

MURPHY
Oil Company Ltd.



Annual Report 86

CORPORATE PROFILE

Murphy Oil Company Ltd. is a federally chartered Canadian corporation with headquarters in Calgary, Alberta and listed on both the Toronto and Montreal Stock Exchanges. The Company is engaged in the exploration for, and development and production of, conventional and heavy crude oil and natural gas with major concentration in the western Canada sedimentary basin. In association with these activities, Murphy 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, U.S.A., which owns 77.2 percent of the outstanding shares of the Company.

Cover Design

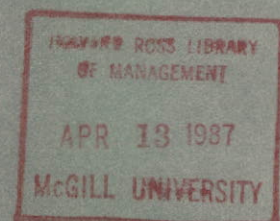
The blind embossed totem design represents the three major aspects of Murphy Oil's business – exploration, production and transportation.

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Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held in the Glencoe Room of the Calgary Convention Centre in Calgary, Alberta, Thursday, the 30th day of April 1987, at 2:00 p.m. (M.D.T.)



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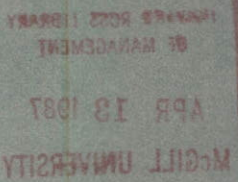
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HIGHLIGHTS

FINANCIAL

(thousands of dollars except per share amounts)

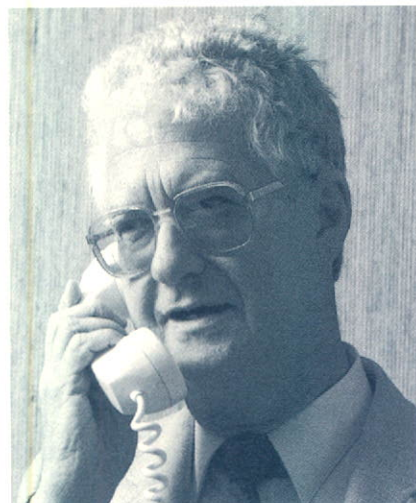
	1986	1985
Revenues	\$ 84,190	130,866
Net Income (loss)	(18,489)	21,088
Per Share	(1.47)	1.68
Cash Flow	41,825	62,760
Per Share	3.33	5.00
Capital Expenditures	38,142	77,981
Working Capital*	11,447	11,362
Total Assets*	256,179	362,851
Shareholders' Equity*	141,598	162,060

*Year-end.

OPERATING

	1986	1985
Gross crude oil and natural gas liquids production		
- cubic metres per day	1,482	1,635
- barrels per day	9,325	10,290
Net crude oil and natural gas liquids production		
- cubic metres per day	1,215	1,270
- barrels per day	7,646	7,995
Gross natural gas production		
- thousands of cubic metres per day	746	723
- Mcf per day	26,495	25,657
Net natural gas production		
- thousands of cubic metres per day	613	585
- Mcf per day	21,752	20,758

LETTER TO THE SHAREHOLDERS



The year 1986 will be long remembered by the Canadian petroleum producing industry. Many executives seemed unprepared for a severely negative business cycle unlike any that had affected this industry for decades despite supply-demand economic factors that clearly indicated the possibility of instability. The effect of the price downturn was magnified in comparison to the buoyant attitude towards energy investment through late 1985 and recent plans incorporating expectations for prices trending ever upwards. Much rationalization has followed.

The slide in oil price has cut deeper and lasted longer than early prognoses had anticipated. By year-end the extent of fluctuations had dampened, settling on a price range about mid-way between the depth of the price drop and the price in early January of the year. A flurry of year-end activity, along with growing optimism particularly from those companies with strong balance sheets, did not mask the fact that conditions which led to the problem still exist and the industry is now operating at half-speed.

Murphy recognized the potential extent of the downturn at an early date in the first quarter of 1986. In a word, our strategy for the year became consolidate. Plans for capital spending were cut to meet projected cash flow in a scenario of regular analysis and adjustment with each major price shift. Staff was reduced by attrition throughout the year and with an unfortunate inevitability by a deliberate cut in

October to a level less than 80 percent of the January peak. Production and overhead costs were trimmed. Our goal was a leaner operation better equipped to deal with the new economic realities by preparing to take advantage of a strong balance sheet and operating team in facing challenging but quality investment opportunities. As expected, the economic downturn is making available prospects and assets withheld from the market in better times.

Net income and cash flow from operations came very close to meeting downscaled expectations. To equip the Company to deal with the economic outlook, the Board of Directors approved a non-cash write-down of assets that totalled roughly \$24 million after tax and resulted in a reported loss. With the help of strong performance by the Supply and Transportation Division, cash flow proved reasonably resilient considering the extent that oil prices had fallen. Recognizing the realities of the changed environment, the Board of Directors approved each payment of the semi-annual dividend of the Company but reduced the amount by one-third. In an effort to reduce capital spending to the level of cash flow, the most significant fallouts from the planned program were the start-up of the Lindbergh project and exploration seriously curtailed through mid-year as much of the revised exploration budget was employed for first quarter winter drilling. Exploration did however pick up at year-end and with measurable success.

Despite a very difficult 12 months, the year closed for Murphy on a positive note. Oil prices appear to have stabilized well above the July low as OPEC shows signs of reinstating at least a measure of influence. The heavy oil price is hovering at a level that could lead to a cautious Lindbergh start-up. Natural gas prices have not fallen as much as expected following deregulation and the long-term

outlook for increased gas sales and income is good. Within weeks of year-end a renewed exploration effort resulted in five promising extensions or discoveries, mostly light oil.

In the last quarter of 1986 Murphy negotiated a major farmin in the Trout-Kidney region of the east Peace River Arch and committed to seven Keg River test wells in an area that complements other Company lands. Three of five Murphy interest wells drilled over year-end have been cased for productive light oil, while three earning wells have yet to be started. A discovery in the Peace River country of north-central Alberta and an extension to the Plover-Luseland channel trend in Saskatchewan were added to a growing list of oil development locations that will be drilled later this year.

The most serious effects of the price drop were felt in the heavy oil area. For some reason yet unclear, the gap between light and heavy prices has widened. Many wells were shut-in particularly at the low price netback of July. Recently strengthened prices have permitted many of these wells to return to production and heavy oil did in fact contribute cash flow and income to Murphy throughout the year. Growing light oil production helped to hold the decline of overall liquids production of the Company in 1986 to roughly five percent when compared to the year before.

Construction of the Lindbergh project, which will in time make a measurable contribution to the financial performance of Murphy, was completed in the spring of the year. Start-up has been deferred until some probability of price stability is assured at a profitable level. The expanded pilot was operated through 1986 with a small but positive contribution to cash flow. Technical performance continues to outstrip engineering expectations. At the time of writing this letter the Lindbergh crude price is sufficient to slowly

steam and turn on new wells, however, serious thought to full scale start-up will be left until late spring defines trends of prices and markets.

Natural gas production in a down market is increasing with new properties coming on stream. The major contributor in 1986 was Retlaw in southern Alberta but new volumes were also turned on at lesser rates from scattered other properties where Murphy owns a working interest. As we believe the end of the waiting period for new gas sales is finally approaching, more effort in the future will be directed to identifying gas reserves. The full impact of gas deregulation of November 1 is not yet fully clear, except perhaps for the position of eastern Canadian consumers who seem to want as usual special treatment in what was to be a free market.

Once again I feel a need to register disappointment at the slow reaction of governments to the present plight of this industry and the associated service business. Measurable actions taken did include a temporary beefing up of drilling incentives in June and some reduction of royalties along with enhanced royalty holidays for new exploration in September by Alberta, the final demise of the National Energy Program with early elimination of the Petroleum and Gas Revenue Tax by the federal government in October, and some adjustments to royalties and incentive programs in Saskatchewan very late in the year. All of these together, while positive in direction, fall far short of creating strong incentive to invest. We are somewhat encouraged by a growing concern for a national goal that at least recognizes the sense of securing as much indigenous supply as economically feasible. Surely this will lead to tax and royalty regulations directed towards promoting work in the frontiers and in the heavy oil and oil sands regions. Albertans seem to be asking themselves more frequently

why this resource extraction industry is treated differently than others and why the province is left to its own devices, except in times of economic prosperity.

We continue to favour those arguments and evidence that suggests crude oil price will recover slowly from an average for 1987 of approximately \$18.00 per barrel. Natural gas prices are likely to remain well below parity on an energy equivalent basis but should close the wide gap of today as demand strengthens in keeping within a scenario that expects traditional sources of natural gas to decline. If these conditions prevail, new investments must on average be of a higher quality than those of recent years and, in fact, we expect good opportunities to surface from the inventory of troubled competitors.

The assets of the Company were evaluated in terms of the present economic scenario and resulted in an asset write-down as set out in the financial statements. The components of the write-down include devalued land, depreciation of certain producing properties and a write-off of some non-producing leases with probable reserves that were thought to be economic at higher prices but must await substantial recovery of price before reinstatement. Enhanced oil recovery projects and heavy oil properties were most affected in adjusting to the near future oil economy.

