MURPHY OIL CORP /DE
Form 10-Q
May 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

	(Mark One)
[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 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 (State or other jurisdiction of incorporation or organization)	71-0361522 (I.R.S. Employer Identification Number)
300 Peach Street, P.O. Box 7000, El Dorado, Arkansas (Address of principal executive offices)	71731-7000 (Zip Code)

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

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. [X] Yes [ ] 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). [X] Yes [ ] No

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

Large accelerated filer [X] 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 [X] No

Number of shares of Common Stock, $1.00 par value, outstanding at April 30, 2018 was 173

,038,005.

MURPHY OIL CORPORATION

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS (unaudited)

(Thousands of dollars)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 938,615	964,988
Accounts receivable, less allowance for doubtful accounts of $1,605 in 2018 and 2017	212,639	243,472
Inventories, at lower of cost or market	94,157	105,127
Prepaid expenses	39,936	35,087
Assets held for sale	22,696	22,929
Total current assets	1,308,043	1,371,603
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization of $12,422,869 in 2018 and $12,280,741 in 2017	8,207,736	8,220,031
Deferred income taxes	368,878	211,543
Deferred charges and other assets	53,553	57,765
Total assets	$ 9,938,210	9,860,942
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 9,557	9,902
Accounts payable	615,963	595,916
Income taxes payable	77,488	44,604
Other taxes payable	19,745	23,574
Other accrued liabilities	140,158	156,681
Liabilities associated with assets held for sale	3,160	3,530
Total current liabilities	866,071	834,207
Long-term debt, including capital lease obligation	2,898,850	2,906,520
Deferred income taxes	128,719	159,098
Asset retirement obligations	691,170	709,299
Deferred credits and other liabilities	661,093	631,627

Stockholders’ equity		
Cumulative Preferred Stock, par $100, authorized 400,000 shares, none issued	–	–
Common Stock, par $1.00, authorized 450,000,000 shares, issued 195,065,341 shares in 2018 and 195,055,724 in 2017	195,065	195,056
Capital in excess of par value	891,191	917,665
Retained earnings	5,400,474	5,245,242
Accumulated other comprehensive loss	(544,737)	(462,243)
Treasury stock	(1,249,686)	(1,275,529)
Total stockholders’ equity	4,692,307	4,620,191
Total liabilities and stockholders’ equity	$ 9,938,210	9,860,942

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(Thousands of dollars, except per share amounts)

	Three Months Ended March 31, 2018	2017 1
Revenues		
Revenue from sales to customers	$ 606,954	509,035
Gain (loss) on crude contracts	(29,502)	37,077
Gain on sale of assets and other income	8,153	130,528
Total revenues	585,605	676,640
Costs and expenses		
Lease operating expenses	136,496	122,142
Severance and ad valorem taxes	12,157	11,213
Exploration expenses, including undeveloped lease amortization	28,928	28,663
Selling and general expenses	51,417	51,255
Depreciation, depletion and amortization	230,733	236,154
Accretion of asset retirement obligations	9,914	10,556
Other expense (benefit)	(11,048)	2,157
Total costs and expenses	458,597	462,140
Operating income from continuing operations	127,008	214,500
Other income (loss)		
Interest and other income (loss)	15,084	(15,021)
Interest expense, net	(45,049)	(44,597)
Total other loss	(29,965)	(59,618)
Income from continuing operations before income taxes	97,043	154,882
Income tax expense (benefit)	(71,647)	97,387
Income from continuing operations	168,690	57,495
Income (loss) from discontinued operations, net of income taxes	(437)	969
NET INCOME	$ 168,253	58,464
INCOME PER COMMON SHARE – BASIC		

Continuing operations	$ 0.98	0.33
Discontinued operations	(0.01)	0.01
Net Income	$ 0.97	0.34
INCOME PER COMMON SHARE – DILUTED		
Continuing operations	$ 0.97	0.33
Discontinued operations	(0.01)	0.01
Net Income	$ 0.96	0.34
Cash dividends per Common share	0.25	0.25
Average Common shares outstanding (thousands)		
Basic	172,805	172,422
Diluted	174,620	173,089

1 Reclassified to conform to current presentation (see Notes A and B).

See Notes to Consolidated Financial Statements, page 7.

