

CORPORATE GOVERNANCE

As a leader in corporate governance,
we are committed to transparent disclosure
for all stakeholders.

**PARTS
III AND IV**

ITEMS 10 AND 11.

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and Executive Compensation

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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. In December 2008, the board expanded its size from 12 to 14 directors pursuant to the provisions granted in our articles and approved the appointment of Mr. Berry (effective December 8, 2008) and of Mr. Bertram (effective January 1, 2009). Mr. Fischer retired on December 31, 2008 and Mr. Romanow was appointed to the board effective January 1, 2009 upon his appointment as President and Chief Executive Officer (CEO). They are management nominees for election to the board at the 2009 annual general meeting of shareowners (AGM). All other directors were elected at the last AGM. On February 11, 2009, the board determined to set the size at 12 directors effective April 28, 2009 when Mr. Hentschel and Mr. Thomson retire.

Our By-Laws provide that directors will be elected at the AGM each year and will hold office until their successors are elected.

Name (Age)	Principal Occupation	Other Directorships	Nexen Director Since
William B. Berry (56)	Retired oil executive. Formerly: Executive Vice President of ConocoPhillips.	Willbros Group, Inc.	2008
Robert G. Bertram (64)	Retired pension investment executive. Formerly: Executive Vice President of Ontario Teachers Pension Plan Board.	The Cadillac Fairview Corporation Maple Leaf Sports and Entertainment Ltd.	2009
Dennis G. Flanagan (69)	Retired oil executive.	Canexus Income Fund (Chair) NAL Oil & Gas Trust	2000
David A. Hentschel ³ (75)	Retired oil executive. Formerly: Oil and gas consultant.	Cimarex Energy Co.	1985
S. Barry Jackson ¹ (56)	Retired oil executive. Formerly: Chair of Resolute Energy Inc. and Chair of Deer Creek Energy Limited.	TransCanada Corporation (Chair) TransCanada PipeLines Limited (Chair)	2001
Kevin J. Jenkins ^{1,2} (52)	Managing Director of TriWest Capital Partners. Formerly: President and CEO of The Westaim Corporation.	–	1996
A. Anne McLellan, P.C. ¹ (58)	Counsel with Bennett Jones LLP, Barristers and Solicitors, and Distinguished Scholar in Residence at the University of Alberta in the Institute for United States Policy Studies. Formerly: Member of Parliament for Edmonton Centre, Deputy Prime Minister, Minister of Public Safety and Emergency Preparedness and Minister of Health.	Agrium Inc. Cameco Corporation	2006
Eric P. Newell, O.C. ¹ (64)	Retired Chair and CEO of Syncrude Canada Ltd.	–	2004
Thomas C. O'Neill ^{1,2} (63)	Retired Chair of PwC Consulting. Formerly: CEO of PwC Consulting. Prior to that, COO of PricewaterhouseCoopers LLP, Global.	Adecco S.A. BCE Inc. Loblaw Companies Limited The Bank of Nova Scotia	2002
Marvin F. Romanow (53)	President and CEO of Nexen. Formerly: Executive Vice President and CFO of Nexen.	Canexus Income Fund	2009
Francis M. Saville, Q.C. ¹ (70)	Chair of Nexen. Counsel with Fraser Milner Casgrain LLP, Barristers and Solicitors. Formerly: Senior Partner and Vice Chair of Fraser Milner Casgrain LLP, Barristers and Solicitors.	–	1994
Richard M. Thomson, O.C. ^{1,2} (75)	Retired banking executive.	The Thomson Corporation	1997
John M. Willson ¹ (69)	Retired mining executive.	Finning International Inc.	1996
Victor J. Zaleschuk ⁴ (65)	Retired oil executive.	Agrium Inc. Cameco Corporation (Chair)	1997

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. 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.

⁴ Mr. Zaleschuk was President and CEO of Nexen from 1997 to 2001.

INDEPENDENCE AND BOARD COMMITTEES

The board affirmed director independence under our categorical standards for director independence (categorical standards), which are available at www.nexeninc.com. The categorical standards have been in place since 2003 and most recently amended on February 11, 2009. Our categorical standards meet or exceed the requirements 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. Romanow is not independent as he is Nexen's President and CEO.

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

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

Ms. McLellan has been counsel with Bennett Jones LLP (BJ), Barristers and Solicitors, Edmonton, Alberta since June 27, 2006. BJ provided legal services to us in each of the last five years. Ms. McLellan does not solicit or participate in those services, does not receive any fees we pay to BJ, nor is she a partner or an employee of the firm. She is independent under our categorical standards.

Mr. Saville has been counsel with Fraser Milner Casgrain LLP (FMC), Barristers and Solicitors, Calgary, Alberta since February 1, 2004. Prior to that time, he was a senior partner of the firm. FMC provided legal services to us in each of the last five years. Mr. Saville does not solicit or participate in those services, does not receive any fees we pay to FMC, nor is he a partner or an employee of the firm. He is independent under our categorical standards.

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

	Committees (Number of Members)					
	Audit ^{1,2} (6)	Compensation ¹ (7)	Governance ¹ (7)	Finance (6)	HSE&SR (8)	Reserves ³ (7)
Management Director—Not Independent Marvin F. Romanow						
Outside Director—Not Independent Dennis G. Flanagan				✓	✓	✓
Independent Outside Directors William B. Berry ⁴						
Robert G. Bertram ⁴						
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	✓	✓

¹ All members are independent. All Audit Committee members are independent under additional regulatory requirements applicable to them.

² 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 135.

³ A majority of the Reserves Committee members are independent.

⁴ Mr. Berry and Mr. Bertram will receive committee appointments on April 28, 2009, as determined by the board.

⁵ Audit committee financial expert under US regulatory requirements.

⁶ The board has determined that Mr. O'Neill's service on the audit committees of four other public companies and one not-for-profit organization does not impair his ability to serve as Chair of Nexen's Audit Committee. The board considered that Mr. O'Neill has over 30 years of experience as a chartered accountant and, since retiring as Chair of PwC Consulting in 2002, his only business commitments are to the boards and committees on which he serves.

Audit Committee Financial Expert Experience

Name	Jenkins	O'Neill	Thomson
Experience	<p>Kevin Jenkins, 52, is a 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. 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 Vice Chair and a director of World Vision Canada.</p>	<p>Tom O'Neill, 63, 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 Honorary Doctorate of Law from Queen's University.</p> <p>Tom is a director of BCE Inc., Loblaw Companies Limited, The Bank of Nova Scotia and Adecco S.A. He is a member of the External Audit Committee of the International Monetary Fund. He is also Vice Chair of the Board of Governors of Queen's University.</p>	<p>Dick Thomson, 75, 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 board of the Multiple Sclerosis Scientific Research Foundation.</p>

Director and Officer Liability Insurance

We maintain a director and officer liability insurance policy. The policy covers costs to defend and settle claims against Nexen's directors and officers to an annual limit of US\$150 million. It includes a US\$12.5 million deductible for an indemnifiable occurrence and no deductible for a non-indemnifiable occurrence. The cost of coverage for 2008 was approximately US\$951,000. Directors and officers do not pay premiums and no indemnity claims were made or paid in 2008.

Director and Officer Fiduciary Insurance

Nexen maintains a fiduciary liability insurance policy. It covers costs to defend and settle claims against Nexen, our directors, officers and employees for breach of fiduciary duty related to company-sponsored plans, such as pension and savings plans. The policy has an annual limit of US\$25 million with a US\$2.5 million deductible for an indemnifiable occurrence and no deductible for a non-indemnifiable occurrence. The cost of coverage for 2008 was approximately US\$27,600. Directors and officers do not pay premiums and no claims were made or paid in 2008.

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 our directors.

DIRECTOR COMPENSATION

Nexen provides all directors with a comprehensive compensation package of annual cash retainers, meeting fees and equity-based incentives in the form of deferred share units (DSUs). The package provides competitive remuneration for the increasing responsibilities, time commitments and accountability of board members. Management, the Compensation Committee and the board regularly review the compensation for competitiveness against a peer group of oil and gas companies. We target and currently provide total compensation between the 50th and 75th percentile to attract and retain qualified talent to our board.

Directors may choose select benefits coverage at Nexen's expense, including basic life insurance, extended health care, dental, business travel accident insurance, and reimbursement of provincial health care premiums (in certain jurisdictions). Directors do not receive compensation from a non-equity incentive plan. Mr. Zaleschuk, a former CEO of Nexen, is a retiree in Nexen's pension plan. His pension benefit is for previous employee service.

See page 137 for more information on DSUs.

Director Compensation Table

Name	Total Fees Earned ¹	DSU Awards ²	All Other Compensation ³	Total Compensation
Berry	6,217	96,800	–	103,017
Flanagan	110,000	96,800	96,054 ⁴	302,854
Hentschel	114,500	96,800	4,458	215,758
Jackson	135,500	96,800	5,887	238,187
Jenkins	137,300	96,800	6,579	240,679
McLellan	130,200	96,800	2,719	229,719
Newell	126,600	96,800	7,383	230,783
O'Neill	154,100	96,800	6,105	257,005
Saville	254,500	154,880	5,731	415,111
Thomson	143,300	96,800	9,552	249,652
Willson	144,500	96,800	6,459	247,759
Zaleschuk	115,300	96,800	4,876	216,976
Total	\$1,572,017	\$1,219,680	155,803	2,947,500

1 Includes all retainers and meetings fees, including those paid in DSUs.

2 The value of DSUs granted on December 8, 2008, based on the closing market price of Nexen common shares on the TSX on December 5, 2008 of \$19.36/share. See page 137 for details.

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 2008 valued at the closing market price of Nexen common shares on the TSX on the payment dates, travel allowance paid by Nexen, and Canexus fees as set out in note 4.

4 Mr. Flanagan is the Board Chair of Canexus and was paid fees of \$59,000, received deferred trust units of Canexus valued at \$21,840 and distributions on his trust units of \$10,630 in 2008. The total is included in this column.

Director Retainers and Fees

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

	2008	2009
Board Chair Retainer	\$250,000 ¹	\$250,000 ¹
Board Member Retainer	35,000	35,000
Audit Committee Chair Retainer	19,700	19,700
Other Committee Chair Retainer	5,300	5,300
Committee Member Retainer	9,100	9,100
Board and Committee Meeting Fees (per meeting attended)	1,800	1,800

1 As of January 1, 2008, the Board Chair is paid only this retainer and the travel allowance. He does not receive any other retainers or meetings fees.

