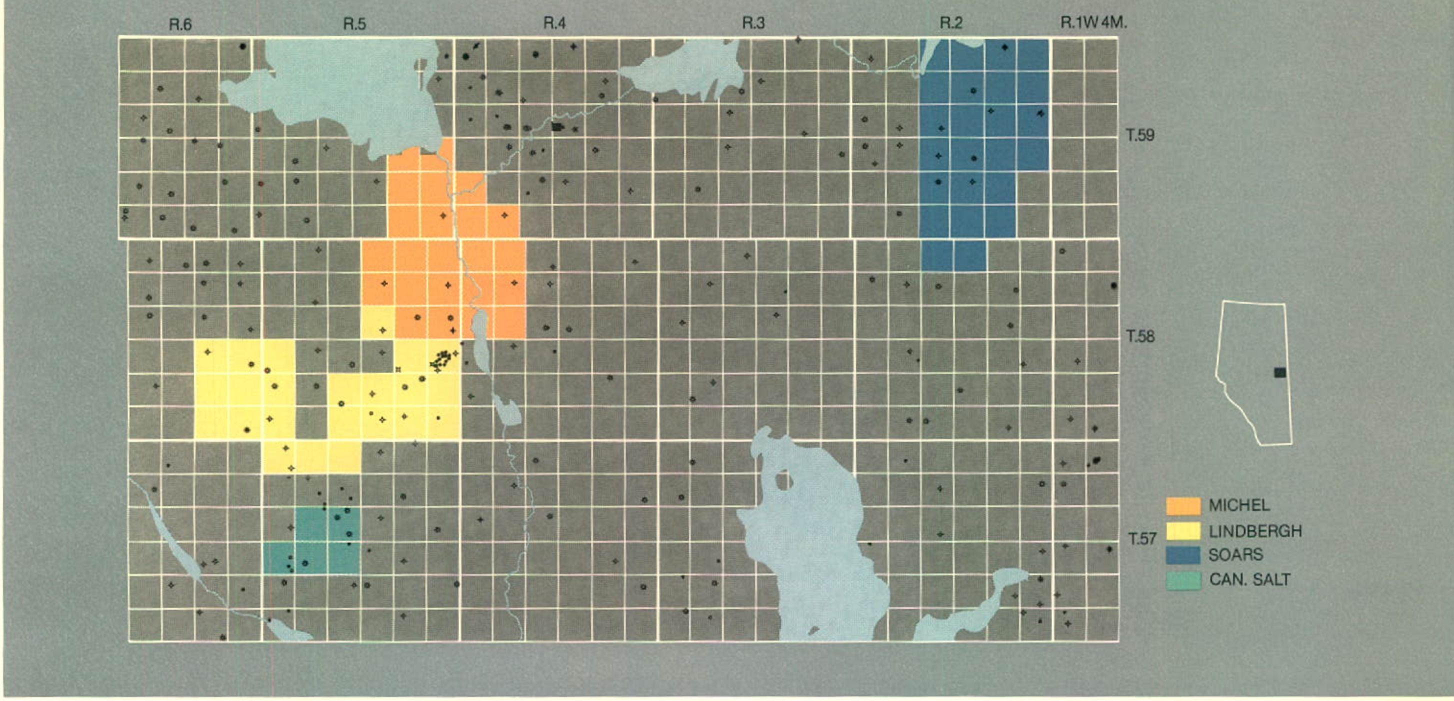
Company engineers continued their search for opportunities to increase recovery from operated properties, identify development or offset drilling prospects and control lifting costs. The staff is responsible as well for monitoring the activities of partners operating producing properties on behalf of Murphy.

- Development wells were drilled by Murphy at North Boundary Lake in British Columbia, Haynes and Leslieville in central Alberta and Countess, Cessford and Manyberries in southern Alberta, Dodsland and Parkman in Saskatchewan and Pierson in Manitoba.
- Encouraged by policies intended to provide incentive to extend enhanced recovery investment, Murphy interests at Rainbow, Mitsue, Nipisi, and Swan Hills in Alberta and Midale in Saskatchewan are undergoing capital development that will add new EOR reserves in the future once engineering projections are confirmed.
- A new waterflood at Crystal in Alberta is scheduled for an early 1985 start-up.
- Increasing production required the construction of central battery facilities at Sylvan Lake and Three Hills in Alberta and Neptune in Saskatchewan.

A high level of drilling activity is providing Murphy with a growing inventory of development investment opportunities.

NATURAL GAS OPERATIONS

Natural gas markets continue to significantly lag behind contracted volumes. Latest data indicates that in 1984 Canadian domestic and export



LINDBERGH AREA

sales rose by roughly five per cent from the year before. Changes that are likely to take place in pricing and export policy, along with a cooperative effort between marketer and producer, should strengthen opportunities for gas sales in the near term. New contracts are addressing the realities of the marketplace.

Through the last two years Murphy has directed exploration and drilling to oil-prone plays, while at the same time searching out current markets for some shut-in gas reserves of the Company. Several projects were completed or expanded in 1984:

- New facilities were installed at Airport and Elm in British Columbia for early 1985 testing and tie-in.
- Additional wells were tied-in and placed on stream at Glendon and Claresholm in Alberta.
- Solution gas is being conserved at Countess and Sylvan Lake in Alberta.
- Contract volumes were redetermined after a successful test at Princess in Alberta, and overriding royalty wells were converted to a working interest position at Jenner and Claresholm.

It is Murphy's view that the rate of growth of opportunities to market Canadian natural gas will accelerate. With that in mind the Company has set aside a larger fraction of 1985 budget funds for natural gas exploration and development.