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Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(Thousands of dollars)

	Three Months Ended March 31, 2018	2017
Net income	$ 168,253	58,464
Other comprehensive income (loss), net of tax		
Net gain (loss) from foreign currency translation	(52,275)	22,664
Retirement and postretirement benefit plans	3,170	2,387
Deferred loss on interest rate hedges reclassified to interest expense	585	482
Reclassification of certain tax effects to retained earnings	(30,237)	–
Other	(3,737)	–
Other comprehensive income (loss)	(82,494)	25,533
COMPREHENSIVE INCOME	$ 85,759	83,997

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Thousands of dollars)

	Three Months Ended March 31,	
	2018	2017
Operating Activities		
Net income	$ 168,253	58,464
Adjustments to reconcile net income to net cash provided by continuing operations activities:		
(Income) loss from discontinued operations	437	(969)
Depreciation, depletion and amortization	230,733	236,154
Dry hole costs (credits)	(9)	2,904
Amortization of undeveloped leases	13,168	9,957
Accretion of asset retirement obligations	9,914	10,556
Deferred income tax (benefit) charge	(145,920)	58,533
Pretax loss (gain) from disposition of assets	339	(131,982)
Net decrease in noncash operating working capital	41,554	43,418
Other operating activities, net	(39,948)	18,478
Net cash provided by continuing operations activities	278,521	305,513
Investing Activities		
Property additions and dry hole costs	(273,901)	(211,631)
Proceeds from sales of property, plant and equipment	260	64,097
Purchases of investment securities 1	–	(212,661)
Proceeds from maturity of investment securities 1	–	113,210
Net cash required by investing activities	(273,641)	(246,985)
Financing Activities		
Capital lease obligation payments	(2,404)	(9,660)
Withholding tax on stock-based incentive awards	(6,642)	(5,808)
Cash dividends paid	(43,258)	(43,136)
Net cash required by financing activities	(52,304)	(58,604)
Effect of exchange rate changes on cash and cash equivalents	21,051	3,132
Net increase (decrease) in cash and cash equivalents	(26,373)	3,056
Cash and cash equivalents at beginning of period	964,988	872,797
Cash and cash equivalents at end of period	$ 938,615	875,853

1 Investments are Canadian government securities with maturities greater than 90 days at the date of acquisition.

See Notes to Consolidated Financial Statements, page 7.

Murphy Oil Corporation and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)

(Thousands of dollars)

	Three Months Ended March 31, 2018	2017
Cumulative Preferred Stock – par $100, authorized 400,000 shares, none issued	$ –	–
Common Stock – par $1.00, authorized 450,000,000 shares, issued 195,065,341 shares at March 31, 2018 and 195,055,724 shares at March 31, 2017		
Balance at beginning of period	195,056	195,056
Exercise of stock options	9	–
Balance at end of period	195,065	195,056
Capital in Excess of Par Value		
Balance at beginning of period	917,665	916,799
Exercise of stock options, including income tax benefits	(175)	–
Restricted stock transactions and other	(32,486)	(25,251)
Stock-based compensation	6,187	6,716
Other	–	(37)
Balance at end of period	891,191	898,227
Retained Earnings		
Balance at beginning of period	5,245,242	5,729,596
Net income for the period	168,253	58,464
Reclassification of certain tax effects from accumulated other comprehensive loss	30,237	–
Cash dividends	(43,258)	(43,136)
Balance at end of period	5,400,474	5,744,924
Accumulated Other Comprehensive Loss		
Balance at beginning of period	(462,243)	(628,212)
Foreign currency translation (loss) gain, net of income taxes	(52,275)	22,664
Retirement and postretirement benefit plans, net of income taxes	3,170	2,387
Deferred loss on interest rate hedges reclassified to interest expense, net of income taxes	585	482
Reclassification of certain tax effects to retained earnings	(30,237)	–
Other	(3,737)	–
Balance at end of period	(544,737)	(602,679)
Treasury Stock		
Balance at beginning of period	(1,275,529)	(1,296,560)

Sale of stock under employee stock purchase plan	–	71
Awarded restricted stock, net of forfeitures	25,843	19,444
Balance at end of period – 22,027,336 shares of Common Stock in 2018 and 22,509,577 shares of Common Stock in 2017, at cost	(1,249,686)	(1,277,045)
Total Stockholders’ Equity	$ 4,692,307	4,958,483

See Notes to Consolidated Financial Statements, page 7.

These notes are an integral part of the financial statements of Murphy Oil Corporation and Consolidated Subsidiaries (Murphy/the Company) on pages 2 through 6 of this Form 10-Q report.