2008 Retainers and Fees

Name	Annual Board Retainer	Annual Committee Retainers	Annual Committee Chair Retainer	Board Meeting Fees	Committee Meeting Fees	Travel Allowance	Total Fees Earned	Total Fees Credited in DSUs ¹	Percentage of Fees Credited in DSUs ¹	Total Fees Earned in Cash
Berry	2,917	–	–	1,800	–	1,500	6,217	–		6,217
Flanagan	35,000	27,300	–	18,000	25,200	4,500	110,000	–		110,000
Hentschel	35,000	27,300	–	18,000	25,200	9,000	114,500	–		114,500
Jackson	35,000	36,400	5,300	18,000	37,800	3,000	135,500	132,500	98%	3,000
Jenkins	35,000	36,400	5,300	18,000	39,600	3,000	137,300	–		137,300
McLellan	35,000	36,400	–	18,000	37,800	3,000	130,200	127,200	98%	3,000
Newell	35,000	36,400	–	18,000	34,200	3,000	126,600	123,600	98%	3,000
O'Neill	35,000	36,400	19,700 ²	18,000	36,000	9,000	154,100	–		154,100
Saville	250,000	–	–	–	–	4,500	254,500	–		254,500
Thomson	35,000	36,400	5,300	18,000	39,600	9,000	143,300	134,300	94%	9,000
Willson	35,000	36,400	5,300	18,000	37,800	12,000	144,500	–		144,500
Zaleschuk	35,000	27,300	5,300	18,000	25,200	4,500	115,300	–		115,300
Total	\$602,917	\$336,700	\$46,200	\$181,800	\$338,400	\$66,000	\$1,572,017	\$517,600		\$1,054,417

1 Details of DSU holdings are set out in the table on page 137.

2 Mr. O'Neill is the Audit Committee Chair.

Share Ownership Guideline

One way our directors demonstrate their commitment to Nexen's success is through share ownership. On February 14, 2008, the board approved guidelines for directors to own or control at least 16,800 shares or DSUs. This amount represents at least three times both the base annual board retainer of \$35,000 and the value of the base annual DSU grant. Directors must accumulate DSUs as follows:

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

New directors, if eligible, are required to take their annual retainer in DSUs until the current threshold is met. Eligibility is based on country of residence and Mr. Berry, as a US resident, is not eligible to take his annual retainer in DSUs. If there is a change in share value or number of DSUs granted that affects a director's ability to meet the requirement, he or she will have nine months to meet the threshold again.

All directors surpass these guidelines.

Deferred Share Units

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

DSUs provide directors with a stake in Nexen while they serve on the board. DSUs do not have voting rights as there are no shares underlying the plans. A DSU is a bookkeeping entry that tracks the value of one Nexen common share. When cash dividends are paid on our common shares, eligible directors are credited DSUs equal to the dividend. DSUs accumulate over a director's term of service and are only paid when the director leaves the board. Then, at Nexen's option, payments may be made in cash or in Nexen common shares purchased on the open market.

Name	DSUs Held as of December 31, 2008 ¹
Berry	5,000
Flanagan	35,660
Hentschel	35,656
Jackson	48,145
Jenkins	48,789
McLellan	26,943
Newell	57,824
O'Neill	45,618
Saville	46,117
Thomson	72,672
Willson	48,200
Zaleschuk	37,430

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

Mr. Bertram was appointed to the board on January 1, 2009 and received a grant of 5,000 DSUs. The effective date of the grant was January 2, 2009 with a base price of \$21.45 per DSU, which was the closing market price of Nexen common shares on the TSX on December 31, 2008. The value of the DSU grant was \$107,250. Mr. Berry was appointed to the board on December 8, 2008 and received DSUs as set out in the table above.

TOPs Exercised or Exchanged and Awards Vested During 2008

In 2008, no tandem options (TOPs) were exercised or exchanged by the board, which demonstrates that directors are holding TOPs for the long-term—consistent with our long-term strategy—and not for short-term purposes. Under the DSU plan, there are no vesting provisions and no value realized on vesting.

COMPENSATION COMMITTEE REPORT

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

All Committee members are independent and knowledgeable in our compensation programs and their long-term implications. Five members are skilled or expert in compensation—expertise most relevant to the Committee's mandate.

Changes to Committee Membership in 2008

The Committee membership did not change in 2008.

Committee Work Plan

The Committee held seven meetings and sessions without management present in 2008. While each meeting agenda is subject to change as business needs arise, the timing of the Committee's main activities are provided in this table.

Agenda Items

Approved compensation disclosure and Committee report in the proxy circular Recommended the prior year's incentive bonus plan pay-out factor Recommended the current year's bonus performance target and compensation program Reviewed CEO's prior year accountabilities and results, and provided a bonus recommendation Reviewed CEO's current year accountabilities recommendations and provided a salary recommendation	February 2008
Reviewed competitive analysis of long-term incentive program	July 2008
Reviewed market activity update Reviewed workforce plan	October 2008
Recommended long-term incentive grants Reviewed market activity update Reviewed succession and development plan	December 2008
In camera meetings	At each meeting

Key Activities in 2008

The key activities reviewed and recommended during the year are outlined below.

- Compensation programs and budgets for base salary, annual cash and long-term incentives (Tandem Option Plan (TOPs) and Stock Appreciation Rights Plan (StARs));
- Salaries, bonuses and grants of TOPs to the executives;
- Retention programs for key business initiatives;
- CEO performance on short-term and long-term corporate goals and objectives;
- CEO compensation, which was approved by the independent directors of the board;
- CEO's annual objectives and our executive management succession and development plans;
- CEO and CFO appointments and compensation;
- Directors' annual deferred share unit grants;
- Impact of current compensation on change of control agreements;
- Employee benefit plans;
- Competitive updates on compensation programs, market forecasts and workforce planning;

- Executive compensation disclosure and Committee report for the proxy circular; and
- Canadian Securities Administrators' new rules on executive compensation disclosure for the proxy.

Outside Consultant

The Committee engaged Mercer (Canada) Limited (Mercer) to confidentially report and analyze market data on the CEO's compensation, in light of our operations and compensation programs. Mercer also provided a compensation report on a select group of our executives. The reports included competitive information from a list of peer companies recommended by Mercer. The Committee's decisions are its responsibility and may reflect factors other than the information and recommendations provided by Mercer and management.

Mercer did not provide compensation consulting services to management in 2008. We participated in compensation surveys in Canada and internationally, and purchased select published results. Management must obtain Committee approval before retaining Mercer for consulting services.

Fees Billed by Outside Consultant (Mercer)

Type of Fee	Billed in 2007	Billed in 2008	Percentage of Total Fees Billed in 2008
Committee Work—assessment of CEO and executive compensation	49,610	58,900	100%
Management Work—consulting services	–	–	–
Total Annual Fees	49,610	58,900	100%

External Recognition and Verification

Nexen was recognized in 2008 by Benefits Canada magazine for having one of Canada's 30 Best Pension and Benefits Plans.

Committee Approval

The Committee has reviewed and discussed with management the compensation disclosure in this document, including the information in the Board of Directors section (pages 135 to 136), the Compensation Discussion and Analysis section (pages 139 to 147) and the Executive Compensation section (pages 147 to 157). It has recommended to the board that the disclosure be included in the circular and, as appropriate, 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 134. 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 161. There are no Compensation Committee interlocks during 2008.

COMPENSATION DISCUSSION AND ANALYSIS

Our compensation disclosure complies with the requirements of the Canadian Securities Administrators. As a foreign private issuer in the US, we are not required to disclose compensation according to the SEC rules, but we attempt to comply with the spirit of those rules where possible, without compromising required Canadian disclosure.

Compensation Philosophy

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

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

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

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

Benchmark Review

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

Our peer groups are reviewed annually by third-party consultants and the Compensation Committee for continued relevance. In 2008, our executive peer group consisted of the following 16 major oil and gas and integrated pipeline companies:

BP Canada Energy Company	Husky Energy Inc.
Canadian Natural Resources Limited	Imperial Oil Limited
Chevron Canada Resources	Petro-Canada
ConocoPhillips Canada	Shell Canada Limited
Devon Canada Corporation	Suncor Energy Inc.
Enbridge Inc.	Syncrude Canada Limited
EnCana Corporation	Talisman Energy Inc.
ExxonMobil Canada	TransCanada Corporation

For the CEO, the peer group is a subset of the 16 peer companies. This peer group focuses on the major Canadian-based and independent oil and gas companies that have more comparable CEO positions.

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

COMPENSATION OBJECTIVES

Our compensation programs include three elements: base salary, annual cash incentive and long-term incentive. At least once a year, we assess the competitiveness of these individual components and the overall compensation levels. Our goal is to provide total compensation for fully qualified and performing employees between the 50th and 75th percentile as compared to our peers. Top-performing employees will approach the 75th percentile as they continue to accumulate knowledge and experience, which is accompanied by sustained high performance.

Key Elements of Compensation

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

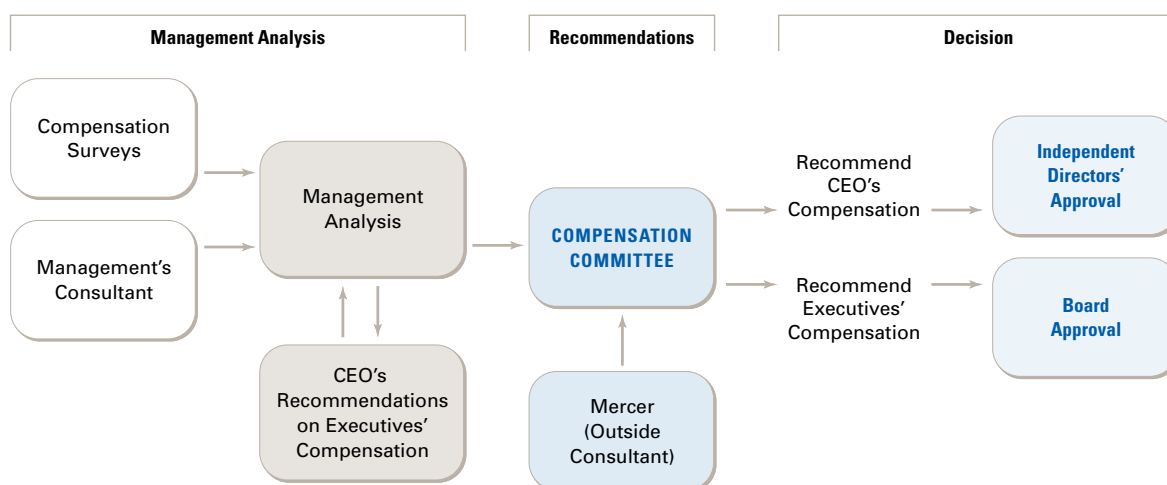
Pay Mix

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

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

¹ Represents the percentage of total compensation, excluding benefits, pension and perquisites averaged over a three-year period.

Compensation Approval Process



In determining our executives' base salary, annual cash and long-term incentives, the Compensation Committee considers a comprehensive analysis, including a tally sheet prepared by management with input from an executive compensation consultant. The analysis includes market data for similar positions within the peer group and CEO recommendations for his direct reports, including all of the other named executive officers (executives), and information on prior year annual cash and long-term incentives. The basic design of our short and long-term incentive programs mitigates the need to present various performance scenarios to show impact on payout levels. However, before approving management's compensation recommendations, the Committee discusses a variety of scenarios, including analysis of various annual cash incentive payout factors and the impact of share price variation on our long-term incentive program. For more complex programs, such as pension, management provides the Committee with a sensitivity analysis that considers the pension cost implications for each 1% of incremental pensionable earnings.

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

BASE SALARIES

To determine base salaries, a framework of job levels based on internal comparability and external market data is used. We also consider the individual's current and sustained performance, skills and potential.

ANNUAL CASH INCENTIVES

The program provides an opportunity for competitive bonus compensation that reflects Nexen's overall and division performance and that of the individual. Variable compensation links Nexen's business results and the executives' performance, consistent with our pay-for-performance philosophy. The increase in the executives' annual cash incentives in 2008 reflects the board's assessment of our relative level of success on certain business objectives.

