MURPHY OIL CORP /DE
Form 10-K
February 26, 2010
Table of Contents

Index to Financial Statements

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-8590

MURPHY OIL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**71-0361522**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Peach Street, P.O. Box 7000, El Dorado, Arkansas	**71731-7000**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (870) 862-6411

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1.00 Par Value	**New York Stock Exchange**
Series A Participating Cumulative Preferred Stock Purchase Rights	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter (as of June 30, 2009) $10,365,158,000.

Number of shares of Common Stock, $1.00 Par Value, outstanding at January 31, 2010 was **191,136,278**.

Documents incorporated by reference:

Portions of the Registrant s definitive Proxy Statement relating to the Annual Meeting of Stockholders on May 12, 2010 have been incorporated by reference in Part III herein.

Table of Contents

Index to Financial Statements

MURPHY OIL CORPORATION

TABLE OF CONTENTS 2009 FORM 10-K

Table of Contents

Index to Financial Statements

PART I

Item 1. BUSINESS

Summary

Murphy Oil Corporation is a worldwide oil and gas exploration and production company with refining and marketing operations in the United States and the United Kingdom. As used in this report, the terms Murphy, Murphy Oil, we, our, its and Company may refer to Murphy Oil Corporation or any one or more of its consolidated subsidiaries.

The Company was originally incorporated in Louisiana in 1950 as Murphy Corporation. It was reincorporated in Delaware in 1964, at which time it adopted the name Murphy Oil Corporation, and was reorganized in 1983 to operate primarily as a holding company of its various businesses. Its operations are classified into two business activities: (1) Exploration and Production and (2) Refining and Marketing. For reporting purposes, Murphy s exploration and production activities are subdivided into six geographic segments, including the United States, Canada, Malaysia, the United Kingdom, Republic of the Congo and all other countries. Murphy s refining and marketing activities are subdivided into geographic segments for North America and United Kingdom. Murphy exited the gasoline retailing business in Canada during 2007, but the relatively insignificant historical results for the Canadian operations have been combined with U.S. refining and marketing operations in the North American segment. Additionally, Corporate activities include interest income, interest expense, foreign exchange effects and overhead not allocated to the segments.

The information appearing in the 2009 Annual Report to Security Holders (2009 Annual Report) is incorporated in this Form 10-K report as Exhibit 13 and is deemed to be filed as part of this Form 10-K report as indicated under Items 1, 2 and 7.

In addition to the following information about each business activity, data about Murphy s operations, properties and business segments, including revenues by class of products and financial information by geographic area, are provided on pages 18 through 35, F-14 and F-15, F-36 through F-45, and F-47 of this Form 10-K report and on pages 5 and 6 of the 2009 Annual Report.

At December 31, 2009, Murphy had 8,369 employees, including 3,261 full-time and 5,108 part-time.

Interested parties may access the Company s public disclosures filed with the Securities and Exchange Commission (SEC), including Form 10-K, Form 10-Q, Form 8-K and other documents, by accessing the Investor Relations section of Murphy Oil Corporation s website at www.murphyoilcorp.com.

Exploration and Production

The Company s exploration and production business explores for and produces crude oil, natural gas and natural gas liquids worldwide. The Company s exploration and production management team in Houston, Texas directs the Company s worldwide exploration and production activities.

During 2009, Murphy s principal exploration and production activities were conducted in the United States by wholly owned Murphy Exploration & Production Company USA (Murphy Expro USA), in Malaysia, Republic of the Congo, Indonesia, Australia and Suriname by wholly owned Murphy Exploration & Production Company International (Murphy Expro International) and its subsidiaries, in Western Canada and offshore Eastern Canada by wholly owned Murphy Oil Company Ltd. (MOCL) and its subsidiaries, and in the U.K. North Sea and the Atlantic Margin by wholly owned Murphy Petroleum Limited. Murphy s crude oil and natural gas liquids production in 2009 was in the United States, Canada, Malaysia, the United Kingdom and Republic of the Congo; its natural gas was produced and sold in the United States, Canada, Malaysia and the United Kingdom. MOCL owns a 5% undivided interest in Syncrude Canada Ltd. in northern Alberta, one of the world s largest producers of synthetic crude oil.

