



corporate  
**governance**

Recognized as a leader in corporate governance, we're committed to meaningful, transparent disclosure for all stakeholders.

**PARTS III AND IV  
ITEMS 10 TO 15.**

	Page
Directors	129
Director Compensation	131
Compensation Committee Report	134
Compensation Committee Interlocks and Insider Participation	135
Compensation Overview	135
Executive Officers	141
Summary Compensation Table	142
CEO Compensation and 2007 Goals	143
CEO Three-Year Look-Back	143
Equity Ownership and Changes in 2007	144
TOPs Tables	144
Pension Plan Tables	146
All Other Compensation	148
Termination Arrangements	148
Share Performance Graph	150
Corporate Governance	151
Governance Committee Report	151
Security Ownership of Certain Beneficial Owners and Management	154
Certain Relationships and Related Transactions, and Director Independence	155
Principal Accounting Fees and Services	155
Exhibits, Financial Statement Schedules	157
Certifications	160

### PART III

## Items 10 and 11. Directors, Executive Officers and Corporate Governance, and Executive Compensation

### DIRECTORS

According to our Articles, Nexen must have between three and 15 directors. On July 5, 2006, the board determined that, until changed, there will be 12 directors.

Our By-Laws provide that directors will be elected at the annual general meeting of shareowners (AGM) each year and will hold office until their successors are elected. All of our current directors were elected at the last AGM.

This shows our directors' principal occupations or employment during the past five years and any other directorships they held in public companies as at February 14, 2008. The following directors are management nominees for election to the board.

Name (Age)	Principal Occupation	Other Directorships	Nexen Director Since
Charles W. Fischer (57)	President and Chief Executive Officer (CEO) of Nexen.		2000
Dennis G. Flanagan <sup>1,3</sup> (68)	Retired oil executive.	Canexus Income Fund (Chair) NAL Oil & Gas Trust	2000
David A. Hentschel <sup>4</sup> (74)	Retired oil executive. Formerly: Oil and gas consultant.	Cimarex Energy Co.	1985
S. Barry Jackson <sup>1</sup> (55)	Retired oil executive. Formerly: Chair of Resolute Energy Inc. and Chair of Deer Creek Energy Limited.	Cordero Energy Inc. TransCanada Corporation (Chair) TransCanada PipeLines Limited (Chair)	2001
Kevin J. Jenkins <sup>1,2</sup> (51)	Managing Director of TriWest Capital Partners Formerly: President and CEO of The Westaim Corporation.		1996
A. Anne McLellan, P.C. <sup>1</sup> (57)	Counsel with Bennett Jones LLP, Barristers and Solicitors and Distinguished Scholar in Residence at the University of Alberta in the Institute for United States Policy Studies. Formerly: Member of Parliament for Edmonton Centre, Deputy Prime Minister, Minister of Public Safety and Emergency Preparedness and Minister of Health.	Agrium Inc. Cameco Corporation	2006
Eric P. Newell, O.C. (63)	Retired Chair and CEO of Syncrude Canada Ltd.		2004
Thomas C. O'Neill <sup>1,2</sup> (62)	Retired Chair of PwC Consulting. Formerly: CEO of PwC Consulting. Prior to that, COO of PricewaterhouseCoopers LLP, Global.	Adecco S.A. BCE Inc. Loblaw Companies Limited	2002
Francis M. Saville, Q.C. <sup>1</sup> (69)	Chair of Nexen. Counsel with Fraser Milner Casgrain LLP, Barristers and Solicitors. Formerly: Senior Partner and Vice Chair of Fraser Milner Casgrain LLP, Barristers and Solicitors.		1994
Richard M. Thomson, O.C. <sup>1,2</sup> (74)	Retired banking executive.	The Thomson Corporation	1997
John M. Willson <sup>1</sup> (68)	Retired mining executive.	Finning International Inc. Harry Winston Diamond Corporation Pan American Silver Corporation	1996
Victor J. Zaleschuk <sup>5</sup> (64)	Retired oil executive.	Agrium Inc. Cameco Corporation (Chair)	1997

**Notes:**

<sup>1</sup> All members of the Audit and Conduct Review (Audit), Corporate Governance and Nominating (Governance) and Compensation and Human Resources (Compensation) Committees are independent. All members of the Audit Committee are independent under additional regulations for audit committee members.

<sup>2</sup> Financial Experts on Nexen's Audit Committee.

<sup>3</sup> Mr. Flanagan was a director of Elek-Tek Inc., a US public computer retailing company, that was subject to bankruptcy proceedings in 1998.

<sup>4</sup> Mr. Hentschel was Chair and CEO of Occidental Oil and Gas Corporation from 1997 to 1999 and President and CEO of Nexen from 1995 to 1997.

<sup>5</sup> Mr. Zaleschuk was President and CEO of Nexen from 1997 to 2001.

### Independence and Board Committees

The board affirmed director independence under our categorical standards for director independence (categorical standards), which are available at [www.nexeninc.com](http://www.nexeninc.com). The categorical standards have been in place since 2003 and most recently amended on February 14, 2008. Our categorical standards meet or exceed the requirements set out in SEC rules and regulations, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), the NYSE rules, *National Policy 58-201—Corporate Governance Guidelines, Multilateral Instrument 52-110—Audit Committees*, and applicable provisions of *National Instrument 51-101—Standards of Disclosure for Oil and Gas Activities*.

Mr. Fischer is not independent as he is President and CEO.

Mr. Flanagan is not independent as his son is Senior Vice President, Engineering, of TriAxon Resources Ltd. (TriAxon). In 2006, TriAxon acquired a company that was party to contracts with a subsidiary of Nexen. Under one of the contracts, Nexen paid approximately \$4.5 million to TriAxon between July and December 2006 for products purchased at market price. Accordingly, Mr. Flanagan is not technically independent as of July 1, 2007. Mr. Flanagan was not aware that the company

acquired by TriAxon held contracts with Nexen. The board has determined that Mr. Flanagan’s independence of mind has not been compromised by this transaction and accordingly, the board continues to include him in their meetings without management.

Ms. McLellan has been counsel with Bennett Jones LLP (BJ), Barristers and Solicitors, Edmonton, Alberta, since June 27, 2006. BJ provided legal services to us in each of the last five years. Ms. McLellan does not solicit or participate in those services and does not receive any portion of the fees we pay to BJ. She is independent under our categorical standards.

Mr. Saville was a senior partner of Fraser Milner Casgrain LLP (FMC), Barristers and Solicitors, Calgary, Alberta, until the end of January 2004. Since February 1, 2004, he has been counsel with the firm. FMC provided legal services to us in each of the last five years. Mr. Saville does not solicit or participate in those services and does not receive any portion of the fees we pay to FMC. He is independent under our categorical standards.

We have not had an executive committee of the board since July 11, 2000.

**Committees (Number of Members)**

	Audit <sup>1,2</sup> (6)	Compensation <sup>1</sup> (7)	Governance <sup>1</sup> (7)	Finance (6)	Reserves <sup>3</sup> (7)	HSE & SR (8)
<b>Management Director—Not Independent</b>						
Charles W. Fischer						
<b>Outside Director—Not Independent</b>						
Dennis G. Flanagan				√	√	√
<b>Independent Outside Directors</b>						
David A. Hentschel				√	√	√
S. Barry Jackson	√	√			√	Chair
Kevin J. Jenkins <sup>4</sup>	√	Chair	√			√
A. Anne McLellan, P.C.		√	√	√		√
Eric P. Newell, O.C.	√		√		√	√
Thomas C. O’Neill <sup>4,5</sup>	Chair	√	√		√	
Francis M. Saville, Q.C.		√	√	√		√
Richard M. Thomson, O.C. <sup>4</sup>	√	√	Chair	√		
John M. Willson	√	√	√		Chair	
Victor J. Zaleschuk				Chair	√	√

**Notes:**

- All members are independent. All Audit Committee members are independent under additional regulatory requirements applicable to them.
- Experience of the members of the Audit Committee that indicates an understanding of the accounting principles we use to prepare our financial statements is shown in their biographies on page 131.
- A majority of the Reserves Review (Reserves) Committee are independent.
- Audit committee financial expert under US regulatory requirements.
- The board has determined that Mr. O’Neill’s service on the audit committees of three other public companies and one not-for-profit organization does not impair his ability to serve as Chair of Nexen’s Audit Committee. The board considered that Mr. O’Neill had a 30+ year career as a Chartered Accountant and, since retiring as Chair of PWC Consulting in 2002, his only business commitments are to the boards and committees on which he serves.

**Audit Committee Financial Expert Experience**

Name	Experience
Jenkins	<p>Kevin Jenkins, 51, is Managing Director of TriWest Capital Partners, an independent private equity firm. He was President, CEO and a director of The Westaim Corporation from 1996 to 2003, with businesses including technology investments, production of coin blanks, aerospace coatings and surface engineered products. From 1985 to 1996 he held senior executive positions with Canadian Airlines International Ltd. (Canadian). He was elected to serve on Canadian's board of directors in 1987, appointed President in 1991 and appointed President and CEO in 1994.</p> <p>Mr. Jenkins has a Bachelors Degree in Law from the University of Alberta and a Masters of Business Administration from Harvard Business School. He has worked in management positions with increasing level of responsibility including assistant treasurer, vice president finance, executive vice president and chief financial officer, and president and CEO.</p> <p>Kevin is Chair of Young Life of Canada and Vice Chair of World Vision Canada.</p>
O'Neill	<p>Tom O'Neill, 62, is the retired Chair of PwC Consulting. He was formerly CEO of PwC Consulting, COO of PricewaterhouseCoopers LLP, Global, CEO of PricewaterhouseCoopers LLP, Canada and Chair and CEO of Price Waterhouse Canada. He worked in Brussels in 1975 to broaden his international experience and from 1975 to 1985 was client service partner for numerous multi nationals, specializing in dual Canadian and US listed companies.</p> <p>Mr. O'Neill has a Bachelor of Commerce Degree from Queen's University. He received his Chartered Accountant designation in 1970 and was made a Fellow (FCA) of the Institute of Chartered Accountants of Ontario in 1988. He also has an Honourary Doctorate of Law from Queen's University.</p> <p>Tom is a director of BCE Inc., Loblaw Companies Limited and Adecco S.A. He is a member of the External Audit Committee of the International Monetary Fund. He is also Vice Chair of the Board of Governors of Queen's University and a director of St. Michael's Hospital.</p>
Thomson	<p>Dick Thomson, 74, is a retired banking executive. He was with the Toronto-Dominion Bank, one of Canada's largest banks, since 1957, as President from 1972 to 1978 and as Chair from 1978 until his retirement in 1998.</p> <p>Mr. Thomson holds a Masters of Business Administration from Harvard Business School and a Bachelor of Arts and Science in Engineering from the University of Toronto. He is an Officer of the Order of Canada.</p> <p>Dick is a director of The Thomson Corporation. He is also a member of the board of the Multiple Sclerosis Scientific Research Foundation.</p>

**Directors' and Officers' Liability Insurance**

We maintain a directors' and officers' liability insurance policy. The policy provides coverage for costs incurred to defend and settle claims against directors and officers of Nexen to an annual limit of US\$150 million with a US\$12.5 million deductible for an indemnifiable occurrence and no deductible for a non-indemnifiable occurrence. The cost of coverage for 2007 was approximately US\$1 million. Directors and officers do not pay any portion of the premiums and no indemnity claims were made or paid in 2007.

**Directors' and Officers' Fiduciary Insurance**

Nexen maintains a fiduciary liability insurance policy. It provides coverage for costs incurred to defend and settle claims against Nexen, our directors, officers and employees for breach of fiduciary duty in connection with company sponsored plans, such as pension and savings plans. The policy has an annual limit of US\$25 million with a US\$2.5 million deductible for an indemnifiable occurrence and no deductible for a non-indemnifiable occurrence. The cost of coverage for 2007 was approximately US\$30,000. Directors and officers do not pay any portion of the premiums and no claims were made or paid in 2007.

**Loans to Directors**

As set out in the corporate governance policy, we do not make loans to our directors. There are no loans outstanding from Nexen to any of our directors.

**DIRECTOR COMPENSATION**

Nexen provides its directors with a comprehensive compensation package consisting of annual cash retainers, meeting fees and equity-based incentives in the form of deferred share units (DSUs). The total compensation package provides a competitive level of remuneration for the increasing responsibilities, time commitments and accountability of board members. All elements of director compensation are reviewed annually for competitiveness against a peer group of oil and gas companies by management, the Compensation Committee and the board. Our compensation philosophy targets and currently provides total compensation between the 50th and 75th percentile. This is intended to attract and retain qualified talent to serve on our board.

Directors may choose to receive select benefits coverage at Nexen's expense, including basic life insurance, extended health care, dental, business travel accident insurance, and the reimbursement of provincial health care premiums (in certain jurisdictions). Mr. Zaleschuk, a former CEO of Nexen is a retiree in the Nexen pension plan. The pension benefit provided to him is for previous service as an employee.

See page 132 for the changes to director compensation made January 1, 2008 and page 133 for more information on DSUs.

**Director Summary Compensation Table**

Name	Total Fees Earned <sup>1</sup>	DSU Awards <sup>2</sup>	All Other Compensation <sup>3</sup>	Total Compensation
Fischer <sup>4</sup>	–	–	–	–
Flanagan	107,933	141,950	97,178 <sup>5</sup>	347,061
Hentschel	104,300	141,950	2,787	249,037
Jackson	124,700	141,950	3,242	269,892
Jenkins	126,500	141,950	4,007	272,457
McLellan	121,200	141,950	1,128	264,278
Newell	110,967	141,950	4,254	257,171
O'Neill	143,600	141,950	3,692	289,242
Saville	271,200	227,120	3,219	501,539
Thomson	131,000	141,950	5,665	278,615
Willson	127,400	141,950	3,920	273,270
Zaleschuk	106,600	141,950	2,823	251,373
<b>Total</b>	<b>1,475,400</b>	<b>1,646,620</b>	<b>131,915</b>	<b>3,253,935</b>

Notes:

- Includes all retainers and meetings fees, including those paid in DSUs.
- The value of DSUs granted on December 3, 2007, based on the closing market price of Nexen common shares on the TSX on November 30, 2007 of \$28.39.
- The total value of perquisites provided to each director is less than both \$50,000 or 10% of total fees, and is not included in this column. Amounts reflect life insurance premiums paid by Nexen, reinvested dividends earned in 2007 valued at the closing market price of Nexen common shares on the TSX on the payment dates, travel allowance paid by Nexen, and Canexus fees as set out in note 5.
- As an executive of Nexen, Mr. Fischer is not paid any director compensation.
- Mr. Flanagan is the Board Chair of Canexus and was paid fees of \$57,500, received deferred trust units of Canexus valued at \$29,340 and distributions on his trust units of \$7,665 in 2007. The total is included in this column.

