



Corporate Governance

Governance is a two way street. Our board and management are committed to transparent, meaningful disclosure and to feedback from stakeholders for continuous improvement.

PARTS III AND IV

ITEMS 10 TO 15.

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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 with the exception of A. Anne McLellan PC, who was appointed on July 5, 2006.

This table shows our directors' principal occupations or employment during the past five years and any other directorships they held in public companies as at February 15, 2007. The following directors are management nominees for election to the board.

Name (Age)	Principal Occupation	Other Directorships	Nexen Director Since
Charles W. Fischer (56)	President and Chief Executive Officer (CEO) of Nexen.		2000
Dennis G. Flanagan ^{1,2,3} (67)	Retired oil executive.	Canexus Income Fund (Chair) NAL Oil & Gas Trust	2000
David A. Hentschel ⁴ (73)	Retired oil executive. Formerly: Oil and gas consultant.	Cimarex Energy Co.	1985
S. Barry Jackson ¹ (54)	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 ^{1,2} (50)	Managing Director of TriWest Capital Partners Formerly: President and CEO of The Westaim Corporation.		1996
A. Anne McLellan, P.C. ¹ (56)	Counsel at 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: Liberal 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. (62)	Retired Chair and CEO of Syncrude Canada Ltd.	Canfor Corporation	2004
Thomas C. O'Neill ^{1,2} (61)	Retired Chair of PwC Consulting. Formerly: CEO of PwC Consulting. Prior to that, COO of PricewaterhouseCoopers LLP, Global.	Adecco S.A. BCE Inc. Loblaws Companies Limited	2002
Francis M. Saville, Q.C. ¹ (68)	Chair of Nexen. Counsel to 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. ^{1,2} (73)	Retired banking executive.	The Thomson Corporation	1997
John M. Willson ¹ (67)	Retired mining executive.	Aber Diamond Corporation Finning International Inc. Pan American Silver Corporation	1996
Victor J. Zaleschuk ⁵ (63)	Retired oil executive.	Agrium Inc. Cameco Corporation (Chair)	1997

Notes:

¹ 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.

² Financial Experts on Nexen's Audit Committee.

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

⁴ 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.

⁵ Mr. Zaleschuk was President and CEO of Nexen from 1997 to 2001.

Independence and Board Committees

The board affirmed director independence in reference to our categorical standards, which are available at www.nexeninc.com, in place since 2003 and most recently confirmed on February 15, 2007. 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. Saville, a director, 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 during each of the last five years. Mr. Saville neither solicits nor participates in those services and does not receive any portion of the fees we pay to FMC. He is an independent director pursuant to our categorical standards.

Ms. McLellan, a director, has been counsel with Bennett Jones LLP (BJ), Barristers and Solicitors, Edmonton, Alberta, since June 27, 2006. BJ provided legal services to us during each of the last five years. Ms. McLellan neither solicits nor participates in those services and does not receive any portion of the fees we pay to BJ. She is an independent director pursuant to our categorical standards.

Committees (Number of Members)

	Audit ^{1,2}	Compensation ^{1,3}	Governance ¹	Finance	Reserves ⁴	SESr
	(6)	(7)	(7)	(7)	(7)	(7)
Independent Outside Directors						
Dennis G. Flanagan ⁵	√		√	√	√	
David A. Hentschel				√	√	√
S. Barry Jackson	√	√			√	Chair
Kevin J. Jenkins ⁵	√	Chair	√			√
A. Anne McLellan, P.C.		√	√	√		√
Eric P. Newell, O.C.				√	√	√
Thomas C. O'Neill ^{5,6}	Chair	√	√		√	
Francis M. Saville, Q.C.		√	√	√		√
Richard M. Thomson, O.C. ⁵	√	√	Chair	√		
John M. Willson	√	√	√		Chair	
Victor J. Zaleschuk				Chair	√	√
Management Director — Not Independent						
Charles W. Fischer						

Notes:

- 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.
- 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 143.
- Composition of the Compensation Committee has changed since January 1, 2006. See page 146 for details.
- A majority of the Reserves Review (Reserves) Committee are independent.
- Audit committee financial expert under US regulatory requirements.
- The board has considered the circumstances of Mr. O'Neill's service on four public company audit committees including Nexen's. Mr. O'Neill is retired and holds neither a full nor a part-time employee position. His only commitments are to the boards and committees on which he serves. Mr. O'Neill has been a chartered accountant for more than 30 years, having joined the audit firm of Price Waterhouse (now part of PricewaterhouseCoopers LLP) in 1967. Accordingly, the board has determined that service as an audit committee member on three other public companies does not impair Mr. O'Neill's ability to serve on our Audit Committee.

Audit Committee Financial Expert Experience

Name	Experience
Flanagan	<p>Dennis Flanagan, 67, is a retired oil executive. He worked in the oil and gas industry for more than 40 years with Ranger Oil Limited (Ranger) and ELAN Energy Inc. (ELAN), most recently as Executive Chair of ELAN until it was bought by Ranger in 1997. He was involved in all phases of exploration and development in Canada, the US and the UK sector of the North Sea.</p> <p>Mr. Flanagan completed the Registered Industrial and Cost Accountant program, the predecessor to the Certified Management Accountant program, in 1967. He worked in various accounting and management positions at Ranger, including the position of chief financial officer.</p> <p>Dennis is the Chair of Canexus Income Fund (Canexus), an affiliate controlled by Nexen, and a director of NAL Oil & Gas Trust. He is also founding Chair of STARS (Shock Trauma Air Rescue) Foundation.</p>
Jenkins	<p>Kevin Jenkins, 50, 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 a member of the board of World Vision Canada.</p>
O'Neill	<p>Tom O'Neill, 61, 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, Adecco S.A., and Ontario Teachers' Pension Plan Board. 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, 73, 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\$130 million with a US\$12.5 million deductible per occurrence. The cost of coverage for 2006 was approximately US\$0.9 million. Directors and officers do not pay any portion of the premiums and no indemnity claims were made or became payable in 2006.

Directors' and Officers' Fiduciary Insurance

We also maintain a fiduciary liability insurance policy. The policy 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. This 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 2006 was approximately US\$30,000. Directors and officers do not pay any portion of the premiums and no claims were made or became payable in 2006.

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

Director compensation includes annual retainers, meeting fees and equity-based incentive compensation in the form of deferred share units (DSUs). The compensation is intended to provide an appropriate level of remuneration considering the responsibilities, time requirements and accountability of their roles. All elements of director compensation are reviewed annually for competitiveness against a peer group of oil and gas companies by management, and then the board.

In 2003, the board adopted a policy stating that non-executive directors would no longer be granted stock options. We do not provide our directors with any form of non-equity incentive or pension compensation.

There are currently two directors, Mr. Hentschel and Mr. Zaleschuk, both former CEO's of Nexen, who are retirees in the Nexen pension plan. The pension benefit provided to these directors is for previous service as employees.

A DSU plan was approved for the non-executive directors in 2001, as an appropriate form of equity-based compensation intended to provide a competitive long-term incentive aligned with shareowner interests.

In December 2006, all director compensation was reviewed and confirmed at the then-current levels.

Director Summary Compensation Table

Name	Total Fees Earned ¹	DSU Awards ²	All Other Compensation ³	Total Compensation
Fischer ⁴	–	–	–	–
Flanagan ⁵	116,667	132,720	115,331	364,718
Hentschel	101,633	132,720	2,726	237,079
Jackson	116,600	132,720	2,953	252,273
Jenkins	120,200	132,720	4,411	257,331
McLellan	62,850	132,720	259	195,829
Newell	91,400	132,720	4,291	228,411
O'Neill	132,800	132,720	4,018	269,538
Saville	263,100	202,240	3,116	468,456
Thomson	120,200	132,720	5,946	258,866
Willson	116,600	132,720	4,308	253,628
Zaleschuk	103,367	132,720	2,819	238,906
Total	\$1,345,417	\$1,529,440	\$150,178	\$3,025,035

Notes:

¹ Includes all retainers and meetings fees, including fees paid in the form of DSUs.

² The value of DSUs granted on December 4, 2006, based on the closing market price of Nexen common shares on the TSX on December 1, 2006 of \$63.20.

³ 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 2006 valued at the closing market price of Nexen common shares on the TSX on the payment dates, and Canexus fees as set out in note 5.

⁴ As an executive officer of Nexen, Mr. Fischer is not paid director fees.

⁵ Mr. Flanagan is the Board Chair of Canexus and was paid fees of \$59,000 in 2006, received deferred trust units of Canexus valued at \$48,770 and distributions on his trust units of \$4,806. This amount is included in "All Other Compensation".

Director Fees

Annual board and committee retainers are paid quarterly, in advance, and are pro-rated for partial service, if appropriate. Nexen also reimburses directors for out-of-pocket travel expenses. Directors are paid meeting fees for attending meetings either in person or by telephone conference call. From January 1, 2006, non-executive directors are paid:

Annual Board Chair Retainer ¹	\$150,000
Annual Board Retainer	28,100
Annual Committee Retainer (per committee)	9,100
Annual Committee Additional Chair Retainer	5,300
Annual Audit Committee Additional Chair Retainer ²	14,400
Board and Committee Meeting Fees (per meeting attended)	1,800

Notes:

- ¹ The total annual retainer paid to the Board Chair is \$178,100 and includes the Annual Board Chair Retainer and the Annual Board Retainer.
- ² The total annual retainer paid to the Chair of the Audit Committee for his service on that committee is \$28,800 and includes the Annual Committee Retainer, the Annual Committee Additional Chair Retainer and the Annual Audit Committee Additional Chair Retainer.