Reserves were particularly difficult to assess. At year-end using the rules and definitions that conform to U.S. Financial Accounting Standards, economic oil reserves would be down by roughly 20 percent. At today's price most of those reserves have returned to current economic status. We have graphically shown these limits with the knowledge that it takes but a modest price recovery to restore the full volume. Natural gas reserves of the Company have been very little affected by current energy prices.

On balance, 1986 was a very difficult year for the industry but it closed with some positive signals, particularly here at Murphy. We are presently preparing to drill new development opportunities for heavy and light oil production. Natural gas sales are increasing. The Supply and Transportation Division has identified new projects designed to maintain a major contribution to cash flow and income. During the fourth quarter the Wascana Pipeline in Saskatchewan was reactivated and will develop a new income stream. Although we have not as yet identified the right acquisition opportunity, the quest for quality land and reserve assets continues. There is some evidence that governments are still searching for meaningful ways to improve further the investment capacity of the industry. With low debt and a strong balance sheet, Murphy is well positioned to react. With stability, Lindbergh and other enhanced oil recovery prospects will begin to play their role in the growth of reserves and income.

The most difficult task of the year was to deliberately downsize staff. To those that remain the road ahead, though seemingly brighter, will be a difficult one. To those that are no longer with the Company, my continued regrets for having to tighten controls in the interest of the enterprise and I do hope that a recovering economy will repair any disruptions. We expect the energy economy in Western Canada to strengthen with time. New confidence in a better managed industry will follow energy policy that must recognize the many opportunities left to exploit profitably to the benefit of the country.



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

February 25, 1987
Calgary, Alberta

EXPLORATION/ PRODUCTION SUMMARY

Exploration and production activities continued at a high level from the last quarter of 1985 through the first quarter of 1986. It became apparent as crude oil prices continued to decline, that activity would have to be curtailed once commitments made during the winter drilling season were completed. The first controls to be imposed were on geological and geophysical projects as well as exploration drilling. Land acquisition was also significantly reduced.

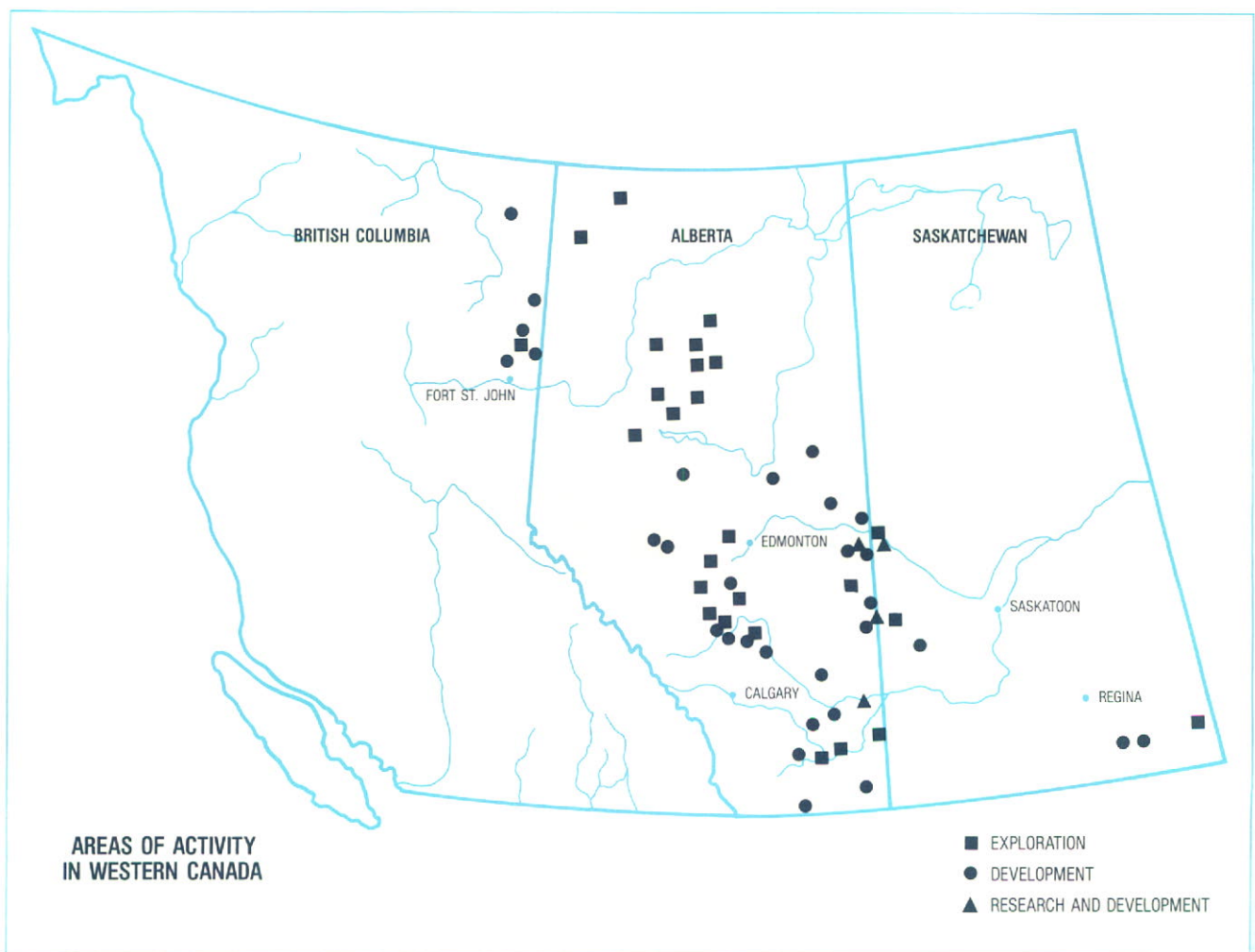
Development projects undertaken at the beginning of the year were completed. New projects were critically reviewed and only those with high return potential were initiated. The Lindbergh Enhanced Oil Recovery Project near Elk Point, Alberta was essentially complete by the end of the first quarter of 1986 but production has been delayed until crude oil prices return to the level at which cash flow is achieved.

The effect of the downturn is clearly indicated by drilling activity. A total of 79 gross (40 net) wells in which the Company had a working interest were drilled during 1986. This compares to 312 gross (165 net) wells drilled during 1985. Of the total wells drilled this year, 49 were completed as oil wells and 6 were completed as gas wells.

The year closed on a more positive note. During the last quarter the Company successfully negotiated a significant farmin package in northern Alberta. With some increase in crude oil prices and drilling incentives introduced by the province of Alberta during the last quarter of 1986, several exploration wells were spudded and preliminary results indicate the possibility of success.

WORKING INTEREST DRILLING RECORD

	1986		1985	
	Gross	Net	Gross	Net
EXPLORATION				
Conventional Oil Wells Completed	11	5.7	17	10.0
Heavy Oil Wells Completed	5	2.0	12	6.4
Gas Wells Completed	3	1.3	16	7.5
Dry Holes	17	7.9	36	19.0
	36	16.9	81	42.9
DEVELOPMENT				
Conventional Oil Wells Completed	11	2.8	71	15.5
Heavy Oil Wells Completed	22	13.7	121	87.9
Gas Wells Completed	3	1.8	9	1.1
Service Wells	1	.1	6	.6
Dry Holes	6	4.6	24	16.7
	43	23.0	231	121.8
TOTAL	79	39.9	312	164.7



LAND

Reacting to the industry downturn, the Murphy budget to acquire mineral rights in Western Canada was severely curtailed. Total land expenditures for the current year amounted to \$1.8 million compared to \$8.3 million for 1985. The results of the 1986 activity were additions to our undeveloped land inventory of 32 987 gross hectares (23 960 net hectares). The average price paid by the Company during 1986 was roughly \$75 per hectare compared to almost \$270 per hectare in 1985.

Additional acreage will be earned by Murphy during 1986 and 1987 as a result of a farmin agreement completed late in the year. The agreement will allow

Murphy to earn an interest in 14 519 gross hectares (7259 net hectares) if the maximum number of wells are drilled. Drilling of earning wells started in late 1986.

The downturn in industry activity during 1986 is indicative of the severe reduction in crude prices and the resulting decline of cash flow. Crown sales of mineral rights in Western Canada generated for the provinces a total of \$298 million in the current year, a reduction of 71 percent from the 1985 total of \$1.04 billion. The average price paid for these rights during 1986 was the lowest in the decade and 51 percent lower than last year.

