

MURPHY OIL CORP /DE
Form 10-K
February 27, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

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)

300 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:

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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	New York Stock Exchange
Preferred Stock Purchase Rights	

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 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

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes 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 or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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, 2018) – \$5,528,315,891.

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Number of shares of Common Stock, \$1.00 Par Value, outstanding at January 31, 2019 was 173,058,829.

Documents incorporated by reference:

Portions of the Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders on May 8, 2019 have been incorporated by reference in Part III herein.

MURPHY OIL CORPORATION

2018 FORM 10-K

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PART I

Item 1. BUSINESS

Summary

Murphy Oil Corporation is a global oil and gas exploration and production company. 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. For reporting purposes, Murphy's exploration and production activities are subdivided into four geographic segments, including the United States, Canada, Malaysia and all other countries. Additionally, Corporate activities include interest income, interest expense, foreign exchange effects, the impact of the Tax Cuts and Jobs Act (2017 Tax Act), corporate risk management activities and administrative costs not allocated to the segments. The Company's corporate headquarters are located in El Dorado, Arkansas. The Company has transitioned from an integrated oil company to an enterprise focused on oil and gas exploration and production activities.

At December 31, 2018, Murphy had 1,108 employees.

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 24 through 38, 71 through 73, 101 through 115 and 117 of this Form 10-K report.

Interested parties may obtain 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 explores for and produces crude oil, natural gas and natural gas liquids worldwide. The Company's exploration and production management team directs the Company's worldwide exploration and production activities. This business maintains upstream operating offices, with the most significant of these including Houston in Texas, Calgary in Alberta, and Kuala Lumpur in Malaysia.

During 2018, 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, Australia, Brazil, Brunei, Mexico and Vietnam by wholly owned Murphy Exploration & Production Company – International (Murphy Expro International) and its subsidiaries, and in Western Canada and offshore Eastern Canada by wholly-owned

Murphy Oil Company Ltd. (MOCL) and its subsidiaries. Murphy's hydrocarbon production in 2018 was in the United States, Canada, Malaysia and Brunei.

Unless otherwise indicated, all references to the Company's offshore U.S. and total oil, natural gas liquids and natural gas production and sales volumes, and proved reserves references include a noncontrolling interest in MP Gulf of Mexico, LLC (MP GOM; see further details below and in the Management's Discussion and Analysis section).

Murphy's worldwide 2018 production on a barrel of oil equivalent basis (six thousand cubic feet of natural gas equals one barrel of oil) was 172,172 barrels of oil equivalent per day, an increase of 5.3% compared to 2017.

See Management's Discussion and Analysis section for further details on 2018 production and sales volume.

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United States

In the United States, Murphy primarily has production of crude oil, natural gas liquids and natural gas from fields in the Eagle Ford Shale area of South Texas and in the Gulf of Mexico. The Company produced approximately 58,200 barrels of crude oil and gas liquids per day and approximately 46 MMCF of natural gas per day in the U.S. in 2018. These amounts represented 57.2% of the Company's total worldwide oil and gas liquids and 10.9% of worldwide natural gas production volumes.

Offshore

On November 30, 2018, Murphy Expro USA and Petrobras America Inc. (PAI), a subsidiary of Petróleo Brasileiro S.A., closed a transaction among Murphy, PAI and MP Gulf of Mexico, LLC (MP GOM), a subsidiary of Murphy. The transaction had an effective date of October 1, 2018. Under the terms of the transaction, Murphy paid cash consideration of \$794.6 million and transferred a 20% interest in MP GOM to PAI. Murphy could also owe additional contingent consideration up to \$150 million if certain sales thresholds are exceeded beginning in 2019 through 2025. PAI and Murphy contributed all of their Gulf of Mexico producing assets and Murphy contributed its interest in the Medusa Spar LLC to MP GOM. Following closing of the transaction, MP GOM is owned 80% by Murphy and 20% by PAI. Throughout this 10K report, unless stated otherwise, financial and operational metrics relating to MP GOM include PAI's 20% noncontrolling interest in MP GOM. 100% of revenues, costs, assets, liabilities and cash flows of MP GOM are fully consolidated in the financial statements.