2006 Retainers and Fees

	Annual Board Retainer	Annual Committee Retainers	Annual Committee Chair Retainer	Board Meeting Fees	Committee Meeting Fees	Total Fees Earned	Total Fees Credited in DSUs	Total Fees Earned in Cash
Fischer ¹	–	–	–	–	–	–	–	–
Flanagan	28,100	36,400	1,767	14,400	36,000	116,667	–	116,667
Hentschel	28,100	30,333	–	14,400	28,800	101,633	–	101,633
Jackson	28,100	36,400	5,300	14,400	32,400	116,600	116,600	–
Jenkins	28,100	36,400	5,300	14,400	36,000	120,200	–	120,200
McLellan ²	14,050	18,200	–	9,000	21,600	62,850	62,850	–
Newell	28,100	27,300	–	12,600	23,400	91,400	91,400	–
O'Neill	28,100	36,400	19,700	12,600	36,000	132,800	–	132,800
Saville	178,100	36,400	–	14,400	34,200	263,100	–	263,100
Thomson	28,100	36,400	5,300	14,400	36,000	120,200	120,200	–
Willson	28,100	36,400	5,300	14,400	32,400	116,600	–	116,600
Zaleschuk	28,100	30,334	3,533	14,400	27,000	103,367	28,100	75,267
Total	\$445,050	\$360,967	\$46,200	\$149,400	\$343,800	\$1,345,417	\$419,150	\$926,267

Notes:

- ¹ As an executive officer of Nexen, Mr. Fischer is not paid director fees.
- ² Ms. McLellan is taking all fees in Deferred Share Units (DSUs) until her share ownership requirement is met.

Share Ownership Guideline

The board believes it is important that directors demonstrate their commitment to Nexen's growth through share ownership. The board-approved guideline sets out that directors are expected to own or control at least 6,000 shares (DSUs count towards share ownership) to be accumulated over three years. Specific arrangements may be made when a qualified candidate might be prevented from serving by this guideline. The guideline is reviewed from time to time. Ownership can be achieved by purchasing common shares, participating in our dividend reinvestment plan or directing retainer fees into DSUs.

All directors, except Ms. McLellan, meet the guideline. Ms. McLellan has until July 5, 2009 to meet this guideline. She is taking 100% of her fees in DSUs until she meets the requirement and currently has 4,341 DSUs that count toward her requirement.

Deferred Share Units

In 2001, a DSU plan was approved as an alternative form of compensation for non-executive directors. Under the plan, eligible directors may elect annually to receive all or part of their fees in DSUs, rather than in cash. 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. The number of DSUs is calculated by dividing the total amount of the dividends that would have been paid if the DSUs in the director's account were common shares by the fair market value of a common share on the payment date. DSUs accumulate over a director's term of service and are not paid out until the director leaves the board, providing them with an ongoing stake in Nexen during the term of service. When the director leaves the board, payments may be made in cash or in Nexen common shares purchased on the open market, at Nexen's option.

Grants of DSUs have been used since 2003 as equity-based compensation in place of stock option grants, which were discontinued for non-executive directors in 2003.

Deferred Share Units Granted in 2006

	Grant Date	DSUs (#)	Base Price ¹ (\$)	Value of DSUs ² (\$)
Board Chair	Dec 4, 2006	3,200	63.20	202,240
Other Non-Executive Directors	Dec 4, 2006	2,100	63.20	132,720

Notes:

¹ The closing market price of Nexen common shares on the TSX on December 1, 2006.

² The number of DSUs times the base price.

TOPs Exercised or Exchanged and Awards Vested During 2006

All exercise or exchange activity in 2006 occurred within five months of the expiry date of the options. There are no vesting provisions and, accordingly, no value realized on vesting under the DSU plan.

Name	TOPs Awards		Stock Awards	
	Exercised or Exchanged (#)	Value Realized ¹ (\$)	Shares Acquired on Vesting (#)	Value Realized (\$)
Hentschel	13,000	579,215	-	-
Jackson	13,000	566,345	-	-
Thomson	19,600	1,044,974	-	-
Zaleschuk	24,000	1,255,740	-	-

Note:

¹ Equals 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 management 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.

Changes to Committee Membership in 2006

Messrs. Jenkins and O'Neill joined the Committee and Messrs. Hentschel and Zaleschuk left the Committee on April 27, 2006. That same date, Mr. Jenkins was appointed Committee Chair to replace Mr. Willson. Ms. McLellan joined the Committee on July 5, 2006.

Key Activities in 2006

- Recommended programs for employee, executive and CEO compensation, including base salary, annual cash incentive and long-term incentive programs (TOPs and STARs);
- Oversaw payments and grants made under Nexen's annual cash incentive, TOPs and STARs plans;
- Recommended to the board salaries, bonuses and grants of TOPs to executive officers;
- Evaluated CEO performance on short-term and long-term corporate goals and objectives, and recommended his compensation, which was approved by the independent directors of the board;
- Reviewed the CEO's position description; and
- Recommended compensation programs in the form of retention or recognition awards for key business initiatives.

Independent Consultant

The Committee engaged Mercer Human Resource Consulting (Mercer) to provide a report of confidential market data on the CEO's compensation, and a technical analysis of the market data in light of our compensation plans and practices. The report includes competitive compensation data from a list of peer companies, which is recommended by the independent consultant and approved by the Committee. The decisions of the Committee are their responsibility and may reflect factors other than the information and recommendations provided by Mercer.

Mercer also provided limited general employee compensation consulting services to Nexen in 2006. Specifically, Mercer provided administrative services to management related to international pension arrangements. We also participated in compensation surveys in Canada and international locations and purchased some of the published results. Management would obtain Committee approval before retaining Mercer for compensation consulting work.

Fees Billed by Independent Consultant

Type of Fee	Billed in 2006	Percentage of Total Fees billed in 2006
For independent assessment of CEO compensation for the Committee	37,780	92%
For administrative services provided to management	3,470	8%
Total Annual Fees	\$41,250	100%

External Recognition and Verification

Nexen was recognized for our human resource practices during 2006, including the following:

- Named one of the 50 Best Employers in Canada by Hewitt Associates Inc.; and
- Named one of Alberta's Top 25 Employers by Mediacorp Canada Inc.

Committee Approval

The Committee has reviewed and discussed the compensation disclosure included in this document, including the information on pages 144 through 164, and has recommended to the board that it be included in the Form 10-K.

Submitted on behalf of the Compensation Committee:

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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are set out on page 142. 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 170. There are no Compensation Committee interlocks during 2006.

COMPENSATION DISCLOSURE

We are committed to best practices in corporate governance, disclosure and transparency. This discussion of compensation practices at Nexen is intended to provide a clear understanding of our compensation objectives and programs. For 2006, we are providing compensation disclosure that will comply with the requirements of the Canadian Securities Administrators. As a foreign private issuer in the US, we are not required to disclose compensation in accordance with the SEC rules issued in 2006. We have, however, complied with the spirit of those rules where possible, without compromising required Canadian disclosure.

Executive Compensation Philosophy

Nexen’s policies and practices for executive compensation are linked to its strategic business objectives, including increasing shareowner returns. Within that framework, the overall philosophy is to compensate executives based on performance, at a level competitive with our peers, and in a manner designed to attract and retain a talented leadership team focused on managing Nexen’s operations, finances and assets.

Our compensation programs are designed to meet performance and competitiveness objectives. To ensure pay-for-performance, rewards are directly linked to planned performance for Nexen and its divisions. Individual performance and contribution are considered in determining awards. Measures are aligned with financial and non-financial goals and shareowner interests.

We use independent compensation surveys to benchmark the competitiveness of our compensation practices to peers, primarily major Canadian oil and gas companies and, where relevant, marketing companies. The peer group includes energy companies with whom we compete for talent. Nexen’s programs provide responsiveness to changes in the market. We also aim for simplicity in our compensation programs to support communication and employee understanding of the value of the various components. Programs provided for the executives are generally consistent with those provided to all employees in the same location. Where certain programs, such as perquisites, are only provided to executives or senior management, it is reflective of competitive practice and particular business needs and objectives.

In determining base salary, annual cash and long term incentives for executive officers, the Compensation Committee considers individual’s performance and recommendations from the CEO and CFO for their respective direct reports, in the context of market data provided by management. The Committee recommends all payments and grants for executive officers to the board or independent directors for approval.

Executive Compensation Objectives

Our compensation programs include three components: base salary, annual cash incentive and long-term incentive. We assess total compensation and consider the competitiveness of each component, both individually and in the aggregate. The overall goal is to provide total compensation for experienced, top-performing employees between the 50th and 75th percentile as compared to peer companies. Nexen’s position is compared against the peer group annually.