LAND HOLDINGS SUMMARY

(As of December 31)

	HECTARES			
	1986		1985	
	GROSS	NET	GROSS	NET
UNDEVELOPED PROPERTY				
British Columbia	61 679	26 720	71 310	30 255
Alberta	446 741	157 007	491 804	172 557
Saskatchewan	105 932	61 251	122 333	72 093
Manitoba	3 192	1 356	4 056	2 342
Ontario	1 374	1 314	1 374	1 314
Davis Strait	474 797	23 740	474 797	23 740
TOTAL UNDEVELOPED	1 093 715	271 388	1 165 674	302 301
DEVELOPED PROPERTY				
British Columbia	8 891	3 536	8 891	3 536
Alberta	161 708	58 055	155 997	56 760
Saskatchewan	29 804	16 214	28 817	15 813
Manitoba	1 847	1 400	1 799	1 398
Ontario	1 983	1 787	1 983	1 787
TOTAL DEVELOPED	204 233	80 992	197 487	79 294
GRAND TOTAL	1 297 948	352 380	1 363 161	381 595

EXPLORATION

The year began with an aggressive exploration program through the first quarter of 1986, however, in response to rapidly falling oil prices, self-imposed capital spending restrictions were quickly put in place. As a result, exploration activity slowed considerably during the second and third quarters. Although little drilling took place during this period, geological and geophysical studies were conducted and a number of attractive prospects were identified with particular emphasis on conventional oil and gas. Drilling activities were stepped up in the fourth quarter in response to government incentives and increasing oil prices. Western Canada continues to be the main focus of our exploration activities, with Alberta the prime target.

Areas of special interest in the search for conventional oil and gas included Seal, Senex, Trout-Kidney, Rainbow, Buck Lake, Onoway and Westerose in Alberta. Heavy oil exploration was concentrated at Plover Lake and Fort Pitt in Saskatchewan and in the Wainwright area of Alberta.

Conventional Exploration

Alberta

During 1986 Murphy participated in 10 exploratory wells in southern and central Alberta. This drilling resulted in additional oil reserves at Grand Forks, Alderson South and Carrot Creek.

At Westerose-Ferrybank*, drilling of one new deep pool test and three development wells resulted in new reserve additions from the Basal Quartz, Ellerslie and Glauconitic sands. Murphy holds a 50 percent working interest in 1728 hectares of undeveloped Crown and freehold petroleum and natural gas rights in this area.

At Onoway in central Alberta, the 110 section farmin block acquired in late 1984 was earned with the drilling of the final three

commitment wells in early 1986. A total of 17 commitment wells and 1 joint well were drilled on the project which yielded 1 oil well, 3 gas wells and 1 dual zone oil and gas well. Two suspended wells require further evaluation. Additional drilling is planned for 1987 to follow up the most prospective discoveries.

In northern Alberta Murphy participated in the drilling of 14 wells which resulted in additional oil reserves at Rainbow Lake, Seal and in the Trout area.

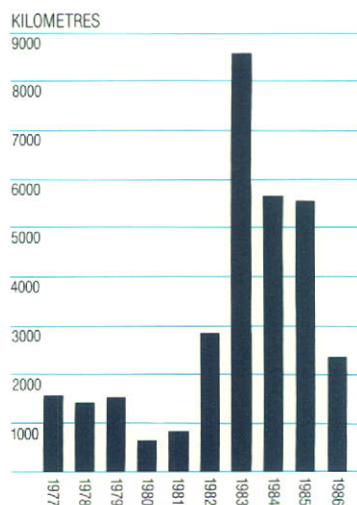
At Slave-Seal* Murphy participated in four wells which resulted in two oil completions, one of which has been suspended. Murphy holds a 50 percent working interest in these two wells. An additional 448 hectares of land were acquired at Seal, together with 1024 hectares of new lands to the south of the producing pool. Murphy's interest in the new lands varies from 33 percent to 50 percent.

Early in the fourth quarter Murphy completed a large farmin in the Trout-Kidney* area on 63 gross sections of land with interests ranging from 75 to 100 percent. Under the terms of the farmin, Murphy is committed to drill 7 earning wells along with shooting 85 kilometres of seismic by the end of the first quarter of 1987 on this highly prospective Keg River oil play. Several of the Murphy locations are direct offsets to recent industry discoveries. Additionally, Murphy has the right to drill continuing option tests. Upon completion of the program Murphy will have earned 50 percent of the farmor's interest.

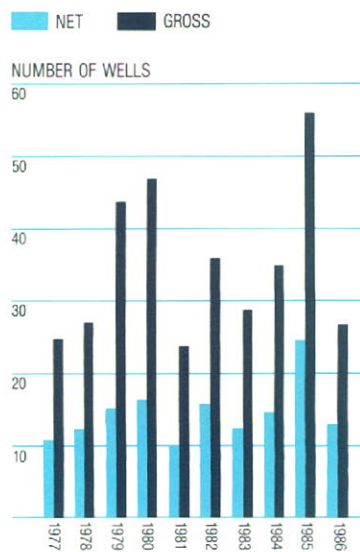
In addition to the seven earning wells, Murphy will participate in the drilling of one additional well in the Kidney area and one at Panny to the north. Adjacent to the farmin block Murphy has acquired a 25 percent interest in 1536 gross hectares of other new lands.

In northwestern Alberta, Murphy participated in the drilling of two 33 percent oil wells at Rainbow

GEOPHYSICAL ACQUISITION WESTERN CANADA



CONVENTIONAL EXPLORATION DRILLING



NOTE: *Indicates map in section

Lake. Additional acreage evaluation and acquisition is planned for 1987.

Saskatchewan

As a result of a less favorable fiscal regime, Murphy has significantly reduced its exploration effort in Saskatchewan and will only pursue those prospects offering substantial cash flow in the short term and significant future reserve potential. Drilling is planned at Neptune for land retention.

British Columbia

Murphy activity in the province during 1986 was restricted to the Fort St. John block where the Company participated in an extensive seismic program at Rigel. In addition several Murphy land blocks have been offset by competitor discoveries and we anticipate renewal of exploration activity in northeastern British Columbia in 1987.

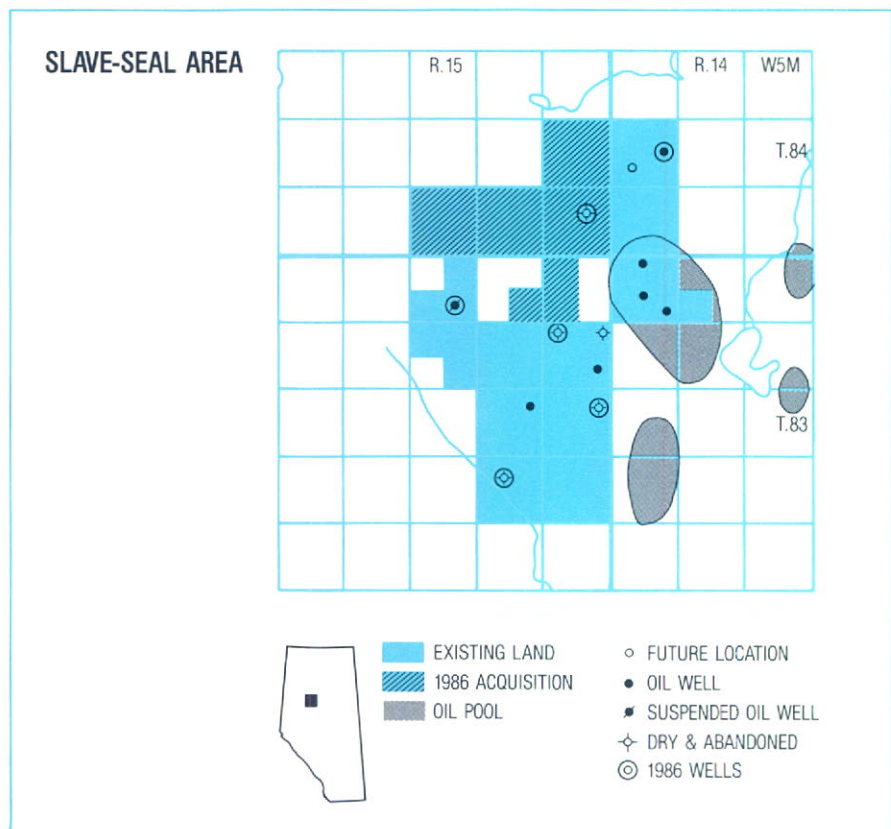
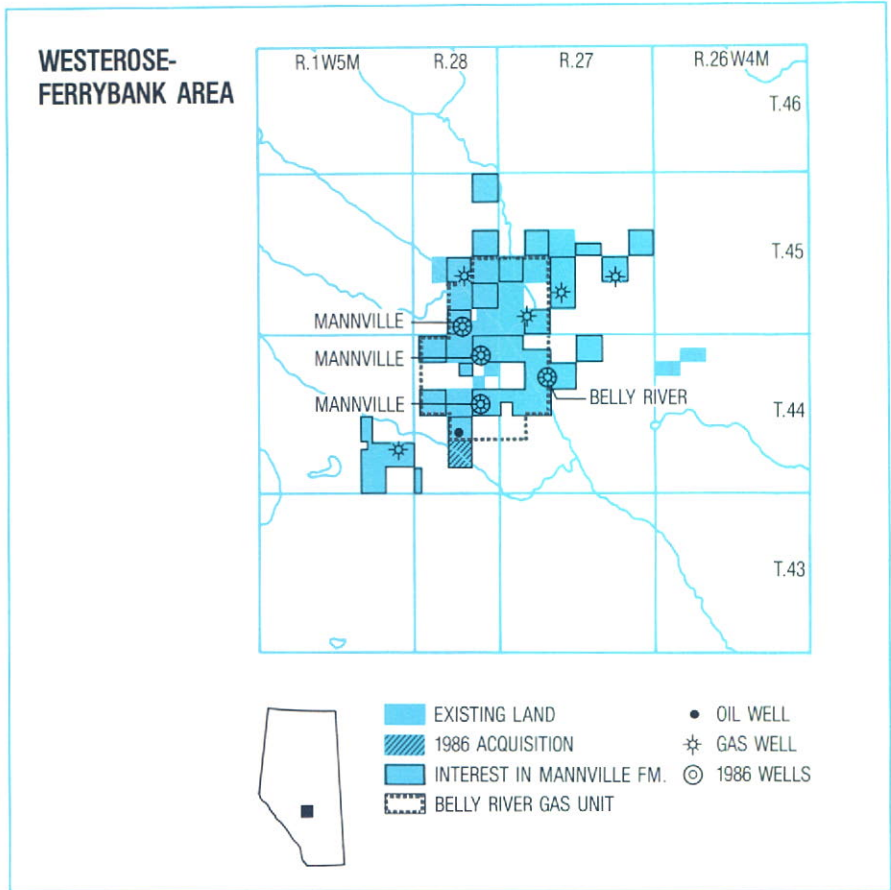
Heavy Oil Exploration