**Director Retainers and Fees**

Annual board and committee retainers are paid quarterly and pro-rated for partial service. The same fees are paid for attending meetings in person or by conference call. A travel allowance of \$1,500 was introduced on February 15, 2007. It is paid whenever a director travels outside of his or her home province or state, or travels more than a total of three hours, round trip, to attend a Nexen meeting or site visit. Nexen also reimburses directors for out-of-pocket travel expenses. New retainers were approved as of January 1, 2008.

	2007	2008
Board Chair Retainer	178,100 <sup>1</sup>	250,000 <sup>2</sup>
Board Member Retainer	28,100	35,000
Audit Committee Chair Retainer	19,700	19,700
Other Committee Chair Retainer	5,300	5,300
Committee Member Retainer	9,100	9,100
Board and Committee Meeting Fees (per meeting attended)	1,800	1,800

Notes:

- Total of the Board Chair Retainer of \$150,000, plus the Board Member Retainer of \$28,100.
- As of January 1, 2008, the Board Chair is paid only this retainer and the travel allowance. He does not receive any other retainers or meetings fees.

**2007 Retainers and Fees**

Name	Annual Board Retainer	Annual Committee Retainer	Annual Committee Chair Retainer	Board Meeting Fees	Committee Meeting Fees	Travel Allowance	Total Fees Earned	Total Fees Credited in DSUs <sup>1</sup>	Total Fees Earned in Cash
Fischer <sup>2</sup>	–	–	–	–	–	–	–	–	–
Flanagan	28,100	30,333	–	16,200	28,800	4,500	107,933	–	107,933
Hentschel	28,100	27,300	–	16,200	25,200	7,500	104,300	–	104,300
Jackson	28,100	36,400	5,300	16,200	34,200	4,500	124,700	120,200	4,500
Jenkins	28,100	36,400	5,300	16,200	36,000	4,500	126,500	–	126,500
McLellan	28,100	36,400	–	16,200	36,000	4,500	121,200	116,700	4,500
Newell	28,100	33,367	–	16,200	28,800	4,500	110,967	106,467	4,500
O'Neill	28,100	36,400	19,700 <sup>3</sup>	16,200	34,200	9,000	143,600	–	143,600
Saville	178,100	36,400	–	16,200	36,000	4,500	271,200	–	271,200
Thomson	28,100	36,400	5,300	16,200	36,000	9,000	131,000	122,000	9,000
Willson	28,100	36,400	5,300	14,400	34,200	9,000	127,400	–	127,400
Zaleschuk	28,100	27,300	5,300	16,200	25,200	4,500	106,600	28,100	78,500
<b>Total</b>	<b>459,100</b>	<b>373,100</b>	<b>46,200</b>	<b>176,400</b>	<b>354,600</b>	<b>66,000</b>	<b>1,475,400</b>	<b>493,467</b>	<b>981,933</b>

Notes:

- Details of DSU holdings are set out in the table on page 133.
- As an executive officer of Nexen, Mr. Fischer is not paid any director compensation.
- Mr. O'Neill is the Audit Committee chair.

### Share Ownership Guideline

Directors demonstrate their commitment to Nexen's success through share ownership. On February 14, 2008, the board approved guidelines that set out that directors are expected to own or control at least 16,800 shares or DSUs. This amount represents at least three times both the base annual board retainer of \$35,000 and the value of the base annual DSU grant. They must be accumulated as follows:

- 5,600 by end of year 1
- 11,200 by end of year 2
- 16,800 by end of year 3

New directors will be required to take their base annual retainer in DSUs until the current threshold is met. If there is a change in share value or size of the annual grant of DSUs that causes a director to no longer meet the requirement, he or she will have nine months to meet the threshold again.

All directors surpass these guidelines.

### Deferred Share Units

Nexen has two DSU plans. Under the first plan, eligible directors may elect annually to receive all or part of their fees in DSUs, rather than cash. Under the second plan, DSUs replaced stock options in 2003 as the long-term incentive used to align the interests of directors with shareowners.

DSUs provide directors with a stake in Nexen during their term of service. DSUs don't grant the right to vote as there are no shares underlying the plans. A DSU is a bookkeeping entry that tracks the value of one Nexen common share. When cash dividends are paid on Nexen common shares, eligible directors

are credited with additional DSUs, equal to the value of the dividend paid. DSUs accumulate over a director's term of service and are only paid out when the director leaves the board. At that time, payments may be made in cash or in Nexen common shares purchased on the open market, at Nexen's option.

Name	DSUs Held as of December 31, 2007 <sup>1</sup>
Fischer	–
Flanagan	30,536
Hentschel	30,531
Jackson	37,989
Jenkins	43,611
McLellan	17,052
Newell	47,988
O'Neill	40,453
Saville	37,962
Thomson	62,322
Willson	43,025
Zaleschuk	32,298

Note:

<sup>1</sup> Number of DSUs has been adjusted to account for Nexen's share splits that occurred in May 2005 and May 2007.

### DSUs Granted in 2007

Position	Grant Date	DSUs (#)	Base Price <sup>1</sup> (\$)	Value of DSUs <sup>2</sup> (\$)
Board Chair	Dec 3, 2007	8,000	28.39	227,120
Other non-executive directors	Dec 3, 2007	5,000	28.39	141,950

Notes:

<sup>1</sup> The closing market price of Nexen common shares on the TSX on November 30, 2007.

<sup>2</sup> The number of DSUs times the base price.

### TOPs Exercised or Exchanged and Awards Vested During 2007

All exercises or exchanges of tandem options (TOPs) in 2007 occurred within nine months of their expiry. There are no vesting provisions and no value realized on vesting under the DSU plan.

Name	TOPs Awards		DSU Awards	
	Exercised or Exchanged (#)	Value Realized <sup>1</sup> (\$)	Shares Acquired on Vesting (#)	Value Realized (\$)
Flanagan	7,260	157,742	–	–
Hentschel	22,000	445,885	–	–
Jackson	22,000	517,165	–	–
Jenkins	22,000	484,385	–	–
O'Neill	22,000	503,305	–	–
Saville	7,260	157,669	–	–
Thomson	33,200	776,133	–	–
Willson	7,332	197,066	–	–
<b>Total</b>	<b>143,052</b>	<b>3,239,350</b>	<b>–</b>	<b>–</b>

Note:

<sup>1</sup> Market price at the time of the exercise or exchange, minus the exercise price, as defined in the Tandem Option (TOPs) plan.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee assists the board in overseeing key compensation and human resources policies, CEO and executive compensation, and executive management succession and development. The Committee reports to the board, as set out in its mandate, and the board or independent directors give final approval to compensation matters.

All members of the Committee are independent and knowledgeable about our compensation programs and policies. Five members of the Committee are skilled or expert in compensation, the area of expertise most relevant to carrying out the Committee’s mandate.

**Changes to Committee Membership in 2007**

There were no changes to the Committee membership in 2007.

**Key Activities in 2007**

- Recommended compensation programs for base salary, annual cash and long-term incentives (Tandem Option (TOPs) Plan and Stock Appreciation Rights (STARs) Plan);
- Recommended salaries, bonuses and grants of TOPs to the executives;
- Assessed CEO performance on short-term and long-term corporate goals and objectives and recommended CEO compensation, which was approved by the independent directors of the board;

- Reviewed the CEO’s annual objectives and our executive management succession and development plans;
- Evaluated and recommended organizational changes and officer appointments;
- Recommended special recognition awards for key business initiatives;
- Recommended director compensation, including DSU grants; and
- Reviewed existing change of control agreements for executives in light of current compensation.

**Outside Consultant**

The Committee engaged Mercer Human Resources Consulting (Mercer) to provide a confidential report and technical analysis of market data on the CEO’s compensation, in light of our operations and compensation programs. Mercer also provided a compensation report on a select group of our executives. The reports included competitive information from a list of peer companies recommended by Mercer. The decisions of the Committee are their responsibility and may reflect factors other than the information and recommendations provided by Mercer and management.

Mercer did not provide any compensation consulting services to management in 2007. We participated in compensation surveys in Canada and international locations and purchased select published results. Management must obtain Committee approval before retaining Mercer for any compensation consulting work.

**Fees Billed by Outside Consultant (Mercer)**

Type of Fee	Billed in 2006	Billed in 2007	Percentage of Total Fees billed in 2007
Committee work—Assessment of CEO and executive compensation	37,780	49,610	100%
Management work—Administrative services	3,470	–	–
<b>Total Annual Fees</b>	<b>41,250</b>	<b>49,610</b>	<b>100%</b>

**External Recognition and Verification**

Nexen was recognized for its human resource practices during 2007, including being named one of:

- Canada’s 50 Best Employers in Canada by Hewitt Associates Inc.;
- Alberta’s Top Employers by Mediacorp Canada Inc.; and
- Canada’s 30 Best Pension and Benefits Plans by Benefits Canada magazine.

**Committee Approval**

The Committee has reviewed and discussed with management the compensation disclosure in this document, including the information in the Board of Directors section on pages 131 through 132, in the Compensation Overview section on pages 135 through 140 and in the Executive Compensation

section on pages 142 through 150, and has recommended to the board that it be included in the Management Proxy Circular for the 2008 Annual General and Special Meeting of Shareholders and, as appropriate, Form 10-K.

**Submitted on behalf of the Compensation Committee:**

- Kevin Jenkins, Chair
- Barry Jackson
- Anne McLellan
- Tom O’Neill
- Francis Saville
- Dick Thomson
- John Willson

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

The members of the Compensation Committee are set out on page 130. Mr. Saville had a relationship requiring disclosure, the details of which are set out under “Certain Relationships and Related Transactions, and Director Independence” on page 155. There are no Compensation Committee interlocks during 2007.

**COMPENSATION OVERVIEW**

**Compensation Disclosure**

Our compensation disclosure complies with the requirements of the Canadian Securities Administrators. As a foreign private issuer in the US, we are not required to disclose compensation according to the SEC rules issued in 2006. We have, however, complied with the spirit of those rules where possible, without compromising required Canadian disclosure.

**Compensation Philosophy**

Our policies and practices for executive compensation are linked to strategic business objectives, including increasing shareowner returns. Our philosophy is to compensate executives:

- based on performance;
- at a level competitive with our peers; and
- in a manner designed to attract and retain talented leadership focused on managing Nexen’s operations, finances and assets.

All of our compensation programs are designed to meet pay-for-performance and competitiveness objectives. Actual rewards are directly linked to the results of Nexen and our divisions. The objective and subjective performance measures are aligned with shareowner interests, including financial and non-financial goals. Measures set each year represent improvements to our operations.

Our programs are responsive to market changes. We aim for simplicity in our compensation programs to help employees understand the value of the various components. Executive programs are generally consistent with employee programs in the same location. Where certain programs, such as perquisites, are only provided to executives or senior management, they reflect competitive practice and particular business needs and objectives.

**Key Elements of Compensation**

Element	Component	Form	Performance Period
Base salary	Fixed	Cash	1 year
Annual cash incentive	Variable	Cash	1 year
Long-term incentive	Variable	TOPs and STARS	Greater than 1 year

**Benchmark Review**

We use third-party compensation surveys to compare our pay levels and practices, including base pay, annual cash incentives and long-term incentives, to our peers. We look mainly at Canadian-based oil and gas and integrated pipeline companies with whom we compete for talent. Given similar positions across the industry, the surveys effectively represent competitive pay levels. It should be noted, however, we do not know the extent to which our peers participate in the surveys and benchmark each position. The peer group is modified in some cases to reflect (i) geographical location, (ii) a particular business line, (iii) a more comparable position, or (iv) industry mergers and acquisitions.

The composition of our peer group is reviewed annually by third-party consultants and the Compensation Committee for continued relevance. In 2007, our executive peer groups comprised up to 16 companies, including the following publicly-traded companies:

- Canadian Natural Resources Limited
- Enbridge Inc.
- EnCana Corporation
- Husky Energy Inc.
- Petro-Canada
- Suncor Energy Inc.
- Talisman Energy Inc.
- TransCanada Corporation

The Compensation Committee reviews all programs to ensure we continue to attract and retain the high-performing employees needed to achieve our business objectives, while demonstrating long-term fiscal responsibility to shareowners.

**Compensation Objectives**

Our compensation programs include three components: base salary, annual cash incentive and long-term incentive. At least once a year we assess the competitiveness of these individual components and the overall compensation. Our goal is to provide total compensation for top performing employees between the 50th and 75th percentile as compared to our peers.