Key Elements of Compensation

Component	Type of Compensation	Element	Form	Performance Period
Fixed	Annual	Base Salary	Cash	1 Year
Variable	Annual	Annual Cash Incentive	Cash	1 Year
Variable	Long-Term	Long-Term Incentive	TOPs and STARs	Greater than 1 Year

Pay Mix

Nexen's compensation programs are designed to meet both performance and competitiveness objectives, rather than a fixed pay-mix target. As a result, actual pay levels will vary from year to year. In general, the target mix between the compensation elements is designed to provide the majority of compensation to the executive officers in the form of at-risk pay to ensure alignment with shareowners. The annual cash incentive program is designed to reward delivery of results against pre-defined measures within a short time frame. Long-term incentives reward the sustained performance of Nexen as seen in share price appreciation. The actual mix between the compensation elements varies, depending on the ability of the executive to influence short-term and long-term business results, the level and location of the executive, and competitive local market practices. The level of compensation is determined considering the competitive position of each element of compensation on its own, as well as the aggregate of all elements, relative to competitive market data.

Target Weightings for Compensation Elements

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

Note:

¹ Reported as a percentage of total compensation, excluding benefits, pension and prerequisites.

Base Salaries

Nexen maintains a framework of job levels based on internal comparability and external market data to determine base salaries. Base salaries are determined within that framework, considering the individual's current and sustained performance, skills and potential. Base salaries are reviewed annually against competitive data from our peer group.

Annual Cash Incentives

Annual incentives provide cash compensation that is at risk and dependent upon the achievement of specific business and operating objectives within a one-year period. Individual awards are intended to reflect a combination of overall Nexen and individual performance, along with market competitiveness. Annual incentive awards are typically within a range of 0% to 200% of targeted amounts.

2006 Annual Incentive Targets ¹

Position	Minimum	Target ²	Maximum ³
CEO	0%	75%	150%
CFO	0%	60%	120%
Senior VPs	0%	60%	120%

Notes:

¹ Reported as a percentage of base salary.

² Approved by the board effective January 1, 2006.

³ Target at 200%.

The board, at the recommendation of the Compensation Committee, determines the total cash available for annual cash incentives after reviewing Nexen's annual financial and non-financial incentive measures. The measures in the following balanced scorecard are commonly used metrics in our industry, and are assessed by the Committee in the context of our overall performance and performance relative to peers. The Committee may increase or decrease the total cash available for these awards based on their assessment.

2006 Annual Incentive Measures (Balanced Scorecard)

Financial Performance Measures (50%)

Measure	Actual Results	Results versus Target
I Cash flow (25%)	Cash flow was \$2,669 million	Exceeded Target
I Net income (25%)	Net Income was \$601 million	Below Target

Key Qualitative and Quantitative Performance Measures (50%)

Measure	Results versus Target
Overall Business Measures	
I Annual stock performance	The board, at the recommendation of the Compensation Committee, determined that: I three of the measures exceeded target, including our annual stock performance with a return of 16% versus a target of 12%; and I two were below target.
I Annual relative stock performance	
I Employee recordable injury index rate	
I Gross corporation G&A	
I Net G&A	
Growth and Investment Measures	
I Realized oil equivalent price	The board, at the recommendation of the Compensation Committee, determined that: I three of the measures exceeded target, including reserve life index of 13.2 years versus a target of 12.3 years; and I three were below target.
I Exploration and development project portfolio: Risked	
I Reserve replacement costs: Proved	
I FD&A costs: Proved	
I Recycle ratio	
I Reserve life index	I three were below target.
Operational Measures	
I Production volumes	The board, at the recommendation of the Compensation Committee, determined that: I two of the measures exceeded target, including operating costs of \$8.77 per boe versus a target of \$8.86 per boe; I one measure, major environmental incidents of zero, met target; and I three were below target, including production volumes of 212 thousand boe per day versus a target of 234 thousand boe per day.
I Operating costs per unit	
I Net oil and gas G&A	
I Net oil and gas G&A per unit	
I Product netback	
I Major environmental incidents	

The total cash available for annual incentives is distributed to employees, including executives, on the basis of individual performance. Eligibility for awards is defined by individual target award levels that increase in relation to job responsibilities so that the ratio of at-risk versus fixed compensation is greater for higher levels of employees. The program is reviewed annually to ensure we continue to attract, motivate, reward and retain the high-performing and high-potential employees needed to achieve our business objectives, while demonstrating long-term fiscal responsibility to shareowners. Consistent with industry practice, we have a profit sharing arrangement as the annual incentive program for our marketing group. None of the named executive officers participate in the profit sharing arrangement. The Compensation Committee recommends the program for all employees, including executives, to the board for approval.

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

Share Ownership Guidelines

All officers, except Assistant Secretaries, are required to demonstrate their commitment to Nexen through share ownership under the following board-approved guidelines. The period to accumulate shares is five years from date of appointment, and 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. All executives hold the required number of shares directly or through the net value of their exercisable options or TOPs. See page 159 for the current share ownership equity at risk as a multiple of salary of each named executive officer. The guidelines are reviewed from time to time.

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 board believes employees should have a stake in Nexen's future and their interests should be aligned with those of shareowners. Those officers and employees whose actions can most directly impact business results, participate in Nexen's long-term incentive program (the TOPs and STARs plans). These plans are Nexen's only equity-based compensation for executives. In addition, we encourage employee purchases of Nexen shares in their savings plan by matching contributions up to specified limits.

Both the TOPs and STARs plans are intended to provide employees with long-term incentive for continued high performance, commitment to Nexen and, more importantly, alignment with the interests of our shareowners. As Nexen's share price rises, grants increase in value. As equity-based plans, the value realized by employees is directly related to changes in Nexen's share price and shareowner interests. If Nexen's share price falls below the exercise price of a grant, the grant will cease to have value until the share price rises above that level.

Effective July 1, 2004, the shareowners approved modifying Nexen's stock option plan to a TOPs plan, which allows employees to exchange their TOPs for a cash payment, equal to the difference between the pre-defined exercise price and the closing market price on that day instead of exercising them for shares. No shares are issued when employees exchange their TOPs for a cash payment, which prevents further shareowner dilution over time, and provides a Canadian income tax deduction to Nexen. The TOPs plan provides employees with the option to buy Nexen shares at a set exercise price at some future date, subject to vesting and expiry terms. These shares may be held or sold at any time. TOPs do not provide employees with the right to vote the shares that are subject to the plan. The TOPs plan is Nexen's only equity-based compensation arrangement for the purposes of disclosure requirements.

Under the TOPs plan, the board, on the recommendation of the Compensation Committee, may grant TOPs to Nexen officers and employees. Options granted before February 2001 have a term of ten years; 20% of the grant vested after six months and then 20% vested each year for four years on the anniversary of the grant. In February 2001, the board approved an amendment providing that each option granted has a term of five years and vests one-third each year over three years.

Generally, if a change of control event occurs (as defined in the TOPs plan), all issued but unvested options will vest.

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. For employees below mid-level department managers, STARs are typically granted instead of TOPs. The STARs grants have a five-year term and vest one-third in each of the first three years on the anniversary date of the grant.

The long-term incentive program is reviewed annually for competitiveness with our peer group. Market information on options and other forms of long-term incentives, along with the dilutive impact of the program on shareowners, are considered to determine the number of TOPs and STARs granted. Market information is also used to determine the form of long-term incentives and 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, the current long-term incentive program has been determined to best meet Nexen’s objectives, considering competitive position, retention value, tax effectiveness for our employees and Nexen, shareowner interests, and dilution levels.

Grant Date and Exercise Price

Grants are provided under the TOPs and STARs plans to employees, including executives, during the annual grant process and at the time of hiring key positions. Since 1998, the annual grants have occurred at the December board meeting. Nexen does not springload grants - that is, grants are not intentionally timed to occur immediately prior to the release of material information. Grants for new hires may be approved by the CEO and typically 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, back-dating is not allowed. The exercise price of existing TOPs or STARs may not be reduced except for automatic adjustments under the plans, (i.e., share splits) or in accordance with TSX rules.

Grants in the Last Three Years

The focus in 2006 was on providing awards to employees in recognition of 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
TOPs				
2006	740,000	1,660,500	7%	2,400,500
2005	592,000	2,799,500	20%	3,391,500
2004 ¹	1,022,000	3,202,400	11%	4,224,400
STARs				
2006	–	2,254,300	51%	2,254,300
2005	–	1,443,050	39%	1,443,050
2004 ¹	–	2,608,900	34%	2,608,900

Note:

1 Numbers of TOPs and STARs granted have been adjusted to account for Nexen’s two-for-one share split in May 2005.

Benefit and Pension Plans

Nexen provides a variety of benefit and pension plans to support the health and well-being of its employees, and to encourage retirement savings. The plans are reviewed from time to time 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 other employees at the same location.

Disclosure in this document is specific to the Canadian and US plans in which the named executive officers 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

Nexen employees are provided benefit plans designed to protect their health and that of their dependents, and to cover them in the event of disability or death. Under the North American flexible benefits plan, 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

Nexen employees have the opportunity to save for short- or long-term needs in the employee savings plan. Through payroll deductions, all eligible Canadian employees may contribute 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. The extent of matching is based on the investment option chosen and the employee's length of participation in the plan. All Nexen contributions are invested in our common shares purchased on the open market and vest immediately. Canadian employee and employer 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 matches employee contributions up to 6% of eligible compensation. Nexen's matching contribution is provided in cash, which vests immediately.

Defined Benefit Pension Plan (Canada)

Under this registered plan, participants contribute 3% of their regular gross earnings, up to a plan maximum. On retirement, participants are entitled to receive a benefit equal to 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 number of years of credited service. The plan is integrated with the Canada Pension Plan (CPP) to provide a maximum offset of one-half of the prevailing CPP benefit.