Note A – Nature of Business and Interim Financial Statements

NATURE OF BUSINESS – Murphy Oil Corporation is an international oil and gas company that conducts its business through various operating subsidiaries. The Company produces oil and natural gas in the United States, Canada and Malaysia and conducts oil and natural gas exploration activities worldwide.

INTERIM FINANCIAL STATEMENTS – In the opinion of Murphy's management, the unaudited financial statements presented herein include all accruals necessary to present fairly the Company's financial position at March 31, 2018 and December 31, 2017, and the results of operations, cash flows and changes in stockholders' equity for the interim periods ended March 31, 2018 and 2017, in conformity with accounting principles generally accepted in the United States of America (U.S.). In preparing the financial statements of the Company in conformity with accounting principles generally accepted in the U.S., management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates.

Financial statements and notes to consolidated financial statements included in this Form 10-Q report should be read in conjunction with the Company's 2017 Form 10-K report, as certain notes and other pertinent information have been abbreviated or omitted in this report. Financial results for the three-month period ended March 31, 2018 are not necessarily indicative of future results.

Beginning in the period ended September 30, 2017, certain reclassifications in presentation have been made to the Consolidated Statements of Operations. The Company now presents a separate "Operating income (loss) from continuing operations" subtotal on the Consolidated Statements of Operations. Additionally, "Interest and other income (loss)," which includes foreign exchange gains and losses, has been reclassified from a component of total revenues and is now presented below Operating income (loss) from continuing operations. "Interest expense" and "Capitalized interest" have also been combined into the "Interest expense, net" line item and is now presented below "Operating income (loss) from continuing operations." Previously reported periods have been reclassified to conform to the current period presentation. These reclassifications did not impact previously reported Income from continuing operations before income taxes, Income from continuing operations, or Net income.

Note B – New Accounting Principles and Recent Accounting Pronouncements

Accounting Principles Adopted

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU), which established a comprehensive model of accounting for revenue arising from contracts with customers that superseded most revenue recognition requirements and industry-specific guidance. Under the new standard, an entity is required to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Additional disclosures are required to describe the nature, amount, timing and uncertainly of revenue and cash flows from contracts with customers. The Company adopted the new standard in the first quarter of 2018 using the modified retrospective method. The Company performed a review of contracts in each of its revenue streams and implemented accounting policies and internal controls to address the requirements of the ASU. Prior to January 1, 2018, the Company followed the sales method of revenue recognition under Accounting Standards Codification (ASC) Topic 605 and recorded revenue when deliveries occurred and legal ownership of the commodity transferred to the customer.

There was no adjustment to the opening balance of stockholders' equity as at January 1, 2018, resulting from application of the new ASU promulgated in ASC Topic 606 using the modified retrospective method. The comparative information has not been adjusted and continues to be reported under ASC Topic 605 – Revenue Recognition. See also Note C for further discussion of Revenue Recognition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note B – New Accounting Principles and Recent Accounting Pronouncements (Contd.)

Accounting Principles Adopted (Cont.)

Statement of Cash Flows. In August 2016, the FASB issued an ASU to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendment provides guidance on specific cash flow issues including debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instrument with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The amendments in this ASU were effective for annual and interim periods beginning after December 15, 2017. The Company adopted this guidance in 2018 and it did not have a material impact on its consolidated financial statements.

Compensation – Retirement Benefits. In March 2017, the FASB issued an ASU requiring that the service cost component of pension and postretirement benefit costs be presented in the same line item as other current employee compensation costs and other components of those benefit costs be presented separately from the service cost component outside a subtotal of income from operations, if presented. The update also requires that only the service cost component of pension and postretirement benefit cost is eligible for capitalization. The update is effective for annual and interim periods beginning after December 15, 2017. The Company adopted the standard in the first quarter of 2018 and it did not have a material impact on its consolidated financial statements.

Compensation – Stock Compensation. In May 2017, the FASB issued an ASU which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the type of changes to the terms and conditions of share-based payment awards to which an entity would be required to apply modification accounting. The update is effective for annual periods beginning after December 15, 2017 and interim periods within the annual period. The Company adopted this accounting standard in the first quarter of 2018 and it did not have material impact on its consolidated financial statements.

Statement of Operations – Reporting Comprehensive Income. In February 2018, the FASB issued an ASU, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company elected to early adopt this accounting standard during the first quarter of 2018 and recorded discrete adjustments from accumulated other comprehensive income to retained earnings of $28.4 million related to retirement and postretirement obligations and $1.8 million related to deferred loss on interest rate derivative hedges. The adoption of this ASU will have no future impact.