2008 Annual Incentive Measures

After reviewing Nexen's objective and subjective performance measures, the board, at the recommendation of the Compensation Committee, approves the payout factor. The payout factor determines the cash pool available for annual cash incentives and may range from 0 to 200%. The factors used were 120% in 2006, 88% in 2007 and 120% in 2008.

2008 Objective Performance Measures (50%)

These key financial measures are consistent with our annual operating plan.

Measure	Target	Results	Results versus Target
Cash flow (25%)	\$2,912 million	\$4,229 million	145%
Net income (25%)	\$1,330 million	\$1,715 million	129%

2008 Subjective Performance Measures (50%)

The Compensation Committee subjectively considers a combination of quantitative and qualitative measures. The individual measures are not assigned a fixed weighting. This allows the Committee to exercise its discretion and increase or decrease the payout factor when assessing our overall performance. Its discretion ensures the award is not unduly impacted by an unusual result in any one area. The business measures that the Committee considers are commonly used in our industry. They include, among other measures, stock performance, annual stock performance against peers, production volumes, safety and environmental incidents, and reserve-related metrics. The Committee also assesses costs, including finding and development, operating and administrative. The business measures are assessed against objectives in light of our external environment and current business circumstances, including key projects and initiatives critical to Nexen's success. Both absolute performance and performance relative to peers are reviewed. The Committee also considers management's assessment of Nexen's performance and progress against the strategic plan.

If Nexen does not achieve the minimum pre-determined performance level of any component of the objective measures, no allocation will be made for that component in the overall assessment of the payout factor. The Committee's assessment of the subjective measures could also result in a decrease of the payout factor. Alternatively, exceptional performance in our objective and subjective measures may be rewarded with a 200% payout factor, which is the maximum allowed under the annual incentive plan. Exceptional performance means that we exceeded

our objective measure targets by at least 25%. For 2008, the Committee considered that Nexen's overall performance exceeded target. Record financial results and strong relative share price performance were balanced against disappointing results from the Marketing division and impairment charges.

Annual Cash Incentive Payout

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

2008 Annual Incentive Targets ¹

Position	Minimum	Target	Maximum
CEO ²	0%	80%	160%
CFO ³	0%	60%	120%
Executive VPs	0%	60%	120%
Senior VPs	0%	45%	90%

¹ Reflects percentage of base salary on December 31, 2008.

² The target decreased to 75% and the maximum to 150% effective January 1, 2009 with the appointment of the new CEO.

³ The target decreased to 50% and the maximum to 100% effective January 1, 2009 with the appointment of the new CFO.

Reimbursement

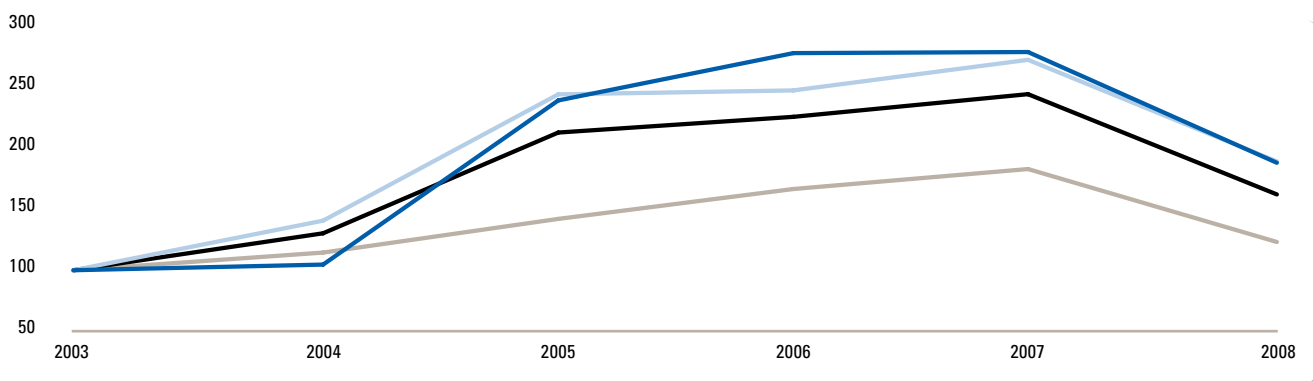
If, as a result of misconduct, Nexen's performance results were restated in a way that decreased the incentive awards, the CEO and CFO would reimburse Nexen proportionately as required by law.

While Nexen is aligned and committed to the US requirements for clawbacks, we are consulting with industry leaders and shareholder advisory groups to better understand the development of clawback policy models in Canada. Identified barriers to implementation include employment law, enforcement and tax issues. Nexen is working to implement a more formal solution that effectively addresses alignment of shareowner and executive interests by ensuring that compensation is not increased as a result of willful misconduct.

SHARE PERFORMANCE GRAPH

While share performance is not the only indicator of pay levels, a more direct alignment can be seen with our annual incentive program and the value realized by employees participating in our long-term incentive programs. There has not been a direct correlation between base salary levels and Nexen share performance. The sharp increase to our share price from 2004 to 2005 is consistent with the company's strong performance year in 2005. The result was a payout factor of 200% for the annual incentive program. The less dramatic movement in our share price in subsequent years is partially reflected by our payout factors declining to 120% in 2006 and 88% in 2007. As indicated by the downward movement in the graph, the turbulence in the global financial markets in 2008 has impacted Nexen's share price, not unlike other publicly traded companies. While this is unfavorable, our share performance captured in this graph reflects a point in time and is generally consistent with organizations in our sector for 2008. In 2008, our performance exceeded target, including record financial results and strong relative share price performance. These successes were balanced by disappointing results from the Marketing division and impairment charges. The resulting payout factor for 2008 was 120%. For long-term incentives, the downward shift in our share price has significantly decreased the in-the-money value.

The following graph shows the change in a \$100 investment in Nexen common shares over the past five years, compared to the S&P/TSX Composite Index, the S&P/TSX Energy Sector Index and the S&P/TSX Oil & Gas Exploration & Production Index as at December 31, 2008. Our common shares are included in each of these indices.



Total Return Index Values ¹

	2003/12	2004/12	2005/12	2006/12	2007/12	2008/12
Nexen Inc.	100.00	104.63	239.28	278.11	279.00	187.59
S&P/TSX Oil & Gas Exploration & Production Index	100.00	140.68	244.28	247.51	272.59	188.70
S&P/TSX Energy Sector Index	100.00	130.29	212.94	225.84	244.43	161.63
S&P/TSX Composite Index	100.00	114.48	142.10	166.63	183.01	122.61

¹ Assuming an investment of \$100 and the reinvestment of dividends.

Share Ownership Guideline

All executive officers demonstrate their commitment to Nexen by holding more shares than required under our board-approved guideline. Shares must be accumulated within five years from the date the executive was appointed. Share ownership includes the net value of exercisable options or TOPs, flow-through shares, shares purchased and held within the Nexen employee savings plan and any other personal holdings. The guideline is reviewed periodically by the Compensation Committee and the board. See page 153 for the current share ownership of each executive.

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

Long-Term Incentives

Nexen's long-term incentive program, the TOPs and StARs plans, provide employees with a long-term incentive to sustain high performance, demonstrate commitment to Nexen and, most importantly, align their interests with those of our shareowners. As Nexen's share price rises, grants increase in value. TOPs or StARs are granted to employees, based on internal organization levels, whose actions can most directly impact our business results. Named executives are granted TOPs.

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

TOPs Plan

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

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

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

2008 TOPs Plan Exercises and Exchanges

Total Exercised or Exchanged	Exercised for Shares (Percent)	Exchanged for Cash (Percent)
5,749,570	1,910,488 (33%)	3,839,082 (67%)

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

The board, on the recommendation of the Compensation Committee, may grant TOPs to Nexen officers and employees. TOPs granted before February 2001 have a term of ten years; 20% of the grant vested after six months and 20% vested each year for four years on the grant's anniversary. TOPs granted after February 2001 have a term of five years and vest one-third each year for three years. The board has the discretion to set vesting periods within the five-year term. To allow for the exceptional circumstances of the retirement of Nexen's CEO in 2008, the CEO's 2008 TOPs grant was reduced and the vesting set at one-half each year for two years. Normal retirement provisions in the plan apply and will result in the expiry and cancellation of 50% of this grant.

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

StARs Plan

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

Grant Date and Exercise Price

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

Options Outstanding and Shares Reserved for Issue

We limit the combined annual grants of TOPs and StARs (even though StARs are not dilutive) to less than 2% of total outstanding shares (on a non-diluted basis). The total TOPs granted, plus shares reserved for future issue under equity-based compensation programs, will not exceed 10% of our total outstanding shares (on a non-diluted basis). Since the implementation of the tandem feature in 2004, 9,788,475 shares have been issued at December 31, 2008, representing 1.9% dilution.

Grants in the Last Three Years

Our 2008 long-term incentives recognized employees for 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				
2008	1,526,000	2,008,100	6%	3,534,100
2007	1,735,000	2,272,100	7%	4,007,100
2006 ¹	1,480,000	3,321,000	7%	4,801,000
StARs				
2008	–	4,917,200	53%	4,917,200
2007	–	4,194,600	54%	4,194,600
2006 ¹	–	4,508,600	51%	4,508,600

¹ Numbers of TOPs and StARs granted have been adjusted to account for Nexen's two-for-one share splits in May 2005 and May 2007.

Benefit and Pension Plans

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

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

Health and Welfare Benefits

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

Employee Savings Plan

To help employees save for their future and encourage ownership in the company, Nexen provides the incentive and opportunity to accumulate savings through an employee savings plan. In the plan, all eligible Canadian employees may contribute, through payroll deduction, any percentage of their base salary to purchase Nexen common shares, mutual fund units or a combination of both. Nexen matches employee contributions up to 6% of base salary, depending on the investment option and how long the employee has participated in the plan. Nexen contributions are invested in our common shares purchased

on the open market and vest immediately. All contributions may be allocated to registered or non-registered accounts. Employees may vote the Nexen common shares they hold in their employee savings plan.

Defined Benefit Pension Plan

Canadian employees of Nexen elect, upon hire, to participate in either the defined contribution pension plan or the defined benefit pension plan, both of which are registered. All named executives participated in the defined benefit pension plan in 2008. Features of the plan are:

- participant contributions at 3% of their regular gross earnings (up to an annual plan maximum);
- retirement benefits at 1.8% (1.7% for years prior to 2005) of their average earnings for the 36 highest-paid consecutive months during the ten years before retirement, multiplied by the years of credited service;
- integration with Canada Pension Plan (CPP) to provide a maximum offset of one-half of the current CPP benefit, prorated by years of credited service to a maximum of 35 years;
- benefits on retirement that are generally paid monthly for the life of the retiree, subject to payment elections;
- members who retire after 10 years of service are eligible for an early retirement benefit at age 55, with a 4% per year early retirement reduction for each year that benefits commence prior to age 60; and
- ability for participants to periodically switch between the defined benefit pension plan and defined contribution pension plan at different stages in their career.

Plan participants may annually elect to increase their defined benefit accrual formula from 1.8% to 2%. Employees who choose this option must contribute an additional 2% of pensionable earnings up to an allowable maximum under the Canadian

Income Tax Act. The maximum employee contribution allowed under the defined benefit pension plan in 2008 was \$11,200.

The normal form of benefit paid is a joint life and survivor benefit with a five-year guarantee. It is payable for the participant's life-time and provides the spouse with a survivor benefit of 66⅔% of the monthly payment. If the participant dies before receiving 60 monthly payments, the five-year guarantee allows the surviving spouse to receive the balance of the 60 monthly payments first and then the reduced survivor pension of 66⅔%.