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 at an amount between 0% and 5% and equal to the greater of:

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

Effective January 1, 2005, the plan was amended to permit participants to periodically switch between the defined benefit pension plan and defined contribution pension plan at different stages in their career. In addition, the defined benefit plan's accrual formula increased from 1.7% to 1.8% for participation after January 1, 2005 as stated above. Plan participants have an opportunity to further 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 Nexen's plan in 2006 was \$10,200.

Executive Benefit Plan (Canada)

The executive benefit plan provides supplemental retirement benefits for Canadian participants who have earned a retirement benefit in excess of the statutory limits. This supplemental benefit provides employees with the opportunity to accrue a pension that is aligned with their final earnings level and also ensures competitiveness within our market. Benefits that accrue under this plan are similar to the underlying registered pension plan formula for the defined benefit pension plan, which provides for benefits of 1.7% for credited service prior to 2005 and 1.8% or 2% for credited service after that. For executive officers, annual cash incentive payments during the last three years of participation 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. In 2006, all Canadian executive officers participated in the defined benefit pension plan.

The pension expense for this plan is determined and recognized annually. Benefits payable for the year are paid from the cash flows generated by Nexen's general operating revenues 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 basically makes participants secured creditors up to the aggregate value of the letter of credit. This is separate from the protection of benefits in the registered defined benefit pension plan, which is funded by a pension trust. The cost of servicing the letter of credit for the executive benefit plan for all executive officers and employee participants in 2006 was \$465,178.

At December 31, 2006, as indicated in the notes to our Consolidated Financial Statements, Nexen's supplemental pension plan's accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) for the executive benefit plan was \$35 million and the projected benefit obligation was \$53 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 the method used by other issuers and, as a result, the figures may not be directly comparable across companies. The key assumptions used for the projected benefit obligation were: a discount rate of 5% per year; long-term compensation rate increases of 4% per year; and, an expected average remaining service life of ten years.

Effective January 1, 2005, the executive benefit plan was amended to provide a supplemental pension allocation for defined contribution pension plan participants who are affected by annual statutory contribution limits. In 2006, the supplemental allocation for eligible participants was \$29,979 and the supplemental allocation for eligible participants is estimated to be \$35,000 in 2007.

Defined Contribution Pension Plan (US)

Under this qualified retirement plan, Nexen provides participants with a contribution of 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 2006, the maximum amount of contributions permitted by legislation to the qualified defined contribution plans was US\$20,119 per participant. 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. In 2006, there was one named executive officer participating in this US plan.

Non-Qualified Restoration Plan (US)

This plan is an unfunded and non-qualified deferred compensation arrangement that provides deferred compensation benefits to a select group of management or senior employees. The returns in this plan reflect the returns on the investments selected by the employee in the defined contribution pension plan (US). The plan is established and maintained by Nexen for the purpose of providing retirement benefits in excess of applicable legislative limits and is intended to comply fully 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 (56)	President and CEO and a director	June 1, 2001	1994
Marvin F. Romanow (51)	Executive VP and CFO	June 1, 2001	1997
Laurence Murphy (55)	Senior VP, International Oil and Gas	January 1, 1999	1998
John B. McWilliams, Q.C. (59)	Senior VP, General Counsel and Secretary	May 11, 1993	1987
Douglas B. Otten (64)	Senior VP, US Oil and Gas	May 12, 1998	1990
Roger D. Thomas (54)	Senior VP, Canadian Oil and Gas	February 19, 1999	1998
Nancy F. Foster (47)	Senior VP, Human Resources and Corporate Services Formerly: VP, Human Resources and Corporate Services	February 15, 2007	2000
Gary H. Nieuwenburg (48)	VP, Synthetic Crude Formerly: VP, Corporate Planning and Business Development since February 16, 2001	July 11, 2002	2001
Kevin J. Reinhart (48)	VP, Corporate Planning and Business Development Formerly: Treasurer since October 20, 1998	July 11, 2002	1994
Una M. Power ¹ (42)	Treasurer Formerly: Controller and Director, Corporate Insurance since May 2, 2002; Controller and Director, Risk Management since December 1, 1998	July 11, 2002	1998
Michael J. Harris (43)	Controller Formerly: Manager, Corporate Finance—Treasury since December 1, 2000	December 10, 2002	2002

Note:

¹ Ms. Power concurrently maintained her position as Controller until December 10, 2002.

SUMMARY COMPENSATION TABLE

The compensation for the CEO, CFO and the next three highest paid officers is provided. The determination of the next three highest paid officers is based on the sum of salary, special bonus and non-equity cash incentive compensation.

Name and Principal Position	Year	Annual Non-Equity Cash			Long-Term		Other		Total Compensation
		Salary	Special Bonus ¹	Incentive Compensation ²	TOPs Awards ³	TOPs Awards ³	Changes in Pension Obligations ⁴	All Other Compensation ⁵	
		(\$)	(\$)	(\$)	(#)	(\$)	(\$)	(\$)	(\$)
Fischer, President and CEO	2006	1,150,000	500,000	1,300,000	275,000	5,010,654	1,673,800	101,721	9,736,175
	2005	975,000	300,000	1,500,000	200,000	3,110,490	879,300	91,464	6,856,254
	2004	847,917	450,000	900,000	300,000	1,983,930	1,430,000	84,109	5,695,956
Romanow ⁶ , Executive VP and CFO	2006	528,000	–	402,000	80,000	1,457,645	534,800	111,973	3,034,418
	2005	486,000	175,000	590,000	62,000	964,252	176,300	83,457	2,475,009
	2004	462,500	200,000	350,000	114,000	753,893	346,000	47,569	2,159,962
Otten ⁷ , Senior VP, US Oil and Gas	2006	439,716	–	326,938	55,000	990,017	–	100,303	1,856,974
	2005	423,489	–	430,154	50,000	815,163	–	95,461	1,764,267
	2004	438,005	–	227,763	80,000	572,827	–	111,291	1,349,886
Murphy, Senior VP, International Oil and Gas	2006	455,000	300,000	342,000	65,000	1,184,336	580,800	47,611	2,909,747
	2005	405,000	–	410,000	50,000	777,623	141,300	38,339	1,772,262
	2004	385,500	300,000	205,000	80,000	529,048	104,000	43,620	1,567,168
Thomas, Senior VP, Canadian Oil and Gas	2006	445,000	–	336,000	65,000	1,184,336	735,800	46,986	2,748,122
	2005	394,250	200,000	400,000	50,000	777,623	167,300	44,673	1,983,846
	2004	373,250	–	200,000	80,000	529,048	87,000	37,191	1,226,489

Notes:

- ¹ Special discretionary award(s) earned in the year shown. For 2006, the board approved a special bonus for Mr. Fischer and Mr. Murphy for the success of Buzzard.
- ² 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.
- ³ Reflects the fair market value under the Black-Scholes pricing model of TOPs granted in the year as described in the TOPs Tables on page 158.
- ⁴ Represents the employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the plan.
- ⁵ The total value of perquisites provided to each named executive officer is less than both \$50,000 or 10% of their total annual salary plus bonus and is not included in this column. Reflects Nexen's contributions to the employee savings plan, defined contribution pension plan (US), car allowance and life insurance premiums paid by Nexen.
- ⁶ Mr. Romanow is a director of Canexus and was paid fees of \$34,000 and received deferred trust units of Canexus valued at \$24,000 and distributions on his trust units of \$2,571 in 2006. In 2005, he was paid fees of \$13,875, received deferred trust units valued at \$20,000 and distributions on his trust units of \$659. These amounts are included in "All Other Compensation" and more detail is on page 163.
- ⁷ Nexen contributed to a qualified defined contribution pension plan and a restoration plan with Nexen Petroleum U.S.A. Inc. for Mr. Otten.

Non-Equity Cash Incentive Compensation and Special Bonus

The summary compensation table above shows the awards for each year, determined under that year's annual cash incentive program. Payment of the awards is made early the following year. Prior to 2006, Nexen reported this award as bonus in the year paid rather than the year earned. Values in the table have been updated to reflect the change in presentation. Special bonuses include discretionary cash awards approved by the board for successful delivery of key business objectives, such as acquisitions and divestitures.

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 officer from year to year. These values differ from pension benefit values reported on page 163, which disclose estimated values of annual pension benefits earned to date, as well as at age 60 (the earliest unreduced retirement age). These values also differ from the termination values reported under the change of control agreements on page 164, which disclose the value of additional lump sum pension benefits which will be provided in the event of a change of control.

President and CEO Compensation

Competitive compensation information for our President and CEO is determined based on assessments conducted by an independent compensation consulting firm that compares similar positions in oil and gas companies. Target total direct compensation (base salary plus annual cash and long term incentives) is competitive within the range of our oil and gas peer group. CEO compensation is approved by the independent directors of the board.

President and CEO 2006 Goals

Mr. Fischer's responsibility is to provide direction and leadership in setting and achieving goals, which will create value for Nexen's shareowners in the short- and long-terms. Mr. Fischer's annual cash incentive award for 2006 performance was based on the corporate results described on page 150, which were used to determine the total cash available for the awards. Individual cash incentive awards are determined from the available pool and distributed to individuals based on specific goals established for the year. Based on the board assessment of Mr. Fischer's achievement of objectives in 2006, he was awarded an annual cash incentive of \$1,300,000, which was his target bonus times 144%. More specifically, Mr. Fischer's goals in 2006 were to:

- develop and implement 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 business strategies;
- achieve top-quartile performance in safety, environmental performance and social responsibility;
- provide for corporate management succession and development;
- ensure Nexen adheres to the highest standards of integrity; and
- demonstrate personal commitment to community and industry leadership.