Alberta

As a result of declining oil prices combined with a widening gap between light and heavy oil prices, Murphy slowed its exploration program for heavy oil in the Devonian carbonates and Cretaceous sands in the Wainwright area of east-central Alberta. The Company participated in one exploratory well which was abandoned. Two other tests, drilled at no cost to the Company resulted in one oil well. An additional 1280 hectares of lands were acquired over the year. We are presently attempting to have our lands evaluated by farmout.

Saskatchewan

In the Plover Lake* area of west-central Saskatchewan, Murphy participated in the discovery of a new Mannville heavy oil pool in



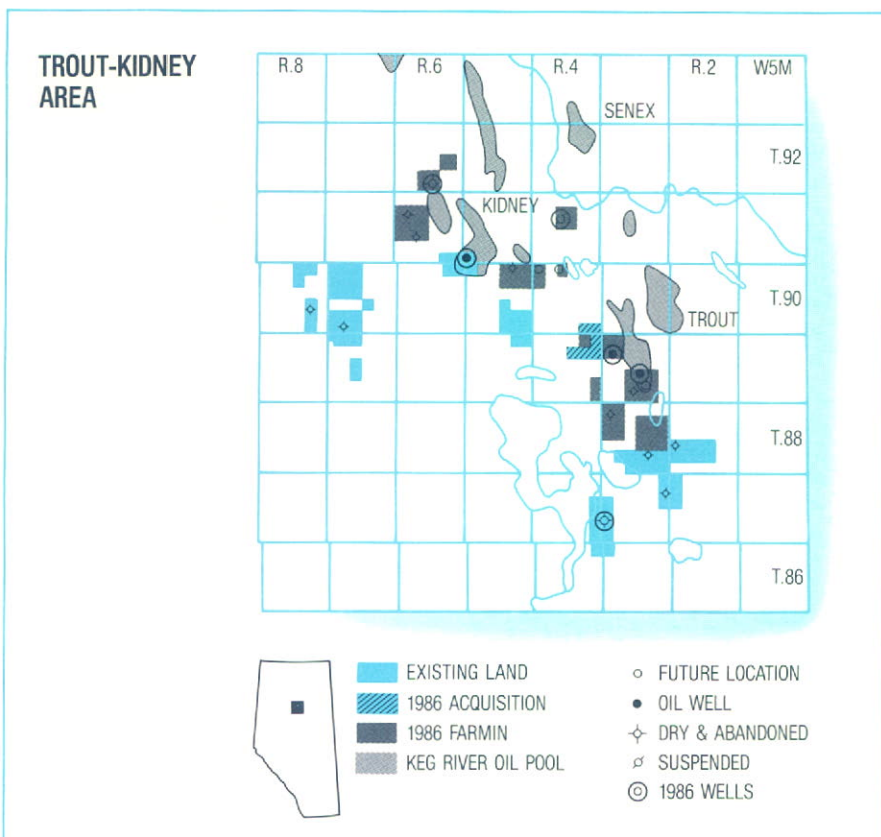
February 1985. Since that time, a total of 12 oil wells, 4 gas wells and 1 dry hole have been drilled along this channel trend. Four of these wells were drilled and cased during the first quarter of 1986. The partners have assembled approximately 6685 hectares of land on the trend through Crown sales and farmins. An extensive 3-D seismic survey conducted during December 1985 will be used to select future development locations. Initial production results indicate these wells have excellent primary productivity. Murphy's interest ranges from 25 to 50 percent.

At Fort Pitt, in west-central Saskatchewan, Murphy has assembled a 3361 hectare block of petroleum and natural gas rights on Crown and Indian lands with heavy oil and gas potential in the Cretaceous Mannville section. During 1986 one well was drilled and cased for heavy oil and gas in which Murphy has a 50 percent working interest. Additionally, 114 kilometres of seismic was recorded on Indian Reservations #119 and #120, and Murphy has elected to shoot more seismic to detail leads. An election to earn these lands by drilling must be made by mid-1987. Murphy has a 100 percent interest in this project.

Summary & Outlook

In total, exploration drilling for conventional oil and gas reached 36 gross wells (16.9 net), a decrease of 45 wells, or 56 percent, from 1985. The average working interest in these wells was 47 percent, reflecting the Company policy of maintaining a significant working interest in potentially attractive areas. In addition, 24 wells were drilled on Company lands by competitors at no cost to Murphy.

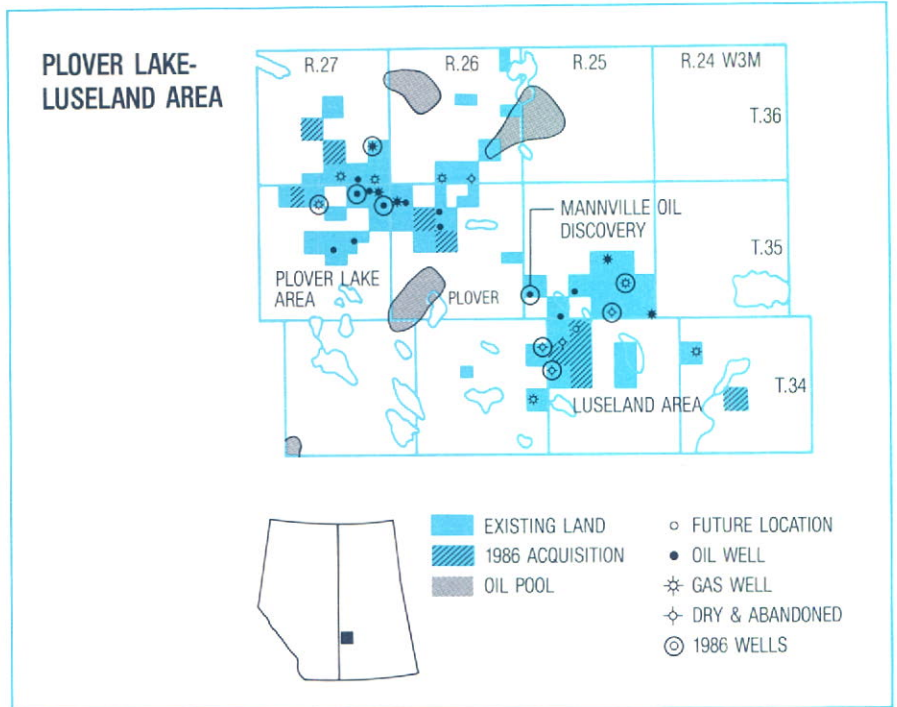
Emphasis on exploration for heavy oil was decreased in 1986



with the drilling of 12 exploratory wells, 11 in Saskatchewan and 1 in Alberta. This represented a decrease of 46 percent from 1985. Working interest in these wells averaged 28 percent.