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

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

Pension Benefit Obligation

At December 31, 2008, as indicated in the notes to our consolidated financial statements, the:

- registered pension plan's accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) for the defined benefit plan was \$179 million, which includes all active and inactive plan participants; and
- projected benefit obligation was \$203 million.

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

- a discount rate of 5.25% per year as at December 31, 2007;
- a discount rate of 6.5% per year as at December 31, 2008;
- a long-term compensation rate increase of 4% per year; and
- an assumed rate of inflation of 2.5% per year.

Executive Benefit Plan

The executive benefit plan is available to all Canadian employees. It provides supplemental retirement benefits for either defined benefit or defined contribution participants who have earned a retirement benefit in excess of the statutory limits, which varies by employees' pension elections. This allows employees to fully accrue a pension that is aligned with their earnings level and is competitive within our market. For defined benefit plan participants, any supplemental benefits will accrue and be paid monthly in a similar manner to the underlying defined benefit pension plan set out above on pages 145 and 146. For executives, annual cash incentive payments during the last three years of plan participation are included for benefit accrual purposes based on the lesser of target bonus or actual bonus paid.

Pension Benefit Security

The pension expense for this supplemental plan is accounted for annually. Benefits are paid from Nexen's cash flows and reduce the related pension liability. As liabilities under this plan are unfunded, a level of protection is provided to participants through a letter of credit. The letter of credit is intended to make participants secured creditors for the unfunded pension obligation under the executive benefit plan. The cost of servicing the letter of credit in 2008 for all plan participants was \$917,237.

Pension Benefit Obligation

At December 31, 2008, as indicated in the notes to our consolidated financial statements, the:

- supplemental pension plan's accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) for the executive benefit plan was \$49 million, which includes all active and inactive plan participants; and
- projected benefit obligation was \$62 million.

The projected benefit obligation and key assumptions used for the projected benefit obligation are the same as those used for the registered pension plan.

As of January 1, 2005, the executive benefit plan was amended to provide a supplemental pension allocation for defined contribution pension plan participants who are impacted by annual statutory contribution limits. In 2008, the sum of all supplemental allocations for eligible participants was \$50,061 and is estimated to be \$53,000 in 2009.

Retirement Benefits

All Nexen retirees are provided with retirement benefits that consist of a \$5,000 life insurance policy and reimbursement for provincial healthcare premiums, if applicable.

Loans to Officers

As set out in the corporate governance policy, we do not make loans to 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
Marvin F. Romanow (53)	President and CEO and a director. Formerly: Executive VP and CFO since June 1, 2001.	January 1, 2009	1997
Kevin J. Reinhart (50)	Senior VP and CFO. Formerly: Senior VP, Corporate Planning and Business Development since November 1, 2007. Formerly: VP, Corporate Planning and Business Development since July 11, 2002.	January 1, 2009	1994
Laurence Murphy (57)	Executive VP, International Oil and Gas. Formerly: Senior VP, International Oil and Gas since January 1, 1999.	November 1, 2007	1998
Roger D. Thomas (56)	Executive VP, North America. Formerly: Senior VP, Canadian Oil and Gas since February 19, 1999.	November 1, 2007	1998
Gary H. Nieuwenburg (50)	Senior VP, Synthetic Crude. Formerly: VP, Synthetic Crude since July 11, 2002.	November 1, 2007	2001
Brian C. Reinsborough (47)	Senior VP, United States Oil and Gas. Formerly: Division VP, Exploration, Operations and Production since May 12, 2006; Division VP, Exploration since July 8, 2002.	November 1, 2007	2007
Timothy J. Thomas (51)	Senior VP, Canadian Oil and Gas. Formerly: Division VP, Exploration and Production, Canadian Oil and Gas since April 1, 2004; Division VP, Yemen Operations and International Business Development since January 1, 2003.	November 1, 2007	2007
Randy J. Jahrig (53)	VP, Human Resources and Corporate Services. Formerly: Division VP, Human Resources Canada and International since April 1, 2002.	April 26, 2007	2007
Kim D. McKenzie (60)	VP and Chief Information Officer. Formerly: Division VP, Information Technology since January 1, 1992.	November 1, 2007	2007
Eric B. Miller (46)	VP, General Counsel and Secretary. Formerly: Division VP and Chief Legal Counsel since July 1, 2006; Division VP, Legal Canadian Oil and Gas since March 1, 2002.	July 11, 2007	2007
Una M. Power (44)	VP, Corporate Planning and Business Development. Formerly: Treasurer since July 11, 2002.	January 16, 2009	1998
Brendon T. Muller (40)	Controller. Formerly: Manager, Corporate External Reporting since November 1, 2003.	April 9, 2007	2007
J. Michael Backus (38)	Treasurer. Formerly: Manager, Planning, Synthetic Crude since January 1, 2009; Project Planner – Phase 2 Long Lake, Synthetic Crude since April 1, 2005; Analyst, Investor Relations and Corporate Communications since April 1, 2003.	February 16, 2009	2009

SHARE SPLITS

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

SUMMARY COMPENSATION TABLE

To determine the next three highest paid officers, after the CEO and CFO, we total their salary, special bonus, non-equity cash incentive plan compensation, long-term incentive compensation and all other compensation as shown below. Grants of TOPs are considered option-based awards under applicable disclosure requirements. We do not award share-based awards or non-equity incentive plan compensation under long-term incentive plans, as these terms are used in applicable disclosure requirements.

Name and Principal Position	Year	Annual Salary (\$)	Option-Based		Non-Equity Incentive Plan Compensation ^{1,3} (\$)	Pension Value ⁴ (\$)	All Other Compensation ⁵ (\$)	Total Compensation (\$)
			TOPs Awards (#)	TOPs Value ² (\$)				
Charles W. Fischer, (Retired) President and CEO	2008	1,348,750	400,000 ⁶	2,245,760	1,500,000	938,800	124,245	6,157,555
	2007	1,275,000	600,000	5,110,200	916,000	949,300	119,640	8,370,140
	2006	1,150,000	550,000	5,010,654	1,800,000	1,673,800	111,621	9,746,075
Marvin F. Romanow, ⁷ Executive VP and CFO	2008	601,250	475,000	2,747,514 ⁸	700,000	317,800	119,016	4,485,580
	2007	566,250	180,000	1,533,060	330,000	323,300	117,129	2,869,739
	2006	528,000	160,000	1,457,645	402,000	534,800	118,073	3,040,518
Laurence Murphy, Executive VP, International Oil & Gas	2008	546,250	170,000	921,536	400,000	285,800	60,508	2,214,094
	2007	495,833	165,000	1,405,305	303,000	583,300	57,214	2,844,652
	2006	455,000	130,000	1,184,336	642,000	580,800	53,711	2,915,847
Roger D. Thomas, Executive VP, North America	2008	542,500	170,000	921,536	436,000	265,800	60,188	2,226,024
	2007	487,500	165,000	1,405,305	275,000	792,300	56,690	3,016,795
	2006	445,000	130,000	1,184,336	336,000	735,800	53,086	2,754,222
Gary H. Nieuwenburg, Senior VP, Synthetic Crude	2008	416,500	100,000	542,080	365,000	141,800	52,670	1,518,050
	2007	360,667	100,000	851,700	191,000	267,300	48,775	1,719,442
	2006	328,850	100,000	911,028	210,000	284,800	51,944	1,786,622

1 Reflects the value of awards earned in each year under Nexen's annual cash incentive program. The awards are paid to the executives in the following calendar year based on their salary on December 31 of the previous year.

2 Reflects the estimated fair value under the Black-Scholes pricing model of TOPs granted in the year. The key assumptions of this valuation include current market price of the stock, exercise price of the option, option term, risk-free interest rate, turnover, dividend yield of stock and volatility of stock return. The actual value realized will depend on the Nexen share price at the time of exercise. The accounting fair value is calculated using the intrinsic value method, which is the difference between the market price of the stock and the exercise price of the option. The difference between these valuation methods is the TOPs value included in this column as the intrinsic value was nil at year end. Management's consultant provides the annual Black-Scholes value. There were no amendments to the exercise price of TOPs in 2008.

3 For Messrs. Fischer, Romanow, Thomas and Nieuwenburg, includes discretionary recognition in 2008 for a variety of critical business initiatives. For Messrs. Fischer and Murphy, includes a discretionary award in 2006 for the success of Buzzard of \$500,000 and \$300,000, respectively.

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

5 The total value of the perquisites portion of All Other Compensation provided to each executive is less than \$50,000 and less than 10% of their annual salary. See the table on page 155 for details of these amounts.

6 TOPs awarded to Mr. Fischer in 2008 have a two-year vesting period. As vested TOPs can be exercised up to 18 months after retirement, 50% of this grant will expire and be cancelled in accordance with the provisions of the plan.

7 Mr. Romanow is a director of Canexus and was paid fees of \$34,000, received notional deferred trust units of Canexus valued at \$15,600 and distributions on his trust units of \$6,399 in 2008. In 2007, he was paid fees of \$32,500, received notional deferred trust units of Canexus valued at \$19,560 and distributions on his trust units of \$4,259. In 2006, he was paid fees of \$34,000, received notional deferred trust units of Canexus valued at \$24,000 and distributions on his trust units of \$2,571. These amounts are included in the All Other Compensation table on page 155.

8 Mr. Romanow was appointed President and CEO effective January 1, 2009 and received a grant of 295,000 TOPs upon appointment. The TOPs value of this grant is \$1,771,770 and the value of the 180,000 TOPs granted on December 8, 2008 is \$975,744.

Changes in Compensation Arrangements in 2008

We did not introduce any new compensation or benefit program in 2008 for Nexen's named executives.

As seen in the table above, the December 2008 TOPs awards expected values have decreased from the prior years. While Nexen's share price was falling during the time of grant, we did not feel it was necessary to increase the grant size to maintain the expected value year-over-year. Our 2008 program was designed with a long-term perspective of share value and to avoid unintended windfall when financial markets recover.

The compensation paid to executives in 2008 is consistent with our philosophy and objectives of targeting total compensation between the 50th and 75th percentile as detailed on pages 139 through 142.

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, less required member contributions to the plan. Actual compensation changes may vary from the assumed rate of compensation increase and will vary among each executive from year to year. These values differ from the termination values reported under the change of control agreements on page 156 which disclose additional lump sum pension benefits provided if a change of control occurs.

CEO COMPENSATION AND 2008 GOALS AND RESULTS

The CEO's responsibility is to provide leadership in setting and achieving goals that create value for our shareowners in the short and long term. Mr. Fischer's 2008 annual cash incentive award was based on the corporate results described on pages 141 and 142, which determined the total cash available for the awards. Cash incentive awards are determined from the available pool and distributed to individuals based on specific annual goals. Based on the board's assessment of Mr. Fischer's achievement of objectives, and their positive assessment of his contribution to continued shareowner value growth and strategic plan execution, he was awarded an annual cash incentive of \$1,500,000, which is his target bonus times 137%. The incentive includes discretionary recognition for a number of critical business initiatives in the year. Mr. Fischer's 2008 goals and results are outlined below.

Develop and implement a corporate strategy, balancing short-term growth while positioning Nexen for sustainable growth.