HEAVY OIL OPERATIONS

Until 1984 Murphy held back investment in the heavy oil area to roughly the order of cash flow generated by the Lloydminster division. More favourable government policy and a growing awareness that heavy oils offer a special opportunity for future resource development in Canada, have influenced the strategy of the Company to the extent of accelerating development of heavy oil and bitumen in an area of activity that stretches from Bodo and Eyehill in the south, through Lloydminster to the southern reaches of Cold Lake.

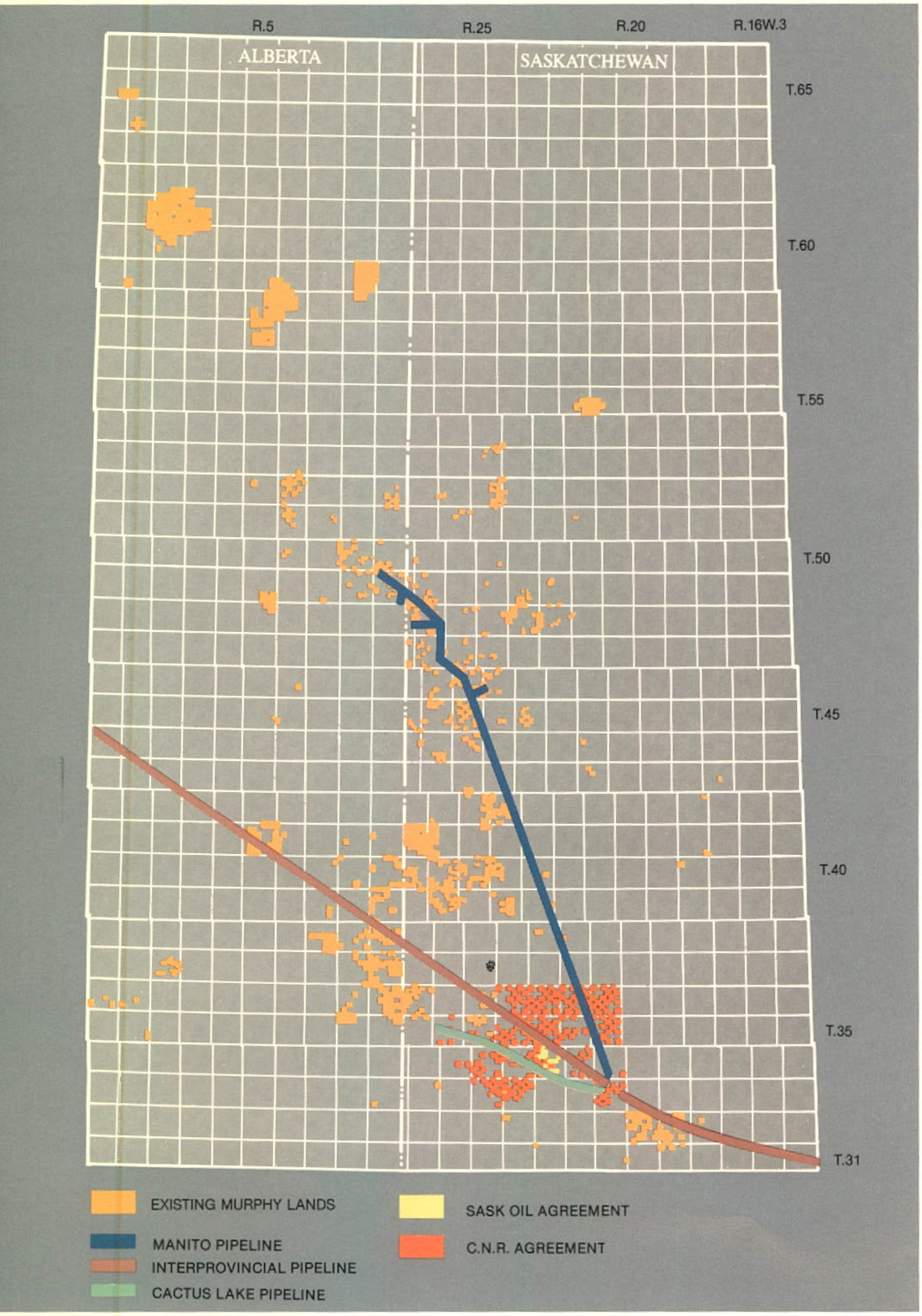
- Over 10 000 net hectares of leases with exploration and development potential were added to inventory and geophysical activity was increased to identify 1985 drilling prospects.
- Successful completions resulted in a 12.9 per cent increase in oil production during 1984, more than overcoming the normal heavy oil decline.
- New cleaning facilities were constructed at Morgan in Alberta.
- An ongoing review of old properties continues to uncover opportunities to increase recovery and productivity.

In the area of enhanced oil recovery, which offers, on the long-term, a significant potential to add reserves, Murphy is accelerating a program of investment intended to focus on identifying EOR investment opportunities.

- The Eyehill combustion pilot was expanded during 1984 converting the central pattern to a nine spot configuration. This project contributed profit during the year. It is also providing valuable technical information for projection of full scale development of this reservoir and similar occurrences in the area.
- Murphy is participating in an evaluation that is likely to lead to a steam pilot at Bodo joint ventured with AOSTRA.
- The Company has identified steam test locations at Senlac and Lloydminster.

With a most significant potential to impact future performance of Murphy,

HEAVY OIL AREA



the Company has organized plans to expand the Lindbergh pilot, initiated in 1974 in Cold Lake, to a commercial scale.

- The pilot was enlarged by two seven spot patterns in 1984 and early results confirm favourable performance. A long pilot history indicated an expectation of recoveries of a magnitude that can add economic reserves under favourable government policy.
- With the approval of FIRA, Murphy acquired all outstanding shares of F.W.B. Resources, Ltd. whose principal asset was Lindbergh area lands held jointly with the Company, thus, consolidating land ownership to 23 sections of 100 per cent leases and other holdings in the area varying from 50 to 75 per cent.
- Royalty and fiscal agreements have been negotiated with governments and an application is before the Energy Resources Conservation Board of Alberta for project approval.