Unless otherwise indicated, all references to the Company s oil and gas production volumes and proved oil and gas reserves are net to the Company s working interest excluding applicable royalties.

1

Table of Contents

Index to Financial Statements

Murphy s worldwide crude oil, condensate and natural gas liquids production in 2009 averaged 131,839 barrels per day, an increase of 11% compared to 2008. The increase was primarily due to new oil production at the Thunder Hawk field in the Gulf of Mexico and the Azurite field offshore Republic of the Congo, both of which started production in the third quarter 2009. The Company s worldwide sales volume of natural gas averaged 187 million cubic feet (MMCF) per day in 2009, up 237% from 2008 levels. The higher natural gas sales volumes were primarily attributable to ramp up of natural gas production at the Tupper area in Western Canada and the Kikeh field in Block K, offshore Sabah, Malaysia, both of which started production in December 2008, and new gas production that commenced in September 2009 in Block SK 309, offshore Sarawak, Malaysia. Total worldwide 2009 production on a barrel of oil equivalent basis (six thousand cubic feet of natural gas equals one barrel of oil) was 163,050 barrels per day, up 28% compared to 2008.

Total production in 2010 is currently expected to average slightly more than 200,000 barrels of oil equivalent per day. The projected production increase in 2010 is primarily related to a full-year of production at new fields started up in 2009. These volumes will more than offset anticipated field declines in 2010 at other fields in the Gulf of Mexico and at Hibernia and Terra Nova, offshore Newfoundland.

In the United States, Murphy has production of oil and/or natural gas from five fields operated by the Company and four main fields operated by others. The U.S. producing fields at December 31, 2009 include seven in the deepwater Gulf of Mexico and two onshore in Louisiana. The Company s primary focus in the U.S. is in the deepwater Gulf of Mexico, which is generally defined as water depths of 1,000 feet or more. The Company produced approximately 17,000 barrels of oil per day and 54.3 million cubic feet of natural gas per day in the U.S. in 2009. These amounts represented 13% of the Company s total worldwide oil and 29% of worldwide natural gas production volumes. During 2009, just under 50% of total U.S. hydrocarbon production was produced at two operated Gulf of Mexico fields Medusa and Thunder Hawk. The Company holds a 60% interest at Medusa in Mississippi Canyon Blocks 538/582, which produced total daily oil and natural gas of about 6,400 barrels and 6.3 MMCF, respectively, in 2009. At December 31, 2009, the Medusa field has total proved oil and natural gas reserves of approximately 6.6 million barrels and 9.6 billion cubic feet, respectively. Production from Medusa is expected to continue to decline slowly in 2010 and should average 4,900 barrels of oil and about 5.1 MMCF of natural gas on a daily basis. Murphy has a 37.5% working interest in the Thunder Hawk field in Mississippi Canyon Block 734. Oil and natural gas production commenced at Thunder Hawk in July 2009 and averaged about 4,700 barrels of oil per day and 4.6 MMCF per day for the full year. Production in 2010 at Thunder Hawk is expected to average approximately 9,900 barrels of oil per day and 9.9 MMCF per day. Proved oil and natural gas reserves at Thunder Hawk at year-end 2009 were 5.8 million barrels and 6.6 billion cubic feet, respectively. The Company has acquired rights to significant acreage in South Texas associated with the Eagle Ford shale. Initial well results in this U.S. unconventional gas play have been encouraging. Total U.S. oil and natural gas reserves at December 31, 2009 were 26.4 million barrels and 89.3 billion cubic feet, respectively.