In 2008, Mr. Fischer once again led the management team in a review of our strategic plan, which is focused on creating long-term sustainable growth. Out of this review, the annual operating plan was developed and subsequently approved by the board. In 2008, 45% of oil and gas capital was invested in next generation, new growth projects such as the Usan development offshore West Africa, shale gas, CBM, future oil sands phases and conventional exploration. These investments support a long-term strategy for sustainable growth.

Achieve capital, operating, and general and administrative cost performance targets set out in the annual operating plan (AOP).

Mr. Fischer demonstrated his ability to manage costs successfully in 2008 despite the volatile economic environment. The majority of Nexen's production has low operating costs and low royalties. This is generating cash netbacks that are among the highest in the industry. As a result, our assets are capable of generating positive cash flows despite recent declines in commodity prices.

Capital investments in 2008 of approximately \$2.5 billion in oil and gas exploration and development activities added 74 mmbob of proved reserves before negative economic revisions of 50 mmbob. Many of our projects are characterized by multi-year investments where capital is invested, in some instances, years before reserves can be recognized. Measuring proved reserves additions against capital expenditures for a one-year period, and in some cases a three-year period, is not meaningful and does not tell the whole Nexen story.

Achieve targets for operating cash flow, earnings, production levels, and reserve replacement set out in the AOP.

In 2008, under Mr. Fischer's leadership, Nexen generated record cash flow in excess of \$4.2 billion and earnings of approximately \$1.7 billion despite losses incurred by the Marketing division and impairment charges. The Marketing division reported significant cash flow losses in 2008. Nexen has exited positions that do not support its physical marketing business, which was challenging given the lack of liquidity in the market, fewer counterparties and deteriorating commodity prices. Earnings in 2008 were impacted by an impairment charge of \$317 million (after tax) relating to oil and gas properties in the Gulf of Mexico and the North Sea. These properties were written down to their fair value, based on the estimated total future discounted net cash flows. Production levels reflected a modest increase over 2007 despite hurricane downtime.

Maintain financial flexibility and liquidity to support our business strategies.

With Mr. Fischer's direction, we achieved better than target results related to financial flexibility and liquidity. In 2008, cash flow exceeded capital investment by over \$1 billion. This excess was used to repurchase approximately 12 million shares for \$338 million and build cash balances. A portion of this cash was used to fund the acquisition of an additional 15% in the

Long Lake Project and joint venture lands. Nexen has no debt maturities until 2012 and the average term of its public debt is approximately 18 years. We are well positioned to weather the downturn in the economy given our strong liquidity.

Achieve top-quartile performance in health, safety and environmental performance and social responsibility.

Mr. Fischer is highly committed to social responsibility. Nexen improved its employee injury rates over 2007, just missing its best ever results set in 2006. There were no major environmental incidents in the year. Nexen continues to be recognized as a social responsibility leader and was included again in the Dow Jones Sustainability Index for 2008.

Provide for corporate management succession and development.

Mr. Fischer led the review of Nexen's succession plan in 2008 and demonstrated its effectiveness as we were able

to fill the vacancies related to his retirement entirely with internal candidates.

Ensure Nexen adheres to the highest standards of integrity.

Mr. Fischer sets a high standard for integrity in the workplace. Nexen continued to emphasize the importance of integrity among its employees, 93% of whom attended our integrity workshop by the end of 2008.

Demonstrate his personal commitment to community and industry leadership.

Mr. Fischer filled numerous leadership roles in the community and industry. These personal and professional commitments involved a variety of organizations including the Alberta Children's Hospital Foundation, Calgary Airport Authority, Hull Child and Family Services, Alberta Energy Research Institute and the Institute for Sustainable Energy, Environment and Economy (University of Calgary).

CEO THREE-YEAR LOOK-BACK

	Three-Year Total (\$)	2008 (\$)	2007 (\$)	2006 (\$)
Cash				
Base Salary	3,773,750	1,348,750	1,275,000	1,150,000
Annual Cash Incentive ¹	4,216,000	1,500,000	916,000	1,800,000
Equity				
Value of TOPs ²	12,366,614	2,245,760	5,110,200	5,010,654
Total Direct Compensation	20,356,364	5,094,510	7,301,200	7,960,654
All Other Compensation ³	355,506	124,245	119,640	111,621
Pension Value ⁴	3,561,900	938,800	949,300	1,673,800
Total Cost	24,273,770	6,157,555	8,370,140	9,746,075
Annual Average	8,091,257			
Total Market Capitalization Growth (\$millions)	(3,340)	(5,800)	90	2,370
Total Cost as a % of Market Capitalization Growth ⁵	(0.73)%			

1 Includes discretionary recognition in 2008 for a number of critical business initiatives and \$500,000 in 2006 for the success of Buzzard.
 2 Reflects the estimated fair value of TOPs using the Black-Scholes pricing model valued on the grant date. See page 148 for details of this calculation.
 3 See page 155 for details of All Other Compensation.
 4 Represents the current service cost, less required member contributions to the plan, plus changes in compensation in excess of actuarial assumptions.
 5 The current global financial situation changes the context of this metric, reducing its associated meaning.

In 2008, the Compensation Committee reviewed look-back information and analyzed Mr. Fischer's total pay and shareowner value created from the date he became CEO. In the analysis, dollar values were assigned and tallied for each compensation component including salary, annual cash incentives, TOPs awards, benefits, pension and potential payments on change of control. The Committee reviewed his total compensation relative to Nexen's market capitalization and that of industry peers.

INCENTIVE PLAN AWARDS

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

Incentive Plan Awards Granted in 2008

The term for TOPs granted in 2008 is five years and vesting is one-third each year for three years. Mr. Fischer's grant vests over two years with 50% vesting on each anniversary. Our plans allow retirees to exercise vested TOPs up to 18 months after retirement. This means that 50% of the grant will expire and be cancelled prior to vesting under these circumstances and he will never be able to exercise them. Mr. Fischer received that component of his annual compensation (despite its long-term nature) due to his sustained high performance and his leadership on many initiatives during the year that created sustainable future value.

Name	Grant Date	TOPs Granted (#)	% of Total TOPs Granted to Employees	Exercise Price (\$)	Expiry Date	TOPs Value ² (\$)	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for TOPs Term	
							5% (\$)	10% (\$)
Fischer	Dec 8, 2008	400,000	10.3%	19.36 ¹	Dec 7, 2013	2,245,760	2,139,524	4,727,789
Romanow	Dec 8, 2008	180,000	4.6%	19.36 ¹	Dec 7, 2013	975,744	962,786	2,127,505
	Jan. 2, 2009 ³	295,000	7.6%	21.45	Jan. 1, 2014	1,771,770	1,748,241	3,863,155
Murphy	Dec 8, 2008	170,000	4.4%	19.36 ¹	Dec 7, 2013	921,536	909,298	2,009,311
Thomas	Dec 8, 2008	170,000	4.4%	19.36 ¹	Dec 7, 2013	921,536	909,298	2,009,311
Nieuwenburg	Dec 8, 2008	100,000	2.6%	19.36 ¹	Dec 7, 2013	542,080	534,881	1,181,947

¹ Reflects the closing market price of Nexen common shares on the TSX on December 5, 2008.

² Reflects the estimated fair value of the TOPs as at December 8, 2008 using the Black-Scholes pricing model. See page 148 for details of this calculation.

³ Mr. Romanow received this grant upon his appointment as President and CEO. The exercise price is the closing market price of Nexen common shares on the TSX on December 31, 2008.

Incentive Plan Awards – TOPs Exercised or Exchanged and Value Vested or Earned in 2008

The TOPs value realized in 2008 occurred within two months of grant expiry, demonstrating that executives are holding TOPs for the long-term, in alignment with our long-term strategy. The TOPs value vested in 2008 represents what could have been earned if executives exercised TOPs immediately upon vesting. As shown in the table, the TOPs awards vesting in 2008 had no in-the-money value upon vesting, resulting in a significant reduction in the value of outstanding TOPs awards. The actual value realized will depend on the share price at the time of exercise. Grants of TOPs are considered option-based awards under applicable disclosure requirements. We do not award named executives share-based awards or non-equity incentive plan compensation under long-term incentive plans, as these terms are used in applicable disclosure requirements.

Name	TOPs Awards		TOPs Awards		Non-Equity Incentive Plan Compensation
	Exercised or Exchanged (#)	Value Realized ¹ (\$)	Vested in 2008 (#)	Value Vested in 2008 ² (\$)	Value Earned During the Year ³ (\$)
Fischer	600,000	6,248,500	517,500	–	1,500,000
Romanow	220,000	3,217,500	154,920	–	700,000
Murphy	–	–	132,000	–	400,000
Thomas	128,000	1,112,960	132,000	–	436,000
Nieuwenburg	58,000	522,290	93,400	–	365,000
Total	1,006,000	11,101,250	1,029,820	–	3,401,000

¹ Reflects the market price at the time of the exercise or exchange, minus the exercise price, as defined in the TOPs plan.

² Reflects the market price at the time of vesting, minus the exercise price, as defined in the TOPs plan. All TOPs awards vesting in 2008 had an exercise price greater than the market price.

³ Represents compensation earned in 2008 and paid in 2009.

Outstanding Incentive Plan Awards

Name	Date Granted	Expiry Date	Exercise Price (\$)	Granted ³ (#)	Vested and Unvested TOPs at Dec. 31, 2008 ^{1,2}		Vested TOPs at Dec. 31, 2008 ²	
					Number of Securities Underlying Unexercised TOPs (#)	Value of Unexercised TOPs ⁴ (\$)	Number (#)	Value ⁴ (\$)
Fischer	Dec. 14, 1999	Dec. 13, 2009	6.8125	280,000	280,000	4,098,500	280,000	4,098,500
	Dec. 12, 2000	Dec. 11, 2010	9.0250	280,000	280,000	3,479,000	280,000	3,479,000
	Dec. 7, 2004	Dec. 6, 2009	12.7175	600,000	600,000	5,239,500	600,000	5,239,500
	Dec. 6, 2005	Dec. 5, 2010	27.2850	400,000	400,000	–	400,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.6000	550,000	550,000	–	368,500	–
	Dec. 3, 2007	Dec. 2, 2012	28.3900	600,000	600,000	–	204,000	–
	Dec. 8, 2008	Dec. 7, 2013	19.3600	400,000	400,000	836,000	–	–
Total				3,110,000	3,110,000	13,653,000	2,132,500	12,817,000
Romanow ⁵	Dec. 12, 2000	Dec. 11, 2010	9.0250	200,000	200,000	2,485,000	200,000	2,485,000
	Dec. 7, 2004	Dec. 6, 2009	12.7175	228,000	228,000	1,991,010	228,000	1,991,010
	Dec. 6, 2005	Dec. 5, 2010	27.2850	124,000	124,000	–	124,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.6000	160,000	160,000	–	107,200	–
	Dec. 3, 2007	Dec. 2, 2012	28.3900	180,000	180,000	–	61,200	–
	Dec. 8, 2008	Dec. 7, 2013	19.3600	180,000	180,000	376,200	–	–
	Jan. 2, 2009	Jan. 1, 2014	21.4500	295,000	295,000	–	–	–
Total				1,367,000	1,367,000	4,852,210	720,400	4,476,010
Murphy	Dec. 7, 2004	Dec. 6, 2009	12.7175	160,000	52,800	461,076	52,800	461,076
	Dec. 6, 2005	Dec. 5, 2010	27.2850	100,000	100,000	–	100,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.6000	130,000	130,000	–	87,100	–
	Dec. 3, 2007	Dec. 2, 2012	28.3900	165,000	165,000	–	56,100	–
	Dec. 8, 2008	Dec. 7, 2013	19.3600	170,000	170,000	355,300	–	–
Total				725,000	617,800	816,376	296,000	461,076
Thomas	Dec. 7, 2004	Dec. 6, 2009	12.7175	160,000	160,000	1,397,200	160,000	1,397,200
	Dec. 6, 2005	Dec. 5, 2010	27.2850	100,000	100,000	–	100,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.6000	130,000	130,000	–	87,100	–
	Dec. 3, 2007	Dec. 2, 2012	28.3900	165,000	165,000	–	56,100	–
	Dec. 8, 2008	Dec. 7, 2013	19.3600	170,000	170,000	355,300	–	–
Total				725,000	725,000	1,752,500	403,200	1,397,200
Nieuwenburg	Dec. 7, 2004	Dec. 6, 2009	12.7175	120,000	120,000	1,047,900	120,000	1,047,900
	Dec. 6, 2005	Dec. 5, 2010	27.2850	80,000	80,000	–	80,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.6000	100,000	100,000	–	67,000	–
	Dec. 3, 2007	Dec. 2, 2012	28.3900	100,000	100,000	–	34,000	–
	Dec. 8, 2008	Dec. 7, 2013	19.3600	100,000	100,000	209,000	–	–
Total				500,000	500,000	1,256,900	301,000	1,047,900