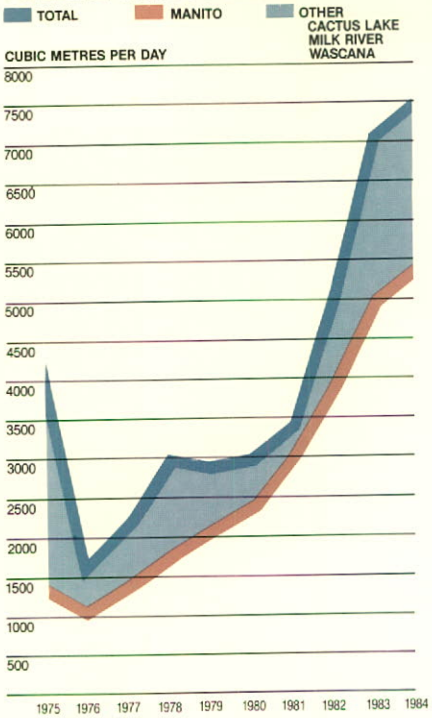
The Lindbergh project, if economics and market opportunities permit full development, involves four 400 m^3 per day stages. The first of these is scheduled for 1985 with investment of more than $30,000,000. Expansions are likely to be added in roughly two year increments. If all targets are met, commercial scale Lindbergh production and reserves should be added by year-end 1985.

OUTLOOK

Exploration successes and an acceleration of heavy oil activities have increased development investment opportunities for the Company. During 1985 Murphy expects to continue the trend of increasing oil production. Coupled with the Lindbergh project, capital spending will increase significantly through the new year.

SUPPLY AND TRANSPORTATION

PIPELINE THROUGHPUTS



CANADIAN HEAVY OIL SUPPLY AND DEMAND

Expanded drilling activity throughout western Canada is reflected in increased average throughput deliveries of the Manito, Cactus Lake and Milk River Pipelines operated by Murphy.

In the heavy oil area, the Manito Pipeline system transported an average of 5 497 m^3 per day of heavy oil blend and condensate, as compared to an average of 5 042 m^3 per day in 1983, reflecting a 9 per cent increase. The Cactus Lake Pipeline, a joint venture system operated by Murphy and delivering heavy crude oil to the Manito Kerrobert terminal, transported an average of 1 229 m^3 per day of heavy oil blend, compared to an average of 1 065 m^3 per day through 1983.

The Milk River Pipeline system in southern Alberta had a throughput volume of 606 m^3 per day, compared to 471 m^3 per day in 1983. The 1984 volume equalled the capacity of the U.S. connected carrier, therefore, all incremental barrels throughout the second half of the year were trucked to terminal facilities located at Santa Rita, Montana. A new and larger pipeline system is planned for construction during the second quarter of 1985 to facilitate further anticipated increased volumes from Milk River.

Supply and demand of Canadian heavy oil has been, over the past years, and continues to be, out of balance. The difference between supply and domestic demand, as shown on the accompanying chart, represents volume available for export to U.S. and other international refineries. Shut-in volumes of heavy crude oil did occur in the years 1979 through 1982. However since 1982 demand by U.S. refineries has exceeded available Canadian heavy crude oil supply.

Murphy's long range pipeline construction program continued with the expansion of the Manito condensate system. A new 300 horsepower condensate booster station at Unity, Saskatchewan and a new main pump at Kerrobert were added. Also, two new receipt stations were constructed in 1984: one with a lateral tie to Mobil Oil's facilities near Silverdale in the Lloydminster area, and the other to connect a new Saskoil battery to the Cactus Lake Pipeline at Plover Lake, Saskatchewan.

Furthermore, to complement the pipeline operations in the Milk River area, Murphy has submitted an application to the National Energy Board for a permit to construct a pipeline system extending from the existing Milk River terminal to near Wrentham, Alberta. Construction of this system is scheduled for the second quarter of 1985. Other feasibility studies were undertaken during 1984 in respect to possible 1985 construction of pipeline connections in the heavy oil areas of Saskatchewan and Alberta.

Murphy's crude oil and condensate acquisition program was updated to accommodate the expected deregulation of crude oil prices. A computer control system has been initiated to work with this aspect of the operations. The Company expects that this rapidly expanding portion of business will continue to grow and contribute profit.

Road oil sales and cleaning plant revenues compared favourably to 1983 figures, however, they did not meet the levels anticipated. On the other hand, trucking operations once again surpassed financial projections. The increase in drilling throughout western Canada, and in particular southeastern Saskatchewan, continued to bring new customers, therefore necessitating the further expansion of Murphy's trailer fleet.

The substantial upswing in heavy oil drilling projected for the next five years, an extensive analysis of heavy oil markets, pipeline capacities, and heavy oil diluent availability prompted Murphy to initiate a study into partial upgrading of heavy oils. Ten other companies and two provincial government agencies participated in these studies and tests were concluded at the end of the third quarter. The results have been analyzed throughout the fourth quarter and were found to be very encouraging. Recommendations will be submitted within the first quarter of 1985.

HUMAN RESOURCES

Despite a stagnant industry hiring trend during 1984, Murphy was in a favourable position to realize growth with the addition of 26 new positions. The largest increase in staff was required by the Production Department (11), followed by Information Systems (7). The work force at Murphy now stands at 271. While the majority of employees are based in Calgary (151), the rest are disbursed throughout operations in the provinces of Alberta, Saskatchewan and Ontario.

Recognizing the importance of developing people, the Employee Development Program through exposure to organizational, leadership and problem-solving skills, provided opportunities for management training directed to senior and middle managers. Murphy's inhouse supervision program was expanded to include field personnel, those destined for supervisory positions and representations from nonsupervisory staff. Seminars and conventions sponsored by professional associations and educational institutions enhanced employees' on-the-job experiences.