In Canada, the Company owns an interest in three significant nonoperated assets the Hibernia and Terra Nova fields offshore Newfoundland in the Jeanne d Arc Basin and Syncrude Canada Ltd. in northern Alberta. In addition, the Company owns interests in one heavy oil area and one significant natural gas area in the Western Canadian Sedimentary Basin (WCSB). Murphy has a 6.5% interest in Hibernia, while at Terra Nova the Company s working interest has historically been 12.0%. Total oil production in 2009 was about 6,200 barrels of oil per day at both Hibernia and Terra Nova. Hibernia production declined in 2009 due to lower gross production and a higher royalty rate, while production at Terra Nova declined primarily due to lower gross production. Total 2010 oil production at Hibernia and Terra Nova is anticipated to be approximately 4,900 and 6,100 barrels per day, respectively. Total proved oil reserves at December 31, 2009 at Hibernia and Terra Nova were approximately 7.4 million barrels and 6.0 million barrels, respectively. The joint agreement between the owners of Terra Nova requires a redetermination of working interests based on an analysis of reservoir quality among fault separated areas where varying ownership interests exist. The operator completed the initial redetermination in 2009 and the matter is the subject of arbitration before final interests are determined. The Company anticipates that its working interest will be reduced to approximately 10.5%, subject to the results of the ongoing arbitration process between the operator and certain other owners. Upon completion of the arbitration process, the Company will be required to make a settlement payment to the Terra Nova partnership for the value of oil sold since about December 2004 related to the ultimate working interest reduction below the Company s original 12.0%. The Company has recorded expense of $83.5 million in 2009 based on the anticipated working interest reduction. The Company cannot predict the final outcome of the redetermination process, which is expected to be completed by the end of 2010. Murphy owns a 5% undivided interest in Syncrude Canada Ltd., a joint venture located about 25 miles north of Fort McMurray, Alberta. Syncrude utilizes its assets, which include three coking units, to extract bitumen from oil sand deposits and to upgrade this bitumen into a high-value synthetic crude oil. Total production in 2009 was about 12,900 barrels of synthetic crude oil per day and is expected to average about 13,700 barrels per day in 2010. The SEC issued new reserve rules at the end of 2008 that permit the reporting of proved reserves for synthetic oil operations beginning at year-end 2009. Prior to that time, the SEC considered Syncrude to be a mining operation, and not a conventional oil operation and therefore, did not allow the

Table of Contents

Index to Financial Statements

Company to include Syncrude s reserves in its total proved oil reserves. Total proved reserves for Syncrude at year-end 2009 were 129.5 million barrels. Daily production in 2009 in the WCSB averaged about 6,800 barrels of mostly heavy oil and about 54.9 MMCF of natural gas. Through 2009, the Company has acquired approximately 126,000 net acres of mineral rights in northeastern British Columbia in an area named Tupper. First production of natural gas occurred at Tupper in December 2008. The Company s Board of Directors sanctioned development in 2009 of another section of the Tupper area, which is known as Tupper West. First production of natural gas at Tupper West is expected in 2011. Total 2010 oil and natural gas daily production in Western Canada, excluding Syncrude, is expected to be about 5,900 barrels and 74 MMCF, respectively, with the increase in natural gas volumes due to continued ramp-up of production at Tupper. Total Western Canada proved oil and natural gas reserves at December 31, 2009, excluding Syncrude, were 14.4 million barrels and 119.8 billion cubic feet, respectively.

In Malaysia, the Company has majority interests in seven separate production sharing contracts (PSCs). The Company serves as the operator of all these areas, which cover approximately 9.6 million acres. Through 2006, Murphy had an 85% interest in two shallow water blocks, SK 309 and SK 311, offshore Sarawak. In January 2007, the Company renewed the contract on these two Sarawak blocks at a 60% interest for areas with no discoveries, while retaining its 85% interest in the portion of these blocks on which discoveries have been made. In January 2010, Murphy relinquished the exploration acreage in Blocks SK 309 and SK 311, while retaining the acreage surrounding its producing oil and gas fields as well as areas surrounding its other discoveries planned for future development. About 5,300 barrels of oil per day were produced in 2009 at Block SK 309, mostly at the West Patricia field. Oil production in 2010 at fields in Block SK 309 is anticipated to total about 4,300 barrels of oil per day. The Company has a gas sales contract for the Sarawak area with PETRONAS, the Malaysian state-owned oil company, and has prepared a multi-phase development plan for several natural gas discoveries on these blocks. The gas sales contract allows for gross sales volumes of up to 250 million cubic feet per day through 2014, with an option to extend for five years at 250 million cubic feet per day or for seven years at 350 million cubic feet per day. Total natural gas sales volume offshore Sarawak was 28 million cubic feet per day during 2009 following gas production start-up in September; sales volumes are anticipated to be approximately 171 million cubic feet per day in 2010. Total proved reserves of oil and natural gas at December 31, 2009 for Blocks SK 309/311 were 7.1 million barrels and 411.5 billion cubic feet, respectively.