### Target Weightings

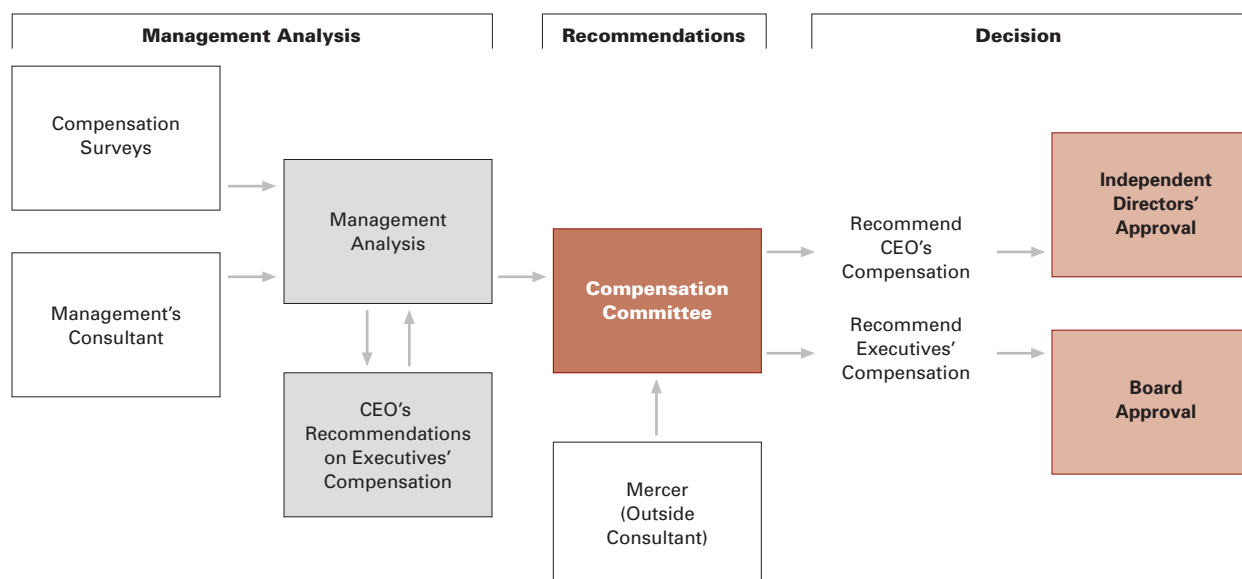
Since our compensation programs are designed to meet both performance and competitiveness objectives, actual pay will vary from year to year against the target weightings. In general, the targets are designed to provide most executive compensation in the form of at-risk pay to ensure alignment with shareowners. Base salary provides a competitive foundation considering both internal comparability and external market data. Annual cash incentives reward the delivery of results against objective and subjective measures within a one-year period. Long-term incentives reward Nexen’s sustained performance as seen in share price appreciation. The actual mix between the compensation elements varies, depending on the executive’s ability to influence short and long-term business results, their level, and competitive local market practices.

Position	Base Salary	At-Risk Compensation <sup>1</sup>	
		Annual Cash Incentive	Long-Term Incentive
CEO	20%	15%	65%
CFO/Executive VPs	25%	20%	55%
Senior VPs	30%	20%	50%

Note:

<sup>1</sup> Represents the percentage of total compensation, excluding benefits, pension and perquisites.

### Compensation Approval Process



In determining our executives’ base salary, annual cash and long-term incentives, the Compensation Committee considers a comprehensive analysis, including a tally sheet prepared by management with help from an executive compensation consultant. The analysis includes market data for similar positions within the peer group and CEO recommendations for his direct reports, including all of the other named executive officers (executives) and information on prior year annual cash and long-term incentives. Management also provides a sensitivity analysis that considers the pension cost implications for each 1% of incremental pensionable earnings.

The Committee reviews the various compensation elements both individually and in total to ensure they align with the program objectives. In addition, the Committee retains the services of its own executive compensation consultant, Mercer, to provide external market data and commentary on the relative positioning of executives, particularly the CEO. The Committee then makes recommendations on all executive payments and grants to the board or independent directors for approval. Typically, this process begins in the fall and concludes with total compensation being approved the following February.

**Base Salaries**

A framework of job levels based on internal comparability and external market data is used to determine base salaries, considering the individual’s current and sustained performance, skills and potential.

**Annual Cash Incentives**

The program provides competitive bonus compensation that reflects Nexen’s overall performance and that of the individual.

**2007 Annual Incentive Measures**

The board, at the recommendation of the Compensation Committee, approves the factor that determines the cash pool available for annual cash incentives after reviewing Nexen’s objective and subjective performance measures. The factor may range from 0 to 200%. The factors used were 200% in 2005, 120% in 2006 and 88% in 2007.

**2007 Objective Performance Measures (50%)**

Measure	Target	Results	Results versus Target
Cash flow (25%)	\$3,290 million	\$3,458 million	105%
Net income (25%)	\$981 million	\$1,086 million	111%

**2007 Subjective Performance Measures (50%)**

The Compensation Committee subjectively considers 19 business measures commonly used in our industry. They include, among other things, stock performance, annual stock performance against peers, production volumes, safety and environmental incidents, and reserve-related metrics. The Committee also assesses costs, including finding and development, operating and administrative. The business measures are assessed against objectives in light of our external environment and current business circumstances, including key projects and initiatives critical to Nexen’s success. Both absolute performance and performance relative to peers are reviewed. The Committee also considers management’s assessment of Nexen’s performance and progress against the strategic plan. The Committee exercises its discretion in assessing Nexen’s overall performance and may increase or decrease the total cash available for these awards. For 2007, the Committee considered that, while our financial results were strong, we were not as successful in achieving certain other business targets.

The cash pool available for annual incentives is then allocated to employees and executives based on individual target levels and performance. The targets for individual awards increase as job responsibilities grow so that the ratio of at-risk versus fixed compensation is greater for higher levels of responsibility. Individual performance is assessed by the direct supervisor and reflects performance against pre-determined objectives. The actual incentive award received by the executive may be more or less than the target level. Typically, executive awards range from 0 to 200% of the target for that position.

**2007 Annual Incentive Targets <sup>1</sup>**

Position	Minimum	Target	Maximum
CEO <sup>2</sup>	0%	80%	160%
CFO/Executive VPs	0%	60%	120%
Senior VPs	0%	45%	90%

Notes:  
<sup>1</sup> Reflects percentage of base salary on December 31, 2007.  
<sup>2</sup> To ensure competitive compensation, the independent directors of the board increased the target from 75% to 80% and the maximum from 150% to 160% effective January 1, 2007.

**Reimbursement**

If, as a result of misconduct, Nexen’s performance results were restated in a way that decreased the incentive awards, the CEO and CFO would reimburse Nexen proportionately as required by law.

**Share Ownership Guidelines**

All executive officers demonstrate their commitment to Nexen by holding more shares than required under our board approved guidelines. Shares must be accumulated within five years from date the executive was appointed. Share ownership includes the net value of exercisable options or TOPs, flow-through shares, shares purchased and held within the Nexen employee savings plan and any other personal holdings. The guidelines are reviewed periodically by the Compensation Committee and the board. See page 144 for the current share ownership of each executive.

Position	Required Share Ownership
CEO	Three times annual salary
CFO	Two times annual salary
Other executive officers	One times annual salary

**Long-term Incentives**

The TOPs and STARs plans provide employees with a long-term incentive to continue high performance, demonstrate commitment to Nexen and, most importantly, align their interests with those of our shareowners. As Nexen’s share price rises, grants increase in value. Nexen’s long-term incentive program (the TOPs and STARs plans) are granted to officers and employees whose actions can most directly impact our business results.

In determining the number of TOPs and STARs to grant each year, Nexen considers the program’s dilutive impact on shareowners and market information on options and other forms of long-term incentives. Market information also determines the extent to which employees at different levels participate in the program. Management and the Compensation Committee have considered alternative long-term incentive programs used by our peers, including full-value plans such as DSUs, restricted share units and performance-based stock options. At this time, TOPs and STARs continue to best meet Nexen’s objectives, considering competitive position, retention value, tax effectiveness for both our employees and Nexen, shareowner interests, and dilution levels.

**TOPs Plan**

Our TOPs plan has been in place since 2004. It allows employees to either:

- exchange their vested TOPs for a cash payment equal to the difference between the grant price and the closing market price of our common shares on the date the TOPs were exchanged; or
- exercise their TOPs for shares.

When employees exchange their TOPs for cash: (i) no shares are issued, which prevents further shareowner dilution over time; and (ii) Nexen receives a Canadian income tax deduction.

**2007 TOPs Plan Exercises and Exchanges**

Total exercised or exchanged	6,670,714
Exercised for shares (percent)	2,256,954 (34%)
Exchanged for cash (percent)	4,413,760 (66%)

TOPs do not provide employees with the right to vote the underlying shares. The TOPs plan is Nexen’s only equity-based compensation arrangement for the purposes of disclosure requirements.

The board, on the recommendation of the Compensation Committee, may grant TOPs to Nexen officers and employees. TOPs granted before February 2001 have a term of ten years; 20% of the grant vested after six months and 20% vested each year for four years on the grant’s anniversary. TOPs granted after February 2001 have a term of five years and vest one-third each year for three years.

Generally, if a change of control event occurs (as defined in the TOPs plan), all issued but unvested options will vest. The board approved minor amendments to the TOPs plan in 2007.

**STARs Plan**

The STARs plan, introduced in 2001, provides a cash payment to participants equal to the appreciation in Nexen’s share price between the date the STARs are granted and the date they are exercised. STARs are typically granted to employees below mid-level department manager. They have a five-year term and vest one-third each year for three years.

**Grant Date and Exercise Price**

TOPs and STARs are granted during the annual grant process and at the time of hiring key positions. Since 1998, the annual grants have been approved at the December board meeting. According to our plans, the CEO can approve grants to key new hires and typically they occur shortly after the hire date. Under the plans, the exercise price is the closing market price of Nexen’s common shares on the relevant stock exchange (TSX for Canadian-based employees or NYSE for US-based employees) on the day before the grant is approved. Accordingly, backdating is not allowed. Nexen’s grants are not intentionally timed to occur immediately prior to the release of material information (spring-loaded). The exercise price of existing TOPs or STARs may not be reduced except for automatic adjustments under the plans (for example, on share splits) or according to TSX rules.

### Grants in the Last Three Years

Our 2007 long-term incentives recognized high performance, future potential within Nexen and retention risk.

Year	Granted to Executive Officers	Granted to Employees	Percentage of Employees Receiving Grants	Total Number Granted
<b>TOPs</b>				
2007	1,735,000	2,272,100	7%	4,007,100
2006 <sup>1</sup>	1,480,000	3,321,000	7%	4,801,000
2005 <sup>1</sup>	1,184,000	5,599,000	20%	6,783,000
<b>STARs</b>				
2007	–	4,194,600	54%	4,194,600
2006 <sup>1</sup>	–	4,508,600	51%	4,508,600
2005 <sup>1</sup>	–	2,886,100	39%	2,886,100

Note:

<sup>1</sup> Numbers of TOPs and STARs granted have been adjusted to account for Nexen's two-for-one share split in May 2005 and May 2007.

### Benefit and Pension Plans

Our benefit and pension plans support the health and well-being of our employees, and encourage retirement savings. The plans are reviewed periodically to ensure they remain competitive and continue to meet our objectives. Market survey data is reviewed to ensure the plans provide benefits between the 50th and 75th percentile of plans within our peer group of companies. Executives participate in the same plans provided to all employees at the same location.

Disclosure in this document is specific to the Canadian and US plans in which the executives participate. Nexen provides a variety of other benefit and pension plans outside of Canada and the US that reflect local market practices.

### Health and Welfare Benefits

Our benefit plans are designed to protect employees' health and that of their dependents, and cover them in the event of disability or death. Under the flexible benefits plans, employees choose the level of coverage that best fits their needs. Those who select enhanced coverage levels are required to contribute to the cost of that coverage.

### Employee Savings Plan

In the employee savings plan, all eligible Canadian employees may contribute, through payroll deduction, any percentage of their base salary to purchase Nexen common shares, mutual fund units or a combination of both. Nexen matches employee contributions up to 6% of base salary, depending on the investment option and how long the employee has participated in the plan. Nexen contributions are invested in our common shares purchased on the open market and vest immediately. All contributions may be allocated to registered or non-registered accounts. Employees may vote the Nexen common shares they hold in their employee savings plan.

The employee savings plan in the US is intended to qualify under Section 401(a) and 501(a) of the Internal Revenue Code. Nexen's matching contribution, of up to 6% of eligible compensation, is provided in cash, which vests immediately.

### Defined Benefit Pension Plan (Canada)

Canadian employees of Nexen elect, upon hire, to participate in either the defined contribution pension plan or the defined benefit pension plan, both of which are registered. All executives participated in the defined benefit pension plan in 2007. It is funded by a pension trust and features:

- participant contributions at 3% of their regular gross earnings (up to an annual plan maximum);
- retirement benefits at 1.8% (1.7% for years prior to 2005) of their average earnings for the 36 highest-paid consecutive months during the ten years before retirement, multiplied by the years of credited service;
- integration with Canada Pension Plan (CPP) to provide a maximum offset of one-half of the current CPP benefit;
- benefits on retirement that are generally paid monthly for the life of the retiree, subject to payment elections; and
- ability for participants to periodically switch between the defined benefit pension plan and defined contribution pension plan at different stages in their career.

Pension benefits earned prior to January 1, 1993, may be indexed at the discretion of management's pension committee, considering increases in the consumer price index. Pension benefits earned after December 31, 1992, are indexed annually between 0 and 5% based on the greater of:

- 75% of the increase in the consumer price index, less 1%; and
- 25% of the increase in the consumer price index.

Plan participants may increase their defined benefit accrual formula on a go-forward basis, from 1.8% to 2%. Employees who choose this option must contribute an additional 2% of pensionable earnings up to an allowable maximum under the Canadian Income Tax Act. The maximum employee contribution allowed under the defined benefit pension plan in 2007 was \$10,700.

#### Executive Benefit Plan (Canada)

The executive benefit plan is available to all Canadian employees. It provides supplemental retirement benefits for participants who have earned a retirement benefit in excess of the statutory limits, which varies by employees' pension elections. This allows employees to accrue a pension that is aligned with their final earnings level and is competitive within our market. Under this plan, benefits accrue and are paid monthly in a similar manner to the underlying defined benefit pension plan set out above on page 139. For executives, annual cash incentive payments during the last three years they participated in this plan are included for benefit accrual purposes. For annual cash incentives, the pension benefit is accrued on the lesser of target bonus or actual bonus paid, averaged over the final three years of participation.

#### Pension Benefit Security

The pension expense for this supplemental plan is accounted for annually. Benefits are paid from Nexen's cash flows and reduce the related pension liability. As liabilities under this plan are not funded outside of Nexen, a level of protection is provided to participants through a letter of credit. The letter of credit is intended to make participants secured creditors for the total value of Nexen's unfunded pension obligation. The cost of servicing the letter of credit in 2007 for all plan participants was \$509,135.

#### Pension Benefit Obligation

At December 31, 2007, as indicated in the notes to our financial statements, the:

- supplemental pension plan's accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) for the executive benefit plan was \$48 million; and
- projected benefit obligation was \$62 million.