Recent Accounting Pronouncements

Leases. In February 2016, the FASB issued an ASU to increase transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous Generally Accepted Accounting Principles (GAAP) and this ASU is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. The new standard is effective for financial statements issued for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted for all entities. The Company anticipates adopting this guidance in the first quarter of 2019 and is currently analyzing its portfolio of contracts to assess the impact future adoption of this ASU will have on its consolidated financial statements.

Note C – Revenue from Contracts with Customers

Significant Accounting Policy

Revenue is recognized when the Company satisfies a performance obligation by transferring control over a commodity to a customer; the amount of revenue recognized reflects the consideration expected in exchange for those commodities. The Company measures revenue based on consideration specified in a contract and excludes taxes and other amounts collected on behalf of third parties.

Revenue is presented as Company share net of certain costs associated with generation of Revenue. Examples of costs that reduce revenue include transportation, gathering, compression, and processing fees in U.S. and Canada, as well as certain required payments associated with production sharing contracts (PSCs) and export taxes in Malaysia.

Note C – Revenue from Contracts with Customers (Contd.)

Nature of Goods and Services

The Company explores for and produces crude oil, natural gas and natural gas liquids (collectively oil and gas) worldwide. The Company's revenue from sales of oil and gas production activities are subdivided into three key geographic segments: the U.S., Canada, and Malaysia. Additionally, revenue from sales to customers is generated from three primary revenue streams: crude oil and condensate, natural gas liquids, and natural gas.

For operated oil and gas production where the non-operated working interest owner does not take-in-kind its proportionate interest in the produced commodity, the Company acts as an agent for the working interest owner and recognizes revenue only for its own share of the commingled production.

U.S.- In the United States, the Company primarily produces oil and gas from fields in the Eagle Ford Shale area of South Texas and in the Gulf of Mexico. Revenue is generally recognized when oil and gas are transferred to the customer at the delivery point. Revenue recognized is largely index based with price adjustments for floating market differentials.

Canada- Primarily all long-term contracts in Canada, except for certain natural gas physical forward sales fixed-price contracts, are floating commodity index priced. For the Onshore business in Canada, the recorded revenue is adjusted for transportation and any gain or loss on spot purchases made to meet committed volumes on sales contracts for the month. For the Offshore business in Canada, contracts are based on index prices and revenue is recognized at the time of vessel load based on the volumes on the bill of lading and point of custody transfer.

Malaysia- In Malaysia, the Company has interests in nine separate PSCs. The Company serves as the operator of all these areas other than the unitized Kakap-Gumusut field. Crude oil contracts in Malaysia share similar features of largely fixed cargo quantities, variable index-based pricing, and potential discounts at the point of meeting the performance obligation when the vessel is loaded. Malaysia also has three long term Gas Sales Agreements (GSA) with terms until the end of the field life, economic life, or PSC term.

Disaggregation of Revenue

The Company reviews performance based on three key geographical segments and between onshore and offshore sources of Revenue within these geographies.

For the three months ended March 31, 2018 and 2017, the Company recognized $607.0 million and $509.0 million, respectively, from contracts with customers for the sales of oil, natural gas liquids and natural gas.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note C – Revenue from Contracts with Customers (Contd.)

		Three Months Ended March 31,	
(Thousands of dollars)		2018	2017
Net crude oil and condensate revenue			
United States – Onshore	$	182,649	149,986
– Offshore		71,528	53,813
Canada – Onshore		21,293	9,121
– Offshore		54,315	37,014
Malaysia – Sarawak		77,306	65,783
– Block K		94,572	87,831
Total crude oil and condensate revenue		501,663	403,548
Net natural gas liquids revenue			
United States – Onshore		12,134	9,647
– Offshore		1,639	1,916
Canada – Onshore		3,469	432
– Offshore		–	–
Malaysia – Sarawak		6,192	5,182
– Block K		–	–
Total natural gas liquids revenue		23,434	17,177
Net natural gas revenue			
United States – Onshore		6,770	7,036
– Offshore		2,937	2,663
Canada – Onshore		39,594	39,847
– Offshore		–	–
Malaysia – Sarawak		32,383	38,589
– Block K		173	175
Total natural gas revenue		81,857	88,310
Total revenue from contracts with customers		606,954	509,035
Gain (loss) on crude contracts		(29,502)	37,077
Other operating income (loss)		8,492	(1,454)
Gain (loss) on sale of assets		(339)	131,982
Total revenue	$	585,605	676,640

Contract Balances and Asset Recognition

As of March 31, 2018, and December 31, 2017, receivables from contracts with customers, net of royalties and associated payables, on the balance sheet, were $178.7 million and $203.4 million, respectively. Payment terms for Murphy's sales vary across contracts and geographical regions, with the majority of the cash receipts required within 30 days of billing. Based on historical collections and ability of customers to pay, the Company did not recognize any impairment losses on receivables or contract assets arising from customer contracts during the reporting periods.