During 1986 Murphy maintained an active although reduced geophysical program to evaluate current holdings. A total of 2390 kilometres of new geophysical data was acquired.

Looking to the future, Murphy's exploration operating strategy will be to emphasize property offering the most immediate return on investment, while at the same time reserving a portion of our budget for participation in greater risk high quality oil and gas prospects in Western Canada. Murphy will continue to carry on a significant exploration program, within existing cash flow constraints, to take advantage of government incentives and opportunities that, but for the current environment, would not otherwise be available. We see an early return to the heavy oil area and a concentration of effort on those plays where the Company is recording material success. Natural gas exploration will be increased.



Oil and natural gas liquids production during 1986 averaged 1482 cubic metres per day before deducting royalties (1215 net), down 9 percent from last year's average of 1635 cubic metres per day. On a net basis production was down five percent from the previous year. Natural gas gross production volumes of 746 000 cubic metres per day (613 000 net) improved marginally over the year before.

Lower production volumes were the result of lower crude oil prices which caused to be marginal the number of economic wells, mainly in the higher cost heavy oil areas. Also restricting heavy oil production for a time was a shortage of capacity in the pipeline system carrying Western Canadian crude to Eastern Canadian and U.S. markets and increased competition from offshore oil suppliers.

Regulated natural gas pricing restricted exports to the U.S. market. As a result, Canadian industry exports to the U.S. declined by 13 percent from the prior year. Lower priced local spot sales were used to compensate for these lower markets in an effort to maintain production levels and cash flow.

Oil Operations

Heavy oil production, including Lindbergh, recorded the majority of the drop in oil production as heavy oil prices plummeted to as low as one-third of 1985 levels. This resulted in a temporary shutdown of wells that will be returned to production as price recovers.

The Lindbergh Thermal Recovery Project highlighted in our 1985 annual report was expected to be at full production of more than 400 cubic metres per day at this time. Instead, the construction of the project has been completed and start-up has been deferred until prices exceed lifting costs providing a measure of profit and cash flow.

At the time of this writing crude

oil prices have rebounded somewhat and a marginal increase with some assurance of price stability will result in the start-up of the project. Although steaming of the commercial project has been deferred, the expanded pilot continues to operate at reduced levels, but contributes valuable operational and reservoir performance information which will support the optimization of future operations. The pilot contributed a small profit in 1986, demonstrating that economic feasibility is close at hand.

Heavy oil capital expenditures were held to maintenance levels throughout the year. A total of 25 gross heavy oil development wells were drilled (15.9 net). Six of those completed Lindbergh drilling and the remainder at Lloydminster maintained Company equity in lands with potential. Other producing investment was also kept to a minimum.

Conventional light oil production of 816 cubic metres per day before royalties came close to matching 821 cubic metres per day produced through 1985. Due to reduced provincial royalties net production of 629 cubic metres per day recorded a five percent increase over the prior year. A full year of production from 1985 drilling, 1986 completions and production optimization maintained conventional oil volumes essentially on par with the prior year in spite of pipeline restrictions and increased offshore competition.

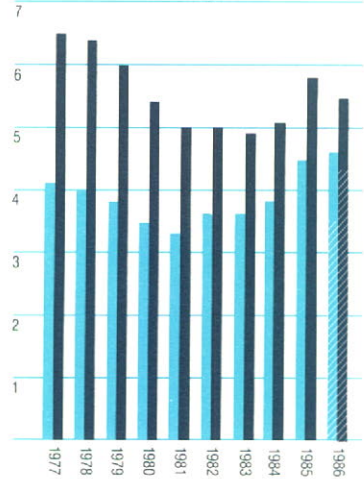
Eighteen gross (7.1 net) working interest development wells were drilled during the year in the conventional area and 11 were cased for oil production. These were scattered throughout Alberta at Countess, Grand Forks and Cessford in the south and Sylvan Lake, Kakwa and Carrot Creek in the central area. Additionally unit wells were completed at Weasel in British Columbia, Rainbow in Alberta and Butte, Weyburn and Midale in Saskatchewan.

Facilities to add productivity were constructed on properties at

PROVEN OIL & NGL RESERVES

NET GROSS F.A.S.B. NO. 69*

MILLIONS OF CUBIC METRES

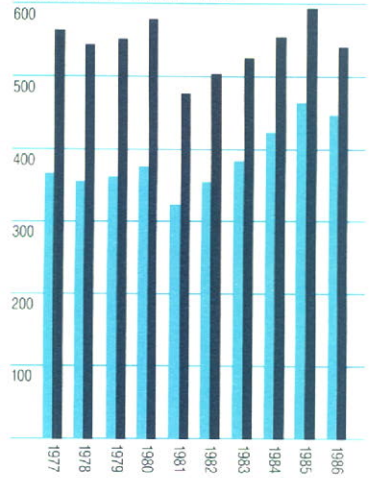


*In accordance with U.S. Statement of Financial Accounting Standards No. 69

OIL & NGL PRODUCTION

NET GROSS

THOUSANDS OF CUBIC METRES



CORPORATE DEVELOPMENT

A Corporate Development Division was formally organized to identify and capitalize on major new business opportunities. This past year activities were directed toward the acquisition of oil and gas assets, long-term planning of corporate direction, optimum leveraging of the balance sheet and efficient control of ongoing business.

The department organized several task forces made up of employees of diverse skills, who were specifically charged to investigate, review and recommend any changes necessary to further optimize key areas. While certain of the resulting conclusions and recommendations are longer term, positive savings were realized within several months in the form of cost reductions.

Information Services

The past year saw the fruition of a three year computer development program which resulted in the successful installation of a new financial system using current technology and a relational data base system. Through a terminal network and computer automation data access, control has been returned to the source. The new financial control and source operations system has the necessary flexibility, power and expansibility to allow for future growth. The implementation of information reporting systems and technical support will better enable the Company to concentrate on awareness of its business and improve the basis for decision making.

Research and Development

Although the current depressed oil price environment has generally put pressure on Research and Development activities, the Company remains dedicated to the development of heavy oil as a significant contributor to its long-term future. Heavy oil production from enhanced oil recovery pilot projects increased from 30 cubic metres per day to 41 cubic metres per day, a 33 percent increase over last year, as a result of steam tests in Atlee-Buffalo, Bodo, Morgan and Tangleflags.

Drilling activity consisted of two wells at Tangleflags and one at Morgan. An infill program scheduled for Eyehill was cancelled because of the downturn of crude prices. The Bodo steam project saw the completion and first cycle steam tests of nine wells. Preliminary results were very positive. The fireflood however encountered severe production and treating problems which have caused the curtailment of air injection for the time being. This action has resulted in improved production which could however be short lived. The Atlee-Buffalo project is exciting. Engineering and computer modeling studies indicated the reservoir would be quite responsive to steam stimulation. Single well tests have confirmed prior studies. Further work is to be conducted in 1987 - 1988. The single well tests at Tangleflags and Morgan were not as positive or conclusive. However, negotiations are continuing with the relevant governments with a view to implementing a substantial pilot

combining steam injection and a horizontal well at Tangleflags to be phased in over the next two years.

The second phase of a multi-company study of heavy oil handling, transportation and upgrading methods was completed. Although the study was not totally conclusive, the Company is still an advocate of minimum severity upgrading at the field level. Pending improved profit margins for heavy oils, further work is planned to put the Company in a position to fully exploit heavy oil opportunities in the 1990s.

HUMAN RESOURCES

While 1986 began with a great deal of optimism, it quickly became clouded with uncertainty due to the impact of the falling world oil price.

The industry experienced its worst year ever in terms of reduction in activity and reductions in staff. Budgets were revised almost daily, and for many companies, the main challenge became one of survival.

Murphy responded early to the challenge and implemented cost-cutting measures in all areas of the Company, including salary and hiring freezes, increased hours of work, work sharing, steps to reduce general and administrative overhead expenses, enhanced early retirement, reduction in perks, restrictions on expense accounts and deferral of Company programs. As well, the Company eliminated its part-time and consultant staff complement early in the year.

Unlike many companies, Murphy remained in a position to retain its full-time staff until the latter part of 1986. The Company has experienced attrition to staff of approximately 22 percent since January 1986. This represents a total of 65 permanent full-time positions in all areas of the Company. Part of this attrition was due to retirements, as well as positions not being replaced when employees terminated. Approximately 13 percent of staff were affected by a major downsizing which took place in October. All employees were offered outplacement services and continuation of benefits to the end of the year. At year-end Murphy employed a total of 242, down from a peak of 308.

Despite the uncertainty of industry, when it came to the United Way Campaign employees dug deeper and gave more generously this year than in any other year, which would indicate a real concern for the community. Murphy's Corporate Donations Program matched dollar-for-dollar the contribution of each employee.

The challenge facing many organizations in 1987 will be to do more with less. While Murphy will be no exception, the Company has weathered the storm reasonably well and looks forward to a brighter year ahead.