During 2018, approximately 34% of total U.S. hydrocarbon production was produced at fields in the Gulf of Mexico. Approximately 91% of Gulf of Mexico production in 2018 was derived from seven fields, including Dalmatian, Medusa, Kodiak, Front Runner, Thunder Hawk, St. Malo and Chinook. Through MP GOM, including the noncontrolling interest, the Company now holds a 70% operated interest in Dalmatian in DeSoto Canyon Blocks 4 and 134, a 60% operated interest in Medusa in Mississippi Canyon Blocks 538/582, a 29.1% non-operated interest in Kodiak in Mississippi Canyon Blocks 727/771, a 62.5% operated interest in the Front Runner field in Green Canyon Blocks 338/339, a 62.5% operated interest in the Thunder Hawk field in Mississippi Canyon Block 734, a 100% interest in Cascade and Cottonwood, a 66.6% operated interest in Chinook Walker Ridge 425/469, a 25% non-operated interest in St Malo Walker Ridge 633/634/677/678, and a 11.5% non-operated interest in Lucius.

Total daily production in the Gulf of Mexico in 2018 was 19,800 barrels of liquids and approximately 14 MMCF of natural gas. At December 31, 2018, Murphy had total proved reserves for Gulf of Mexico fields of 132.9 million barrels of oil and gas liquids and 53.9 billion cubic feet of natural gas.

Onshore

The Company holds rights to approximately 135 thousand gross acres in South Texas in the Eagle Ford Shale unconventional oil and gas play. Total 2018 production in the Eagle Ford area was 38,200 barrels of oil and liquids per day and approximately 32 MMCF per day of natural gas. On a barrel of oil equivalent basis, Eagle Ford production accounted for 66% of total U.S. production volumes in 2018. At December 31, 2018, the Company's proved reserves for the U.S. Onshore business totaled 241.2 million barrels of liquids and 255.2 billion cubic feet of natural gas.

Canada

In Canada, the Company holds one wholly-owned natural gas area (Tupper) in the Western Canadian Sedimentary Basin (WCSB), working interests in the Kaybob Duvernay (operated) and liquids rich Placid Montney (non-operated) lands also in the WCSB and two non-operated assets – the Hibernia and Terra Nova fields offshore Newfoundland in the Jeanne d’Arc Basin.

Onshore

The Company has approximately 94 thousand gross acres of Tupper Montney mineral rights located in northeast British Columbia. In 2016, the Company completed its transaction to divest natural gas processing and sales pipeline assets that support Murphy’s Montney natural gas fields in the Tupper area. Total cash consideration received by Murphy upon closing of the transaction was \$414.1 million. Connected with this sale, the Company entered into a commitment for natural gas processing capacity for minimum monthly payments through 2035. In 2018, the Company entered into a further commitment, commencing November 2020 for an additional 200 MMCFD.

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In 2016, the Company acquired a 70% operated working interest in Kaybob Duvernay lands and a 30% non-operated working interest in liquids rich Placid Montney lands, both in Alberta. The Company has approximately 349 thousand gross acres of Kaybob and Placid mineral rights.

Also in 2016, the Company entered into an agreement to sell its wholly-owned Seal field located in the Peace River oil sands area of northwest Alberta. This sale was completed in January 2017 and the Company received net proceeds of \$48.8 million. Finally, in 2016, MOCL completed the sale of its 5% undivided interest in Syncrude Canada Ltd. (Syncrude) for net proceeds of \$739.1 million.

Daily production in 2018 in the WCSB averaged 6,800 barrels of liquids and approximately 266 MMCF of natural gas, an increase of 84.7% and 17.7% versus 2017, respectively. Total WCSB proved liquids and natural gas reserves at December 31, 2018, were approximately 43.3 million barrels and 1.4 trillion cubic feet, respectively.

Offshore

Murphy has a 6.5% working interest in Hibernia Main and a 4.3% working interest in Hibernia South Extension, while at Terra Nova the Company's working interest is 10.475%. Oil production in 2018 was approximately 6,700 barrels of oil per day for the two offshore Canada fields. Total proved oil reserves at December 31, 2018 for the two fields were approximately 17.6 million barrels of liquids and 12.3 billion cubic feet of natural gas.