The Company has not entered into any upstream oil and gas sale contracts that have financing components as at March 31, 2018.

The Company does not employ sales incentive strategies such as commissions or bonuses for obtaining sales contracts. For the periods presented, the Company did not identify any assets to be recognized associated with the costs to obtain a contract with a customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note C – Revenue from Contracts with Customers (Contd.)

Performance Obligations

The Company recognizes oil and gas revenue when it satisfies a performance obligation by transferring control over a commodity to a customer. Judgment is required to determine whether some customers simultaneously receive and consume the benefit of commodities. As a result of this assessment for the Company, each unit of measure of the specified commodity is considered to represent a distinct performance obligation that is satisfied at a point in time upon the transfer of control of the commodity.

For contracts with market or index-based pricing, which represent the majority of Murphy's sales contracts, the Company has elected the allocation exception and allocates the variable consideration to each single performance obligation in the contract. As a result, there is no price allocation to unsatisfied remaining performance obligations for delivery of commodity product in subsequent periods.

The Company has entered into several long-term, fixed-price contracts in Canada. The underlying reason for entering a fixed price contract is generally unrelated to anticipated future prices or other observable data and serves a particular purpose in the company's long-term strategy. The contractually stated price for each unit of commodity transferred under these contracts represents the stand-alone selling price of the commodity.

As at March 31, 2018, the Company had the following sales contracts in place which are expected to generate revenue from sales to customers for a period of 12 months or more starting at the inception of the contract:

Current Long-Term Contracts Outstanding at March 31, 2018

Location	Commodity	End Date	Description	Approximate Net Volumes
U.S. Onshore	Oil	Q2 2019	Fixed quantity delivery in Eagle Ford	4,000 BOE/Day
U.S. Onshore	Oil	Q3 2019	Fixed quantity delivery in Eagle Ford	2,000 BOE/Day
U.S. Onshore	Oil	Q4 2021	Fixed quantity delivery in Eagle Ford	2018: 19,000 BOE/Day 2019-2021: 13,000 BOE/Day
U.S. Onshore	Gas and NGL	Q2 2026	Deliveries from dedicated acreage in Eagle Ford	As produced
Canada Onshore	Gas	Q4 2020	Contracts to sell natural gas at Alberta AECO Cdn dollar 2.81/MCF	59 MMCF/Day
Canada Onshore	Gas	Q4 2020	Contracts to sell natural gas at USD Index pricing	59 MMCF/Day

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note D – Property, Plant and Equipment

Exploratory Wells

Under FASB guidance exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

At March 31, 2018, the Company had total capitalized exploratory well costs pending the determination of proved reserves of $176.3 million. The following table reflects the net changes in capitalized exploratory well costs during the three-month periods ended March 31, 2018 and 2017.

(Thousands of dollars)	2018	2017
Beginning balance at January 1	$ 175,640	148,500
Additions pending the determination of proved reserves	623	39,653
Reclassifications to proved properties based on the determination of proved reserves	–	(13,370)
Capitalized exploratory well costs charged to expense	–	(8,360)
Balance at March 31	$ 176,263	166,423

There were no capitalized well costs charged to expense during the first three months of 2018. The capitalized well costs charged to expense during the first three months of 2017 included the Marakas-01 well in Block SK314A, offshore Malaysia, in which development of the well could not be justified due to noncommercial hydrocarbon quantities found.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed for each individual well and the number of projects for which exploratory well costs have been capitalized. The projects are aged based on the last well drilled in the project.

	March 31,					
	2018			2017		
(Thousands of dollars)	Amount	No. of Wells	No. of Projects	Amount	No. of Wells	No. of Projects
Aging of capitalized well costs:						
Zero to one year	$ 13,642	2	1	$ 48,202	2	2
One to two years	27,757	1	1	53,729	3	3
Two to three years	49,642	2	2	–	–	–
Three years or more	85,222	7	1	64,492	6	–
	$ 176,263	12	5	$ 166,423	11	5

Of the $162.6 million of exploratory well costs capitalized more than one year at March 31, 2018, $70.4 million is in Brunei, $43.8 million is in Vietnam, $27.8 million is in the U.S. and $20.6 million is in Malaysia. In all geographical areas, either further appraisal or development drilling is planned and/or development studies/plans are in various stages of completion.