Consolidated

The year 1986 was very challenging financially. With the significant reduction in oil prices, a major effort was launched to control and reduce costs in every facet of the business to offset the reduction in revenue experienced over the year.

Total revenues for 1986 were \$84,190,000, compared to \$130,866,000 for 1985. This represents a reduction of 36 percent primarily due to the sharp fall in world oil prices. Partially offsetting this was an increase in revenue from the Supply and Transportation Division which achieved improved revenues from transporting and trading crude oil.

Consolidated net income from operations for 1986 fell to \$5,751,000, well down from a 1985 level of \$21,088,000. Net income was further reduced by an unusual charge of \$24,240,000 after allowing for deferred income tax representing the non-cash write-down of certain Company assets as a result of the severely depressed oil prices experienced through the year. The final net loss after this non-cash write-down was \$18,489,000.

Late in 1986 a detailed study was conducted to determine the permanent effect that the downturn in oil prices during the year had on producing and non-producing assets. A more current view of crude oil and natural gas pricing over the life of remaining reserves was determined and a present value of these reserves was established. This was compared to asset values recorded on the books of the Company. Where the asset value exceeded the present value of crude oil and natural gas reserves on a pool-by-pool basis, a write-down amount was established. Non-producing properties were also reviewed on the basis of year-end market values. The final write-down of \$43,967,000 was reduced by deferred income tax of \$19,727,000. The net after tax write-down was \$24,240,000.

Cash flow from operations for 1986, which was unaffected by the asset write-down, totalled \$41,825,000. This was down significantly from cash flow of \$62,760,000 for 1985. Extreme measures were taken in order to adapt to the new environment of a significantly reduced revenue base. The Company reacted quickly to the falling prices and early in the year took measures to reduce operating and general and administrative expenses. The capital program was scaled back following first quarter activity with a mandate to hold expenditures within projected cash flow from operations. The final step in reducing costs was a deliberate reduction of staff which occurred in the last quarter. Although some effect of these cost-cutting measures has been felt during 1986, the full impact will not be realized until 1987.

Exploration and Production

Production revenues for 1986 were approximately 53 percent of last year. The average price received during 1986 for our mix of crude oil was \$15.64 per barrel as compared to more than \$32.00 per barrel the year before. Natural gas prices during 1986 were down approximately 15 percent. Some of this decline followed deregulation in October along with increased competition in a soft market.

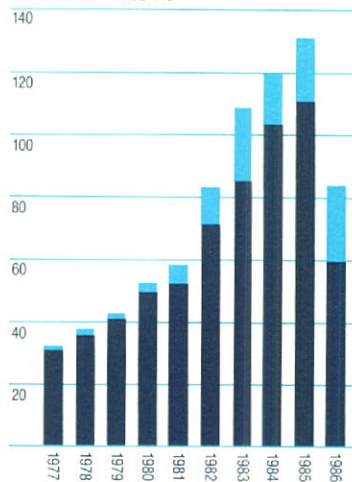
Lifting costs for the current year were down as a result of cost-cutting measures and shut-in properties. In total, 1986 lifting costs were lower by 17 percent as compared to the prior year.

Exploration costs were reduced approximately 25 percent as many projects were deferred. Much of the exploration budget was expended during the first quarter drilling season before the full impact of the downturn was recognized. A flurry of drilling activity at year-end was designed

REVENUES

■ PRODUCTION
■ OTHER

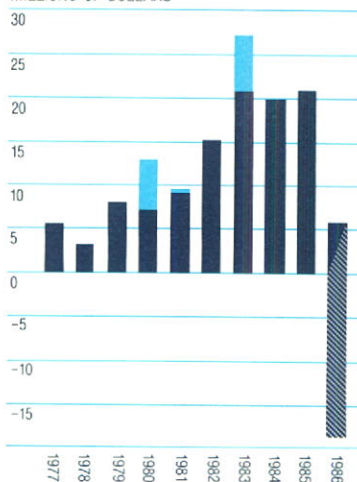
MILLIONS OF DOLLARS



NET INCOME

■ EXTRAORDINARY ITEMS
■ UNUSUAL ITEM

MILLIONS OF DOLLARS



to take advantage of provincial drilling incentives terminating at year-end and new royalty holidays.

Supply and Transportation

Revenues for 1986 were 40 percent higher than the prior year largely due to the increased activity in crude oil trading. During this period of volatile price movements, the Company was able to develop new sources of supply and customers. These margins helped to offset the reduced production revenues. Pipeline revenues were higher in the current period by approximately 20 percent as throughput volumes increased. Total operating expenses were up by roughly 30 percent over the prior year mainly due to the higher volumes transported.

General Corporate

Total interest costs for 1986 exceeded those of 1985 as long-term debt was outstanding for the entire period. Once again interest was capitalized on the Lindbergh enhanced oil recovery project and that amount exceeded interest capitalized in 1985. As a result, final net interest expense for 1986 was only marginally up over 1985. General and administrative expense in the current year was reduced approximately 10 percent as compared to 1985 as a result of cost-cutting measures put in place during the year. The full effect of these cost reductions will be seen in 1987. Income taxes for 1986 have been significantly reduced as the result of lower operating income.

Capital Expenditures

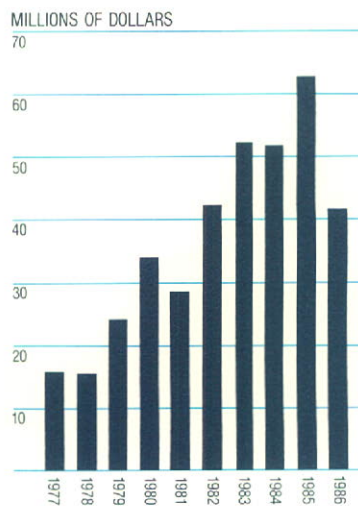
Capital spending in 1986 was scaled back by approximately 50 percent compared to last year. Most of the capital costs for the Lindbergh enhanced recovery project were incurred the year before and brought that year to a record spending level. The other significant spending reductions saw both exploratory and development drilling fall to low levels. The Company will continue to maintain a policy of limiting capital expenditures for normal production and exploration to cash flow generated from operations. Improved cash flow expected in 1987 should result in a stepped-up investment level.

Financial Condition

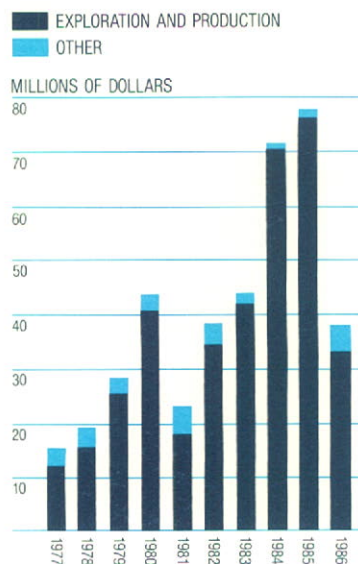
Although Murphy, along with the industry, is now operating on a significantly lower revenue base, cash flow from operations continues to be quite strong. The level of cash flow will largely reflect energy pricing. The Company has maintained a healthy financial position during this downturn period and anticipates a reduction of long-term debt during the coming year. At year-end working capital was strong at approximately \$11,000,000, with cash and short-term investments of about half that amount.

The asset write-down of 1986 will have a positive effect in terms of future earnings through reduced charges for depreciation, depletion and amortization. The Company will continue to operate from a strategy of low debt to equity maintaining a healthy financial position.

CASH FLOW



CAPITAL EXPENDITURES



Consolidated Statements of Income

Years ended December 31, 1986 and 1985
(thousands of dollars)

	1986	1985
REVENUES		
Sales and operating revenues	\$ 83,521	128,157
Interest and other income	669	2,709
Total revenues	84,190	130,866
COSTS AND DEDUCTIONS		
Crude oil and related operating expenses	28,672	32,412
Exploration costs, including amortization of undeveloped leaseholds	13,092	17,711
General and administrative	11,066	12,474
Interest on long-term debt	884	448
Interest - other	296	642
Depreciation and amortization	7,118	6,509
Depletion	10,671	9,658
Total costs and deductions	71,799	79,854
Income before taxes and write-down of assets	12,391	51,012
TAXES		
Petroleum and gas revenue tax	1,434	10,278
Income taxes (note 6)		
Current	(446)	12,134
Deferred	5,652	7,512
Total income taxes	5,206	19,646
Total taxes	6,640	29,924
Income before write-down of assets	5,751	21,088
Write-down of assets (net of deferred income tax of \$19,727) (note 4)	24,240	—
NET INCOME (LOSS)	\$(18,489)	21,088
Income per share		
Income before write-down of assets	\$.46	1.68
Write-down of assets	(1.93)	—
Net income (loss)	\$ (1.47)	1.68

See accompanying notes.