Malaysia

In Malaysia, the Company has majority interests in seven separate production sharing contracts (PSCs). The Company serves as the operator of all these areas other than the unitized Kakap-Gumusut field. The PSCs cover approximately 2.6 million gross acres.

Sarawak

Murphy has a 59.5% interest in oil and natural gas discoveries in two shallow-water blocks, SK 309 and SK 311, offshore Sarawak. Approximately 12,700 barrels of liquids per day were produced in 2018 at Blocks SK 309/311.

The Company has a gas sales contract for the Sarawak area with Petronas, the Malaysian state-owned oil company, and has an ongoing multi-phase development plan for several natural gas discoveries on these blocks. The gas sales contract allows for gross sales volumes of 250 MMCF per day through September 2021 (with extension options), but allows the Company to deliver higher sales volumes as requested. The Company's net share of volumes is sold via this contract.

Total net natural gas sales volume offshore Sarawak was approximately 104 MMCF per day during 2018.

Total proved reserves at December 31, 2018 for Blocks SK 309/311 were 10.7 million barrels of liquids and approximately 117.7 billion cubic feet (BCF), respectively.

Other Sarawak

In November 2017, the Company acquired a 59.5% working interest in Sarawak SK405B PSC. The block SK405B is approximately 2,305 square kilometers (890 square miles) and has water depths in the range from 10 to 50 meters (33 to 164 feet). Under the terms of the PSC, the Company will operate the block with a participating interest of 59.5%.

In February 2016, the Company acquired a 40% working interest in Block Deepwater SK2A PSC, offshore Sarawak. The Company operates the block with a commitment to acquire and process new 3D seismic. The commitment was fulfilled during 2016. This interest expired in June 2018.

In February 2015, the Company acquired a 50% interest in Block SK 2C, offshore Sarawak. The Company operates the block that carried one well commitment during the one-year initial exploration period. The exploration well was drilled in 2015, and the first exploration period was extended for a further eighteen months. In 2016, the Company elected not to enter the next exploration period. The Company currently has a gas holding area for a gas field that will expire in August 2021.

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In May 2013, the Company acquired an interest in shallow-water Malaysia Block SK 314A. The PSC covered a three-year exploration period. The Company's working interest in Block SK 314A is 59.5%. This block includes 488 thousand gross acres. The Company has a 70% carry of a 15% partner in this concession through the minimum work program. The first two exploration wells were drilled in 2015 and the third well in 2016. The Company has successfully secured an annexation of an open area in Sarawak to SK 314A to complete the remaining fourth and fifth exploration commitment wells which is currently scheduled for 2019.

Block K

The Company's working interest in the Kakap field in Block K is 6.35%, following a series of unitization and redeterminations.

In 2006, the Kakap field in Block K was unitized with the Gumusut field in an adjacent block under a Unitization and Unit Operating Agreement (UUOA) between the parties. The Gumusut-Kakap Unit is operated by another company. In the fourth quarter 2016, the owners completed the first redetermination process for a revision to the blocks' tract participation interest, and the operator of the unitized field sought the approval of Petronas to effect the change in 2017. In relation to this matter, in 2016, the Company recorded an estimated redetermination expense of \$39.1 million (\$24.1 million after taxes) related to an expected revision in the Company's working interest covering the period from inception through year-end 2016 at Kakap, of which \$17.3 million remains as a liability at the end of 2018. In February 2017, the Company received Petronas official approval to the redetermination change that reduced the Company's working interest in oil operations to 6.67% effective at April 1, 2017. Working interest redeterminations are required at different points within the life of the unitized field.

In 2017, following a further Unitization Framework Agreement (UFA) between the governments of Brunei and Malaysia the Company has a 6.35% interest in the Kakap field in Block K Malaysia. The UFA unitized the Gumusut/Kakap (GK) and Geronggong/Jagus East fields effective November 23, 2017. The Company has recorded an estimated redetermination expense of \$26.3 million (\$16.3 million after taxes) related to the Company's revised working interest, all of which remains as a liability at the end of 2018.