The Company made a major discovery at the Kikeh field in deepwater Block K, offshore Sabah, in 2002 and added another important discovery at Kakap in 2004. Further discoveries have been made in Block K at Senangin, Kerisi and Siakap North. The Siakap North field will be a unitized development and appraisal work is scheduled in 2010. In 2006, the Company relinquished a portion of Block K and was granted a 60% interest in an extension of a portion of Block K covering 1.02 million acres. The Company retained its 80% interest at Kikeh, Kakap and other discoveries in Block K. First oil production from Kikeh began in August 2007, less than five years after the initial discovery. Production volumes at Kikeh averaged 71,000 barrels of oil per day for the full year 2009. Oil production at Kikeh is anticipated to average approximately 68,000 barrels per day for 2010. In February 2007, the Company signed a Kikeh field natural gas sales contract with PETRONAS. The contract calls for gross sales volumes of up to 120 million cubic feet per day through June 2012. Natural gas production at Kikeh began in late 2008, and 2009 production totaled approximately 46.6 million cubic feet per day. Gas production in 2010 is expected to average 62 million cubic feet per day at Kikeh. Total proved reserves booked in Block K as of year-end 2009 were 103.0 million barrels of oil and 100.3 billion cubic feet of natural gas.

In early 2006, the Company also added a 60% interest in a new PSC for Block P, which includes 1.05 million acres of the previously relinquished Block K area. The Company has an 80% interest in deepwater Block H offshore Sabah. In early 2007, the Company announced a significant natural gas discovery at the Rotan well in Block H, and in early 2008, the Company followed up with a discovery at Biris. In March 2008, the Company renewed the contract for Block H at a 60% interest while retaining 80% interest in the two discoveries. The Company was awarded interests in two PSCs covering deepwater Blocks L (60%) and M (70%) in 2003. The Sultanate of Brunei also claimed this acreage. Murphy drilled a wildcat well in Block L in mid-2003 and well results have been kept confidential. Well costs of $12 million remain capitalized pending resolution of the ownership interest. A total of 1.9 million net acres associated with Blocks L and M are included in the acreage table on page 7 as of December 31, 2009.

Murphy has a 75% interest in gas holding agreements for Kenarong and Pertang discoveries made in Block PM 311, located offshore peninsular Malaysia. Development options are being studied for these discoveries. Murphy relinquished its remaining interests in Block PM 311 and all of adjacent Block PM 312 in 2007.

Table of Contents

Index to Financial Statements

Murphy produces oil and natural gas in the United Kingdom sector of the North Sea. Total 2009 production in the U.K. amounted to about 3,400 barrels of oil per day and 3.5 MMCF of natural gas per day. Natural gas production at the Amethyst field was reduced early in 2009 by equipment failure; oil production at the Schiehallion field was shut-in late in 2009 by an offloading tanker strike against the storage vessel. Total 2010 daily production levels in the U.K. are anticipated to average about 4,200 barrels of oil and 6 MMCF of natural gas. Total proved reserves in the U.K. at December 31, 2009 were 11.7 million barrels of oil and 28.8 billion cubic feet of natural gas.