1 Excludes grants that have been fully exercised.

2 The number and value of unvested TOPs can be determined by subtracting the vested TOPs from the vested and unvested TOPs. The value of unvested TOPs can be confirmed on page 156 in the Change of Control Table.

3 Nexen common shares are issued for TOPs on a one-for-one basis.

4 The difference between the market value of Nexen common shares on the TSX on December 31, 2008 of \$21.45/share and the grant price of TOPs, times the number of TOPs. Where the grant price exceeds the market price of \$21.45/share, the value shown is zero.

5 On January 2, 2009, Mr. Romanow was granted an additional 295,000 TOPs with an exercise price of \$21.45/share upon his appointment as President and CEO.

EQUITY OWNERSHIP AND CHANGES IN 2008

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

Name	December 31, 2007		December 31, 2008		Net Change		Equity at Risk	
	Shares	TOPs ¹	Shares	TOPs ¹	Shares	TOPs ²	Value ³ (\$)	Multiple of Salary ⁴
Fischer	183,426 ⁵	2,215,000	602,417	2,132,500	418,991	(82,500)	25,738,845	19
Romanow	80,938	785,480	186,635	720,400	105,697	(65,080)	8,479,331	14
Murphy	125,226	164,000	135,016	296,000	9,790	132,000	3,357,169	6
Thomas	16,297 ⁵	399,200	21,622	403,200	5,325	4,000	1,860,992	3
Nieuwenburg	65,795	265,600	77,016	301,000	11,221	35,400	2,699,893	6
Total	471,682	3,829,280	1,022,706	3,853,100	551,024	23,820	42,136,230	

¹ Represents total TOPs granted, vested and unexercised.

² Reflects the number of TOPs that vested, minus the number exercised or exchanged during 2008.

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, 2008 of \$21.45/share.

⁴ Reflects the equity at risk, divided by the executive's 2008 salary amount shown on page 148.

⁵ Includes accumulations under the dividend reinvestment plan of ten common shares for Mr. Fischer and 70 common shares for Mr. Thomas which were not previously reported.

PENSION PLAN TABLES

All executives are members of Nexen's registered defined benefit pension plan and executive benefit plan and accrue a pension benefit at a 2% accrual rate. With this option, they must contribute 5% of pensionable earnings up to the maximum allowed under the Canadian Income Tax Act. See pages 145 and 146 for details.

Pension Value Earned and Benefit Obligation Changes in 2008

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

The board must approve additional past service credits or accelerated service credits. No accelerated service credits were authorized in 2008. The notes to the table below shows additional past service credits authorized by the board for the executives who participate in the Canadian defined benefit pension plan and the executive benefit plan.

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

Defined Benefit Plan Table

Name	Years of Credited Service	Annual Benefits Payable		Accrued Obligation at Jan. 1, 2008	Compensatory Change ³	Non-Compensatory Change ⁴	Change in Obligation since Dec. 31, 2007	Accrued Obligation at Dec. 31, 2008
		At Year End ¹	At Age 65 ²					
Fischer	24.58 ⁵	904,792	1,168,001	12,660,000	938,800	(1,273,800)	(335,000)	12,325,000
Romanow	21.50 ^{5,6}	368,527	572,458	4,722,000	317,800	(692,800)	(375,000)	4,347,000
Murphy	22.67	299,475	411,434	4,041,000	285,800	(390,800)	(105,000)	3,936,000
Thomas	28.50 ⁵	364,081	496,656	5,110,000	265,800	(535,800)	(270,000)	4,840,000
Nieuwenburg	4.00 ⁷	104,155	260,298	1,226,000	141,800	(225,800)	(84,000)	1,142,000
Total		2,041,030	2,908,847	27,759,000	1,950,000	(3,119,000)	(1,169,000)	26,590,000

¹ All information is as of December 31, 2008. Represents the sum of the benefits accrued under the defined benefit and executive benefit pension plans.

² Represents a value based on projected years of credited service, a 2% accrual rate to age 65, and actual pensionable earnings used to calculate the benefit amount in the previous column of defined contribution service.

³ Includes the 2008 current service cost, less required member contributions to the plan, plus changes in compensation in excess of actuarial assumptions. Disclosure of the valuation method and significant assumptions used are found in the pension and other post-retirement benefits note 14 in our consolidated financial statements.

⁴ Reflects the impact of interest on prior year's obligations, changes in discount rates used to measure the obligations and the impact of assumption and employee demographic changes.

⁵ Ten years of additional past service credits were granted to each of Messrs. Fischer, Romanow and Thomas by the board in 2001. This was a competitive practice to recognize that they were at a certain level in their career in 2001 when they were appointed to new positions.

⁶ Mr. Romanow joined the defined benefit pension plan after 7.25 years in the defined contribution pension plan. A pension benefit, which is reflective of base salary, will be based on his 21.50 years of defined benefit pension plan service. A pension benefit, which is reflective of pensionable bonus, will also be based on 28.75 years of service, which includes the 7.25 years of defined contribution service.

⁷ Mr. Nieuwenburg joined the defined benefit pension plan after 23.58 years in the defined contribution pension plan. A pension benefit, which is reflective of base salary, will be based on his 4 years of defined benefit pension plan service. A pension benefit, which is reflective of pensionable bonus, will also be based on 27.58 years of service, which includes the 23.58 years of defined contribution service.

The information in the following table is a supplement to the previous table. The final average earnings reported for each named executive are used in the respective calculations and are based on the:

- average base salary for the 36 highest-paid consecutive months during the ten years up to December 31, 2008; plus
- annual cash incentive payments at the lesser of the target bonus or actual bonus paid, averaged over the final three years of participation up to December 31, 2008.

Name	Years of Credited Service			Final Average Earnings (\$)	Accrued Annual Pension Benefit ¹		Estimated Annual Pension Benefit at Age 60 ²	
	Up to Dec. 31, 2004 (#)	From Jan. 1, 2005 (#)	Total (#)		Under the Defined Benefit Pension Plan (\$)	Under the Executive Benefit Plan (\$)	Under the Defined Benefit Pension Plan (\$)	Under the Executive Benefit Plan (\$)
Fischer	20.58	4.00	24.58	2,113,250	34,028	870,765	38,704	918,730
Romanow	17.50	4.00	21.50	881,567	26,833	341,694	44,407	440,652
Murphy	18.67	4.00	22.67	762,361	52,889	246,586	61,315	274,641
Thomas	24.50	4.00	28.50	742,000	43,167	320,915	55,000	367,835
Nieuwenburg	–	4.00	4.00	525,182	9,333	94,822	34,426	174,112

¹ All information is as of December 31, 2008.

² Represents a value based on projected years of credited service at a 2% accrual rate at age 60 and actual pensionable earnings used to calculate the accrued annual pension benefit values in the previous column. Age 60 is the earliest age an individual can receive unreduced retirement benefits.

Defined Contribution Plan Table

The following table represents the value of accumulated pension assets within the registered defined contribution pension plan. Under the terms of this plan, all benefits have been funded. The individuals were entitled to benefits under this registered plan prior to being appointed to executive positions at Nexen. The individuals have no entitlements under any supplemental defined contribution pension plan arrangement and there is no above-market or preferential earnings provisions.

The two individuals are active participants of the defined benefit pension plan and have not contributed to or received any company-provided benefits under the terms of this plan for more than four years as indicated in the notes below.

Name	Accumulated Value at Jan. 1, 2008	Compensatory (\$)	Non-Compensatory (\$)	Accumulated Value at Dec. 31, 2008
Romanow ¹	437,608	–	(105,967)	331,641
Nieuwenburg ²	542,061	–	(131,260)	410,801

¹ Mr. Romanow joined the defined benefit pension plan in 1997 after 7.25 years in the defined contribution pension plan.

² Mr. Nieuwenburg joined the defined benefit pension plan in 2005 after 23.58 years in the defined contribution pension plan.

ALL OTHER COMPENSATION

The total value of perquisites provided to any executive was less than \$50,000 and less than 10% of the executive's annual salary in 2008. Certain perquisites shown below are at the maximum reimbursable amount available to executives. This maximum is often higher than what the executive actually claimed in the year. These perquisites are not available to the broader employee population.

Name	Perquisites			Other Compensation				Total All Other Compensation
	Car Allowance	Other Perquisites ¹	Total	Life Insurance Premiums ²	Savings Plan Contributions	Amounts Paid by Canexus ³	Total	
Fischer	31,200	10,500	41,700	1,620	80,925	–	82,545	124,245
Romanow	19,200	7,100	26,300	642	36,075	55,999	92,716	119,016
Murphy	19,200	7,100	26,300	1,433	32,775	–	34,208	60,508
Thomas	19,200	7,100	26,300	1,338	32,550	–	33,888	60,188
Nieuwenburg	19,200	7,100	26,300	1,380	24,990	–	26,370	52,670

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

² The life insurance premiums provided to the executive is made available to all employees.

³ Includes fees for serving as a director of Canexus of \$34,000, deferred trust units of Canexus valued at \$15,600 and distributions on his trust units of \$6,399.

TERMINATION AND CHANGE OF CONTROL BENEFITS

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

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

Payments on Resignation

The following table discloses the lump sum value of pension benefits accrued under the defined benefit pension plan and executive benefit plan for our named executives had they resigned effective December 31, 2008. If they are over the age of 55 and have at least 10 years of Nexen service, they are deemed to have retired and a lump sum benefit option is not available. Also included in this table is the value of vested TOPs at December 31, 2008.

Name	Termination Scenario	Pension (\$)	Value of Vested TOPs ^{1,2} (\$)	Total (\$)
Fischer ³	Retirement	–	12,817,000	12,817,000
Romanow	Resignation	4,524,000	4,476,010	9,000,010
Murphy ⁴	Deemed retirement	–	461,076	461,076
Thomas ⁵	Deemed retirement	–	1,397,200	1,397,200
Nieuwenburg	Resignation	1,072,000	1,047,900	2,119,900

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

² The difference between the market value of Nexen common shares at year end of \$21.45/share and the grant price of TOPs, times the number of vested TOPs.