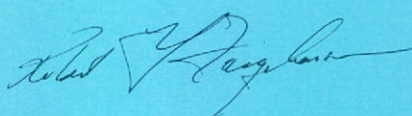
Consolidated Balance Sheets

December 31, 1986 and 1985
(thousands of dollars)

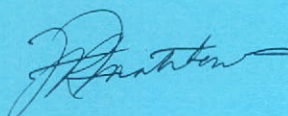
	1986	1985
ASSETS		
Current assets		
Cash and short-term deposits	\$ 6,780	7,351
Accounts receivable	30,438	96,528
Due from parent company	4,500	5,578
Inventories (note 2)	12,076	14,320
Total current assets	53,794	123,777
Property, plant and equipment – net (note 3)	198,900	236,002
Other assets – at cost	3,485	3,072
Total assets	\$256,179	362,851
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 40,692	111,215
Income taxes payable	455	—
Current portion of deferred revenue	1,200	1,200
Total current liabilities	42,347	112,415
Long-term debt (note 5)	25,000	25,000
Deferred credits		
Deferred income taxes	39,763	54,297
Deferred revenue	7,471	9,079
Total deferred credits	47,234	63,376
SHAREHOLDERS' EQUITY (note 8)		
Preferred shares		
Authorized unlimited shares without par value issuable in series; issued Nil		
Common shares		
Authorized unlimited shares without par value; issued and outstanding 12,577,695 shares,		
1985 – 12,548,595 shares	5,348	4,549
Retained earnings	136,250	157,511
Total shareholders' equity	141,598	162,060
Total liabilities and shareholders' equity	\$256,179	362,851

See accompanying notes.

Approved on behalf of the Board of Directors



Director



Director

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1986 and 1985
(thousands of dollars)

	1986	1985
OPERATING ACTIVITIES		
Net income (loss)	\$(18,489)	21,088
Depreciation, depletion and amortization	17,789	16,167
Exploration costs including amortization of undeveloped leases	13,092	17,711
Write-down of assets (net of deferred tax)	24,240	—
Deferred taxes	5,193	7,794
Cash flow from operations	41,825	62,760
Decrease (increase) in non-cash working capital	(656)	7,773
Increase (decrease) in deferred revenue	(1,608)	(1,155)
Total cash flow	39,561	69,378
FINANCING ACTIVITIES		
Additions to long-term debt	—	25,000
Reductions in long-term debt	—	(5,024)
Issue of common shares	804	291
Purchase of common shares	(261)	(904)
Total cash provided	543	19,363
INVESTING ACTIVITIES		
Capital expenditures		
Oil and gas properties	26,721	64,107
Exploration	7,062	12,005
Supply and transportation	4,359	1,869
Disposition of assets	(395)	(190)
Increase (decrease) in other assets	413	(108)
Total cash used	38,160	77,683
DIVIDENDS PAID	2,515	3,770
Total cash used	40,675	81,453
INCREASE (DECREASE) IN CASH AND SHORT-TERM DEPOSITS	\$ (571)	7,288

See accompanying notes.

Consolidated Statements of Retained Earnings

Years ended December 31, 1986 and 1985
(thousands of dollars)

	1986	1985
Retained earnings, beginning of year	\$157,511	141,083
Net income (loss)	(18,489)	21,088
Dividends	(2,515)	(3,770)
Purchase of common shares	(257)	(890)
Retained earnings, end of year	\$136,250	157,511

See accompanying notes.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Murphy Oil Company Ltd. as at December 31, 1986 and 1985 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, 1986 and 1985 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 6, 1987

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1986 and 1985

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 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 are charged to expense as incurred. Development costs, including dry holes, are capitalized and compared annually to the expected net cash flow from reserves with any resulting impairment being charged to expense. The Company capitalizes interest on significant capital projects. The incentive recoveries from federal and provincial governments, relative to exploration activities, are accounted for as a reduction of capital expenditures.

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) Deferred revenue

Proceeds received from gas take-or-pay agreements are deferred and taken into income as production occurs.

f) Retained earnings

Retained earnings include contributed surplus of \$14,754,000 (1985 - \$15,011,000).

g) Non-cash working capital

Non-cash working capital excludes cash and short-term deposits.

2. INVENTORIES

	1986	1985
	(thousands of dollars)	
Crude oil	\$10,909	12,727
Deferred tax on crude oil inventories	114	573
Other	1,053	1,020
	\$12,076	14,320

Crude oil inventories at December 31, 1986 and December 31, 1985 were \$226,000 and \$1,164,000 respectively less than such inventories would have been valued using the first-in, first-out method.

3. PROPERTY, PLANT AND EQUIPMENT

December 31, 1986

	Cost	Allowance for			Net Book Value
		Depreciation	Depletion	Amortization	
	(thousands of dollars)				
Developed oil and gas properties	\$305,342	38,193	104,774	—	162,375
Undeveloped oil and gas properties	40,055	—	—	21,505	18,550
Pipelines	18,127	5,421	—	—	12,706
Other properties	10,818	5,549	—	—	5,269
	\$374,342	49,163	104,774	21,505	198,900

December 31, 1985

	Cost	Allowance for			Net Book Value
		Depreciation	Depletion	Amortization	
	(thousands of dollars)				
Developed oil and gas properties	\$280,075	29,772	59,551	—	190,752
Undeveloped oil and gas properties	52,673	—	—	22,417	30,256
Pipelines	14,071	4,486	—	—	9,585
Other properties	9,795	4,386	—	—	5,409
	\$356,614	38,644	59,551	22,417	236,002

Additions to developed oil and gas properties include \$1,695,303 of capitalized interest (1985 - \$717,882).

4. WRITE-DOWN OF ASSETS

The sharp decline in world oil prices has resulted in a measure of impairment of the Company's producing and non-producing assets. In order to determine the degree of impairment, the oil and natural gas reserves were valued on an updated price forecast for the life of the reserves. The resulting present value was compared to the net book value on a pool-by-pool basis and excess net book values were written off. Undeveloped properties were also reviewed based on present industry outlook and land values were written down accordingly. The detail write-down values by asset group follows:

	(thousands of dollars)
Producing assets	\$38,013
Non-producing assets	5,574
Other	380
	<hr/>
Deferred income tax	43,967
	19,727
Total write-down after tax	\$24,240

5. LONG-TERM DEBT

	1986	1985
		(thousands of dollars)
Revolving term loan, bearing interest at prime less 1/2%, due August 21, 1992.	\$15,000	15,000
Revolving term loan, bearing interest at the lesser of the bank's cost of funds plus 1/2% or prime rate until September 1989, thereafter at the above rates plus 1/8%, repayable in six equal semi-annual installments commencing March, 1990.	10,000	10,000
	<hr/>	<hr/>
	\$25,000	25,000

6. INCOME TAXES

The total income taxes charged to earnings of \$5,206,000 in 1986 and \$19,646,000 in 1985 resulted in an effective rate of 42 percent and 39 percent 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 write-down of assets. The reasons for these differences are as follows:

	1986	1985
		(thousands of dollars)
Computed "expected" tax expense	\$ 6,339	24,944
Additions to income taxes resulting from		
Royalties, lease rentals and mineral taxes payable to the Crown.	5,396	13,322
Other	575	—
	<hr/>	<hr/>
	12,310	38,266
Reductions in income taxes resulting from		
Resource allowance on Canadian production income	4,029	11,658
Earned depletion on Canadian production income	6	4,013
Royalty credit and rebates receivable from the provinces	3,069	2,364
Other	—	585
	<hr/>	<hr/>
	\$ 5,206	19,646

7. PENSION PLAN

The actuarial present value of the accumulated benefits under the Company's defined benefit pension plan as at December 31, 1986 is \$8,405,000 in respect of service rendered to December 31, 1986 (1985 - \$7,425,000). The market value of the assets held in the pension trust fund to cover this liability is \$10,571,000 as of December 31, 1986 (1985 - \$8,887,000).

8. COMMON SHARES

a) Acquisition of Company shares

During the year the Company renewed its Normal Course Issuer Bid through the facilities of The Toronto Stock Exchange and the Montreal Stock Exchange for the purchase of up to 500,000 (1985 - 150,000 shares) of its outstanding common shares. During 1986, 11,800 shares were purchased for the aggregate value of \$261,405. In 1985, 36,800 shares were purchased for the aggregate value of \$903,664. 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. During the year 1986, the total reduction in share capital amounted to \$4,489 (1985 - \$13,031) with the balance of \$256,916 (1985 - \$890,632) charged against contributed surplus which is included in retained earnings.

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, 1986 options have been exercised for an aggregate of 168,820 shares and 105,640 remain available under the plan for the granting of options. Outstanding options to purchase 125,540 shares in 1986 and 183,500 shares in 1985, at prices ranging from \$9.00 to \$24.50 per share, are exercisable to May 2, 1995.