The projected benefit obligation is an estimate based on contractual entitlements that may change over time. The method used to determine this estimate will not be identical to those used by others and, as a result, the estimate may not be directly comparable across companies. The key assumptions used for the projected benefit obligation were:

- a discount rate of 5.25% per year;
- a long-term compensation rate increase of 4% per year; and
- an expected average remaining service life of ten years.

As of January 1, 2005, the executive benefit plan was amended to provide a supplemental pension allocation for defined contribution pension plan participants who are impacted by annual statutory contribution limits. In 2007, the supplemental allocation for eligible participants was \$35,341 and is estimated to be \$37,000 in 2008.

#### Defined Contribution Pension Plan (US)

All US employees participate in this qualified retirement plan. Nexen contributes 6% of eligible compensation up to the social security wage base, and, 11.5% of eligible compensation that exceeds the social security taxable wage base. For 2007, Nexen's maximum contribution per participant was US\$20,513. Employees are not permitted to contribute to the plan. Investment decisions are made by the employee from a variety of mutual funds. The contributions vest after two years of service. This plan is intended to be an Employee Retirement Income Security Act (ERISA) 404(c) plan. Only one executive participated in the defined contribution pension plan for US employees in 2007.

#### Non-Qualified Restoration Plan (US)

This supplemental plan is available to all US employees. It is an unfunded arrangement that provides deferred compensation benefits to participants who have earned a retirement benefit in excess of the statutory limits. The returns in this plan reflect the returns on the investments selected by the employee. The plan complies with Section 409A of the Internal Revenue Code.

#### Loans to Officers

As set out in the corporate governance policy, Nexen does not make loans to its officers. There are no loans outstanding from Nexen to any of its officers.

**EXECUTIVE OFFICERS**

The board determines the term of office for each executive officer. Below are Nexen’s officers, including prior offices and non-executive positions for officers who have held their current executive positions with Nexen for less than five years. Start dates are indicated for officer positions with Nexen.

Officer (Age)	Current and Past Position(s) with Nexen	Effective Date of Current Position	Executive Officer Since
Charles W. Fischer (57)	President and CEO and a director	June 1, 2001	1994
Marvin F. Romanow (52)	Executive VP and CFO	June 1, 2001	1997
Laurence Murphy (56)	Executive VP, International Oil and Gas Formerly: Senior VP, International Oil and Gas since January 1, 1999	November 1, 2007	1998
Roger D. Thomas (55)	Executive VP, North America Formerly: Senior VP, Canadian Oil and Gas since February 19, 1999	November 1, 2007	1998
Gary H. Nieuwenburg (49)	Senior VP, Synthetic Crude Formerly: VP, Synthetic Crude since July 11, 2002	November 1, 2007	2001
Kevin J. Reinhart (49)	Senior VP, Corporate Planning and Business Development Formerly: VP, Corporate Planning and Business Development since July 11, 2002	November 1, 2007	1994
Brian C. Reinsborough (46)	Senior VP, United States Oil and Gas Formerly: Division VP, Exploration, Operations and Production since May 12, 2006; Division VP, Exploration since July 8, 2002	November 1, 2007	2007
Timothy J. Thomas (50)	Senior VP, Canadian Oil and Gas Formerly: Division VP, Exploration and Production, Canadian Oil and Gas since April 1, 2004; Division VP, Yemen Operations and International Business Development since January 1, 2003	November 1, 2007	2007
Randy J. Jahrig (52)	VP, Human Resources and Corporate Services Formerly: Division VP, Human Resources Canada and International since April 1, 2002	April 26, 2007	2007
Kim D. McKenzie (59)	VP and Chief Information Officer Formerly: Division VP, Information Technology since January 1, 1992	November 1, 2007	2007
Eric B. Miller (45)	VP, General Counsel and Secretary Formerly: Division VP and Chief Legal Counsel since July 1, 2006; Division VP, Legal Canadian Oil and Gas since March 1, 2002	July 11, 2007	2007
Una M. Power (43)	Treasurer	July 11, 2002	1998
Brendon T. Muller (39)	Controller Formerly: Manager, Corporate External Reporting since November 1, 2003; Team Lead, Corporate Accounting since April 1, 2002	April 9, 2007	2007

**SHARE SPLITS**

All grant prices and numbers granted have been adjusted to account for the May 2005 and May 2007 share splits.

**SUMMARY COMPENSATION TABLE**

The compensation for the CEO, CFO and the next three highest paid officers (named executive officers or executives), plus Mr. Douglas Otten who retired November 1, 2007, is provided. To determine the next three highest paid officers we total their salary, special bonus and non-equity cash incentive compensation as show below.

Name and Principal Position	Year	Annual			Long-Term		Other		Total Compensation <sup>6</sup>
		Salary (\$)	Special Bonus <sup>1</sup> (\$)	Non-Equity Cash Incentive Compensation <sup>2</sup> (\$)	TOPs Awards (#)	TOPs Awards <sup>3</sup> (\$)	Changes in Pension Obligations <sup>4</sup> (\$)	All Other Compensation <sup>5,6</sup> (\$)	
Charles W. Fischer, President and CEO	2007	1,275,000	–	916,000	600,000	5,110,200	949,300	119,640	8,370,140
	2006	1,150,000	500,000	1,300,000	550,000	5,010,654	1,673,800	111,621	9,746,075
	2005	975,000	300,000	1,500,000	400,000	3,110,490	879,300	101,364	6,866,154
Marvin F. Romanow, <sup>7</sup> Executive VP and CFO	2007	566,250	–	330,000	180,000	1,533,060	323,300	117,129	2,869,739
	2006	528,000	–	402,000	160,000	1,457,645	534,800	118,073	3,040,518
	2005	486,000	175,000	590,000	124,000	964,252	176,300	89,557	2,481,109
Laurence Murphy, Executive VP, International Oil and Gas	2007	495,833	–	303,000	165,000	1,405,305	583,300	57,214	2,844,652
	2006	455,000	300,000	342,000	130,000	1,184,336	580,800	53,711	2,915,847
	2005	405,000	–	410,000	100,000	777,623	141,300	44,439	1,778,362
Roger D. Thomas, Executive VP, North America	2007	487,500	–	275,000	165,000	1,405,305	792,300	56,690	3,016,795
	2006	445,000	–	336,000	130,000	1,184,336	735,800	53,086	2,754,222
	2005	394,250	200,000	400,000	100,000	777,623	167,300	50,773	1,989,946
Gary H. Nieuwenburg, Senior VP, Synthetic Crude	2007	360,667	–	191,000	100,000	851,700	267,300	48,775	1,719,442
	2006	328,850	–	210,000	100,000	911,028	284,800	51,944	1,786,622
	2005	303,050	7,500	275,000	80,000	622,098	61,300	50,459	1,319,407
Douglas B. Otten, <sup>8</sup> Senior VP, US Oil and Gas	2007	387,763	–	201,245	–	–	–	93,518	682,526
	2006	439,716	–	326,938	110,000	990,017	–	107,228	1,863,899
	2005	423,489	–	430,154	100,000	815,163	–	102,853	1,771,659

Notes:

- Special discretionary award(s) are earned in the year shown and include cash awards approved by the board for successful delivery of key business objectives.
- Reflects the value of awards earned in each year under Nexen's annual cash incentive program. The awards are paid to the executives in the following calendar year based on their salary on December 31 of the previous year.
- Reflects the estimated fair value under the Black-Scholes pricing model of TOPs granted in the year.
- Represents the employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the plan.
- The total value of the perquisites portion of All Other Compensation provided to each executive is less than \$50,000 and less than 10% of their total annual salary plus bonus. See the table on page 148 for details of these amounts.
- Certain prior year numbers have been restated to include the total value of perquisites as described in note 5.
- Mr. Romanow is a director of Canexus and was paid fees of \$32,500, received deferred trust units of Canexus valued at \$19,560 and distributions on his trust units of \$4,259 in 2007. In 2006, he was paid fees of \$34,000, received deferred trust units of Canexus valued at \$24,000 and distributions on his trust units of \$2,571. In 2005, he was paid fees of \$13,875, received deferred trust units of Canexus valued at \$20,000 and distributions on his trust units of \$659. These amounts are included in the All Other Compensation table on page 148.
- 2007 TOPs grants occurred after Mr. Otten retired. Nexen contributed to a qualified defined contribution pension plan and a restoration plan with Nexen Petroleum U.S.A. Inc. for Mr. Otten, which are reported in All Other Compensation on page 148.

**Changes in Compensation Arrangements in 2007**

The compensation paid to executives in 2007 is consistent with our philosophy and objectives of targeting total compensation between 50th and 75th percentile as detailed on pages 135 through 137. Variable compensation links to Nexen's business results and the executive's performance, consistent with our pay-for-performance philosophy. The decrease in the executives' annual cash incentives in 2007 reflects the board's assessment of our relative level of success on certain of our business objectives.

We did not introduce any new compensation or benefit programs in 2007 for Nexen's executives.

### Changes in Pension Obligations

The summary compensation table shows the year-over-year change in pension obligations. The value reflects the employer service cost, plus any changes in obligations resulting from compensation increases over actuarial assumptions. Actual compensation changes may vary from the assumed rate of compensation increase and will vary among each executive from year to year. These values differ from pension benefit reported on page 147, which discloses estimated values of annual pension benefits earned to date, as well as at age 60 (the earliest unreduced retirement age). They also differ from the termination values reported under the change of control agreements on page 150, which disclose additional lump sum pension benefits provided if a change of control occurs.

### CEO COMPENSATION AND 2007 GOALS

Mr. Fischer’s responsibility is to provide leadership in setting and achieving goals that create value for our shareowners in the short term and long term. His 2007 annual cash incentive award was based on the corporate results described on page 137, which determined the total cash available for the awards. Cash incentive awards are determined from the available pool and distributed to individuals based on specific annual goals. Based on the board’s assessment of Mr. Fischer’s achievement

of objectives in 2007 and their positive assessment of his contribution to continued shareowner value growth and strategic plan execution, he was awarded an annual cash incentive of \$916,000 which was his target bonus times 88%. Specifically, Mr. Fischer’s goals in 2007 were to:

- develop and implement a corporate strategy, balancing short-term growth while positioning Nexen for sustainable growth;
- achieve capital, operating, and general and administrative cost performance targets set out in the annual operating plan (AOP);
- achieve targets for operating cash flow, earnings, production levels and reserve replacement set out in the AOP;
- maintain financial flexibility and liquidity to support our business strategies;
- achieve top-quartile performance in health, safety and environmental performance and social responsibility;
- provide for corporate management succession and development;
- ensure Nexen adheres to the highest standards of integrity; and
- demonstrate his personal commitment to community and industry leadership.

### CEO THREE-YEAR LOOK-BACK

	Total	2007	2006	2005
<b>Cash</b>				
Base Salary	3,400,000	1,275,000	1,150,000	975,000
Annual Cash Incentive <sup>1</sup>	4,516,000	916,000	1,800,000	1,800,000
<b>Equity</b>				
Value of TOPs <sup>2</sup>	13,231,344	5,110,200	5,010,654	3,110,490
Total Direct Compensation	21,147,344	7,301,200	7,960,654	5,885,490
All Other Compensation <sup>3</sup>	332,625	119,640	111,621	101,364
Annual Change in Pension Obligation <sup>4</sup>	3,502,400	949,300	1,673,800	879,300
<b>Total Cost</b>	<b>24,982,369</b>	<b>8,370,140</b>	<b>9,746,075</b>	<b>6,866,154</b>
Annual Average	8,327,456			
Total Market Capitalization Growth (\$ millions)	10,640	90	2,370	8,180
Total Cost as a % of Market Capitalization Growth	0.23%			

Notes:

- 1 Includes special bonuses of \$500,000 in 2006 for the success of Buzzard and \$300,000 in 2005 for successful divestitures.
- 2 Reflects the estimated fair value of TOPs using the Black-Scholes pricing model valued on the grant date.
- 3 See page 148 for details of All Other Compensation.
- 4 Represents the employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the plan.

In 2007, the Compensation Committee reviewed the information above and analyzed Mr. Fischer’s total pay and shareowner value created from the date he became CEO. In the analysis, dollar values were assigned and tallied for each compensation component including salary, annual cash incentives, TOPs awards, benefits, pension (including annual increases to liabilities) and potential payments on change of control. The Committee reviewed his total compensation relative to Nexen’s growth in shareowner value (market capitalization) and the growth of industry peers.

### EQUITY OWNERSHIP AND CHANGES IN 2007

According to our share ownership guidelines, Mr. Fischer is required to hold three times his annual salary, Mr. Romanow, two times his annual salary and the other executives, one times their annual salary.

Name	Dec 31, 2006		Dec 31, 2007		Net Change		Equity at Risk	
	Shares	TOPs <sup>1</sup>	Shares	TOPs <sup>1</sup>	Shares	TOPs <sup>2</sup>	Value <sup>3</sup> (\$)	Multiple of Salary <sup>4</sup>
Fischer	166,516	2,458,000	183,416	2,215,000	16,900	(243,000)	46,460,074	36
Romanow	51,874	814,920	80,938	785,480	29,064	(29,440)	16,729,050	30
Murphy	111,656	236,240	125,226	164,000	13,570	(72,240)	5,387,856	11
Thomas	8,580 <sup>5</sup>	269,200	16,227	399,200	7,647	130,000	6,683,592	14
Nieuwenburg	59,040	238,800	65,795	265,600	6,755	26,800	5,944,054	16
Otten	70,072	460,288	34,458	254,952	(35,614)	(205,336)	5,483,913	14
<b>Total</b>	<b>467,738</b>	<b>4,477,448</b>	<b>506,060</b>	<b>4,084,232</b>	<b>38,322</b>	<b>(393,216)</b>	<b>86,688,539</b>	

Notes:

- 1 Represents total TOPs granted, vested and unexercised.
- 2 Reflects the number of TOPs that vested, minus the number exercised or exchanged during 2007.
- 3 Equity at risk is the market value of common shares and vested TOPs using the closing price of Nexen shares on the TSX on December 31, 2007 of \$32.10.
- 4 Reflects the equity at risk, divided by the executive's 2007 salary amount shown on page 142.
- 5 Amount includes eight common shares not previously reported.