Murphy was asked to participate in a research project to evaluate its corporate culture and to identify its stress/burnout ratio. The Company was pleased to learn it fared well on both counts. Results indicated Murphy is a value-based company experiencing the lowest high-burnout population of any company researched.

Through annual awards, the Scholarship Program continues to assist employees' children in advancing their education. Murphy's Summer Student Program was extremely active during 1984 with 30 students participating. Feedback from the those students supported the validity and importance of both these programs.

The Company's Educational Assistance Program, directed to underwriting employees' tuition and textbook expenses for approved courses offered at technical schools and universities, was well utilized during 1984. Murphy was pleased to recognize those who received their professional accreditation and to champion their dedicated efforts.

Through the Corporate Donations Committee and the efforts of employees, Murphy contributes to social, cultural, educational, welfare and community projects across Canada. The Employee Gift Matching Program encourages individual support by matching dollar for dollar funds donated by staff members. The Company contributed to the annual United Way Campaign through both corporate and employee donations, and achieved a significant increase over prior years with an 88 per cent participation in 1984.

In keeping with the philosophy of Murphy, management recognizes the importance of its prime resource... its people.

FINANCIAL REVIEW

Consolidated revenues for the 1984 year totalled \$119,997,000, an 11 per cent increase over 1983. This increase is entirely due to revenue from the sale of crude oil and natural gas which, as well, offset inventory gains of the year before. Approximately one-half of the increase was a result of higher volumes of production. The remaining revenue gain was due to higher prices received for both crude oil and natural gas. Partially offsetting this were lower revenues from crude oil trading due to reduced volumes and reduced income from the sale of assets.

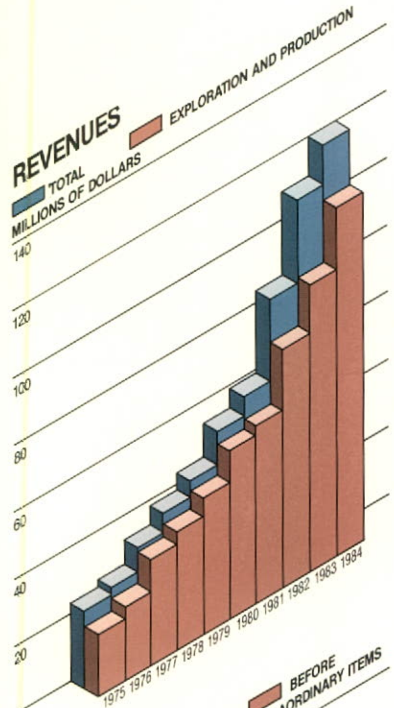
Consolidated net income for 1984 was \$20,020,000. Net income for 1983 totalled \$27,169,000, which included \$12,496,000, net of income taxes, from an extraordinary gain on the sale of marketing division assets coupled with nonrecurring gains on the reduction of inventories in preparation for that sale, and a one time sale of uncontracted natural gas reserves. Comparing "normalized" net income figures, 1984 results were 36 per cent higher than the prior year in spite of increased exploration costs. Exploration charges against income rose to \$15,972,000 from \$10,765,000 the year before.

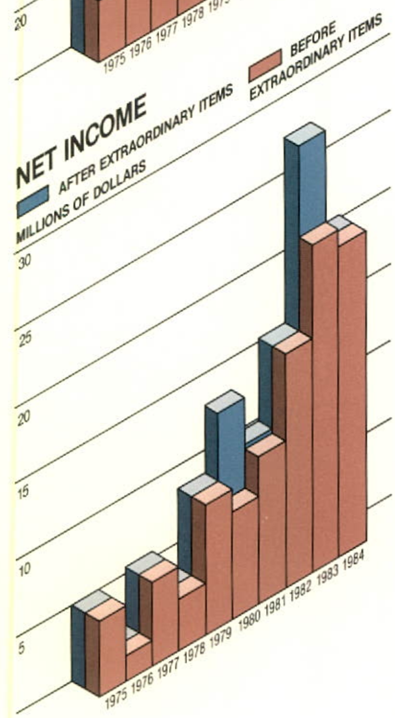
Cash flow for 1984 on a consolidated basis totalled \$51,960,000, compared to \$52,488,000 last year. The 1983 cash flow included \$9,221,000 of nonrecurring gains from the reduction of inventories. Comparing "normalized" figures, current year cash flow increased 20 per cent over 1983.

Exploration and production revenues were up significantly in 1984 compared to the prior year due to both volume and price increases. Crude oil and natural gas liquids production exceeded 1983 by 10 per cent and natural gas production was up 20 per cent. Higher average prices were received for crude oil as, for the most part, the volume increase was in new heavy crude sold at world market price levels. Higher average prices were also received for sales of natural gas. Lifting costs and petroleum and gas revenue tax for 1984 were higher than the prior year as a result of the increased production volumes.

Supply and transportation operations earnings for 1984 were reduced from the prior year as 1983 included a gain from the significant reduction of crude oil pipeline inventories, partly due to the sale of marketing division assets. Partially offsetting this were increases in margins from truck and pipeline transportation of crude oil. Supply and transportation increased earnings from ongoing business from \$9,804,000 to \$10,188,000 in 1984 before allowing for income taxes.

General and administrative expenses for 1984 were up over the prior year but were more than offset by increased interest income and reduced debt expense. Long-term debt was eliminated late in 1983 primarily from the sale of marketing assets, and funds were available during 1984 for short-term investment.