CEO Three-Year Look-Back

The table below outlines the three-year history of compensation paid to Mr. Fischer. The pension service cost from prior years has been updated to reflect the best practice method of reporting the change in pension obligation related to service and earnings increases in that year. The calculation of these numbers in prior years applied a different method that reported the change in pension obligation related to service and earnings increases and non-compensation assumption changes. The values reported previously for 2005 and 2004 were \$724,000 and \$1,341,000, respectively.

CASH	Total	2006	2005	2004
Base Salary	2,972,917	1,150,000	975,000	847,917
Annual Cash Incentive ¹	4,950,000	1,800,000	1,800,000	1,350,000
EQUITY				
Value of TOPs ²	10,105,074	5,010,654	3,110,490	1,983,930
Total Direct Compensation	18,027,991	7,960,654	5,885,490	4,181,847
All Other Compensation ³	277,294	101,721	91,464	84,109
Annual Change in Pension Obligation ⁴	3,983,100	1,673,800	879,300	1,430,000
Total	22,288,385	9,736,175	6,856,254	5,695,956
Annual Average	7,429,462			
Year-End Market Capitalization (in billions)		17	14	6
Market Capitalization grew by a factor of:	283%			

Notes:

¹ Includes special bonuses of \$500,000 in 2006 for the success of Buzzard, \$300,000 in 2005 for successful divestitures and \$450,000 in 2004 for successful completion of the UK North Sea acquisition.

² Estimated fair value of TOPs using the Black-Scholes pricing model valued on the grant date.

³ Reflects Nexen's contributions to the employee savings plan, car allowance and life insurance premiums paid by Nexen.

⁴ Represents the employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the plan.

In addition to the information on the previous page, in 2006 the Compensation Committee reviewed a broader analysis of total CEO pay and shareowner value created from the date Mr. Fischer became CEO. This analysis included a compensation tally sheet outlining a dollar value to each compensation component including: salary, annual cash incentives, awards, benefits, pension (including annual increases to liabilities) and potential payments on change of control. The Committee reviewed total compensation paid to Mr. Fischer since his appointment to the CEO position relative to growth in shareowner value (market capitalization) and that growth relative to our industry peers. All of these factors are considered in determining CEO compensation.

TOPs Tables

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

In the following tables, grant prices and numbers granted have been adjusted to account for the May 2005 share split.

TOPs Granted in 2006

Name	Grant Date	TOPs Granted (#)	% of Total TOPs Granted to Employees	Exercise Price ¹ (\$)	Expiry Date	TOPs Value ² (\$)	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for TOPs Term	
							5% (\$)	10% (\$)
Fischer	Dec 4, 2006	275,000	5.9	63.20	Dec 3, 2011	5,010,654	4,801,774	10,610,664
Romanow	Dec 4, 2006	80,000	1.7	63.20	Dec 3, 2011	1,457,645	1,396,880	3,086,739
Otten	Dec 4, 2006	55,000	1.2	US\$55.00	Dec 3, 2011	990,017	984,746	2,096,479
Murphy	Dec 4, 2006	65,000	1.4	63.20	Dec 3, 2011	1,184,336	1,134,965	2,507,975
Thomas	Dec 4, 2006	65,000	1.4	63.20	Dec 3, 2011	1,184,336	1,134,965	2,507,975

Notes:

- 1 The closing market price of Nexen common shares on the TSX or NYSE on December 1, 2006.
- 2 Estimated fair value of the TOPs as at December 4, 2006 using the Black-Scholes pricing model.

TOPs Exercised or Exchanged and Awards Vested in 2006

Name	TOPs Awards		Stock Awards ¹	
	Exercised or Exchanged	Value Realized ²	Shares Acquired on Vesting	Value Realized
	(#)	(\$)	(#)	(\$)
Fischer	150,000	7,220,550	–	–
Romanow	180,000	7,750,800	–	–
Otten	84,312	3,813,976	–	–
Murphy	49,580	2,415,041	–	–
Thomas	90,000	4,637,950	–	–

Notes:

1 Nexen does not provide stock awards to its named executive officers.

2 Market price at the time of the exercise or exchange, minus the exercise price, as defined in the TOPs plan.

Equity Ownership and Changes in 2006

Executive officers meet the share ownership guidelines described on page 151. Mr. Fischer is required to hold three times his annual salary, Mr. Romanow is required to hold two times his annual salary and the other executive officers are required to hold one time annual salary.

Name	Dec 31, 2005		Dec 31, 2006		Net Change		Equity at Risk	
	Shares	TOPs ¹	Shares	TOPs ¹	Shares	TOPs ²	Value (\$) ³	Multiple of Salary ⁴
Fischer	74,141	1,146,000	83,258	1,229,000	9,117	83,000	59,947,769	52
Romanow	46,121	492,460	25,937	407,460	(20,184)	(85,000)	18,837,026	36
Otten	55,873	246,636	35,036	230,144	(20,837)	(16,492)	11,678,697	27
Murphy	48,261	99,880	55,828	118,120	7,567	18,240	7,953,430	17
Thomas	1,426	160,080	4,286	134,600	2,860	(25,480)	5,233,475	12

Notes:

1 Total TOPs granted, vested and unexercised.

2 Reflects the number of TOPs that vested, minus the number exercised or exchanged during 2006, as also set out on page 160.

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, 2006 of \$64.20.

4 Reflects the equity at risk divided by the named executive officer's 2006 salary amount on page 156.

TOPs Holdings and Value of In-the-Money TOPs

Name	Date Granted	Expiry Date	Grant Price ²	Granted ²	Vested and Unvested TOPs at Dec 31, 2006 ^{1,4}		Vested TOPs at Dec 31, 2006 ⁴	
					Number	Value ³	Number	Value ³
			(\$)	(#)	(#)	(\$)	(#)	(\$)
Fischer	Feb 21, 1997	Feb 20, 2007	11.900	60,000	60,000	3,138,000	60,000	3,138,000
	May 14, 1997	May 13, 2007	14.000	40,000	40,000	2,008,000	40,000	2,008,000
	Feb 27, 1998	Feb 26, 2008	14.150	80,000	80,000	4,004,000	80,000	4,004,000
	Dec 15, 1998	Dec 14, 2008	8.925	100,000	100,000	5,527,500	100,000	5,527,500
	Dec 14, 1999	Dec 13, 2009	13.625	140,000	140,000	7,080,500	140,000	7,080,500
	Dec 12, 2000	Dec 11, 2010	18.050	140,000	140,000	6,461,000	140,000	6,461,000
	Dec 10, 2002	Dec 9, 2007	16.965	200,000	200,000	9,447,000	200,000	9,447,000
	Dec 9, 2003	Dec 8, 2008	21.750	200,000	200,000	8,490,000	200,000	8,490,000
	Dec 7, 2004	Dec 6, 2009	25.435	300,000	300,000	11,629,500	201,000	7,791,765
	Dec 6, 2005	Dec 5, 2010	54.570	200,000	200,000	1,926,000	68,000	654,840
	Dec 4, 2006	Dec 3, 2011	63.200	275,000	275,000	275,000	–	–
Total				1,735,000	1,735,000	59,986,500	1,229,000	54,602,605
Romanow	Dec 12, 2000	Dec 11, 2010	18.050	100,000	100,000	4,615,000	100,000	4,615,000
	Dec 10, 2002	Dec 9, 2007	16.965	100,000	100,000	4,723,500	100,000	4,723,500
	Dec 9, 2003	Dec 8, 2008	21.750	110,000	110,000	4,669,500	110,000	4,669,500
	Dec 7, 2004	Dec 6, 2009	25.435	114,000	114,000	4,419,210	76,380	2,960,871
	Dec 6, 2005	Dec 5, 2010	54.570	62,000	62,000	597,060	21,080	203,000
	Dec 4, 2006	Dec 3, 2011	63.200	80,000	80,000	80,000	–	–
Total				566,000	566,000	19,104,270	407,460	17,171,871
Otten	Dec 12, 2000	Dec 11, 2010	18.050	80,000	71,580	3,303,417	71,580	3,303,417
	Dec 10, 2002	Dec 9, 2007	US\$10.945	70,000	13,964	698,357	13,964	698,357
	Dec 9, 2003	Dec 8, 2008	US\$16.690	74,000	74,000	3,218,224	74,000	3,218,224
	Dec 7, 2004	Dec 6, 2009	US\$21.160	80,000	80,000	3,073,213	53,600	2,059,053
	Dec 6, 2005	Dec 5, 2010	US\$47.210	50,000	50,000	442,160	17,000	150,335
	Dec 4, 2006	Dec 3, 2011	US\$55.000	55,000	55,000	–	–	–
Total				409,000	344,544	10,735,371	230,144	9,429,386
Murphy	Dec 10, 2002	Dec 9, 2007	16.965	70,000	23,100	1,091,129	23,100	1,091,129
	Dec 9, 2003	Dec 8, 2008	21.750	74,000	24,420	1,036,629	24,420	1,036,629
	Dec 7, 2004	Dec 6, 2009	25.435	80,000	80,000	3,101,200	53,600	2,077,804
	Dec 6, 2005	Dec 5, 2010	54.570	50,000	50,000	481,500	17,000	163,710
	Dec 4, 2006	Dec 3, 2011	63.200	65,000	65,000	65,000	–	–
Total				339,000	242,520	5,775,458	118,120	4,369,272
Thomas	Dec 9, 2003	Dec 8, 2008	21.750	64,000	64,000	2,716,800	64,000	2,716,800
	Dec 7, 2004	Dec 6, 2009	25.435	80,000	80,000	3,101,200	53,600	2,077,804
	Dec 6, 2005	Dec 5, 2010	54.570	50,000	50,000	481,500	17,000	163,710
	Dec 4, 2006	Dec 3, 2011	63.200	65,000	65,000	65,000	–	–
Total				259,000	259,000	6,364,500	134,600	4,958,314

Notes:

- 1 Excludes grants that have been fully exercised.
- 2 Grant prices and numbers of TOPs granted have been adjusted to account for share splits.
- 3 The difference between the market value of Nexen common shares at year end (TSX—\$64.20; NYSE—US \$55.00) and the grant price of TOPs, times the number of TOPs.
- 4 The number and value of unvested TOPs can be determined by subtracting the vested TOPs from the vested and unvested TOPs above. The value of unvested TOPs can be confirmed on page 164 in the Change of Control table.