### TOPS TABLES

To value TOPs grants, Nexen uses the Black-Scholes pricing model, which is a generally accepted method for measuring this type of long-term incentive. The actual value realized on exercises may be higher or lower depending on the Nexen share price at the time of exercise.

#### TOPs Granted in 2007

Name	Grant Date	TOPs Granted (#)	% of Total TOPs Granted to Employees	Exercise Price <sup>1</sup> (\$)	Expiry Date	TOPs Value <sup>2</sup> (\$)	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for TOPs Term	
							5% (\$)	10% (\$)
Fischer	Dec 3, 2007	600,000	15.0	28.39	Dec 2, 2012	5,110,200	4,706,180	10,399,427
Romanow	Dec 3, 2007	180,000	4.5	28.39	Dec 2, 2012	1,533,060	1,411,854	3,119,828
Murphy	Dec 3, 2007	165,000	4.1	28.39	Dec 2, 2012	1,405,305	1,294,200	2,859,843
Thomas	Dec 3, 2007	165,000	4.1	28.39	Dec 2, 2012	1,405,305	1,294,200	2,859,843
Nieuwenburg	Dec 3, 2007	100,000	2.5	28.39	Dec 2, 2012	851,700	784,363	1,733,238

Notes:

- 1 Reflects the closing market price of Nexen common shares on the TSX on November 30, 2007.
- 2 Reflects the estimated fair value of the TOPs as at December 3, 2007 using the Black-Scholes pricing model.

#### TOPs Exercised or Exchanged and Awards Vested in 2007

Name	TOPs Awards		Stock Awards <sup>1</sup>	
	Exercised or Exchanged (#)	Value Realized <sup>2</sup> (\$)	Shares Acquired on Vesting (#)	Value Realized (\$)
Fischer	760,000	18,182,000	-	-
Romanow	200,000	4,381,500	-	-
Murphy	202,240	4,802,413	-	-
Thomas	-	-	-	-
Nieuwenburg	73,200	1,860,128	-	-
Otten	300,608	7,566,047	-	-
<b>Total</b>	<b>1,536,048</b>	<b>36,792,088</b>	<b>-</b>	<b>-</b>

Notes:

- 1 Nexen does not provide stock awards to executives.
- 2 Reflects the market price at the time of the exercise or exchange, minus the exercise price, as defined in the TOPs plan.

**TOPs Holdings and Value of In-the-Money TOPs**

Name	Date Granted	Expiry Date	Grant Price (\$)	Granted (#)	Vested and Unvested TOPs at Dec 31, 2007 <sup>1,2</sup>		Vested TOPs at Dec 31, 2007 <sup>2</sup>	
					Number (#)	Value <sup>3</sup> (\$)	Number (#)	Value <sup>3</sup> (\$)
Fischer	Dec 15, 1998	Dec 14, 2008	4.4625	200,000	200,000	5,527,500	200,000	5,527,500
	Dec 14, 1999	Dec 13, 2009	6.8125	280,000	280,000	7,080,500	280,000	7,080,500
	Dec 12, 2000	Dec 11, 2010	9.0250	280,000	280,000	6,461,000	280,000	6,461,000
	Dec 9, 2003	Dec 8, 2008	10.8750	400,000	400,000	8,490,000	400,000	8,490,000
	Dec 7, 2004	Dec 6, 2009	12.7175	600,000	600,000	11,629,500	600,000	11,629,500
	Dec 6, 2005	Dec 5, 2010	27.2850	400,000	400,000	1,926,000	268,000	1,290,420
	Dec 4, 2006	Dec 3, 2011	31.6000	550,000	550,000	275,000	187,000	93,500
	Dec 3, 2007	Dec 2, 2012	28.3900	600,000	600,000	2,226,000	–	–
<b>Total</b>				<b>3,310,000</b>	<b>3,310,000</b>	<b>43,615,500</b>	<b>2,215,000</b>	<b>40,572,420</b>
Romanow	Dec 12, 2000	Dec 11, 2010	9.0250	200,000	200,000	4,615,000	200,000	4,615,000
	Dec 9, 2003	Dec 8, 2008	10.8750	220,000	220,000	4,669,500	220,000	4,669,500
	Dec 7, 2004	Dec 6, 2009	12.7175	228,000	228,000	4,419,210	228,000	4,419,210
	Dec 6, 2005	Dec 5, 2010	27.2850	124,000	124,000	597,060	83,080	400,030
	Dec 4, 2006	Dec 3, 2011	31.6000	160,000	160,000	80,000	54,400	27,200
	Dec 3, 2007	Dec 2, 2012	28.3900	180,000	180,000	667,800	–	–
<b>Total</b>				<b>1,112,000</b>	<b>1,112,000</b>	<b>15,048,570</b>	<b>785,480</b>	<b>14,130,940</b>
Murphy	Dec 7, 2004	Dec 6, 2009	12.7175	160,000	52,800	1,023,396	52,800	1,023,396
	Dec 6, 2005	Dec 5, 2010	27.2850	100,000	100,000	481,500	67,000	322,605
	Dec 4, 2006	Dec 3, 2011	31.6000	130,000	130,000	65,000	44,200	22,100
	Dec 3, 2007	Dec 2, 2012	28.3900	165,000	165,000	612,150	–	–
<b>Total</b>				<b>555,000</b>	<b>447,800</b>	<b>2,182,046</b>	<b>164,000</b>	<b>1,368,101</b>
Thomas	Dec 9, 2003	Dec 8, 2008	10.8750	128,000	128,000	2,716,800	128,000	2,716,800
	Dec 7, 2004	Dec 6, 2009	12.7175	160,000	160,000	3,101,200	160,000	3,101,200
	Dec 6, 2005	Dec 5, 2010	27.2850	100,000	100,000	481,500	67,000	322,605
	Dec 4, 2006	Dec 3, 2011	31.6000	130,000	130,000	65,000	44,200	22,100
	Dec 3, 2007	Dec 2, 2012	28.3900	165,000	165,000	612,150	–	–
<b>Total</b>				<b>683,000</b>	<b>683,000</b>	<b>6,976,650</b>	<b>399,200</b>	<b>6,162,705</b>
Nieuwenburg	Dec 9, 2003	Dec 8, 2008	10.8750	108,000	58,000	1,231,050	58,000	1,231,050
	Dec 7, 2004	Dec 6, 2009	12.7175	120,000	120,000	2,325,900	120,000	2,325,900
	Dec 6, 2005	Dec 5, 2010	27.2850	80,000	80,000	385,200	53,600	258,084
	Dec 4, 2006	Dec 3, 2011	31.6000	100,000	100,000	50,000	34,000	17,000
	Dec 3, 2007	Dec 2, 2012	28.3900	100,000	100,000	371,000	–	–
<b>Total</b>				<b>508,000</b>	<b>458,000</b>	<b>4,363,150</b>	<b>265,600</b>	<b>3,832,034</b>
Otten	Dec 7, 2004	Dec 6, 2009	US\$10.5800	160,000	150,552	3,552,214	150,552	3,552,214
	Dec 6, 2005	Dec 5, 2010	US\$23.6050	100,000	100,000	942,587	67,000	631,534
	Dec 4, 2006	Dec 3, 2011	US\$27.5000	110,000	110,000	570,774	37,400	194,063
<b>Total</b>				<b>370,000</b>	<b>360,552</b>	<b>5,065,575</b>	<b>254,952</b>	<b>4,377,811</b>

Notes:

- 1 Excludes grants that have been fully exercised.
- 2 The number and value of unvested TOPs can be determined by subtracting the vested TOPs from the vested and unvested TOPs. The value of unvested TOPs can be confirmed on page 150 in the Change of Control table.
- 3 The difference between the market value of Nexen common shares at year end (TSX—\$32.10; NYSE—US \$32.27) and the grant price of TOPs, times the number of TOPs.

**PENSION PLAN TABLES**

All executives, except Mr. Otten, are members of Nexen’s registered defined benefit pension plan and executive benefit plan. Mr. Otten was employed in the US and is a member of a qualified defined contribution pension plan and a non-qualified restoration plan, described on page 148.

**Estimated Pension Benefit (Canada)**

The normal form of benefit paid from these plans is a joint life and survivor benefit with a five-year guarantee. It is payable for the participant’s lifetime and provides the spouse with a survivor benefit of 66 2/3% of the monthly payment. If the participant dies before receiving 60 monthly payments the five-year guarantee allows the surviving spouse to receive the balance of the 60 monthly payments first and then the reduced survivor pension of 66 2/3%.

In determining the estimated value of future pension benefits for Canadian executives, you must reference both tables below due to an amendment effective on January 1, 2005. The amendments increased the accrual formula on the defined

benefit pension plan from 1.7% to a maximum of 2%. The first table is for actual credited service up to and including December 31, 2004, and the second table is for credited service on and after January 1, 2005. Also, please use the final average earnings outlined in the Pension Value Earned in 2007 (Canada) table on page 147 when referencing tables. The final average earnings will differ from the three-year average of base salary and cash incentive payments reported in the summary compensation table on page 142 due to the timing of base salary increases and because final average earnings include the lesser of the target bonus or actual bonus paid.

The table below shows the estimated annual pension a retiring executive would receive for credited service to and including December 31, 2004. The annual benefit is based on a pension accrual formula of 1.7% of final average earnings, less a plan CPP offset. It includes benefits from both the registered defined benefit pension plan and the executive benefit plan and assumes a retirement age of 60, the earliest age an individual may receive full retirement benefits.

Final Average Earnings (\$)	Years of Credited Service through Dec 31, 2004				
	5	10	15	20	25
400,000	33,260	66,519	99,779	133,039	166,298
600,000	50,260	100,519	150,779	201,039	251,298
800,000	67,260	134,519	201,779	269,039	336,298
1,000,000	84,260	168,519	252,779	337,039	421,298
1,200,000	101,260	202,519	303,779	405,039	506,298
1,400,000	118,260	236,519	354,779	473,039	591,298
1,600,000	135,260	270,519	405,779	541,039	676,298
1,800,000	152,260	304,519	456,779	609,039	761,298
2,000,000	169,260	338,519	507,779	677,039	846,298
2,200,000	186,260	372,519	558,779	745,039	931,298
2,400,000	203,260	406,519	609,779	813,039	1,016,298

The table below shows the estimated annual pension benefit a retiring executive would receive for credited service earned on and after January 1, 2005, based on a pension benefit accrual formula of 2% of final average earnings, less a plan CPP offset. It includes benefits from both the registered defined benefit pension plan and executive benefit plan and assumes a retirement age of 60, the earliest age an individual may receive full retirement benefits.

Final Average Earnings (\$)	Years of Credited Service from Jan 1, 2005					
	3	5	10	15	20	25
400,000	23,556	39,260	78,519	117,779	157,039	196,298
600,000	35,556	59,260	118,519	177,779	237,039	296,298
800,000	47,556	79,260	158,519	237,779	317,039	396,298
1,000,000	59,556	99,260	198,519	297,779	397,039	496,298
1,200,000	71,556	119,260	238,519	357,779	477,039	596,298
1,400,000	83,556	139,260	278,519	417,779	557,039	696,298
1,600,000	95,556	159,260	318,519	477,779	637,039	796,298
1,800,000	107,556	179,260	358,519	537,779	717,039	896,298
2,000,000	119,556	199,260	398,519	597,779	797,039	996,298
2,200,000	131,556	219,260	438,519	657,779	877,039	1,096,298
2,400,000	143,556	239,260	478,519	717,779	957,039	1,196,298

### Pension Value Earned in 2007 (Canada)

The board must approve additional past service credits or accelerated service credits. No accelerated service credits were authorized in 2007. The table below shows additional past service credits authorized by the board for the executives who participate in the Canadian defined benefit pension plan and the executive benefit plan. The final average earnings reported for each executive include his:

- average base salary for the 36 highest paid consecutive months during the ten years before his retirement; plus
- annual cash incentive payments at the lesser of the target bonus or actual bonus paid, averaged over his final three years of participation.

No benefit payments were made to executives in the last fiscal year.

Name	Years of Credited Service			Final Average Earnings <sup>1</sup> (\$)	Accrued Annual Pension Benefit <sup>1</sup>		Estimated Annual Pension Benefit at Age 60 <sup>2</sup>	
	Up to Dec 31, 2004	From Jan 1, 2005	Total		Under the Defined Benefit Pension Plan	Under the Executive Benefit Plan <sup>3</sup>	Under the Defined Benefit Pension Plan	Under the Executive Benefit Plan <sup>3</sup>
	(#)	(#)	(#)		(\$)	(\$)	(\$)	(\$)
Fischer	20.58 <sup>4</sup>	3.00	23.58	1,908,333	30,185	748,579	38,704	992,228
Romanow	17.50 <sup>4,5</sup>	3.00	20.50	818,950	23,333	302,420	44,407	463,685
Murphy	18.67	3.00	21.67	666,278	48,148	200,053	61,315	305,566
Thomas	24.50 <sup>4</sup>	3.00	27.50	651,183	38,889	267,328	55,000	419,576
Nieuwenburg	– <sup>6</sup>	3.00	3.00	461,199	6,667	72,818	34,426	198,907

Notes:

- 1 All information as of December 31, 2007.
- 2 Age 60 is the earliest age an individual can receive full retirement benefits.
- 3 Represents the portion of the accrued annual pension benefit estimated under the executive benefit plan.
- 4 Ten years of additional past service credits were granted to each of Messrs. Fischer, Romanow and Thomas by the board in 2001.
- 5 Mr. Romanow joined the defined benefit pension plan after 7.25 years in the defined contribution pension plan. The pensionable bonus provision recognizes a pension benefit for Mr. Romanow based on his combined 27.75 years of service, while the base salary provision recognizes a pension benefit for his 20.5 years of defined benefit pension plan service only. The value of the pension benefit resulting from the additional 7.25 years is reflected in the pension benefit values above.
- 6 Mr. Nieuwenburg joined the defined benefit pension plan after 23.58 years in the defined contribution pension plan.

### Pension Benefit Obligation Increase in 2007 (Canada)

Our reported values use actuarial assumptions and methods consistent with those used to calculate pension liabilities and the related annual expense disclosed in our financial statements. As the assumptions reflect our best estimate of future events, our reported values may not be directly comparable to similar pension liability values disclosed by other companies.