During 1986, options to purchase 4,000 shares were granted, 5,720 forfeited and options to purchase 56,240 shares were exercised. The net number of shares issued relating to the exercised options was 40,900 shares (gross 56,240 shares) valued to the Company at \$803,523. In 1985, options to purchase 32,500 shares were granted, 1,200 forfeited and options to purchase 23,740 shares were exercised. The net number of shares issued relating to the exercised options was 12,569 shares (gross 23,740 shares) valued to the Company at \$290,890.

Since inception of the plan to December 31, 1986, 112,587 shares have been issued pursuant to exercise of options valued to the Company at \$2,240,247.

9. COMMITMENTS AND CONTINGENCIES

The Company has entered into a long-term contract to lease office space to November 1, 1992 at annual rentals of \$1,218,000. In addition, the lease provides that the Company is responsible for the payment of property taxes and operating expenses.

Ten Year Statistical Summary

(thousands of dollars except per share amounts)

	1986	1985
FINANCIAL		
Revenues		
Oil and gas sales	\$ 59,423	110,999
Supply and transportation	24,098	17,158
Other revenue	669	2,709
Total revenues*	84,190	130,866
Income (loss) before extraordinary items†	(18,489)	21,088
Income (loss) per share before extraordinary items**	(1.47)	1.68
Extraordinary items	—	—
Net income (loss)†	(18,489)	21,088
Net income (loss) per share**	(1.47)	1.68
Cash flow	41,825	62,760
Cash flow per share**	3.33	5.00
Capital expenditures		
Exploration and production	33,783	76,112
Supply and transportation	4,359	1,869
Marketing	—	—
Total capital expenditures	38,142	77,981
Working capital††	11,447	11,362
Total assets††	256,179	362,851
Long-term debt††	25,000	25,000
OPERATING		
Gross crude oil and NGL produced (thousands of cubic metres)	541	597
Net crude oil and NGL produced (thousands of cubic metres)	444	464
Gross natural gas produced (millions of cubic metres)	272	264
Net natural gas produced (millions of cubic metres)	224	213
Net oil and gas wells owned††	1,257	1,229
Net undeveloped property†† (thousands of hectares)	271	302
Gross proven oil and gas liquid reserves†† (millions of cubic metres)	5.5	5.8
Net proven oil and gas liquid reserves†† (millions of cubic metres)	4.6	4.5
Gross proven natural gas reserves†† (billions of cubic metres)	6.5	6.8
Net proven natural gas reserves†† (billions of cubic metres)	5.3	5.3
SHAREHOLDERS AND EMPLOYEES		
Number of common shares outstanding*††	12,577,695	12,548,595
Number of common shareholders††	731	824
Number of employees††	242	304
Salaries, wages and benefits	\$ 13,435	12,927

* 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

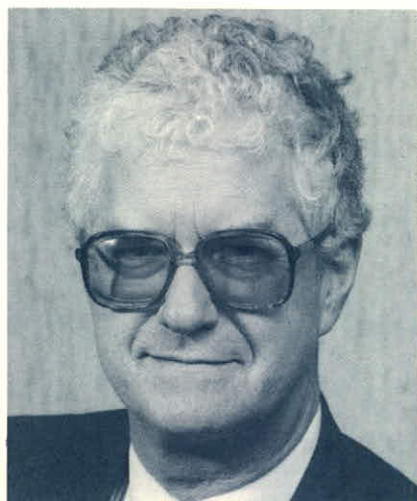
** Restated for 1982 and prior years to reflect two-for-one share split

†† Year-end

1984	1983	1982	1981	1980	1979	1978	1977
103,336	84,496	71,006	52,502	49,141	40,424	35,766	30,622
14,386	16,888	6,954	2,506	3,218	2,394	1,950	1,515
2,275	7,170	5,360	3,437	692	76	142	482
119,997	108,554	83,320	58,445	53,051	42,894	37,858	32,619
20,020	21,250	15,224	9,341	7,241	8,183	3,139	5,589
1.59	1.69	1.21	0.74	0.58	0.65	0.25	0.45
—	5,919	—	600	5,840	—	—	—
20,020	27,169	15,224	9,941	13,081	8,183	3,139	5,589
1.59	2.16	1.21	0.79	1.04	0.65	0.25	0.45
51,960	52,488	42,595	28,783	34,108	24,597	15,755	16,040
4.13	4.17	3.39	2.29	2.72	1.96	1.26	1.28
70,899	42,328	34,955	18,295	40,950	25,475	15,427	12,619
1,027	306	542	3,759	1,501	1,329	276	405
—	1,466	3,001	1,356	1,577	1,490	3,375	2,548
71,926	44,100	38,498	23,410	44,028	28,294	19,078	15,572
12,547	31,983	11,646	18,702	11,398	3,660	8,614	15,327
301,921	254,062	250,675	219,494	203,260	157,689	140,598	149,680
4,524	—	26,664	35,156	44,263	25,539	30,646	30,000
558	523	504	479	577	552	545	562
421	381	356	322	375	358	354	362
256	211	218	230	239	271	291	286
204	171	171	176	176	203	210	206
1,103	1,069	1,019	965	930	868	800	751
269	251	261	290	385	1,053	1,183	1,192
5.1	4.9	5.0	5.0	5.4	6.0	6.4	6.5
3.8	3.6	3.6	3.3	3.5	3.8	4.0	4.1
7.2	7.3	7.8	7.7	7.8	9.1	7.4	7.0
5.6	5.7	6.1	5.8	5.9	6.7	5.5	5.2
12,572,826	12,585,149	12,570,626	12,568,638	12,551,144	12,548,708	12,548,708	12,548,708
935	1,023	1,179	1,407	1,439	1,429	1,566	1,565
271	237	296	276	264	276	296	326
11,860	12,333	9,973	8,191	7,201	6,546	6,462	5,764

CORPORATE DIRECTORY

DIRECTORS



Robert G. Farquharson
President and Chief Executive
Officer of Murphy Oil
Company Ltd.
Calgary, Alberta
Board Member since April, 1981



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.
and Partner in MacKimmie
Matthews Barristers, Solicitors
and Notaries
Calgary, Alberta
Board Member since
October, 1961



George S. Dembroski*
Vice Chairman of
Dominion Securities Inc.
Toronto, Ontario
Board Member since May, 1977

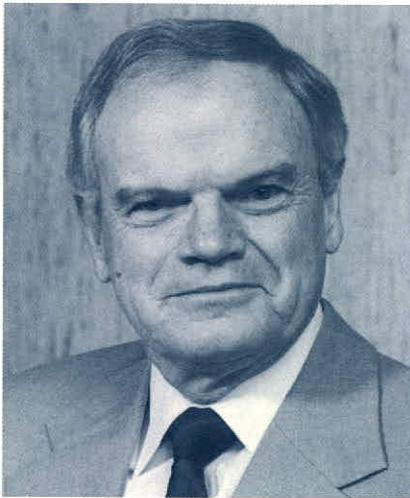
*Member, Audit Committee



Jack W. McNutt
Executive Vice President of
Murphy Oil Corporation
El Dorado, Arkansas, U.S.A.
Board Member since
October, 1985



Lorne C. Webster*
Chairman of the Board and
Chief Executive Officer of
Prenor Group Ltd.
Montreal, Quebec
Board Member since July, 1976



B. Harold Monzingo*
President of Deltic Farm
and Timber Co., Inc.
El Dorado, Arkansas, U.S.A.
Board Member since April, 1982

COMPANY OFFICERS

Robert G. Farquharson
President and Chief
Executive Officer

Robert T. McLean
Vice President, Production

Leonard E. Pasychny
Vice President, Supply and
Transportation

Ernest S. Spurgeon
Vice President, Exploration

G. Carl Thompson
Vice President,
Corporate Development

Donald R. Craig
Vice President and Controller

F. Richard Matthews, Q.C.
Secretary

REGISTRAR AND TRANSFER AGENT

Canada Trust Company
Calgary, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

STOCK LISTED

The Toronto Stock Exchange
Montreal Stock Exchange
Symbol MO

HEAD OFFICE

1700, 800 Sixth Avenue S.W.
Calgary, Alberta
T2P 3Y3
Telephone (403) 294-8000

District Office
P.O. Box 12
Lloydminster, Alberta
S9V 0X9
Telephone (403) 875-5546

MARKET INFORMATION

Common Shares:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market Price Per Share (The Toronto Stock Exchange)				
1986: High	\$24.00	\$20.50	\$20.50	\$21.50
Low	\$16.25	\$19.00	\$15.50	\$18.50
1985: High	\$23.00	\$25.50	\$24.00	\$27.00
Low	\$19.75	\$20.00	\$20.00	\$21.00
Dividends per Share:				
1986:		\$.10		\$.10
1985:		\$.15		\$.15