The Company has interests in Production Sharing Agreements covering two offshore blocks in Republic of the Congo Mer Profonde Sud (MPS) and Mer Profonde Nord (MPN). The Company s interests cover approximately 1.33 million acres with water depths ranging from 490 to 6,900 feet, and the Company serves as operator of the area. In early 2005 Murphy announced an oil discovery at Azurite Marine #1 in the southern block, MPS. The Company successfully followed up the Azurite discovery with other appraisal wells. The Company s Board of Directors approved the development of the Azurite field in late 2006. During 2009, the Company continued its development of the Azurite field, and first oil production occurred in August 2009. Total oil production for the full year of 2009 averaged 1,700 barrels per day at Azurite. Anticipated production in 2010 is 10,800 barrels per day. Total proved oil reserves at the Azurite field as of December 31, 2009 were 7.9 million barrels. In late 2007, the Company sold down its interest in the MPS block, including the Azurite field, from 85% to 50%. Sale proceeds received were $94.5 million, including contingent amounts earned in 2009 upon achieving certain financial and operating goals for Azurite field development. In addition, the Company received a partial carry for costs for two exploration wells in MPS that were drilled in 2009, one of which was a discovery known as Turquoise Marine. A subsequent well at Turquoise and at another prospect were unsuccessful. Further drilling activities are being planned for the Turquoise discovery area. Other prospects in the MPS block are being evaluated and an exploration well is planned for 2010. An exploration well in MPN is also planned in late 2010.

In June 2007, Murphy entered into a production sharing contract covering Block 37, offshore Suriname. Murphy operates this block and has a 100% working interest, subject to a potential reduction to 80% should the state oil company exercise its option. Block 37 covers approximately 2.16 million acres and has water depths ranging from 160 to 1,000 feet. In the acreage table on page 7, the Company has reflected net acreage for Suriname as if the state company s option will be exercised. The contract provides for a six-year exploration period with two phases. Phase I has a four-year period that requires the acquisition of 3D seismic and the drilling of two wells. The 3D seismic was shot in late 2008 and early 2009, and interpretation of this data occurred in 2009. The first exploration well is expected to be drilled in late 2010.

The Company acquired a 40% interest and operatorship of an exploration permit covering approximately 1.00 million gross acres in Block AC/P36 in the Browse Basin offshore northwestern Australia in November 2007. Three-dimensional seismic data was obtained in late 2007 and drilling of a commitment exploration well at a prospect named Abalone Deep in late 2008 was unsuccessful. In November 2008, the Company acquired a 70% interest and operatorship of a second Browse Basin exploration permit in Block WA-423-P. Murphy farmed down its interest in WA-423-P to 40% in the first quarter of 2009. This permit covers approximately 1.43 million gross acres and calls for a 3D seismic survey and one exploration well, which is expected to be drilled in 2011. In June 2009, the Company acquired a 70% interest and operatorship of Block NT/P80 in the Bonaparte Basin, offshore northwestern Australia. The block covers approximately 1.21 million gross acres and reprocessing of seismic covering the area is in progress. The Company has an office in Perth, Western Australia to support the operations of these permits in Australia and the operations of the Company in Southeast Asia.

In May 2008, the Company entered into a production sharing contract in Indonesia covering a 100% interest in the South Barito block in south Kalimantan on the island of Borneo. The block covers approximately 1.24 million acres. The contract permits a six-year exploration term with an optional four-year extension. The work commitment calls for geophysical work, 2D seismic acquisition and processing, and two exploration wells. The contract requires relinquishment of 25% of acreage after three years and an additional 55% after six years. In November 2008, Murphy entered into a production sharing contract in the Semai II Block offshore West Papua, Indonesia. The Company has a 33% interest in the block which covers about 835,000 acres. The permit calls for a 3D seismic program and three exploration wells. Murphy is the operator of both the South Barito and Semai II concessions.

Murphy sold its 20% working interest in Block 16, Ecuador in March 2009. This area is operated by Repsol-YPF under a participation contract that expires in January 2012. The Company has accounted for all Ecuador operations as discontinued operations. All prior period financial information has been adjusted to reflect those results. At December 31, 2008, the Company s total proved reserves for Ecuador were 4.8 million barrels. In October 2007, the government of Ecuador passed a law that increased its share of revenue for sales prices that exceed a base price (about $23.36 per barrel at December 31, 2008) from 50% to 99%. The government had previously enacted a 50% revenue sharing rate in April 2006. The Company has initiated arbitration proceedings against the government claiming that they did not have the right under the contract to enact the revenue sharing provision. The ongoing arbitration proceedings are likely to take many months to reach conclusion. The Company s total claim in the arbitration process is approximately $118 million.