Income taxes were effectively higher in 1984 compared to the prior year due to the continued non-deductibility of royalty and petroleum and gas revenue tax on higher production, and the continued phase-out of depletion mandated by the National Energy Program. Of even greater significance were the increased cash disbursements to federal and provincial governments for production and income taxes. The 1984 disbursements for petroleum and gas revenue tax and income tax totalled $28,428,000 compared to $21,501,000 during 1983, or a 32 per cent increase. Alberta as well eliminated $2,000,000 of small explorer's credits that would normally have flowed through to net income.

CAPITAL EXPENDITURES

Capital expenditures for 1984 reached a record level and totalled $71,926,000. This represents a significant 63 per cent increase over 1983. Exploration expenditures totalled $23,497,000 or almost 33 per cent of the total. Exploratory costs were divided between land acquisitions, geological and geophysical, and exploration drilling. Production expenditures totalled $27,251,000 of which 65 per cent was for development drilling and 30 per cent was for field development.

The normal capital budget, financed largely by cash flow, was supplemented in order to initiate plans for accelerated enhanced oil recovery investment. Enhanced oil recovery expenditures reached $18,252,000. Most of this investment was directed to the Lindbergh, Alberta project and included $10,000,000 to acquire additional working interest in lands. The Company now holds a 100 per cent working interest in Lindbergh leases and controls interest in surrounding lands.

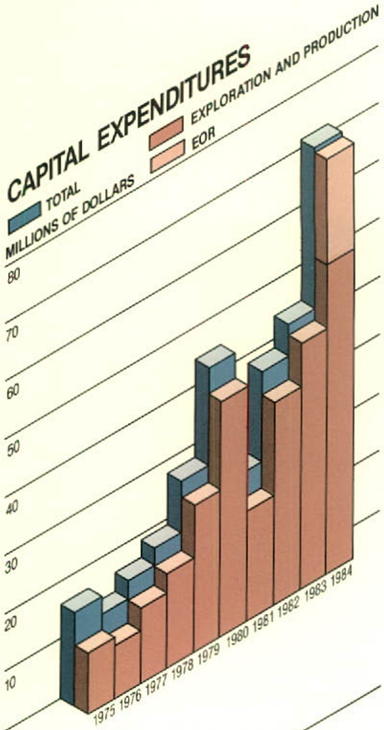
SOURCES AND USES OF FUNDS

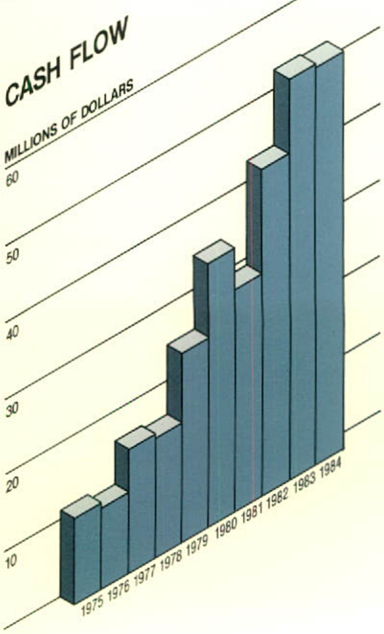
The primary source of funds was through normal operating functions which generated $51,960,000 or 90 per cent of total funds available. The balance was provided by long-term debt resulting from the acquisition of the remaining working interest in the Lindbergh-Michel area. Working capital was reduced by $19,436,000 to supplement cash from operations in supporting the record level capital program accomplished this year. In addition $3,778,000 was distributed to shareholders. The dividend payment for 1984 was 30 cents per share compared to 15 cents per share last year and was distributed semi-annually.

FINANCIAL CONDITION

The Company's balance sheet continues to be very strong. The excess cash on hand at the beginning of 1984 was invested throughout the year in a secure money market at the highest yield for this market. Total assets increased 19 per cent to $301,921,000. Long-term debt at year-end was $4,524,000 and represents the assumption of debt attributable to the acquired enterprise which held the remaining working interest in the Lindbergh-Michel area.

During the past year the Company has been developing a plan to expand, to a commercial basis, its enhanced oil recovery pilot project at Lindbergh, Alberta. In 1985 the Company will implement these plans in addition to an aggressive exploration and conventional production development program. To support these expenditures, which will exceed internally generated funds, the Company plans to use the excess cash available and a small portion of its





borrowing capacity. Management's efforts will be directed toward the implementation of these programs while ensuring that the Company maintains a very strong financial position.

INFLATION

The accompanying financial statements are prepared on the basis of historical cost and do not disclose a prediction of the effect of inflation on the financial performance of the Company. The Canadian Institute of Chartered Accountants has suggested guidelines for reporting the effects of changing prices. The Company has considered the guidelines and has decided not to present such information on the basis that, due to a lack of standardization in the preparation of data across industries, it would be misleading to the shareholder especially for the financial reports of a resource company.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 1984 and 1983
(thousands of dollars)

	1984	1983
REVENUES		
Sales and operating revenues	$117,722	101,384
Interest and other income	2,275	7,170
Total revenues	119,997	108,554
COSTS AND DEDUCTIONS		
Crude oil and related operating expenses	27,058	21,991
Exploration costs including amortization of undeveloped leaseholds	15,972	10,765
Selling, general and administrative	10,453	9,317
Interest on long-term debt	129	1,109
Interest – other	980	555
Depreciation and amortization	4,917	3,917
Depletion	6,816	6,212
Total costs and deductions	66,325	53,866
Income from continuing operations before taxes and extraordinary item	53,672	54,688
TAXES		
Petroleum and gas revenue tax	11,085	8,906
Income taxes		
Current	17,343	12,595
Deferred	5,224	10,886
Total income taxes	22,567	23,481
Total taxes	33,652	32,387
Income from continuing operations before extraordinary item	20,020	22,301
Income (loss) from discontinued operations	—	(1,051)
Income before extraordinary item	20,020	21,250
Extraordinary item	—	5,919
NET INCOME	$ 20,020	27,169
Income per share		
Income from continuing operations before extraordinary item	$ 1.59	1.77
Income (loss) from discontinued operations	—	(.08)
Extraordinary item	—	.47
Net income	$ 1.59	2.16