Pension Plan Tables

All named executive officers, except Mr. Otten, are members of Nexen's registered defined benefit pension plan and executive benefit plan. Mr. Otten is employed in the US and is a member of a qualified defined contribution pension plan and a non-qualified restoration plan, described on page 154.

Estimated Pension Benefit (Canada)

When determining the estimated value of future pension benefits for an executive officer, both tables below need to be referenced. For example, a pension estimate based on 35 years of credited service would require the first table for actual credited service up to and including December 31, 2004, and the second table for credited service on and after January 1, 2005. When estimating future pension benefits, the final average earnings outlined in the "Pension Value Earned in 2006 (Canada)" table on page 162 should be used in both 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 156 due to the timing of base salary increases and because final average earnings include the lesser of target bonus and actual bonus paid.

This table shows the estimated annual pension a retiring executive officer 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 defined benefit pension plan and the executive benefit plan and assumes a retirement age of 60, the earliest age at which the individual receives full retirement benefits. The normal benefits paid from these plans are joint life and survivor benefits with a five-year guarantee. The benefit is payable for the participant's lifetime and provides the spouse with a survivor benefit of 66 2/3% of the monthly payment. The five-year guarantee means that if the participant dies before receiving 60 monthly payments, the surviving spouse receives the balance of those 60 monthly payments and then receives the reduced survivor pension of 66 2/3%.

Final Average Earnings (\$)	Years of Credited Service through Dec 31, 2004				
	5	10	15	20	25
400,000	33,276	66,552	99,828	133,104	166,380
600,000	50,276	100,552	150,828	201,104	251,380
800,000	67,276	134,552	201,828	269,104	336,380
1,000,000	84,276	168,552	252,828	337,104	421,380
1,200,000	101,276	202,552	303,828	405,104	506,380
1,400,000	118,276	236,552	354,828	473,104	591,380
1,600,000	135,276	270,552	405,828	541,104	676,380
1,800,000	152,276	304,552	456,828	609,104	761,380
2,000,000	169,276	338,552	507,828	677,104	846,380
2,200,000	186,276	372,552	558,828	745,104	931,380
2,400,000	203,276	406,552	609,828	813,104	1,016,380

This table shows the estimated annual pension benefit a retiring executive officer 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 defined benefit plan and executive benefit plan and assumes a retirement age of 60, the earliest age at which the individual receives full retirement benefits.

Final Average Earnings (\$)	Years of Credited Service from Jan 1, 2005					
	2	5	10	15	20	25
400,000	15,710	39,276	78,552	117,828	157,104	196,380
600,000	23,710	59,276	118,552	177,828	237,104	296,380
800,000	31,710	79,276	158,552	237,828	317,104	396,380
1,000,000	39,710	99,276	198,552	297,828	397,104	496,380
1,200,000	47,710	119,276	238,552	357,828	477,104	596,380
1,400,000	55,710	139,276	278,552	417,828	557,104	696,380
1,600,000	63,710	159,276	318,552	477,828	637,104	796,380
1,800,000	71,710	179,276	358,552	537,828	717,104	896,380
2,000,000	79,710	199,276	398,552	597,828	797,104	996,380
2,200,000	87,710	219,276	438,552	657,828	877,104	1,096,380
2,400,000	95,710	239,276	478,552	717,828	957,104	1,196,380

Pension Value Earned in 2006 (Canada)

Additional past service credits or accelerated service credits must be approved by the board. No accelerated service credits were authorized in 2006. Additional past service credits authorized by the board for the named executive officers who participate in the Canadian defined benefit pension plan and the executive benefit plan are noted below. Final average earnings for each named executive officer is his:

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

Name	Years of Credited Service			Final Average Earnings ¹	Accrued Annual Pension Benefit ¹	Estimated Annual Pension Benefit at Age 60 ²	Benefit Payments During the Last Fiscal Year ³
	Up to	From	Total				
	Dec 31, 2004	Jan 1, 2005					
	(#)	(#)	(#)	(\$)	(\$)	(\$)	(\$)
Fischer	20.58 ⁴	2.00	22.58	1,628,472	631,698	951,321	–
Romanow ⁵	17.50 ⁴	2.00	19.50	743,267	278,977	476,898	–
Murphy	18.67	2.00	20.67	585,100	206,087	310,285	–
Thomas	24.50 ⁴	2.00	26.50	569,367	256,079	392,713	–

Notes:

- 1 All information as of December 31, 2006.
- 2 Earliest age at which an individual receives full retirement benefits.
- 3 There were no benefit payments made to the named executive officers in 2006.
- 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 following 7.25 year in the defined contribution pension plan. The pensionable bonus provision recognizes a pension benefit for Mr. Romanow based on his combined 26.75 years of service, while the base salary provision recognizes a pension benefit for his 19.5 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.

Pension Benefit Obligation Increase in 2006 (Canada)

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

Name	Obligation at Dec 31, 2005	Changes Related to Current Service Cost and Earnings Increases ¹	Changes Related to Financing Costs and Non-Compensation		Obligation at Dec 31, 2006
			Assumption Changes ²	Change in Obligation since Dec 31, 2005	
Fischer	8,687,000	1,673,800	797,000	2,470,800	11,157,800
Romanow	3,464,000	534,800	298,000	832,800	4,296,800
Murphy	2,502,000	580,800	205,000	785,800	3,287,800
Thomas	3,209,000	735,800	251,000	986,800	4,195,800
Total	17,862,000	3,525,200	1,551,000	5,076,200	22,938,200

Notes:

- ¹ Includes the 2006 employer service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to the pension plan.
- ² Reflects the impact of interest on prior year's obligations, changes in discount rates used to measure the obligations, the impact of assumption changes and experience gains and losses other than those related to compensation.

Pension Value Earned in 2006 (US)

Mr. Otten is the only named executive officer who is a member of this US pension plan. He has not made any withdrawals in 2006.

Name	Contributions under the Defined Contribution Pension Plan		Contributions under the Non-Qualified Restoration Plan		Total Pension Compensation
Otten		22,839		44,888	67,727

All Other Compensation Table

The total value of perquisites provided to any one executive officer was less than both \$50,000 or 10% of the named executive officer's total annual salary plus bonus in 2006 and, accordingly, is not disclosed. The car allowance, which provides direct monetary value to the executive, is reported.

Name	Car Allowance	Life Insurance Premiums	Savings Plan Contributions	Amounts Paid by Canexus	US Pension Contributions	Total All Other Compensation
Fischer	31,200	1,521	69,000	–	–	101,721
Romanow	19,200	522	31,680	60,571	–	111,973
Otten	16,347	2,670	13,559	–	67,727	100,303
Murphy	19,200	1,111	27,300	–	–	47,611
Thomas	19,200	1,086	26,700	–	–	46,986

Note:

- ¹ Includes fees of \$34,000, deferred trust units of Canexus valued at \$24,000 and distributions on his trust units of \$2,571.

CHANGE OF CONTROL AGREEMENTS

Nexen has entered into change of control agreements with Messrs. Fischer, Romanow, Otten, Murphy, Thomas and other key executives. The agreements were effective October 1999, amended in December 2000 and amended and restated in December 2001. The agreements recognize that these executives are critical to Nexen's ongoing business. They recognize the need to retain the executives, protect them from employment interruption caused by a change in 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 Committee reviews the estimated payments on change of control including the termination value of pension benefits due under the registered pension and executive benefit plans.

Under these agreements, a change of control includes any acquisition of common shares or other securities that carry the right to cast more than 35% of the votes attached to all issued common shares and generally, any event, transaction or arrangement that results in a person or group exercising effective control of Nexen.

If the named executives terminate following a change in control, they are entitled to receive salary, target bonus and benefits for a specified severance period. For Mr. Fischer and Mr. Romanow, the severance period is 36 months if they are terminated. Both of them may also voluntarily terminate their employment within 12 months following a change of control with severance periods of 36 and 30 months, respectively. For Messrs. Otten, Murphy and Thomas, the severance period is 30 months, only if they are terminated following a change of control.