4

Table of Contents

Index to Financial Statements

Total proved oil and gas reserves as of December 31, 2009 are presented in the following table.

	Proved Reserves		
	Oil	Synthetic Oil	Natural Gas
	(millions of barrels)		(billions of cubic feet)
Proved Developed:			
United States	18.3		73.2
Canada	26.2	119.7	89.7
Malaysia	90.0		209.9
United Kingdom	11.7		28.8
Republic of the Congo	4.1		
Total proved developed	150.3	119.7	401.6
Proved Undeveloped:			
United States	8.1		16.1
Canada	1.6	9.8	35.0
Malaysia	20.1		301.9
United Kingdom			
Republic of the Congo	3.8		
Total proved undeveloped	33.6	9.8	353.0
Total proved	183.9	129.5	754.6

Proved Undeveloped Reserves

Murphy s proved undeveloped reserves at December 31, 2009 decreased 11.6 million barrels of oil equivalent (MMBOE) from a year earlier. Approximately 48.7 MMBOE of proved undeveloped reserves were converted to proved developed reserves during 2009. Under the new SEC reserves definition, proved undeveloped reserves for synthetic oil of 9.8 MMBOE were included in the proved reserves category for the first time in 2009. Additionally, excluding synthetic oil, a total of 16.0 MMBOE was added to proved undeveloped reserves during 2009, and there was also 11.3 MMBOE of positive revisions for proved undeveloped reserves during 2009. The majority of the proved undeveloped reserves migration to the proved developed category occurred in the Kikeh, Sarawak gas, and Thunder Hawk fields where active development work occurred. The conversion of non-proved reserves to newly reported proved undeveloped reserves occurred at several areas including, but not limited to, the Tupper, Tupper West, Azurite, and Kikeh fields. The majority of proved undeveloped reserves additions associated with revisions of previous estimates were the result of development drilling at the Sarawak gas fields in Malaysia. The Company spent $529.1 million in 2009 to convert proved undeveloped reserves to proved developed reserves. The Company expects to spend about $589 million in 2010, $165 million in 2011 and $223 million in 2012 to move currently undeveloped proved reserves to the developed category. In computing MMBOE, natural gas is converted to equivalent barrels of oil using a ratio of six thousand cubic feet (MCF) to one barrel of oil.

At December 31, 2009, proved reserves are included for several fields where development projects are ongoing, including natural gas developments at the Tupper West area in British Columbia and offshore Sarawak in Malaysia, and an oil development at Kakap, offshore Sabah Malaysia. Total proved undeveloped reserves associated with various development projects at December 31, 2009 were approximately 102 million barrels of oil equivalents, which is 23% of the Company s total proved reserves. Certain of these development projects have proved undeveloped reserves that will take more than five years to bring to production. Two such projects have significant levels of such proved undeveloped reserves. The Company operates a deepwater field in the Gulf of Mexico that has two undeveloped locations that exceed this five-year window. The reserves associated with the two wells totals less than 2% of the Company s total proved reserves at year-end 2009. The development of certain of this field s reserves stretches beyond five years due to limited well slots available on the production platform, thus making it necessary to wait for depletion of other wells prior to initiating further development of these two locations. The Kakap field oil development project has undeveloped proved reserves that make up approximately 3% of the Company s total proved reserves at year-end 2009. This non-operated project will take longer than five years to develop due to long lead-time equipment required to complete the development process.

Murphy Oil s Reserves Processes and Policies

Murphy provides annual training to all company reserve estimators to ensure SEC requirements associated with reserve estimation and associated Form 10-K reporting are fulfilled. The training includes a Company manual provided to each participant that outlines the latest guidance from the SEC as well as best practices for many engineering and geologic matters related to reserve estimation.