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

December 31, 1984 and 1983
(thousands of dollars)

	1984	1983
ASSETS		
Current assets		
Cash and short-term deposits	$ 19,073	33,965
Accounts receivable	62,129	49,717
Due from parent company	7,522	4,107
Inventories	17,638	14,813
Deferred income taxes	291	146
Total current assets	106,653	102,748
Property, plant and equipment – net	192,088	148,665
Other assets – at cost	3,180	2,649
	$301,921	254,062
LIABILITIES		
Current liabilities		
Bank loans	$ 19,010	4,325
Accounts payable and accrued liabilities	65,207	54,336
Income and other taxes payable	9,389	12,104
Current portion of long-term debt	500	–
Total current liabilities	94,106	70,765
Long-term debt	4,524	–
Deferred credits		
Deferred income taxes	46,503	42,164
Other	11,434	11,728
Total deferred credits	57,937	53,892
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 12,572,826 shares, 1983 - 12,585,149 shares	4,271	3,779
Retained earnings	141,083	125,626
Total shareholders' equity	145,354	129,405
	$301,921	254,062

Approved on behalf of the Board of Directors

Director

Director

See accompanying notes.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 1984 and 1983
(thousands of dollars)

	1984	1983
Retained earnings, beginning of year	$125,626	100,344
Net income	20,020	27,169
Dividends	(3,778)	(1,887)
Purchase of common shares	(785)	—
Retained earnings, end of year	$141,083	125,626

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1984 and 1983
(thousands of dollars)

	1984	1983
SOURCES OF FUNDS		
From operations	$ 51,960	52,488
Increase in long-term debt	4,597	—
Net proceeds from sale of marketing assets	—	30,799
Less: working capital	—	(6,799)
Proceeds from sale of property, plant and equipment	902	2,694
Increase in other deferred credits	—	2,059
Issue of common shares	504	279
Total sources of funds	57,963	81,520
USES OF FUNDS		
Capital additions		
Oil and gas properties	60,431	35,997
Exploration	9,438	6,331
Supply and transportation	1,027	306
Marketing	—	1,466
Retirement of long-term debt	73	15,040
Increase in other assets	531	156
Decrease in deferred credits	1,324	—
Dividends	3,778	1,887
Purchase of common stock	797	—
Total uses of funds	77,399	61,183
INCREASE (DECREASE) IN WORKING CAPITAL	(19,436)	20,337
Working capital, beginning of year	31,983	11,646
Working capital, end of year	$ 12,547	31,983

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1984 and 1983

1 SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation
The consolidated financial statements include the accounts of Murphy Oil Company Ltd. and its subsidiary companies. The Company operated as an integrated oil and gas company prior to the disposal of its marketing assets on December 1, 1983 and now operates as an explorer, developer and producer of hydrocarbons primarily in Western Canada.

b) Property, plant and equipment
The Company follows the successful efforts method of accounting for costs of oil and gas properties. Exploratory drilling costs are initially capitalized, however, if determined to be unsuccessful they are charged to expense. All other exploratory costs, including geological and geophysical expenses, are charged to expense as incurred. All development costs, including dry holes, are capitalized.

The costs of undeveloped leaseholds are capitalized when acquired and are amortized over the life of the lease. 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:

Pipelines	5%
Other	5% to 50%

c) Inventories
The inventories are stated at lower of cost and net realizable value. Crude oil inventories 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 and certain pipeline 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.

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 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 $15,901,000 (1983, $16,686,000).

2 INVENTORIES

	1984	1983
	(thousands of dollars)	
Crude oil	$ 16,467	14,019
Other	1,171	794
	$ 17,638	14,813

Inventories valued at cost under the last-in, first-out method totalled $16,467,000 at December 31, 1984 and $14,019,000 at December 31, 1983. These amounts were $608,000 and $612,000 respectively, less than such inventories would have been valued using the first-in, first-out method.

3 PROPERTY, PLANT AND EQUIPMENT

	December 31, 1984				
		Allowance for			Net Book
	Cost	Depreciation	Depletion	Amortization	Value
		(thousands of dollars)			
Developed oil and gas properties	$226,039	24,507	50,630	—	150,902
Undeveloped oil and gas properties	45,965	—	—	17,954	28,011
Pipelines	12,779	4,062	—	—	8,717
Other properties	8,341	3,883	—	—	4,458
	$293,124	32,452	50,630	17,954	192,088

	December 31, 1983				
		Allowance for			Net Book
	Cost	Depreciation	Depletion	Amortization	Value
		(thousands of dollars)			
Developed oil and gas properties	$179,675	21,025	45,070	—	113,580
Undeveloped oil and gas properties	36,780	—	—	14,336	22,444
Pipelines	11,752	3,665	—	—	8,087
Other properties	6,534	1,980	—	—	4,554
	$234,741	26,670	45,070	14,336	148,665

4 LONG-TERM DEBT

	1984	1983
	(thousands of dollars)	
Bank loan, non-recourse as to principal, bearing interest at prime and repayable from the net cash flow of certain oil properties.	$ 5,024	—
Less current portion	500	—
	$ 4,524	—

5 INCOME TAXES

The total income taxes charged to earnings of $22,567,000 in 1984 and $23,481,000 in 1983 resulted in an effective rate of 42 per cent and 43 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 income from continuing operations before taxes and extraordinary item. The reasons for these differences are as follows:

	1984	1983
	(thousands of dollars)	
Computed "expected" tax expense	$25,797	26,682
Additions to income taxes resulting from		
Royalties, lease rentals and mineral taxes payable to the Crown	13,072	12,807
	38,869	39,489
Reductions in income taxes resulting from		
Resource allowance on Canadian production income	11,350	9,721
Earned depletion on Canadian production income	1,477	1,087
Royalty credit and rebates receivable from the Provinces	2,355	4,693
Investment tax credits	1,120	507
	$22,567	23,481

6 ACQUISITION OF F.W.B. RESOURCES, LTD.

On November 9, 1984, the Company acquired the shares of F.W.B. Resources, Ltd. for a net cash payment of $4,800,000 and the assumption of existing debt of $5,097,000.