Name	Obligation at Dec 31, 2006	Changes Related to Current Service Cost and Earnings Increases <sup>1</sup>	Changes Related to Financing Costs and Non-Compensation Assumption Changes <sup>2</sup>	Change in Obligation since Dec 31, 2006	Obligation at Dec 31, 2007
Fischer	11,157,800	949,300	552,900	1,502,200	12,660,000
Romanow	4,296,800	323,300	101,900	425,200	4,722,000
Murphy	3,287,800	583,300	169,900	753,200	4,041,000
Thomas	4,195,800	792,300	121,900	914,200	5,110,000
Nieuwenburg	933,800	267,300	24,900	292,200	1,226,000
<b>Total</b>	<b>23,872,000</b>	<b>2,915,500</b>	<b>971,500</b>	<b>3,887,000</b>	<b>27,759,000</b>

Notes:

- 1 Includes the 2007 employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the plan.
- 2 Reflects the impact of interest on prior year's obligations, changes in discount rates used to measure the obligations and the impact of assumption and employee demographic changes.

### Pension Value Earned in 2007 (US)

Mr. Otten is the only executive who is a member of this US pension plan. He did not make any withdrawals in 2007.

Name	Contributions under the Defined Contribution Pension Plan	Contributions under the Non-Qualified Restoration Plan	Total Pension Compensation
Otten	22,314	34,970	57,284

### ALL OTHER COMPENSATION

The total value of perquisites provided to any executive was less than \$50,000 and less than 10% of the executive's total annual salary plus bonus in 2007. Certain perquisites shown below are at the maximum reimbursable amount available to executives. This maximum is often higher than what the executive actually claimed in the year. These perquisites are not available to the broader employee population.

Name	Perquisites			Other Compensation				Total All Other Compensation	
	Car Allowance	Other Perquisites <sup>1</sup>	Total	Life Insurance Premiums	Savings Plan Contributions	Amounts Paid by Canexus <sup>2</sup>	US Pension Contributions		Total
Fischer	31,200	10,500	41,700	1,440	76,500	–	–	77,940	119,640
Romanow	19,200	7,100	26,300	535	33,975	56,319	–	90,829	117,129
Murphy	19,200	7,100	26,300	1,164	29,750	–	–	30,914	57,214
Thomas	19,200	7,100	26,300	1,140	29,250	–	–	30,390	56,690
Nieuwenburg	19,200	7,100	26,300	835	21,640	–	–	22,475	48,775
Otten	13,054	7,723	20,777	2,132	13,325	–	57,284	72,741	93,518

Notes:

1 Represents a maximum reimbursement amount for financial counseling, luncheon club memberships, medical exam and security monitoring. For the CEO, this also includes a maximum reimbursement amount for a golf club membership.

2 Includes fees of \$32,500, deferred trust units of Canexus valued at \$19,560 and distributions on his trust units of \$4,259.

### TERMINATION ARRANGEMENTS

Nexen doesn't enter into employment service contracts. Depending on the conditions of termination, we treat executives and employees fairly as follows:

Events	Action
Resignation	<ul style="list-style-type: none"> <li>▪ All salary and benefit programs cease</li> <li>▪ Annual incentive bonus is not paid</li> <li>▪ TOPs must be exercised within 90 days</li> <li>▪ Pension paid as a commuted value or deferred benefit</li> </ul>
Retirement	<ul style="list-style-type: none"> <li>▪ Salary and benefit coverages cease except for a \$5,000 life insurance policy</li> <li>▪ Monthly benefit to cover the cost of provincial health care premiums continues</li> <li>▪ Annual incentive bonus paid on a pro rata basis</li> <li>▪ TOPs must be exercised within 18 months</li> <li>▪ Pension paid as a monthly benefit</li> </ul>
Death	<ul style="list-style-type: none"> <li>▪ All salary and benefit programs cease except for a 1-year benefit</li> <li>▪ coverage for surviving dependents and payout of any applicable insurance benefits</li> <li>▪ Annual incentive bonus paid on a pro rata basis</li> <li>▪ TOPs must be exercised within 18 months</li> <li>▪ Pension paid as a commuted value or deferred benefit</li> </ul>
Termination without cause	<ul style="list-style-type: none"> <li>▪ All salary and benefit programs cease</li> <li>▪ TOPs must be exercised within 90 days</li> <li>▪ Pension paid as a commuted value or deferred benefit</li> <li>▪ Severance provided on an individual basis reflecting service, age and salary level</li> </ul>
Termination for cause	<ul style="list-style-type: none"> <li>▪ All salary and benefit programs cease</li> <li>▪ Annual incentive bonus is not paid</li> <li>▪ TOPs must be exercised on termination</li> <li>▪ Pension paid as a commuted value or deferred benefit</li> </ul>

### Payments on Resignation

The following table discloses the lump sum value of pension benefits accrued under the defined benefit pension plan and executive benefit plan for our top five executives had they resigned effective December 31, 2007. If they are over the age of 55 and have at least 10 years of Nexen service, they are deemed to have retired and a lump sum benefit option is not available. Also included in this table is the value of vested TOPs at December 31, 2007.

Name	Termination Scenario	Pension (\$)	Value of Vested TOPs <sup>1,2</sup>	Total (\$)
Fischer	Deemed Retirement	12,122,000	40,572,420	52,694,420
Romanow	Resignation	3,703,000	14,130,940	17,833,940
Murphy	Deemed Retirement	3,660,000	1,368,101	5,028,101
Thomas	Deemed Retirement	4,297,000	6,162,705	10,459,705
Nieuwenburg	Resignation	752,000	3,832,034	4,584,034

Notes:

1 Does not include unvested TOPs which will vest according to the TOPs plan over 18 months for deemed retirement or over 90 days for resignation.

2 The difference between the market value of Nexen common shares at year end of \$32.10 and the grant price of TOPs, times the number of vested TOPs.

### Change of Control Agreements

Nexen has entered into change of control agreements with Messrs. Fischer, Romanow, Murphy, Thomas, Nieuwenburg and other key executives. The agreements were effective October 1999, amended in December 2000 and then amended and restated in December 2001. We recognize that these executives are critical to Nexen’s ongoing business. Therefore, it is vital we work to retain the executives, protect them from employment interruption caused by a change of control and treat them in a fair and equitable manner. Consistent with industry standards for executives in similar circumstances, there are no restrictions on future employment, or non-compete clauses in the agreements. Each year, the Compensation Committee reviews the estimated payments upon a change of control including the termination value of pension benefits due under the defined benefit pension plan and executive benefit plan.

Under these agreements, a change of control includes any acquisition of common shares or other securities that carries the right to cast more than 35% of the common share votes. Generally, it is any event that results in a person or group exercising effective control of Nexen.

If the executives terminate following a change of control, they are entitled to salary, target bonus and other compensatory benefits for the severance period specified below.

#### Severance Period in Months on Change of Control

Name	Severance Period in Months on Change of Control	
	If Terminated	Upon Resignation <sup>1</sup>
Fischer	36	36
Romanow	36	30
Murphy	30	–
Thomas	30	–
Nieuwenburg	24	–

Note:

1 Within 12 months of change of control.

The next table outlines the estimated incremental payments executives would be entitled to, had a change of control occurred on December 31, 2007. Under the agreement, bonuses would be paid at target for the full severance period. A benefits uplift, equal to 13% of base salary, would be provided in lieu of medical, dental and life insurance coverage. In addition, the agreement provides a payment for other employee benefits, including car allowance and savings plan contributions during the severance period, and an allowance for financial counseling, security monitoring and career transition services.

Executives would also be entitled to incremental pension relating to their salary and annual incentive targets over the severance period. The pension value reported below reflects this, as well as a tax gross-up on the resulting lump sum payout. These additional pension benefits do not include any termination benefits that would be payable under the defined benefit pension plan and executive benefit plan if a termination or retirement occurred that was not triggered by a change of control.

### Estimated Incremental Payment on Change of Control

Name	Severance Period (# of months)	Base Salary (\$)	Bonus Target Value (\$)	Benefits Uplift (\$)	Other Employee Benefits (\$)	Additional Lump Sum Value of Pension <sup>1</sup> (\$)	Accelerated TOPs Value <sup>2</sup> (\$)	Total Incremental Obligation (\$)
Fischer	36	3,900,000	3,120,000	507,000	365,500	9,157,000	3,043,080	20,092,580
Romanow	36	1,725,000	1,035,000	224,250	199,000	3,879,000	917,630	7,979,880
Murphy	30	1,300,000	780,000	169,000	163,900	3,237,000	813,945	6,463,845
Thomas	30	1,300,000	780,000	169,000	163,900	3,905,000	813,945	7,131,845
Nieuwenburg	24	800,000	360,000	104,000	124,300	1,316,000	531,116	3,235,416
<b>TOTAL</b>		<b>9,025,000</b>	<b>6,075,000</b>	<b>1,173,250</b>	<b>1,016,600</b>	<b>21,494,000</b>	<b>6,119,716</b>	<b>44,903,566</b>

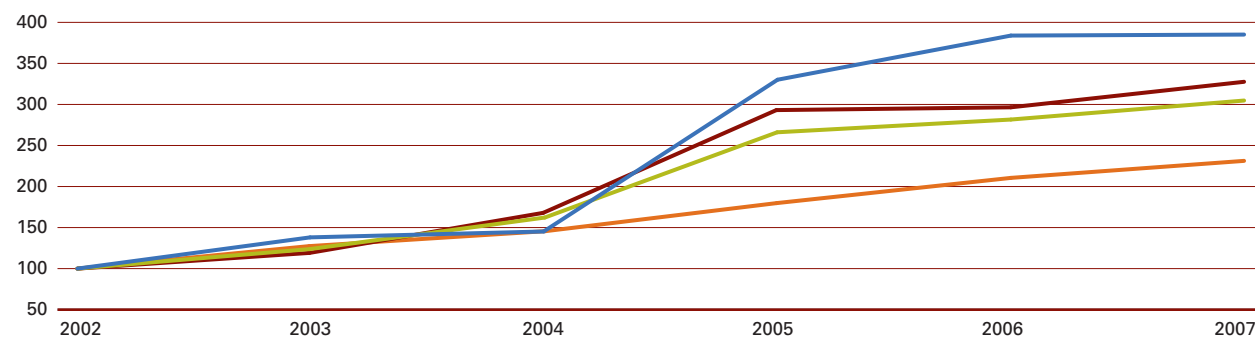
Notes:

- Does not include regular termination pension values which are reported in Payments on Resignation on page 149. Benefits payable under the defined benefit pension plan are funded from the pension trust and payable monthly if the executive is 55 or older.
- Reflects the value of TOPs that automatically vest on a change of control, based on the number of TOPs with accelerated vesting, times the closing price of Nexen common shares on the TSX on December 31, 2007 of \$32.10, less the exercise price.

### SHARE PERFORMANCE GRAPH

The following graph shows the change in a \$100 investment in Nexen common shares over the past five years, compared to the S&P/TSX Composite Index, the S&P/TSX Energy Sector Index and the S&P/TSX Oil & Gas Exploration & Production Index as at December 31, 2007. Our common shares are included in each of these indices.

#### Total Return Index Values<sup>1</sup>



	2002/12	2003/12	2004/12	2005/12	2006/12	2007/12
■ Nexen Inc.	100.00	138.21	144.57	330.52	384.10	385.26
■ S&P/TSX Oil & Gas Exploration & Production Index	100.00	120.15	169.02	293.50	297.38	327.52
■ S&P/TSX Energy Sector Index	100.00	124.97	162.82	266.10	282.22	305.45
■ S&P/TSX Composite Index	100.00	126.72	145.07	180.08	211.16	231.92

Note:

- Assuming an investment of \$100 and the reinvestment of dividends.

## CORPORATE GOVERNANCE

Nexen's board takes its duties and responsibilities for good corporate governance seriously. Nexen supports and conducts business according to the rules of the Toronto Stock Exchange (TSX), NYSE, *National Policy 58-201—Corporate Governance Guidelines* and *Multilateral Instrument 52-110—Audit Committees*. Except as noted below, Nexen's corporate governance practices comply with those followed by domestic companies under NYSE listing standards.

Nexen has a DSU plan for non-executive directors as described on page 133. For this plan, Nexen follows the TSX rules which, unlike the NYSE rules, exempt plans from shareholder approval where the common shares issued under the plan are purchased on the open market rather than issuing new shares.

On February 21, 2008, our CEO certified to the NYSE that he was unaware of any violation by Nexen of the NYSE's corporate governance listing standards. Nexen also provided the required Annual Written Affirmation to the NYSE on February 21, 2008. Nexen also filed an Interim Written Affirmation on April 26, 2007, reporting changes to audit committee membership. As well, our CEO and CFO have certified the quality of Nexen's public disclosure to the SEC.

All Committee mandates, including those for the Audit, Compensation and Governance Committees, and our corporate governance policy and categorical standards are available at [www.nexeninc.com](http://www.nexeninc.com), and we intend to provide disclosure in this manner. Shareowners wishing to receive a copy of these documents may contact the Governance Office by telephone at 403.699.4926, or by email at [governance@nexeninc.com](mailto:governance@nexeninc.com).

## GOVERNANCE COMMITTEE REPORT

The Governance Committee assists the board to oversee implementation of our corporate governance programs, recommending nominees for director appointments and evaluating the board, its committees and all individual directors and chairs, to ensure we implement best-in-class corporate governance practices appropriate to Nexen.

All members of the Committee are independent and knowledgeable about our corporate governance programs. Six members of the Committee are skilled or expert in governance and board experience or diversity, the two areas of expertise most relevant to carrying out the Committee's mandate.

### Changes to Committee Membership in 2007

Mr. Flanagan left the Committee and Mr. Newell joined in April 2007.

## Key Activities in 2007

- Recommended revisions to the corporate governance policy, including a minimum attendance standard for directors, and the external communications policy;
- Reviewed our position on current governance issues, including say on pay (the concept of advisory votes on management compensation);
- Recommended the adoption of a modified majority vote by-law for the election of directors to the shareowners for approval;
- Recommended changes to committee memberships in light of Mr. Flanagan becoming non-independent as of July 1, 2007;
- Recommended updated mandates for the board, individual directors and all board committees;
- Recommended new and updated questions in the board performance evaluation based on rankings and comments received the previous year; and
- Consulted with Dr. Richard Leblanc, Assistant Professor of Corporate Governance, York University, on the board's performance evaluations.