Table of Contents

Index to Financial Statements

The Company employs a Manager of Corporate Reserves (Manager) who is independent of the Company s oil and gas management. The Manager reports to a Senior Vice President of Murphy Oil Corporation, who in turn reports directly to the President of the Company. The Manager makes presentations to the Board of Directors periodically about the Company s reserves. The Manager reviews and discusses reserves estimates directly with the Company s reservoir engineering staff in order to make every effort to ensure compliance with the rules and regulations of the SEC and industry. The Manager coordinates and oversees internal reserves audits. These audits are performed annually and target coverage of approximately one-third of Company reserves each year. The audits are performed by the Manager and qualified engineering staff from areas of the Company other than the area being audited. The Manager may also utilize qualified independent reserves consultants to assist with the internal audits or to perform separate audits as considered appropriate. The Company does not rely on independent reserves consultants to determine its proved reserves reported in this Form 10-K.

Each significant exploration and production office maintains one or more Qualified Reserve Estimators (QRE) on staff. The QRE is responsible for estimating and evaluating reserves and other reserves information for his or her assigned area. The QRE may personally make the estimates and evaluations of reserves or may supervise and approve the estimation and evaluation thereof by others. A QRE is professionally qualified to perform these reserves estimates due to having sufficient educational background, professional training and professional experience to enable him or her to exercise prudent professional judgment. Normally, this requires a minimum of three years practical experience in petroleum engineering or petroleum production geology, with at least one year of such experience being in the estimation and evaluation of reserves, and either a bachelors or advanced degree in petroleum engineering, geology or other discipline of engineering or physical science from a college or university of recognized stature, or the equivalent thereof from an appropriate government authority or professional organization.

Larger Company offices also employ a Regional Reserves Coordinator (RRC) who supervises the local QREs. The RRC is usually a senior QRE that has the primary responsibility for coordinating and submitting reserves information to senior management.

The Company s QREs maintain files containing pertinent data regarding each significant reservoir. Each file includes sufficient data to support the calculations or analogies used to develop the values. Examples of data included in the file, as appropriate, include: production histories; pertinent drilling and workover histories; bottom hole pressure data; volumetric, material balance, analogy or other pertinent reserve estimation data; production performance curves; narrative descriptions of the methods and logic used to determine reserves values; maps and logs; and a signed copy of the conclusion of the QRE stating, that in their opinion, the reserves have been calculated, reviewed, documented and reported in compliance with the regulations and guidelines contained in the reserves training manual. The Company s reserves are maintained in an industry recognized reservoir engineering software system, which has adequate access controls to avoid the possibility of improper manipulation of data.

When reserves calculations are completed by QREs and appropriately reviewed by RRCs and the Manager, the conclusions are reviewed and discussed with the head of the Company s exploration and production business and other senior management as appropriate. The Company s Controller s department is responsible for preparing and filing reserves schedules within Form 10-K.

Qualifications of Manager of Corporate Reserves

The Company believes that it has qualified employees generating oil and gas reserves. Mr. Brad Gouge serves as Manager of Corporate Reserves after joining the Company in mid-2008. Prior to that time, Mr. Gouge was Vice President of a major petroleum engineering consulting firm. He previously was a reservoir and production engineer with a major integrated oil company. Mr. Gouge earned a Bachelors of Science degree in Petroleum Engineering from Texas A&M University and has attended numerous industry training courses. Mr. Gouge is a registered Professional Engineer in the state of Texas and is an instructor for a Society of Petroleum Engineers (SPE) Petroleum Reserves course. He is also co-author of two papers on reservoir engineering which have been published by the SPE.

More information regarding Murphy s estimated quantities of proved oil and gas reserves for the last three years are presented by geographic area on pages F-41 and F-42 of this Form 10-K report. Murphy has not filed and is not required to file any estimates of its total proved oil or gas reserves on a recurring basis with any federal or foreign governmental regulatory authority or agency other than the U.S. Securities and Exchange Commission. Annually, Murphy reports gross reserves of properties operated in the United States to the U.S. Department of Energy; such reserves are derived from the same data from which estimated proved reserves of such properties are determined.