³ With Mr. Fischer's retirement on December 31, 2008, he began to receive a monthly pension benefit of \$75,501.

⁴ Mr. Murphy would be eligible to receive a monthly pension benefit of \$22,544 payable effective January 1, 2009. The option to receive a lump sum pension benefit would not be available.

⁵ Mr. Thomas would be eligible to receive a monthly pension benefit of \$25,486 payable effective January 1, 2009. The option to receive a lump sum pension benefit would not be available.

Mr. Fischer's change of control agreement terminated on December 31, 2008 when he retired. Mr. Romanow's change of control agreement was amended in January 2009 when he was appointed President and CEO. The nature of our time-vested TOPs ensures that retiring executives maintain a significant equity interest for at least 12 months (last vesting period) after departure. Charlie Fischer maintains an equity interest that exceeds three times his annual salary.

Change of Control Agreements

Nexen has entered into change of control agreements with Messrs. Fischer, Romanow, Murphy, Thomas, Nieuwenburg and other key executives. The agreements were effective October 1999, amended in December 2000, amended and restated in December 2001, and amended and restated in September 2008. We recognize that these executives are critical to Nexen's ongoing business. Therefore, it is vital we work to retain the executives, protect them from employment interruption caused by a change of control and treat them in a fair and equitable manner. Consistent with industry standards for executives in similar circumstances, there are no restrictions on future employment or non-compete clauses in the agreements. Each year, the Compensation Committee reviews the estimated payments upon a change of control including the termination value of pension benefits due under the defined benefit pension plan and executive benefit plan.

Mr. Fischer's change in control agreement terminated on December 31, 2008 when he retired. Mr. Romanow's change in control agreement was amended in January 2009 when he was appointed President and CEO. In the event of a change of control,

and subsequent termination of employment, Mr. Romanow would be deemed to retire and his pension would commence upon the later of the completion of the severance period outlined below and the attainment of age 55, without any applicable early retirement reduction.

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

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

Name	Severance Period in Months on Change of Control	
	If Terminated	Upon Resignation ¹
Fischer ²	36	36
Romanow	36	30
Murphy	30	–
Thomas	30	–
Nieuwenburg	24	–

¹ Within 12 months after change of control and only if the CEO or CFO has remained an employee.

² Mr. Fischer retired on December 31, 2008 and no longer has these entitlements.

The next table outlines the estimated incremental payments executives would be entitled to had a change of control and a subsequent termination of employment occurred on December 31, 2008. Under the agreement, bonuses would be paid at target for the full severance period. A benefits uplift, equal to 13% of base salary, would be provided in lieu of medical,

dental and life insurance coverage. In addition, the agreement provides a payment for other employee benefits and perquisites, including car allowance and savings plan contributions during the severance period, and an allowance for financial counselling, security monitoring and career transition services.

Executives would also be entitled to an incremental pension benefit relating to their salary, service and annual incentive targets over the severance period. The pension value reported below discloses the resulting lump sum payout determined according to the executive's employment arrangement. These additional pension benefits do not include any termination benefits that would be payable under the registered defined benefit pension plan and executive benefit plan if a termination or retirement occurred that was not triggered by a change of control.

Estimated Incremental Payment on Change of Control ¹

Name	Severance Period (# of months)	Base Salary (\$)	Bonus Target Value (\$)	Benefits Uplift (\$)	Other Employee Benefits (\$)	Additional Lump Sum Value of Pension ² (\$)	Accelerated TOPs Value ³ (\$)	Total Incremental Obligation (\$)
Fischer	36	4,095,000	3,276,000	532,350	377,200	10,269,000	836,000	19,385,550
Romanow	36	1,830,000	1,098,000	237,900	205,300	4,716,000	376,200	8,463,400
Murphy	30	1,387,500	832,500	180,375	169,150	3,780,000	355,300	6,704,825
Thomas	30	1,375,000	825,000	178,750	168,400	4,462,000	355,300	7,364,450
Nieuwenburg	24	844,000	379,800	109,720	126,940	1,690,000	209,000	3,359,460
Total		9,531,500	6,411,300	1,239,095	1,046,990	24,917,000	2,131,800	45,277,685

¹ Assumes a triggering event occurred at December 31, 2008.

² Does not include regular termination pension values which are reported in Payments on Resignation on page 156. Benefits payable under the registered defined benefit pension plan are funded from the pension trust and payable monthly if the executive 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, 2008 of \$21.45/share, less the exercise price. The incremental value is not in addition to the value identified in the vesting provision section of the termination chart on page 156.

CORPORATE GOVERNANCE

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

Nexen has a DSU plan for non-executive directors as described on page 137. 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.

Annually, the CEO certifies to the NYSE that he is unaware of any violation by Nexen of the NYSE's corporate governance listing standards. Nexen also provides the required Annual Written Affirmation to the NYSE. 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, or by email at governance@nexeninc.com.

GOVERNANCE COMMITTEE REPORT

The Governance Committee assists the board in overseeing implementation of our corporate governance programs. It recommends nominees for director appointments and manages the evaluation process of the board, its committees and individual directors and chairs. This oversight ensures we implement best-in-class governance practices appropriate for Nexen.

All Committee members are independent and knowledgeable on our corporate governance programs. Six members are skilled or expert in governance and board experience or diversity—expertise most relevant to the Committee's mandate.

Changes to Committee Membership in 2008

The Committee membership did not change in 2008.

Key Activities in 2008

- Recommended two new directors for appointment to the board to replace two retiring directors;
- Recommended revised share ownership guidelines for directors;
- Reviewed our annual meeting vote results;
- Recommended updates to governance documents including mandates for the board, individual directors and all board committees, the external communications policy and the corporate governance policy;
- Received regular reports on management's dialogue with governance-related stakeholders;
- Recommended a new online performance evaluation process with updated questions; and
- Consulted with Dr. Richard Leblanc, Assistant Professor of Corporate Governance, York University, on the board's performance evaluations.

The Board and Committees

The Committee reviews board and committee memberships annually, considering director independence, skills and preferences. The board is large enough to permit a diversity of views and provide expertise in running the committees, without being so large as to detract from effectiveness. Each year, a skills matrix is compiled and reviewed by the Committee. This matrix sets out areas of expertise determined to be essential to ensure appropriate strategic direction and oversight by the board. It also assists with board recruitment. The Committee's review of board experience indicates that the current mix of skills is appropriate.

Nominating a New Director for Election

The Committee identifies and assesses candidates for board appointment or nomination. Our forward-looking skills matrix has identified skills with the greatest opportunity to strengthen the board.

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

Mr. Hentschel and Mr. Thomson are retiring from the board at our annual meeting in April due to mandatory retirement. To fill these vacancies, two directors have been appointed to the board. Mr. Berry joined on December 8, 2008. He brings skills and expertise in international operations and business development, and health, safety and environment management. Mr. Bertram joined on January 1, 2009 and brings skills and expertise in governance and board experience, managing and leading growth, and financial acumen.

The Committee maintains an evergreen list of potential directors whose skills complement the board and whom the Committee recommends joining the board, if the individual is available when an opening arises.

Mr. Fischer resigned from the board effective December 31, 2008 upon his retirement as President and CEO, Mr. Romanow became a member of the board effective January 1, 2009 by virtue of his appointment as President and CEO. He is not independent and does not sit on any committees.

The Committee will also consider a board nominee recommended by a shareowner. See page 159 for information on communicating with the board.

Performance Evaluations

The board and management work together to foster continuous, open and honest communication, where concerns are brought forward and dealt with as they occur. In this spirit, the annual board evaluation is seen as an opportunity to review the past year and consider contributions, successes and opportunities for improvement. Visit www.nexeninc.com for a special report on our director evaluation process.

Our six-part performance evaluation review is our primary tool for determining who should be on the board. In light of this review, the board does not have a tenure policy and has flexible term limits. Nexen's average board tenure of director nominees is 8.5 years. Our retirement age is 75.

The Committee recommended a new online performance evaluation process in 2008. They also considered comments from the last evaluation to further explore executive compensation and risk management.

The board rates its overall effectiveness on a ten-point scale, where 10 is the best. The average rating was 8.9 for 2008 and 9.23 for 2007. The decline in the average score is partly explained by a change in the rating scale from fractional to whole numbers in 2008.

External Recognition and Verification

We received the following recognition for our governance practices during 2008:

- The Award of Excellence in Corporate Governance Disclosure in the 2008 Corporate Reporting Awards from the Canadian Institute of Chartered Accountants;
- Recognition from the Canadian Coalition for Good Governance for new best practices in shareholder communication and compensation disclosure;
- Finalist for the Stakeholder Communication Award at the 2008 Petroleum Economist Awards in the UK;
- The Best Corporate Governance Practices in North America by IR Global Rankings;
- Ranked 7th, with a score of 92 out of 100, in the Report on Business 2008 corporate governance rankings; and
- Current global rating of 10 out of 10 from Governance Metrics International for governance practices and disclosure.

Committee Approval

The Committee has reviewed and discussed the governance disclosure in this document, including the information in the Board of Directors section (pages 133 to 137). It has recommended to the board that the disclosure be included in the proxy circular and, as appropriate, the Form 10-K.

Submitted on behalf of the Governance Committee:

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

Ethics Policy

Under our ethics policy, all directors, officers and employees must demonstrate ethical business practices in all business relationships, 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, our ethics policy must be board approved and disclosed. We have never waived any provisions of the ethics policy. Our ethics policy provides for an external integrity helpline, in place since February 1, 2005.

Nexen's ethics policy is available at www.nexeninc.com. If we amend or waive any provision of it, we will disclose this online. We also file our ethics policy and any amendments to it on SEDAR at www.sedar.com. To request a copy of the policy, contact the Integrity Resource Centre by emailing integrity@nexeninc.com or calling 403.699.6789.

Reporting Concerns

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

- management or the Chair of the Audit and Conduct Review Committee (Audit Committee) as set out in the ethics policy; or
- EthicsPoint, as set out below.

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

By mail: Nexen Inc.
801 – 7th Avenue SW
Calgary, Alberta, Canada
T2P 3P7

Attention: Integrity Resource Centre

By email: integrity@nexeninc.com

By phone: 403.699.6789

You may also report concerns through our integrity helpline, which is a secure reporting system, operated by EthicsPoint, an independent third-party service provider. To learn more about our integrity helpline and for toll-free numbers for other countries, visit www.nexeninc.com and click on the "Integrity Helpline" link at the top of the page or access the helpline directly:

Online: www.ethicspoint.com

By phone: 1.866.384.4277 (toll-free in North America)

Communicating with the Board

Shareowners may write to the board or any board member(s) at the following address:

By mail: Nexen Inc.
801 – 7th Avenue SW
Calgary, Alberta, Canada
T2P 3P7

Attention: Governance Office

By email: board@nexeninc.com

We receive inquiries on many subjects daily. The board and management have developed a process to manage inquiries so that the appropriate personnel respond to them.

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

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

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

AUDIT COMMITTEE REPORT

See page 161 for a full report on the Audit Committee.