The table below outlines the estimated incremental payments had a change of control occurred on December 31, 2006. The cost of base salary, bonus and benefits represents the value of those compensation elements for the duration of the severance period. Under the terms of the agreement, bonus is paid at target for the severance period. A benefits uplift, equal to 13% of base salary, is provided in lieu of medical, dental and life insurance coverage. In addition, the agreement provides a payment for other employee benefits, which includes such items as car allowance and savings plan contributions during the severance period and an allowance for financial counselling and career transition services.

The pension value reported is the incremental value of pension resulting from the recognition of salary and target bonus over the severance period, as well as a tax gross-up on the resulting lump sum payout. These additional pension benefits do not include the termination benefits payable from the underlying registered pension plan and executive benefit plan that would occur in the event of a termination or retirement not triggered by a change of control. Regular termination values, calculated as at December 31, 2006, are set out in the footnotes to the following table. The table does not include TOPs currently vested and unexercised as described on page 160.

Estimated Incremental Payment on Change of Control ¹

Name	Severance Period (# of months)	Base Salary (\$)	Bonus Target Value (\$)	Benefits Uplift (\$)	Other Employee Benefits (\$)	Additional	Accelerated TOPs Value ³ (\$)	Total Incremental Payment (\$)
						Lump Sum Value of Pension ² (\$)		
Fischer ⁴	36	3,600,000	2,700,000	468,000	347,500	9,426,000	5,383,895	21,925,395
Romanow	36	1,620,000	972,000	210,600	192,700	3,563,000	1,932,399	8,490,699
Otten ⁵	30	1,135,200	567,600	147,576	165,626	181,119	1,305,985	3,503,106
Murphy	30	1,175,000	587,500	152,750	156,400	2,410,000	1,406,186	5,887,836
Thomas	30	1,150,000	575,000	149,500	154,900	3,095,000	1,406,186	6,530,586
Total		8,680,200	5,402,100	1,128,426	1,017,126	18,675,119	11,434,651	46,337,622

Notes:

¹ Assumes a triggering event occurred on December 31, 2006.

² Does not include regular termination pension values for Messrs. Fischer (\$9,850,000), Romanow (\$3,108,000), Murphy (\$3,013,000) and Thomas (\$3,188,000). The values in this note include the pension benefit payable under the registered pension plan funded from the pension trust and are payable monthly if the named executive officer is 55 or older.

³ 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, 2006 of \$64.20, less the exercise price.

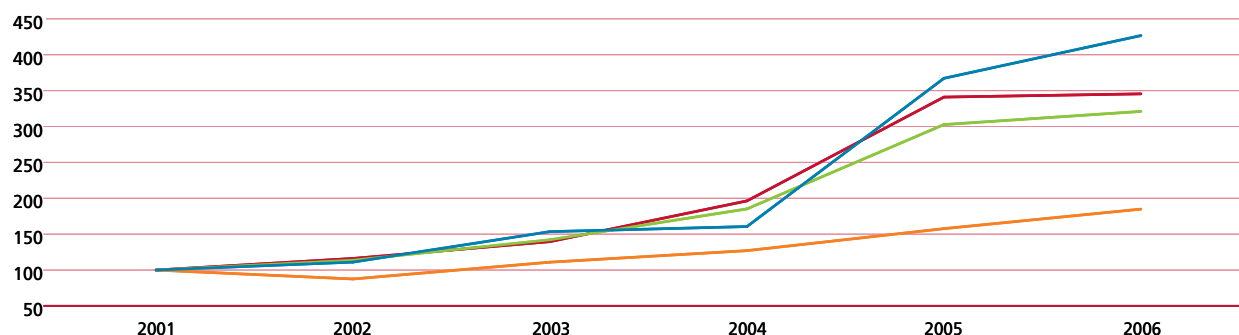
⁴ For Mr. Fischer only, the additional lump sum value of pension includes an incremental cost for an early retirement reduction that is waived under the agreement.

⁵ Mr. Otten is a member of the Defined Contribution Pension Plan (US) and the Non-Qualified Restoration Plan.

SHARE PERFORMANCE GRAPH

The following graph shows five years of change in the value of \$100 invested in our common shares, 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, 2006. Our common shares are included in each of these indices.

Total Return Index Values ¹



	2001/12	2002/12	2003/12	2004/12	2005/12	2006/12
Nexen Inc.	100.00	111.08	153.52	160.59	367.13	426.65
S&P/TSX Energy Sector Index	100.00	113.74	142.14	185.19	302.67	321.00
S&P/TSX Oil & Gas Exploration & Production Index	100.00	116.17	139.58	196.35	340.96	345.47
S&P/TSX Composite Index	100.00	87.56	110.96	127.03	157.68	184.89

Note:

¹ 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 with regard to DSUs, Nexen's corporate governance practices comply with the corporate governance practices followed by domestic companies under NYSE listing standards.

Nexen has a DSU plan for non-executive directors as described on page 146. For this plan, Nexen follows the TSX rules which, unlike the NYSE rules, exempt plans from shareowner approval where the common shares issued under the plan are purchased on the open market rather than issuing new shares.

On February 26, 2007, 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 26, 2007. Nexen also filed an Interim Written Affirmation on April 28, 2006. 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, 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, by facsimile at 403.699.7062 or by email at governance@nexeninc.com.

GOVERNANCE COMMITTEE REPORT

The Governance Committee assists the board in overseeing 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 Nexen is implementing best-in-class corporate governance practices.

Principles and Systems for the Management of Corporate Governance

Nexen's board and management are committed to best practices in corporate governance as evidenced by the Committee's annual activities and its commitment to continuous improvement.

Key Activities in 2006

- Recommended changes to membership on the committees;
- Recommended the appointment of A. Anne McLellan, P.C. to the board;
- Recommended the adoption of a modified majority vote by-law for the election of directors;
- Recommended revisions to the corporate governance policy and external communications policy;
- Recommended revised mandates or position descriptions for the board, individual directors, all board committees, the chairs, CEO, CFO and Secretary; and
- Consulted with Dr. Richard Leblanc, Assistant Professor of Corporate Governance, York University, on the board's performance evaluations.

Identifying Qualified Candidates for Board and Committee Appointments

The Committee reviews the make up of the board and committee appointments of all directors annually and makes recommendations to the board. The Committee considers the independence tests set out in our categorical standards, together with the skills and preferences of the directors, in making its recommendations. The board is comprised of 12 directors, which is large enough to permit a diversity of views and staff the committees, without being so large as to detract from efficiency and 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. Character and behavioural qualities, including credibility, integrity and communication skills are also taken into account when recruiting new directors.

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

The Committee will consider any nominee for election as a director recommended by a shareowner. See page 168 for communicating with the board.

In 2006, the composition of committees was revised, in part, to allow for committee chair rotation and to address shareowner concerns with former Nexen CEOs on independent committees. In addition to the changes to the Compensation Committee, noted in their report, the following changes were made:

- Mr. Flanagan left as the Reserves Chair;
- Mr. Hentschel left Audit and Compensation, and joined Finance;
- Mr. Jenkins left as Finance Chair and joined Compensation as its Chair;
- Mr. O'Neill moved from SESR to Compensation;
- Mr. Willson left Finance and SESR, and came off as Compensation Chair; he joined Audit and Governance and became Reserves Chair; and
- Mr. Zaleschuk left Compensation and Governance, joined SESR, and became Finance Chair.

Performance Evaluations

The Committee conducts an annual six-part performance evaluation review during the period from October through January designed to enable the board and individual directors to examine their effectiveness and establish goals for continuous improvement. The effectiveness criteria incorporate current best practices and Nexen's current governance documents.

External Recognition and Verification

Nexen was recognized for its governance practices during 2006, including the following:

- Named sixth on the list of the Top 25 Boards in Canada by Canadian Business Magazine;
- Acknowledged by the Canadian Coalition for Good Governance for seven best practices and two innovations in shareowner communication and two best practices in compensation disclosure;
- Had an average 2006 global rating of 9.9 out of 10 and have a current rating of 10 from GovernanceMetrics International for governance practices and disclosure; and
- John McWilliams, Q.C., received the Canadian General Counsel Award for Corporate Governance.

Committee Approval

The Committee has reviewed and discussed the governance disclosure included in this document and has recommended to the board that it be included in the Form 10-K.

Submitted on behalf of the Governance Committee:

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

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 have been no waivers since January 1, 2006, or ever. The ethics policy was amended on February 14, 2007. We made minor revisions to the integrity-related policies section, re-wrote the prevention of improper payments policy description, and added subsections for the gifts and entertainment and information technology acceptable use policies. Our ethics policy provides for an external integrity hotline, since February 1, 2005.

Nexen's ethics policy is available at 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. To request a copy of the policy, contact the Governance Office by calling 403.699.4926, faxing 403.699.7062 or emailing governance@nexeninc.com.

Reporting Concerns

Please direct any concerns about Nexen's financial statements, accounting practices or internal controls to either: (i) management or the Chair of the Audit Committee as set out in the ethics policy; or, (ii) 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
By telephone:	403.699.4727

You may also report concerns through our integrity hotline – a secure reporting system, which is owned and managed by EthicsPoint, an independent third-party service provider. To find out more about our integrity hotline and for toll free numbers for other countries, access our web site at www.nexeninc.com and click on the "Integrity Hotline" link at the top of the page or access the hotline directly:

Online:	www.ethicspoint.com
By toll-free telephone:	1.866.384.4277 (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: John B. McWilliams, Q.C. Senior Vice President, General Counsel and Secretary
By email:	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 Secretary to review all correspondence and, in his 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 Secretary 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 171 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 at December 31, 2006.