Table of Contents

Index to Financial Statements

Crude oil, condensate and gas liquids production and sales, and natural gas sales by geographic area with weighted average sales prices for each of the seven years ended December 31, 2009 are shown on page 5 of the 2009 Annual Report. In 2009, the Company s production of oil and natural gas represented approximately 0.1% of worldwide totals.

Production expenses for the last three years in U.S. dollars per equivalent barrel are discussed beginning on page 24 of this Form

10-K report. For purposes of these computations, natural gas sales volumes are converted to equivalent barrels of oil using a ratio of six MCF of natural gas to one barrel of oil.

Supplemental disclosures relating to oil and gas producing activities are reported on pages F-39 through F-47 of this Form 10-K report.

At December 31, 2009, Murphy held leases, concessions, contracts or permits on developed and undeveloped acreage as shown by geographic area in the following table. Gross acres are those in which all or part of the working interest is owned by Murphy. Net acres are the portions of the gross acres attributable to Murphy s interest.

	Developed		Undeveloped		Total	
Area (Thousands of acres)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
United States Onshore	4	2	249	175	253	177
Gulf of Mexico	13	5	1,165	696	1,178	701
Alaska	4	1	3		7	1
Total United States	21	8	1,417	871	1,438	879
Canada Onshore, excluding oil sands	35	29	319	281	354	310
Offshore	88	8	45	3	133	11
Oil sands Syncrude	96	5	158	8	254	13
Total Canada	219	42	522	292	741	334
United Kingdom	34	4	39	5	73	9
Malaysia	7	6	9,628	6,126	9,635	6,132
Republic of the Congo	1		1,332	902	1,333	902
Suriname			2,164	1,731	2,164	1,731
Australia			3,640	1,819	3,640	1,819
Indonesia			2,077	1,331	2,077	1,331
Spain			36	6	36	6
Totals	282	60	20,855	13,083	21,137	13,143

Certain acreage held by the Company will expire in the next three years. In January 2010, 1,133 thousand net acres included in the acreage table above expired in Blocks SK 309 and SK 311, offshore Sarawak, Malaysia. The Company retained all acreage in these blocks offshore Sarawak where production exists and discoveries have been made. Also in 2010, a total of 1,913 thousand net acres included in the acreage table above for Blocks L and M, offshore Sabah, Malaysia, are scheduled to expire. Also in 2010, approximately 127 thousand net acres in the United States and 59 thousand net acres in Canada expire. Scheduled expirations in 2011 include 401 thousand net acres in Block AC/P36, Australia; 279 thousand acres in South Barito and 75 thousand net acres in Semai II concession in Indonesia; 346 thousand net acres in Block 37 Suriname; 563 thousand net acres in Block K Malaysia; 356 thousand net acres in Block H Malaysia; and 448 thousand net acres in Blocks MPS and MPN in Republic of the Congo. Also, 91 thousand net acres and 41 thousand net acres expire in 2011 in the United States and Canada, respectively. In 2012, 82 thousand net acres expire in Blocks SK 309 and SK 311 Malaysia; 36 thousand net acres expire in Block PM 311 in Malaysia; and 89 thousand net acres expire in the United States.

As used in the three tables that follow, gross wells are the total wells in which all or part of the working interest is owned by Murphy, and net wells are the total of the Company s fractional working interests in gross wells expressed as the equivalent number of wholly owned wells.

Table of Contents

Index to Financial Statements

The following table shows the number of oil and gas wells producing or capable of producing at December 31, 2009.

	Oil Wells		Gas Wells	
Country	**Gross**	**Net**	**Gross**	**Net**
United States	41	10	14	6
Canada	319	198	76	68
United Kingdom	36	3	23	2
Malaysia	32	26	16	14
Republic of the Congo	1	1		
Totals	429	238	129	90

Murphy s net wells drilled in the last three years are shown in the following table.

	United States		Canada		United Kingdom		Malaysia		Other		Total	
	Productive	**Dry**	**Productive**	**Dry**	**Productive**	**Dry**	**Productive**	**Dry**	**Productive**	**Dry**	**Productive**	**Dry**
2009												
Exploratory	1.3	0.6					5.6					