Divestments

In January 2017, a Canadian subsidiary of the Company completed its disposition of the Seal field in Western Canada. Total cash consideration to Murphy upon closing of the transaction was approximately $48.8 million. Additionally, the buyer assumed the asset retirement obligation of approximately $85.9 million. A $132.4 million pretax gain was reported in the 2017 period related to the sale. Also, in 2017, a U.S. subsidiary of the Company completed its disposition of certain non-core properties in the Eagle Ford Shale area. Total cash consideration to Murphy upon closing of the transaction was approximately $19.6 million. There were no gains or losses recorded related to these non-core Eagle Ford Shale sales.

In 2016, a Canadian subsidiary of the Company completed a divestiture of natural gas processing and sales pipeline assets that support Murphy's Montney natural gas fields in the Tupper area of northeastern British Columbia. Total cash consideration received upon closing was $414.1 million. A gain on sale of approximately $187.0 million was deferred and is being recognized over approximately the next 18 years in the Canadian operating segment. The Company amortized approximately $1.9 million and $1.7 million of the deferred gain during the first three months of 2018 and 2017, respectively. The remaining deferred gain of $175.2 million was included as a component of Deferred credits and other liabilities in the Company's Consolidated Balance Sheet as of March 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

Note D – Property, Plant and Equipment (Contd.)

Acquisitions

In 2016, a Canadian subsidiary of Murphy Oil acquired a 70% operated working interest (WI) of Athabasca Oil Corporation's (Athabasca) production, acreage, infrastructure and facilities in the Kaybob Duvernay lands, and a 30% non-operated WI of Athabasca's production, acreage, infrastructure and facilities in the liquids rich Placid Montney lands in Alberta, the majority of which was unproved. Under the terms of the joint venture, the total consideration amounts to approximately $375.0 million of which Murphy paid $206.7 million in cash at closing, subject to normal closing adjustments, and an additional $168.0 million in the form of a carried interest on the Kaybob Duvernay property. As of March 31, 2018, $64.3 million of the carried interest had been paid. The carry is to be paid over a period of up to five years from 2016.

Other

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 operators. The Gumusut-Kakap Unit is operated by another company. In the fourth quarter 2016, the operators 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 2016, the Company recorded an estimated redetermination expense of $39.1 million ($24.1 million after tax) related to an expected revision in the Company's working interest covering the period from inception through year-end 2016 at Kakap. 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. Following a partial payment, the remaining redetermination liability of $17.3 million was included as a component of Other current liabilities in the Company's Consolidated Balance Sheet as of March 31, 2018.

Following a further Unitization Framework Agreement (UFA) between the governments of Brunei and Malaysia, the Company now has a 6.37% interest in the Kakap field in Block K Malaysia as of March 31, 2018. The UFA unitized the Gumusut/Kakap (GK) and Geronggong/Jagus East fields effective November 23, 2017. In the fourth quarter 2017, the Company recorded an estimated redetermination expense of $15.0 million ($9.3 million after tax) related to Company's revised working interest. The remaining redetermination liability of $15.0 million was included as a component of Other current liabilities in the Company's Consolidated Balance Sheet as of March 31, 2018.

Note E – Discontinued Operations and Assets Held for Sale

The Company has accounted for its former U.K. and U.S. refining and marketing operations as discontinued operations for all periods presented. The results of operations associated with discontinued operations for the three-month periods ended March 31, 2018 and 2017 were as follows:

Three Months

	Ended March 31,	
(Thousands of dollars)	2018	2017
Revenues	$ –	129
Income (loss) before income taxes	(437)	969
Income tax benefit	–	–
Income (loss) from discontinued operations	$ (437)	969

The following table presents the carrying value of the major categories of assets and liabilities of U.K. refining and marketing operations reflected as held for sale on the Company's Consolidated Balance Sheets at March 31, 2018 and December 31, 2017.

(Thousands of dollars)	March 31, 2018	December 31, 2017
Current assets		
Cash	$ 16,380	16,631
Accounts receivable	6,316	6,298
Total current assets held for sale	$ 22,696	22,929

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