## The Board and Committees

The Committee reviews board and committee memberships annually, considering director independence and the skills and preferences of the directors. The board is comprised of 12 directors, which is large enough to permit a diversity of views and run the committees, without being so large as to detract from effectiveness. A skills matrix that sets out the various areas of expertise determined to be essential to ensure appropriate strategic direction and oversight is completed by all directors annually and reviewed by the Committee. The Committee's review of board experience indicates that the current skills mix is appropriate. The skills matrix is also used to assist with board recruitment.

## Nominating a New Director for Election

The Committee identifies and assesses candidates for appointment or nomination to the board. Our forward-looking skills matrix has identified the skills with the greatest opportunity to strengthen the board upon retirement of two current directors in 2009.

Before recommending a new candidate to the board, the Committee considers his or her performance, independence, competencies, skills and financial acumen. Character and behavioural qualities, including credibility, integrity and communication skills are also taken into account. The Committee Chair and/or Board Chair meets with the candidate to discuss his or her interest and ability to devote sufficient time and resources to the position. Prior to nomination, potential directors must disclose possible conflicts of interest with Nexen and background checks, as appropriate, are completed.

The Committee maintains an evergreen list of potential directors whose skills complement the board and who the Committee recommends be asked to join the board if they are available when an opening arises.

The Committee will also consider any nominee for election as a director recommended by a shareowner. See page 153 for information on communicating with the board.

#### Performance Evaluations

The board and management work together to foster continuous, open and honest communication, where concerns are brought forward and dealt with as they occur. In this spirit, the annual board evaluation is seen as an opportunity to review the past year and consider contributions, successes and opportunities for improvement. The special report on our director evaluation process provided in our 2007 proxy circular, is available at [www.nexeninc.com](http://www.nexeninc.com).

Our six-part performance evaluation review is our primary tool for determining who should be on the board. In light of the evaluation process, the board does not have a tenure policy and has flexible term limits. Nexen's average board tenure is 9.8 years. We do have a set retirement age of 75.

The Committee considered comments from the last evaluation when it updated the 2007 questionnaire to further explore CEO succession, crisis management, director recruitment, risk, compensation and the evaluation process itself.

The board rates its overall effectiveness on a ten-point scale, where 10 is the best. The average rating for 2007 was 9.23.

#### External Recognition and Verification

Nexen was recognized for its governance practices during 2007, including the following:

- Conference Board of Canada/Spencer Stuart 2007 National Award in Governance for the private sector;
- Named first, together with SNC-Lavalin Group Inc., on the Top 25 Boards in Canada by Canadian Business Magazine;
- Received an Honourable Mention for the 2007 Governance Gavel Award for Excellence in Director Disclosure from the Canadian Coalition for Good Governance;
- Received the Honourable Mention for Excellence in Corporate Governance Disclosure in the 2007 Corporate Reporting Awards from the Chartered Accountants of Canada;
- Named as having the Best Corporate Governance Practices in North America by IR Global Rankings; and
- Had an average 2007 global rating of 9.9 out of 10 and have a current rating of 9.5 from Governance Metrics International for governance practices and disclosure.

#### Committee Approval

The Committee has reviewed and discussed the governance disclosure in this document, including the information in the Board of Directors section on pages 129 through 133 and has recommended to the board that it be included in the proxy circular and, as appropriate, Form 10-K.

#### Submitted on behalf of the Governance Committee:

Dick Thomson, Chair  
 Kevin Jenkins  
 Anne McLellan  
 Eric Newell  
 Tom O'Neill  
 Francis Saville  
 John Willson

### Ethics Policy

Under our ethics policy, all directors, officers and employees must demonstrate a commitment to ethical business practices and behaviour in all business relationships, both within and outside of Nexen. Employees are not permitted to commit an unethical, dishonest or illegal act or to instruct other employees to do so. Our ethics policy has been adopted as a code of ethics for our principal executive officer, principal financial officer and principal accounting officer or controller.

Any waivers of, or changes to the ethics policy must be board approved and disclosed. There has never been a waiver. The ethics policy was amended on December 3, 2007. We made minor revisions to update the name of an integrity-related policy. Our ethics policy provides for an external integrity helpline, in place since February 1, 2005.

Nexen's ethics policy is available at [www.nexeninc.com](http://www.nexeninc.com) and we intend to disclose any waivers of or changes to this policy online. Our ethics policy and any future amendments to it are filed on SEDAR at [www.sedar.com](http://www.sedar.com). To request a copy of the policy, contact the Integrity Resource Centre by emailing [integrity@nexeninc.com](mailto:integrity@nexeninc.com) or by calling 403.699.4727.

### Reporting Concerns

Please direct any concerns about Nexen's financial statements, accounting practices or internal controls to either:

- management or the Chair of the Audit Committee as set out in the ethics policy; or
- EthicsPoint, as set out below.

Employees, customers, suppliers, partners, shareowners and other external stakeholders who have a concern are encouraged to raise it with our Integrity Resource Centre:

By mail: Nexen Inc.  
801 - 7th Avenue SW  
Calgary, Alberta, Canada  
T2P 3P7  
Attention: Integrity Resource Centre

By email: [integrity@nexeninc.com](mailto:integrity@nexeninc.com)

By telephone: 403.699.4727

You may also report concerns through our integrity helpline—a secure reporting system, which is owned and managed by EthicsPoint, an independent third-party service provider. To find out more about our integrity helpline and for toll free

numbers for other countries, access our web site at [www.nexeninc.com](http://www.nexeninc.com) and click on the "Integrity Helpline" link at the top of the page or access the helpline directly:

Online: [www.ethicspoint.com](http://www.ethicspoint.com)  
By telephone: 1.866.384.4277 (toll-free in North America)

### Communicating with the Board

Shareowners may write to the board or any member or members of the board in care of the following address:

By mail: Nexen Inc.  
801 - 7th Avenue SW  
Calgary, Alberta, Canada  
T2P 3P7  
Attention: Governance Office

By email: [board@nexeninc.com](mailto:board@nexeninc.com)

We receive a number of inquiries on a large range of subjects every day. The board has consulted with management to develop a process to assist in managing inquiries directed to the board or its members.

Letters and emails addressed to the board, any of its members or the independent directors, as a group, are reviewed to determine if a response from the board is appropriate. While the board oversees management, it does not participate in our day-to-day functions and operations and is not normally in the best position to respond to inquiries on those matters. Those inquiries will be directed to the appropriate personnel for response. The board has instructed the Governance Office to review all correspondence and, in its discretion, not forward items that are:

- not relevant to Nexen's operations, policies or philosophies;
- commercial in nature; or
- not appropriate for consideration by the board.

All inquiries will receive a response from the board or management. The Governance Office maintains a log of all correspondence sent to board members. Directors may review the log at any time and request copies of any correspondence received.

### AUDIT COMMITTEE

See page 155 for a full report on the Audit Committee.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Nexen's common shares are the only class of voting securities. Based on information known to Nexen, the following table shows each person or group who beneficially owns (pursuant to SEC Regulations) more than 5% of Nexen's voting securities as at the date noted below.

Name and Address of Beneficial Owner	# of Shares Beneficially Owned	% of Shares	Effective Date
Jarislowky, Fraser Limited <sup>1</sup> Suite 2005, 1010 Sherbrooke Street West Montreal, Quebec, Canada, H3A 2R7	53,090,139	10.05	January 31, 2008
Ontario Teachers' Pension Plan Board <sup>2</sup> 5650 Yonge Street Toronto, Ontario, Canada, M2M 4H5	52,677,672	9.97	January 8, 2008

Notes:

- <sup>1</sup> The beneficial owner has sole voting power over 44,870,646 shares, shared voting power over 8,219,493 shares and sole power to dispose of 53,090,139 shares and shared power to dispose of 268,680 shares.
- <sup>2</sup> The beneficial owner has sole voting power and power to dispose of all shares.

### SECURITY OWNERSHIP OF MANAGEMENT

At February 14, 2008, the following directors, certain executive officers, and all directors and executive officers as a group beneficially owned the following Nexen common shares:

Name of Beneficial Owner	Number of Shares <sup>1</sup>	Exercisable TOPs <sup>2</sup>
Charles W. Fischer	184,161	2,215,000
Dennis G. Flanagan	31,264	20,000
David A. Hentschel	70,814	100,000
S. Barry Jackson	72,000	–
Kevin J. Jenkins	12,362	60,000
A. Anne McLellan, P.C.	100	–
Eric P. Newell, O.C.	12,000	–
Thomas C. O'Neill	16,000	–
Francis M. Saville, Q.C.	48,860	71,004
Richard M. Thomson, O.C.	92,004	150,000
John M. Willson	22,004	–
Victor J. Zaleschuk	62,982	240,000
Laurence Murphy	125,504	164,000
Marvin F. Romanow	81,237	785,480
Roger D. Thomas	16,553	399,200
Gary H. Nieuwenburg	66,006	265,600
Douglas B. Otten	46,892	254,952
All directors and executive officers as a group (25 persons)	1,112,455	6,035,954

Notes:

- <sup>1</sup> The number of shares held and TOPs exercisable by each beneficial owner represents less than 1% of the shares outstanding.
- <sup>2</sup> Includes all TOPs exercisable within 60 days of February 14, 2008. All TOPs held by non-executive directors are vested.

Under the terms of our TOPs plan, the board may grant options to officers and employees and, when previously allowed for, to directors. Nexen does not receive any consideration when options are granted.

Plan Category	Number of Securities to be Issued on Exercise of Outstanding TOP's	Weighted-Average Exercise Price of Outstanding TOP's	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by shareowners	27,402,722	\$20/option	29,430,190
Equity compensation plans not approved by shareowners	–	–	–
<b>Total</b>	<b>27,402,722</b>	<b>\$20/option</b>	<b>29,430,190</b>

### Item 13. Certain Relationships and Related Transactions, and Director Independence

#### RELATED PARTY TRANSACTION

As a Canadian foreign private issuer, Nexen provides the disclosure required under Item 7.B. of Form 20-F dealing with “related party transactions.” Nexen did not have any related party transactions in 2007 as defined under that standard. Certain other transactions described below which are not related party transactions, involving Nexen and certain of our directors, were entered into in 2007.

#### DIRECTOR INDEPENDENCE

Mr. Saville, was a senior partner of Fraser Milner Casgrain LLP (FMC), Barristers and Solicitors, Calgary, Alberta, until the end of January 2004. Since February 1, 2004, he has been counsel with the firm. FMC provided legal services to us in each of the last five years. Mr. Saville does not solicit or participate in these services and does not receive any portion of the fees we pay to FMC. He is independent under our categorical standards.

Ms. McLellan, has been counsel with Bennett Jones (BJ), Barristers and Solicitors, Edmonton, Alberta since June 27,

2006. BJ provided legal services to us in each of the last five years. Ms. McLellan does not solicit or participate in those services and does not receive any portion of the fees we pay to BJ. She is independent under to our categorical standards.

Mr. Fischer is not independent as he is President and CEO.

Mr. Flanagan is not independent as his son is Senior Vice President, Engineering, of TriAxon Resources Ltd. (TriAxon). In 2006, TriAxon acquired a company that was party to contracts with a subsidiary of Nexen. Under one of the contracts Nexen paid approximately \$4.5 million to TriAxon between July and December 2006 for products purchased at market price. Accordingly, Mr. Flanagan is not technically independent as of July 1, 2007. Mr. Flanagan was not aware that the company acquired by TriAxon held contracts with Nexen. The board has determined that Mr. Flanagan’s independence of mind has not been compromised by this transaction and, accordingly, the board continues to include him in their meetings without management.

### Item 14. Principal Accounting Fees and Services

#### AUDIT COMMITTEE REPORT

The Audit Committee is responsible for appointing (subject to shareholder approval), compensating and overseeing the Independent Registered Chartered Accountants (IRCAs). The IRCAs are accountable to and report directly to the Committee, and understand that they must maintain an open and transparent relationship with the Committee, as representatives of the shareowners.

All members of the Committee are independent and knowledgeable about our financial reporting controls, and internal and external audit processes. Five members are skilled or expert in financial acumen, particularly financial accounting, reporting and internal controls, the area of expertise most relevant to carrying out the Committee’s mandate.

The Committee assists the board in overseeing internal accounting and financial reporting controls, internal and external audit processes, and implementation of the ethics policy.

Management is responsible for our internal controls and financial reporting process. The IRCAs are responsible for performing and reporting on an independent audit of our: (i) consolidated financial statements according to generally accepted auditing standards; and, (ii) internal control over financial reporting according to the standards of the Public Company Accounting Oversight Board. The Committee’s responsibility is to monitor and oversee these processes.

#### Changes to Committee Membership in 2007

Mr. Flanagan left the Committee and Mr. Newell joined April 2007.

#### Key Activities for 2007

- Met separately with management and the IRCAs to review the December 31, 2007 consolidated financial statements;
- Discussed with the IRCAs matters required by Canadian regulators under Section 5751 of the General Assurance and Auditing Standards of the Canadian Institute of Chartered Accountants “Communications with Those having Oversight Responsibility for the Financial Reporting Process” and by US regulators under the Statement on Auditing Standards No. 61 “Communication with Audit Committees” issued by the American Institute of Certified Public Accountants;
- Received written disclosures from the IRCAs required by the SEC according to the Independence Standards Board Standard No. 1 “Independence Discussions with Audit Committees”;
- Discussed with the IRCAs that firm’s independence;
- Based on the reviews and discussions referred to above, recommended to the board that the audited consolidated financial statements be included in Nexen’s annual report on Form 10-K for the year ended December 31, 2007;
- Oversaw Section 404 Sarbanes-Oxley compliance activities undertaken by management to report on the effectiveness of internal control over financial reporting as at December 31, 2007;

- reviewed and approved the quarterly consolidated financial statements; and
- Recommended changes to the ethics policy.