The values assigned are summarized as follows:

	(thousands of dollars)
Oil and gas properties	$ 8,969
Deferred income taxes	1,030
	9,999
Long-term debt assumed	(5,097)
Working capital deficit assumed	(102)
Net cash payment	$ 4,800

The operations of F.W.B. Resources, Ltd. have been included in the accounts of the Company since November 9, 1984. Liquidation proceedings were in process at December 31, 1984 and all assets were transferred to Murphy Oil Company Ltd.

7 SALE OF MARKETING ASSETS

On December 1, 1983, the Company sold all marketing assets of a subsidiary for $32,880,000 resulting in an extraordinary gain of $5,919,000 (net of $2,081,000 in income taxes).

The following is a summary of operations which have been discontinued:

	For the period ended Nov. 30, 1983
	(thousands of dollars)
Revenues	$79,745
Costs and deductions	80,800
Loss before income taxes	1,055
Income tax recovery	4
Net loss	$ 1,051

8 COMMON SHARES

a) Acquisition of Company shares
During the year the Company gave notice of its intention to make a Normal Course Issuer Bid through the facilities of The Toronto Stock Exchange and the Montreal Stock Exchange for the purchase of up to 150,000 of its outstanding common shares. At December 31, 1984, 35,000 shares have been purchased for the aggregate value of $796,555. Share capital has been reduced by the average value of each share on the Company's books at the time of acquisition times the number of shares purchased. The total reduction in share capital amounted to $11,648 with the balance of $784,907 charged against contributed surplus.

b) Share option plan
Under the terms of the share option plan, 400,000 common shares of the Company were 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, 1984 options have been exercised for an aggregate of 88,840 shares and 135,220 remain available under the plan for the granting of options. Outstanding options to purchase 175,940 shares in 1984 and 172,820 shares in 1983, at prices ranging from $8.00 to $22.50 per share, are exercisable to February 16, 1994.

During the 1984 year, options to purchase 36,000 shares were granted, 3,160 forfeited and options to purchase 29,720 shares were exercised. The net number of shares issued relating to the exercised options was 22,677 shares (gross 29,720 shares) valued to the Company at $504,212. For 1983, options to purchase 42,500 shares were granted, 13,040 forfeited and options to purchase 27,440 shares were exercised. The net number of shares issued relating to the exercised options was 14,523 shares (gross 27,440 shares) valued to the Company at $278,636.

Since inception of the plan to December 31, 1984, 59,118 shares have been issued pursuant to exercise of options valued to the Company at $1,145,834.

9 COMMITMENTS AND CONTINGENCIES

The Company has entered into a long-term contract to lease office space. The annual rentals to November 1, 1987 are $1,218,000. In addition, the lease provides that the Company is responsible for the payment of property taxes and operating expenses.

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.

AUDITORS' REPORT TO SHAREHOLDERS

We have examined the consolidated balance sheets of Murphy Oil Company Ltd. as at December 31, 1984 and 1983 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, 1984 and 1983 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 8, 1985

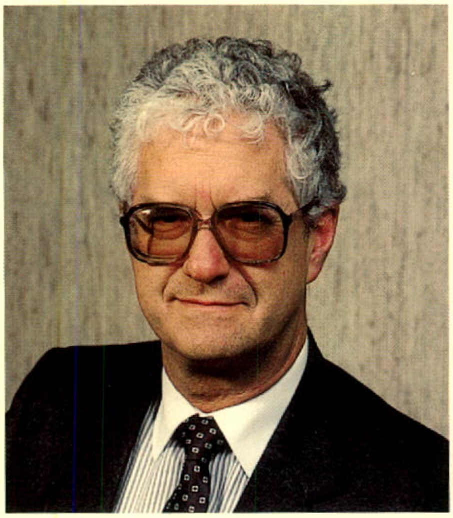
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

TEN YEAR STATISTICAL SUMMARY
(thousands of dollars except per share amounts)

	1984	1983
FINANCIAL		
Revenues		
Oil and gas sales	$103,336	84,496
Supply and transportation	14,386	16,888
Other revenue	2,275	7,170
Total revenues*	119,997	108,554
Income before extraordinary items†	20,020	21,250
Income per share before extraordinary items**	1.59	1.69
Extraordinary items	—	5,919
Net income†	20,020	27,169
Net income per share**	1.59	2.16
Cash flow	51,960	52,488
Cash flow per share**	4.13	4.17
Capital expenditures		
Exploration and production	70,899	42,328
Marketing	—	1,466
Supply and transportation	1,027	306
Total capital expenditures	71,926	44,100
Working Capital††	12,547	31,983
Total assets††	301,921	254,062
Long-term debt††	4,524	—
OPERATING		
Gross crude oil and NGL produced (thousands of cubic metres)	558	523
Net crude oil and NGL produced (thousands of cubic metres)	421	381
Gross natural gas produced (millions of cubic metres)	256	211
Net natural gas produced (millions of cubic metres)	204	171
Net oil and gas wells owned††	1,103	1,069
Net undeveloped property†† (thousands of hectares)	269	251
Gross proven oil and gas liquid reserves†† (millions of cubic metres)	5.1	4.9
Net proven oil and gas liquid reserves†† (millions of cubic metres)	3.8	3.6
Gross proven natural gas reserves†† (billions of cubic metres)	7.2	7.3
Net proven natural gas reserves†† (billions of cubic metres)	5.6	5.7
SHAREHOLDERS AND EMPLOYEES		
Number of common shares outstanding**††	12,572,826	12,585,149
Number of common shareholders††	935	1,023
Number of employees††	271	237
Salaries, wages and benefits	$ 9,668	12,333