The Siakap oil field was developed as a unitized area with the Petai field operated by others, and the combined development is operated by Murphy, with a tie-back to the Kikeh field with production beginning in 2014. Oil production at Block K averaged approximately 16,700 barrels per day during 2018.

The Company has a Block K natural gas sales contract with Petronas that calls for gross sales volumes of up to 120 MMCF per day. Gas production in Block K will continue until the earlier of lack of available commercial quantities of associated gas reserves or expiry of the Block K production sharing contract. Natural gas production in Block K in 2018 totaled 6 MMCF per day.

Total proved reserves booked in Block K at the end of 2018 were 40.0 million barrels of liquids and about 26.1 billion cubic feet of natural gas.

Block H

The Company also has an 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. The Company followed up Rotan with several other nearby discoveries. Murphy's interests in Block H range between 42% and 56%. Total gross acreage held by the Company at the end of 2018 in Block H was 679 thousand gross acres. In early 2014, Petronas and the Company sanctioned a Floating Liquefied Natural Gas (FLNG) project for Block H, and agreed terms for sales of natural gas to be produced with prices tied to an oil index. First production is currently expected at Block H in mid-2020. At

December 31, 2018, total natural gas proved reserves for Block H were approximately 324.4 billion cubic feet.

Block P

The Company had a 42% interest in a gas holding area covering approximately 1,854 gross acres in Block P. This interest expired in January 2018.

Brunei

The Company has a working interest of 8.05% in Block CA-1 and a 30% working interest in Block CA-2.

On November 23, 2017, both the governments of Brunei and Malaysia signed a UFA (see Malaysia section above) which resulted in Jagus East discovery in Block CA-1 forming part of a unitized field with the GK Unit in Malaysia.

Following this unitization, the Company's working interest in the Brunei section of the Kakap field was adjusted and on July 4, 2018 a participation agreement was signed which finalized the Company's working interest of 8.05%.

The CA-1 and CA-2 blocks cover 1.44 million and 1.49 million gross acres, respectively. Four exploration wells were drilled in Block CA-1 and six exploration wells were drilled in Block CA-2 by the end of 2018.

The Company has a 30% non-operating working interest in Block CA-2. In December 2014, the authority Petroleum Brunei approved a gas marketing plan which sets an eight-year gas holding period until December 2022. The consortium is presently carrying out a concept select study to assist in commercial discussions.

Australia

In Australia, the Company holds six offshore exploration permits and serves as operator of four of them.

In December 2017, Murphy signed a farm-in agreement to acquire a 40% non-operated interest in AC/P21 in the Vulcan Basin, offshore Northern Australia. Acquisition of multiclient 3D seismic commenced over the permitted area in December 2017 and was completed in December 2018. The permit covers approximately 165 thousand acres and expires in June 2019 with an option to extend.

In March 2015, Murphy was awarded the AC/P59 license, another acreage position in the Vulcan Basin with 60% interest and operatorship. The block covers approximately 288 thousand gross acres. The acquisition of multiclient 3D seismic commenced in 2016 and was completed in 2017. The permit expires in 2022 with an option to renew.

In April 2014 and June 2014, Murphy was awarded licenses AC/P57 and AC/P58 in the Vulcan Basin. The blocks cover approximately 82 thousand and 692 thousand gross acres, respectively. These exploration permits require 3D seismic reprocessing and a gravity survey that were completed in 2017. The permits expire in 2020 with an option to renew.

In October 2013, Murphy was awarded the EPP43 license in the Ceduna Basin, offshore South Australia, with 50% interest & operatorship. The block covers approximately 4.1 million acres. Acquisition of multiclient 3D seismic commenced over the permit in 2016 and the fully processed seismic was received in 2017. The first exploration period of the permit expires in 2021 with an option to renew.

In November 2007, Murphy signed a farm in agreement to acquire 40% of AC/P36, in the Browse Basin, offshore northern Australia in the Territory of Ashmore and Cartier Islands. The block covers approximately 482 thousand gross acres. Murphy currently holds a non-operated 50% interest and is carried for the existing exploration commitments. The permit is in its first renewal period which currently expires in 2020 with a further option to renew.

Vietnam

The Company holds a 65% working interest in Blocks 144 and 145, a 60% interest in Block 11-2/11 and a 40% interest in Block 15-1/05.