Name and Address of Beneficial Owner	# of Shares Beneficially Owned	% of Shares
Ontario Teachers' Pension Plan Board ¹ 5650 Yonge Street Toronto, Ontario, Canada, M2M 4H5	30,088,836	11.5%
Jarislowsky, Fraser Limited ² Suite 2005, 1010 Sherbrooke Street West Montreal, Quebec, Canada, H3A 2R7	29,363,678	11.19%
Capital Research and Management Company ³ 333 South Hope Street Los Angeles, California, USA, 90071	13,697,880	5.2%

Notes:

- ¹ The beneficial owner has sole voting and power to dispose of all shares.
- ² The beneficial owner has sole voting power over 24,054,458 shares, shared voting power over 5,309,220 shares and sole power to dispose of all shares.
- ³ The beneficial owner has sole voting power over 5,187,360 shares, sole power to dispose of all shares and disclaims beneficial ownership pursuant to Rule 13d-4.

SECURITY OWNERSHIP OF MANAGEMENT

At February 15, 2007, 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 ¹	Exercisable TOPs ²
Charles W. Fischer	83,581	1,169,000
Dennis G. Flanagan	12,002	13,630
David A. Hentschel	11,380	61,000
S. Barry Jackson	25,000	11,000
Kevin J. Jenkins	6,166	41,000
A. Anne McLellan, P.C.	-	-
Eric P. Newell, O.C.	6,000	-
Thomas C. O'Neill	8,000	11,000
Francis M. Saville, Q.C.	20,800	39,132
Richard M. Thomson, O.C.	46,002	91,600
John M. Willson	14,002	3,666
Victor J. Zaleschuk	31,451	120,000
Laurence Murphy	55,946	118,120
Douglas B. Otten	35,036	230,144
Marvin F. Romanow	26,068	407,460
Roger D. Thomas	4,395	134,600
All directors and executive officers as a group (22 persons)	487,944	2,940,372

Notes:

- ¹ The number of shares held and TOPs exercisable by each beneficial owner represents less than 1% of the shares outstanding.
- ² Includes all TOPs exercisable within 60 days of February 15, 2007. 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 Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by shareowners	15,242,292	\$35/option	16,235,167
Equity compensation plans not approved by shareowners	–	–	–
Total	15,242,292	\$35/option	16,235,167

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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 2006 as defined under that standard. Certain other transactions described below, involving Nexen and certain of our directors were entered into in 2006. These transactions are not, related party transactions.

Mr. Saville, a director, was a senior partner of Fraser Milner Casgrain (FMC), Barristers and Solicitors, Calgary, Alberta, until the end of January 2004. Since then, he has been counsel with FMC. FMC provided legal services to Nexen during each of the last five years. Mr. Saville neither solicits nor participates in the services rendered to Nexen and does not receive any portion or percentage of the fees paid by Nexen to FMC. In addition, Mr. Saville is considered to be an independent director pursuant to our Categorical Standards.

Ms. McLellan, a director, is counsel of Bennett Jones (BJ), Barristers and Solicitors, Edmonton, Alberta. BJ provided legal services to Nexen during each of the last five years. Ms. McLellan neither solicits nor participates in the services rendered to Nexen and does not receive any portion or percentage of the fees paid by Nexen to BJ. In addition, Ms. McLellan is considered to be an independent director pursuant to our Categorical Standards.

Mr. Flanagan’s son is Senior Vice President, Engineering of TriAxion Resources Ltd. (TriAxion). In 2006, TriAxion acquired a company that was party to a commodity contract and a hedge contract with a wholly-owned subsidiary of Nexen. The commodity contract was later replaced with two new contracts dated effective June 1, 2006. No payments were made in 2006 under one of those contracts. For the other, however, Nexen paid approximately \$4.5 million to TriAxion between July and December 2006 for products purchased at market price. Accordingly, Mr. Flanagan will not technically be independent as of July 1, 2007. Mr. Flanagan was not aware that the company acquired by TriAxion held contracts with Nexen. The board has determined that Mr. Flanagan’s intellectual independence was in no way impaired by this transaction.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

AUDIT COMMITTEE REPORT

The Audit Committee is directly responsible for appointing (subject to shareowner approval), compensating and overseeing the independent registered Chartered Accountants (independent auditors). The independent auditors 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.

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 independent auditors are responsible for performing and reporting on an independent audit of our consolidated financial statements according to generally accepted auditing standards. The independent auditors also perform and report on an independent audit of our internal control over financial reporting according to the standards of the US Public Company Accounting Oversight Board. The Committee's responsibility is to monitor and oversee these processes.

Key Activities for 2006

- Met separately with management and the independent auditors to review the December 31, 2006 consolidated financial statements;
- Discussed with the independent auditors 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 independent auditors required by the SEC according to the Independence Standards Board Standard No. 1 "Independence Discussions with Audit Committees";
- Based on the reviews and discussions referred to above, recommended to the board that the audited financial statements be included in Nexen's annual report on Form 10-K;
- Discussed with the independent auditors that firm's independence;
- Oversaw the progress of Section 404 Sarbanes-Oxley compliance activities undertaken by management and the independent auditors to report on the effectiveness of internal control over financial reporting as at December 31, 2006; and
- Recommended changes to the ethics policy.

Audit Partner Rotation

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

Section 404 of Sarbanes-Oxley

Nexen is a voluntary filer of Form 10-K in the US and, due to this, has been required to comply with the requirements of Section 404 of Sarbanes-Oxley since December 31, 2004. During 2006, management evaluated the effectiveness of our internal control over financial reporting and concluded that it was effective as of December 31, 2006. This assessment was documented and audited by the independent auditors as part of the integrated audit of the consolidated financial statements. Their report is included in our Form 10-K.

Auditor Engagement

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

Fees Billed by Independent Auditors

Type of Fee	Billed in 2005	Billed in 2006	Percentage of Total Fees Billed in 2006
Audit Fees			
For the integrated audit of Nexen's consolidated financial statements included in our annual report on Form 10-K	2,075,500 ¹	2,332,500 ²	
For the integrated audit of the consolidated financial statements of Canexus ³	–	302,900 ⁴	
For the first, second and third quarter reviews of Nexen's consolidated financial statements included in Form 10-Qs	69,000	72,000	
For the first, second and third quarter reviews of the consolidated financial statements of Canexus ³	–	45,000	
For comfort letters and submissions to commissions	149,000	2,500	
Total Audit Fees	2,293,500	2,754,900	76%
Audit-Related Fees — Nexen and Canexus ³			
For the annual audits and quarterly reviews of subsidiary financial statements and employee benefit plans	466,500	719,500	
For audit-related work in connection with acquisitions and divestitures	391,000	–	
Total Audit-Related Fees	857,500	719,500	20%
Tax Fees — Nexen and Canexus ³			
For tax return preparation assistance and tax-related consultation	234,000	84,300	
Total Tax Fees	234,000	84,300	2%
All Other Fees	66,000 ⁵	86,000 ⁵	2%
Total Annual Fees	\$3,451,000	\$3,644,700	100%

Notes:

- 1 Consisting of \$885,500 to complete the 2004 audit and \$1,190,000 to commence the 2005 audit.
- 2 Consisting of \$1,032,500 to complete the 2005 audit and \$1,300,000 to commence the 2006 audit.
- 3 Includes fees for Canexus Income Fund, Canexus Limited Partnership and its subsidiaries.
- 4 Consisting of \$105,000 for the 2005 audit and \$197,900 to commence the 2006 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 independent auditors, and its review of the representations of management and the independent auditors, the Committee recommended that the board include the audited consolidated financial statements in Nexen's annual report on Form 10-K for the year ended December 31, 2006.

Submitted on behalf of the Audit Committee:

Tom O'Neill, Chair	Kevin Jenkins
Dennis Flanagan	Dick Thomson
Barry Jackson	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.

- 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).
- 3.9 By-Law No. 2 of the Registrant enacted December 9, 2003, being a by-law relating generally to the transaction of the business and affairs of the Registrant (filed as Exhibit 3.9 to Form 10-K for the year ended December 31, 2003).
- 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).
- 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).
- 4.29 Acquisition Agreement between the Registrant, Occidental Petroleum Corporation and Ontario Teachers' Pension Plan Board, dated March 1, 2000 (filed as Exhibit 4.29 to Form 10-K for the year ended December 31, 1999).
- 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).
- 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).
- 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).
- 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).
- 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).
- 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).

- 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).
- 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).
- 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).
- 10.45 Termination of Employment and Special Separation Agreement between the Registrant and Mr. Sugalski dated January 28, 2005 (filed as Exhibit 10.1 to Form 8-K/A dated August 18, 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).
- 11.1* Statement regarding the Computation of Per Share Earnings for the three years ended December 31, 2006.
- 16.1 Letter re change in certifying accountant (filed as Exhibit 16.1 to Form 8-K filed July 17, 2002).
- 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 26, 2007.

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 26, 2007.

/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

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/ Michael J. Harris

Michael J. Harris

Controller

(Principal Accounting Officer)

/s/ John B. McWilliams

John B. McWilliams

Senior Vice President, General Counsel

and Secretary

/s/ Kevin J. Reinhart

Kevin J. Reinhart

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 26, 2007

/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 26, 2007

/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, 2006 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 26, 2007

/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, 2006 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 26, 2007

/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.