**Audit Partner Rotation**

In compliance with applicable law, the lead audit partner of our IRCAs is replaced every five years.

**Section 404 of Sarbanes-Oxley**

Nexen is a voluntary filer of Form 10-K in the US and has complied with the requirements of Section 404 of Sarbanes-Oxley since December 31, 2004. During 2007, management evaluated the effectiveness of our internal control over financial reporting and concluded that it was effective as of

December 31, 2007. This assessment was audited by the IRCAs in 2006 as part of the integrated audit of the consolidated financial statements. This particular audit is no longer required as part of the IRCA's integrated audit due to US regulatory changes. The Committee's mandate, available at www.nexeninc.com, has been updated accordingly. Their integrated audit report for 2007 is included in our Form 10-K.

**IRCA Engagement and Fees Billed**

Before Deloitte & Touche LLP, the IRCA is engaged by Nexen or its subsidiaries to render additional audit or non-audit services, the engagement is approved by the Committee. All audit, audit-related, tax and other services provided by Deloitte & Touche LLP since May 6, 2003 have been approved by the Committee.

Type of Fee	Billed in 2006	Billed in 2007	Percentage of Total Fees Billed in 2007
<b>Audit Fees</b>			
For the integrated audit of Nexen's consolidated financial statements included in our annual report on Form 10-K	2,332,500 <sup>1</sup>	2,966,000 <sup>2</sup>	
For the integrated audit of the consolidated financial statements of Canexus <sup>3</sup>	302,900	145,000 <sup>4</sup>	
For the first, second and third quarter reviews of Nexen's consolidated financial statements included in Form 10-Qs	72,000	90,000	
For the first, second and third quarter reviews of the consolidated financial statements of Canexus <sup>3</sup>	45,000	45,000	
For comfort letters and submissions to commissions	2,500	153,500	
<b>Total Audit Fees</b>	<b>2,754,900</b>	<b>3,399,500</b>	<b>76%</b>
<b>Audit-Related Fees—Nexen and Canexus<sup>3</sup></b>			
For the annual audits and quarterly reviews of subsidiary financial statements and employee benefit plans	719,500	828,100	
<b>Total Audit-Related Fees</b>	<b>719,500</b>	<b>828,100</b>	<b>19%</b>
<b>Tax Fees—Nexen and Canexus<sup>3</sup></b>			
For tax return preparation assistance and tax-related consultation	84,300	116,400	
<b>Total Tax Fees</b>	<b>84,300</b>	<b>116,400</b>	<b>3%</b>
All Other Fees	86,000 <sup>5</sup>	110,600 <sup>5</sup>	2%
<b>Total Annual Fees</b>	<b>3,644,700</b>	<b>4,454,600</b>	<b>100%</b>

Notes:

- 1 Consisting of \$1,032,500 to complete the 2005 audit and \$1,300,000 to commence the 2006 audit.
- 2 Consisting of \$1,366,000 to complete the 2006 audit and \$1,600,000 to commence the 2007 audit.
- 3 Includes fees for Canexus Income Fund, Canexus Limited Partnership and its subsidiaries.
- 4 Consisting of \$95,000 to complete the 2006 audit and \$50,000 to commence the 2007 audit.
- 5 Annual renewal fees for an upstream information database used in our UK office.

**Committee Approval**

The Committee is of the view that the provision of services by Deloitte & Touche LLP described in "All Other Fees" above is compatible with maintaining that firm's independence.

Based on the Committee's discussions with management and the IRCAs, and its review of the representations of management and the IRCAs, the Committee recommended to the board that the audited consolidated financial statements be included in Nexen's annual report on Form 10-K for the year ended December 31, 2007.

**Submitted on behalf of the Audit Committee:**

- Tom O'Neill, Chair
- Eric Newell
- Barry Jackson
- Dick Thomson
- Kevin Jenkins
- John Willson

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### FINANCIAL STATEMENTS AND SCHEDULES

We refer you to the index to Financial Statements and Supplementary Data in Item 8 of this report where these documents are listed.

Schedules and separate financial statements of subsidiaries are omitted because they are not required or applicable, or the required information is shown in the Consolidated Financial Statements or notes.

#### EXHIBITS

Exhibits filed as part of this report are listed below. Certain exhibits have been previously filed with the Commission and are incorporated in this Form 10-K by reference. Instruments defining the rights of holders of debt securities that do not exceed 10% of Nexen's consolidated assets have not been included. A copy of such instruments will be furnished to the Commission upon request.

- |   |   |
|---|---|
| <p>2.2 Agreement for the Sale and Purchase of EnCana (U.K.) Limited, between EnCana (U.K.) Holdings Limited and Nexen Energy Holdings International Limited dated October 28, 2004 (filed as Exhibit 2.1 to Form 8-K dated October 29, 2004).</p> <p>3.14 Restated Certificate and Articles of Incorporation of the Registrant dated May 20, 2005 (filed as Exhibit 3.12 to Form 10-Q for the quarterly period ended June 30, 2005).</p> <p>3.15 By-Law No. 3 of the Registrant enacted December 4, 2006, being a by-law relating generally to the transaction of the business and affairs of the Registrant (filed as Exhibit 3.15 to Form 8-K dated December 5, 2006).</p> <p>3.16 Certificate and Articles of Amendment of the Registrant dated April 26, 2007 (filed as Exhibit 3.16 to Form 8-K dated April 27, 2007).</p> <p>4.42 Trust Indenture dated April 28, 1998 between the Registrant and CIBC Mellon Trust Company providing for the issue of debt securities from time to time (filed as Exhibit 4.42 to Form 10-K for the year ended December 31, 2003).</p> <p>4.43 First Supplemental Indenture dated April 28, 1998 to the Trust Indenture dated April 28, 1998 between the Registrant and CIBC Mellon Trust Company pertaining to the issuance of US\$200 million, 7.40% notes due 2028 (filed as Exhibit 4.43 to Form 10-K for the year ended December 31, 2003).</p> | <p>4.46 Third Supplemental Indenture dated March 11, 2002 to the Trust Indenture dated April 28, 1998 between the Registrant and CIBC Mellon Trust Company pertaining to the issuance of \$500 million, 7.85% notes due 2032 (filed as Exhibit 4.46 to Form 10-K for the year ended December 31, 2003).</p> <p>4.47 Subordinated Debt Indenture dated November 4, 2003 between the Registrant and Deutsche Bank Trust Company Americas, pertaining to the issue of subordinated notes from time to time (filed as Exhibit 4.47 to Form 10-K for the year ended December 31, 2003).</p> <p>4.48 Officer's Certificate dated November 4, 2003 pursuant to the Subordinated Debt Indenture dated November 4, 2003 between the Registrant and Deutsche Bank Trust Company Americas, pertaining to the issuance of US\$460 million, 7.35% subordinated notes due 2043 (filed as Exhibit 4.48 to Form 10-K for the year ended December 31, 2003).</p> <p>4.51 Fourth Supplemental Indenture dated November 20, 2003 to the Trust Indenture dated April 28, 1998, between the Registrant and CIBC Mellon Trust Company pertaining to the issuance of US\$500 million, 5.05% notes due 2013 (filed as Exhibit 4.51 to Form 10-K for the year ended December 31, 2003).</p> <p>4.53 Fifth Supplemental Indenture dated March 10, 2005 to the Trust Indenture dated April 28, 1998, between the Registrant and CIBC Mellon Trust Company pertaining to the issuance of US\$250 million, 5.20% notes due 2015 and the issuance of US\$790 million, 5.875% notes due 2035 (filed as Exhibit 10.1 to Form 8-K dated March 11, 2005).</p> <p>4.54 Amended and Restated Shareholder Rights Plan Agreement dated April 27, 2005 between the Registrant and CIBC Mellon Trust Company, as Rights Agent, which includes the Form of Rights Certificate as Exhibit A (filed as Exhibit 4.54 to Form 10-K for the year ended December 31, 2005).</p> <p>4.55 Senior Debt Indenture dated May 4, 2007 between the Registrant and Deutsche Bank Trust Company Americas, pertaining to the issue of senior notes from time to time (filed as Exhibit 4.1 to Form 8-K dated May 7, 2007).</p> |
|---|---|

- 4.56 First Supplemental Indenture dated May 4, 2007 to the Trust Indenture dated May 4, 2007 between the Registrant and Deutsche Bank Trust Company Americas pertaining to the issuance of US\$250 million, 5.65% notes due 2017 and the issuance of US\$1.25 billion, 6.40% notes due 2037 (filed as Exhibit 4.2 to Form 8-K dated May 7, 2007).
- 10.40 Amended and Restated Change of Control Agreements with Executive Officers dated during December, 2001 (filed as Exhibit 10.41 to Form 10-K for the year ended December 31, 2001).
- 10.41 Indemnification Agreements made between the Registrant and its directors and officers during 2002 (filed as Exhibit 10.41 to Form 10-K for the year ended December 31, 2002).
- 10.42 Indemnification Agreement made between the Registrant and one of its directors, Eric P. Newell, as of January 5, 2004 (filed as Exhibit 10.42 to Form 10-K for the year ended December 31, 2003).
- 10.43 Credit Agreement dated as of July 22, 2005 between the Registrant and the Toronto Dominion Bank, as Agent, and the Lenders (filed as Exhibit 10.1 to Form 8-K dated July 28, 2005).
- 10.44 Guarantee dated as of July 22, 2005 as Schedule K to the Credit Agreement (filed as Exhibit 10.2 to Form 8-K dated July 28, 2005).
- 10.46 Indemnification Agreement made between the Registrant and one of its directors, A. Anne McLellan P.C., as of July 5, 2006 (filed as Exhibit 10.2 to Form 8-K dated July 20, 2006).
- 10.47 Second Amending Agreement dated July 14, 2006 to the Credit Agreement, dated as of July 22, 2005, between the Registrant and the Toronto-Dominion Bank, as Agent, and the Lenders (filed as Exhibit 10.1 to Form 8-K dated July 20, 2006).
- 10.48 Indemnification Agreement made between the Registrant and Brendon Muller dated April 9, 2007 (filed as Exhibit 10.48 to Form 8-K dated April 12, 2007).
- 10.49 Amended and Restated Change of Control Agreement with Roger Thomas dated during December 2001 (filed as Exhibit 10.48 to Form 10-Q for the quarterly period ended March 31, 2007).
- 10.50 Pricing Agreement dated May 1, 2007 among the Registrant and Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as Underwriters (filed as Exhibit 10.1 to Form 8-K dated May 7, 2007).
- 10.51\* Change of Control Agreement with Gary Nieuwenburg dated during January 2002.
- 11.1\* Statement regarding the Computation of Per Share Earnings for the three years ended December 31, 2007.
- 21.1\* Subsidiaries of the Registrant.
- 23.1\* Consent of Independent Registered Chartered Accountants.
- 23.2\* Consent of William M. Cobb & Associates, Inc.
- 23.3\* Consent of Ryder Scott Company, L.P.
- 23.4\* Consent of McDaniel & Associates Consultants Ltd.
- 23.5\* Consent of DeGolyer and MacNaughton.
- 31.1\* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of periodic report by Chief Executive Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of periodic report by Chief Financial Officer pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1\* Opinion of Internal Qualified Reserves Evaluator on National Instrument 51-101 Form F2 as required by certain Canadian securities regulatory authorities.

\* Filed with this Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 21, 2008.

NEXEN INC.

By: /s/ Charles W. Fischer  
 Charles W. Fischer  
 President, Chief Executive Officer  
 and Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 21, 2008.

/s/ Dennis G. Flanagan  
 Dennis G. Flanagan, Director

/s/ David A. Hentschel  
 David A. Hentschel, Director

/s/ S. Barry Jackson  
 S. Barry Jackson, Director

/s/ Kevin J. Jenkins  
 Kevin J. Jenkins, Director

/s/ A. Anne McLellan, Director  
 A. Anne McLellan, Director

/s/ Eric P. Newell  
 Eric P. Newell, Director

/s/ Thomas C. O'Neill  
 Thomas C. O'Neill, Director

/s/ Francis M. Saville  
 Francis M. Saville, Director

/s/ Richard M. Thomson  
 Richard M. Thomson, Director

/s/ John M. Willson  
 John M. Willson, Director

/s/ Victor J. Zaleschuk  
 Victor J. Zaleschuk, Director

/s/ Charles W. Fischer  
 Charles W. Fischer  
 President, Chief Executive Officer  
 and Director (Principal Executive Officer)

/s/ Marvin F. Romanow  
 Marvin F. Romanow  
 Executive Vice President and Chief Financial Officer  
 (Principal Financial Officer)

/s/ Brendon T. Muller  
 Brendon T. Muller  
 Controller  
 (Principal Accounting Officer)

/s/ Eric B. Miller  
 Eric B. Miller  
 Vice President, General Counsel  
 and Secretary

/s/ Kevin J. Reinhart  
 Kevin J. Reinhart  
 Senior Vice President, Corporate Planning  
 and Business Development

**EXHIBIT 31.1****Certifications**

I, Charles W. Fischer, certify that:

1. I have reviewed this annual report on Form 10-K of Nexen Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2008

/s/ Charles W. Fischer

Charles W. Fischer

President and Chief Executive Officer

**EXHIBIT 31.2****Certifications**

I, Marvin F. Romanow, certify that:

1. I have reviewed this annual report on Form 10-K of Nexen Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2008

/s/ Marvin F. Romanow  
Marvin F. Romanow  
Executive Vice President  
and Chief Financial Officer

**EXHIBIT 32.1****Certification Of Periodic Report**

I, Charles W. Fischer, President and Chief Executive Officer of Nexen Inc., a Canadian Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2008

/s/ Charles W. Fischer  
 Charles W. Fischer  
 President  
 and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Nexen Inc. and shall be retained by Nexen Inc. and furnished to the Securities and Exchange Commission or its staff on request.

**EXHIBIT 32.2****Certification Of Periodic Report**

I, Marvin F. Romanow, Executive Vice President and Chief Financial Officer of Nexen Inc., a Canadian Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Annual Report on Form 10-K of the Company for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2008

/s/ Marvin F. Romanow  
 Marvin F. Romanow  
 Executive Vice President  
 and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Nexen Inc. and shall be retained by Nexen Inc. and furnished to the Securities and Exchange Commission or its staff on request.