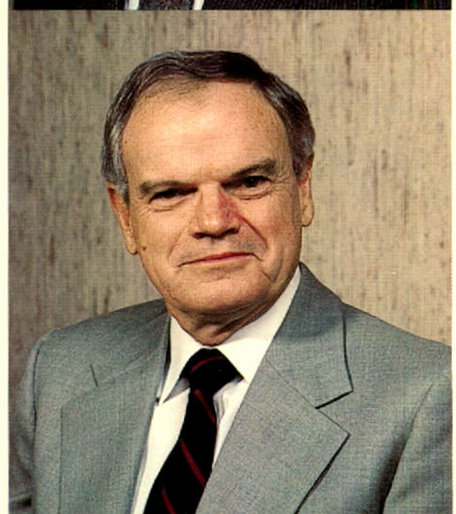
* Restated for 1982 and prior years to reflect sale of marketing assets
† Restated for 1978 and prior years to reflect successful efforts method of accounting
** Restated for 1982 and prior years to reflect two for one share split
†† Year-end

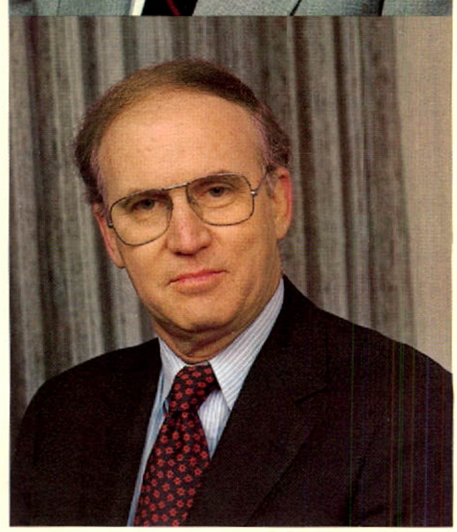
	1982	1981	1980	1979	1978	1977	1976	1975
	71,006	52,502	49,141	40,424	35,766	30,622	23,924	19,218
	6,954	2,506	3,218	2,394	1,950	1,515	993	1,784
	5,360	3,437	692	76	142	482	477	1,867
	83,320	58,445	53,051	42,894	37,858	32,619	25,394	22,869
	15,224	9,341	7,241	8,183	3,139	5,589	1,492	5,038
	1.21	0.74	0.58	0.65	0.25	0.45	0.12	0.40
	—	600	5,840	—	—	—	—	—
	15,224	9,941	13,081	8,183	3,139	5,589	1,492	5,038
	1.21	0.79	1.04	0.65	0.25	0.45	0.12	0.40
	42,595	28,783	34,108	24,597	15,755	16,040	10,159	11,091
	3.39	2.29	2.72	1.96	1.26	1.28	1.31	0.88
	34,955	18,295	40,950	25,475	15,427	12,619	8,953	10,008
	3,001	1,356	1,577	1,490	3,375	2,548	4,358	5,741
	542	3,759	1,501	1,329	276	405	8	278
	38,498	23,410	44,028	28,294	19,078	15,572	13,319	16,027
	11,646	18,702	11,398	3,660	8,614	15,327	14,761	17,568
	250,675	219,494	203,260	157,689	140,598	149,680	131,349	132,559
	26,664	35,156	44,263	25,539	30,646	30,000	30,000	30,000
	504	479	577	552	545	562	548	585
	356	322	375	358	354	362	401	431
	218	230	239	271	291	286	248	224
	171	176	176	203	210	206	185	177
	1,019	965	930	868	800	751	704	624
	261	290	385	1,053	1,183	1,192	1,213	1,246
	5.0	5.0	5.4	6.0	6.4	6.5	6.5	6.9
	3.6	3.3	3.5	3.8	4.0	4.1	4.3	5.1
	7.8	7.7	7.8	9.1	7.4	7.0	6.6	6.3
	6.1	5.8	5.9	6.7	5.5	5.2	4.9	4.7
	12,570,626	12,568,638	12,551,144	12,548,708	12,548,708	12,548,708	12,548,708	12,548,708
	1,179	1,407	1,439	1,429	1,566	1,565	1,497	1,549
	296	276	264	276	296	326	297	287
	9,973	8,191	7,201	6,546	6,462	5,764	4,937	4,254



DIRECTORS

Top Row, Left to Right
Robert G. Farquharson
George S. Dembroski
Thomas S. Dobson
Centre Row, Left to Right
F. Richard Matthews, Q.C.
B. Harold Monzingo
Bottom Row, Left to Right
Robert J. Sweeney
Lorne C. Webster





CORPORATE DIRECTORY

HEAD OFFICE
1700, 800 - 6th Avenue S.W.
Calgary, Alberta
T2P 3Y3
Telephone (403) 294-8000

District Office
P.O. Box 12
Lloydminster, Alberta
S9V 0X9

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 Pitfield 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 Executive 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

*Member, Audit Committee

OFFICERS
Robert G. Farquharson
President & Chief Executive Officer

Robert T. McLean
Vice-President, Production

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

REGISTRAR AND TRANSFER AGENT
The National Victoria and Grey Trust Company
Calgary, Alberta

AUDITORS
Peat, Marwick, Mitchell & Co.
Calgary, Alberta

STOCK LISTED
The Toronto Stock Exchange
Montreal Stock Exchange
Symbol MO

Printed in Canada