In November 2012, the Company signed a PSC with Vietnam National Oil and Gas Group and PetroVietnam Exploration Production Company (PVEP), where it acquired a 65% interest and operatorship of Blocks 144 and

145. The blocks cover approximately 6.56 million gross acres and are located in the outer Phu Khanh Basin. The Company acquired 2D seismic for these blocks in 2013 and undertook seabed surveys in 2015 and 2016. The remaining commitment of the acquisition, processing and interpretation of six hundred square kilometers (600 km²) of 3D seismic is tentatively scheduled for 2020.

In June 2013, the Company acquired a 60% working interest and operatorship of Block 11-2/11 under another PSC. The block covers 677 thousand gross acres. The Company acquired 3D seismic and performed other geological and geophysical studies in this block in 2013. This concession carries a three-well commitment which has been fulfilled with the first exploration well drilled in 2016 and the second and third wells drilled in 2017.

In August 2015, the Company signed a farm-in agreement to acquire 35% of Block 15-1/05 and in 2018 became the operator and increased its working interest to 40%. The exploration phase expired in December 2018 and is extended until December 2019. The exploration license calls for one exploration well commitment, which is planned to be drilled in 2019. The Lac Da Trang (LDT) 1X exploration well, the last remaining commitment of the PSC, is scheduled to commence in 2019. Effective January 11, 2019, the Declaration of Commercial Discovery of the Lac Da Vang (LDV) project was approved. First oil from LDV is currently planned by the end of 2021.

Mexico

In December 2016, Murphy and joint venture partners were the high bidder on Block 5, which was offered as part of Mexico's fourth phase, Round one deepwater auction. Murphy was formally awarded the block in March 2017. Murphy is the operator of the Block with a 30% working interest. Block 5 is located in the deepwater Salinas basin covering approximately 640,000 gross acres (2,600 square kilometers) and water depths in this block range from 2,300 to 3,500 feet (700 to 1,100 meters). The initial exploration period for the license is four years and includes a commitment to drill one exploration well which is planned for early 2019.

Brazil

The Company now holds an interest in 6 blocks in Brazil (SEAL-M-351, SEAL-M-428, SEAL-M-430, SEAL-M-501, SEAL-M-503 and SEAL-M-573). ExxonMobil has a 50% working interest and is the operator of the blocks, Murphy has a 20% working interest and QGEP holds a 30% working interest.

In 2017, the Company entered into a farm-in agreement with Queiroz Galvão Exploração e Produção S.A. (QGEP) to acquire a 20% working interest in Blocks SEAL-M-351 and SEAL-M-428, located in the deepwater Sergipe-Alagoas Basin, offshore Brazil. QGEP retained a 30% working interest in the blocks and, in a separate but related transaction, ExxonMobil Exploração Brasil Ltda. (an affiliate of ExxonMobil Corporation) farmed into the remaining 50% working interest as the operator. Subsequent to the farm-in, Murphy and its co-venturers were the high bidder in Brazil's Round 14 lease sale, for leases which are adjacent to SEAL-M-351 and SEAL-M-428.

In 2018, the co-venturer's were the successful bidders on blocks 430 and 573.

Murphy's total acreage position in Brazil is 746,000 gross acres over the six blocks, offsetting several major Petrobras discoveries, with no well commitments.

Ecuador

Murphy sold its 20% working interest in Block 16, Ecuador in March 2009. 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 initiated arbitration proceedings against the government in one arbitral body claiming that the government did not have the right under the contract to enact the revenue sharing provision. In 2010, the arbitration panel determined that it lacked jurisdiction over the claim due to technicalities. The arbitration was refiled in 2011 before a different arbitral body and the arbitration hearing was held in late 2014. On February 10, 2017, the arbitration panel issued its final decision and awarded Murphy the sum of \$31.3 million. In May 2017, Ecuador instituted a proceeding in the Netherlands district court located in The Hague to set aside the award. Murphy filed an opposition and settled for \$26.0 million, which was received in 2018.

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Proved Reserves

Total proved reserves for crude oil, natural gas liquids and natural gas as of December 31, 2018 are presented in the following table.