ITEM 12.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

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

Name and Address of Beneficial Owner	# of Shares Beneficially Owned	% of Shares Outstanding	Effective Date
Jarislawsky, Fraser Limited ¹ Suite 2005, 1010 Sherbrooke Street West Montreal, Quebec, Canada, H3A 2R7	47,739,443	9.19%	January 31, 2009

¹ The beneficial owner has sole voting power over 41,087,027 shares, shared voting power over 6,652,416 shares and sole power to dispose of all shares.

Security Ownership of Management

At February 12, 2009, 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
William B. Berry	–	–
Robert G. Bertram	16,000	–
Dennis G. Flanagan	31,264	20,000
David A. Hentschel	70,925	100,000
S. Barry Jackson	72,000	–
Kevin J. Jenkins	12,415	60,000
A. Anne McLellan, P.C.	300	–
Eric P. Newell, O.C.	12,000	–
Thomas C. O'Neill	16,000	–
Marvin F. Romanow	187,432	720,400
Francis M. Saville, Q.C.	48,860	71,004
Richard M. Thomson, O.C.	92,004	150,000
John M. Willson	15,055	–
Victor J. Zaleschuk	63,152	240,000
Kevin J. Reinhart	46,483	330,800
Laurence Murphy	135,528	296,000
Roger D. Thomas	22,097	403,200
Gary H. Nieuwenburg	77,399	301,000
All Directors and Executive Officers as a Group (25 persons)	1,058,205	3,818,588

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 12, 2009. 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 TOPs	Weighted-Average Exercise Price of Outstanding TOPs	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by shareowners	24,622,290	\$22/option	27,429,292
Equity compensation plans not approved by shareowners	–	–	–
Total	24,622,290	\$22/option	27,429,292

ITEM 13.

Certain Relationships and Related Transactions, and Director Independence

RELATED PARTY TRANSACTION

As a Canadian foreign private issuer, Nexen provides the disclosure required under Item 7.B. of Form 20-F dealing with “related party transactions.” Nexen did not have any related party transactions in 2008 as defined under that standard. Certain other transactions described below which are not related party transactions, involving Nexen and certain of our directors, were entered into in 2008.

DIRECTOR INDEPENDENCE

Mr. Saville, was a senior partner of Fraser Milner Casgrain LLP (FMC), Barristers and Solicitors, Calgary, Alberta, until the end of January 2004. Since February 1, 2004, he has been counsel with the firm. FMC provided legal services to us in each of the last five years. Mr. Saville does not solicit or participate in these services and does not receive any portion of the fees we pay to FMC, nor is he a partner or an employee of the firm. He is independent under our categorical standards.

Ms. McLellan, has been counsel with Bennett Jones (BJ), Barristers and Solicitors, Edmonton, Alberta since June 27, 2006. BJ provided legal services to us in each of the last five years. Ms. McLellan does not solicit or participate in those services and does not receive any portion of the fees we pay to BJ, nor is she a partner or an employee of the firm. She is independent under our categorical standards.

Mr. Romanow is not independent as he is Nexen’s President and CEO.

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

not technically independent as of July 1, 2007. Mr. Flanagan was not aware that the company acquired by TriAxon held contracts with Nexen. The board has determined that Mr. Flanagan’s independence has not been compromised by this transaction and, accordingly, the board continues to include him in their meetings without management.

ITEM 14.

Principal Accounting Fees and Services

AUDIT COMMITTEE REPORT

The Audit Committee is responsible for appointing (subject to shareowner approval), compensating and overseeing the independent registered chartered accountants (IRCAs). The IRCAs are accountable to and report directly to the Committee, and understand that they must maintain an open and transparent relationship with the Committee, which represents our shareowners.

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

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

Management is responsible for our internal controls and financial reporting process. The IRCAs are responsible for independently auditing our: i) consolidated financial statements according to Canadian and US generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States); and, ii) internal control over financial reporting according to the standards of the Public Company Accounting Oversight Board. The Committee monitors and oversees these processes.

Changes to Committee Membership in 2008

The Committee membership did not change in 2008.

KEY ACTIVITIES FOR 2008

- Met separately with management and the IRCAs to review the December 31, 2008 consolidated financial statements;
- Discussed matters required by Canadian and US regulators with the IRCAs;
- Received written disclosures from the IRCAs required by US regulators;
- Discussed with the IRCAs that firm's independence;
- Discussed the scope and result of the audit with the IRCAs;
- Oversaw the compliance activities by management to report on the effectiveness of internal control over financial reporting as at December 31, 2008;
- Reviewed and approved the quarterly consolidated financial statements;
- Recommended to the board that the audited consolidated financial statements be included in Nexen's annual report on Form 10-K for the year ended December 31, 2008, based on

the reviews and discussions referred to above; and

- Reviewed Nexen's progress on its planned transition to International Financial Reporting Standards.

Audit Partner Rotation

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

Sections 302 and 404 of Sarbanes-Oxley

Nexen is a voluntary filer of the Form 10-K in the US and has complied with the requirements of Sections 302 and 404 of Sarbanes-Oxley since December 31, 2004. Accordingly, Nexen is in compliance with *National Instrument 52-109—Certification of Disclosure in Issuers' Annual and Interim Filings*. In 2008, management assessed our internal control over financial reporting and concluded that it was effective as of December 31, 2008. The integrated audit report for 2008 is included in this Form 10-K.

IRCAs Engagement and Fees Billed

Before Nexen or any subsidiary engage the IRCAs for additional audit or non-audit services, the Committee must approve the engagement. The Audit Committee has the discretion to delegate to the committee Chair, on an annual basis, the authority to pre-approve the hiring of the IRCAs for minor, time-sensitive audit services, provided any pre-approvals are presented in writing to the Committee at the next scheduled meeting. The Audit Committee has the discretion to annually delegate to one or more of its members the authority to grant pre-approvals for non-audit services provided any pre-approvals are presented in writing to the Committee at the next scheduled meeting. Since May 6, 2003, the Committee has approved all audit, audit-related, tax and other services provided by the IRCAs.

Type of Fee	Billed in 2007	Billed in 2008	Percentage of Total Fees Billed in 2008
Audit Fees			
For the integrated audit of Nexen's consolidated financial statements included in our annual report on Form 10-K	2,966,000 ¹	2,812,000 ²	
For the integrated audit of the consolidated financial statements of Canexus ³	145,000	215,600 ⁴	
For the first, second and third quarter reviews of Nexen's consolidated financial statements included in Form 10-Qs	90,000	110,000	
For the first, second and third quarter reviews of the consolidated financial statements of Canexus ³	45,000	45,000	
For comfort letters and submissions to commissions	153,500	3,000	
Total Audit Fees	3,399,500	3,185,600	68%
Audit-Related Fees – Nexen and Canexus³			
For the annual audits and quarterly reviews of subsidiary financial statements and employee benefit plans	828,100	1,144,700	
Total Audit-Related Fees	828,100	1,144,700	24%
Tax Fees – Nexen and Canexus³			
For tax return preparation assistance and tax-related consultation	116,400	139,800	
Total Tax Fees	116,400	139,800	3%
All Other Fees	110,600⁵	216,300⁵	5%
Total Annual Fees	4,454,600	4,686,400	100%

¹ Consisting of \$1,366,000 to complete the 2006 audit and \$1,600,000 to commence the 2007 audit.

² Consisting of \$936,000 to complete the 2007 audit and \$1,876,000 to commence the 2008 audit.

³ Includes fees for Canexus Income Fund, Canexus Limited Partnership and its subsidiaries.

⁴ Consisting of \$121,500 to complete the 2007 audit and \$93,100 to commence the 2008 audit.

⁵ Annual renewal fees for an upstream information database used in our UK office.

The Committee concludes that the services provided by the IRCAs as described in “All Other Fees” above maintains that firm’s independence.

External Recognition and Verification

Nexen was recognized in 2008 with the Award of Excellence for Corporate Reporting in the Oil and Gas category of the Corporate Reporting Awards from the Canadian Institute of Chartered Accountants.

Committee Approval

Based on the Committee’s discussions with management and the IRCAs, and its review of both their representations, the Committee recommended to the board that the audited consolidated financial statements be included in Nexen’s annual report on Form 10-K for the year ended December 31, 2008.

Submitted on behalf of the Audit Committee:

Tom O’Neill, Chair	Dick Thomson
Eric Newell	Kevin Jenkins
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).

- 3.14 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).
- 3.16 Certificate and Articles of Amendment of the Registrant dated April 26, 2007 (filed as Exhibit 3.16 to Form 8-K dated April 27, 2007).
- 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).
- 4.55 Senior Debt Indenture dated May 4, 2007 between the Registrant and Deutsche Bank Trust Company Americas, pertaining to the issue of senior notes from time to time (filed as Exhibit 4.1 to Form 8-K dated May 7, 2007).
- 4.56 First Supplemental Indenture dated May 4, 2007 to the Trust Indenture dated May 4, 2007 between the Registrant and Deutsche Bank Trust Company Americas pertaining to the issuance of US\$250 million, 5.65% notes due 2017 and the issuance of US\$1.25 billion, 6.40% notes due 2037 (filed as Exhibit 4.2 to Form 8-K dated May 7, 2007).
- 4.57 Amended and Restated Shareholder Rights Plan Agreement, dated April 29, 2008 between the Registrant and CIBC Mellon Trust Company, as Rights Agent (filed as Exhibit 4.57 to Form 8-K dated April 30, 2008).
- 10.41 Indemnification Agreements made between the Registrant and its directors and officers during 2002 (filed as Exhibit 10.41 to Form 10-K for the year ended December 31, 2002).
- 10.42 Indemnification Agreement made between the Registrant and one of its directors, Eric P. Newell, as of January 5, 2004 (filed as Exhibit 10.42 to Form 10-K for the year ended December 31, 2003).
- 10.43 Credit Agreement dated as of July 22, 2005 between the Registrant and the Toronto Dominion Bank, as Agent, and the Lenders (filed as Exhibit 10.1 to Form 8-K dated July 28, 2005).
- 10.44 Guarantee dated as of July 22, 2005 as Schedule K to the Credit Agreement (filed as Exhibit 10.2 to Form 8-K dated July 28, 2005).
- 10.46 Indemnification Agreement made between the Registrant and one of its directors, A. Anne McLellan P.C., as of July 5, 2006 (filed as Exhibit 10.2 to Form 8-K dated July 20, 2006).
- 10.47 Second Amending Agreement dated July 14, 2006 to the Credit Agreement, dated as of July 22, 2005, between the Registrant and the Toronto-Dominion Bank, as Agent, and the Lenders (filed as Exhibit 10.1 to Form 8-K dated July 20, 2006).
- 10.48 Indemnification Agreement made between the Registrant and Brendon Muller dated April 9, 2007 (filed as Exhibit 10.48 to Form 8-K dated April 12, 2007).
- 10.50 Pricing Agreement dated May 1, 2007 among the Registrant and Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as Underwriters (filed as Exhibit 10.1 to Form 8-K dated May 7, 2007).
- 10.52 Amended and Restated Agreement Respecting Change of Control and Executive Benefit Plan Entitlements with Executive Officers dated during August and September, 2008 (filed as Exhibit 10.52 to Form 10-Q for the quarterly period ended September 30, 2008).
- 10.53 Amended and Restated Agreement Respecting Change of Control and Executive Benefit Plan Entitlements with Kevin J. Reinhart dated as of September 16, 2008 (filed as Exhibit 10.53 to Form 8-K dated November 21, 2008).
- 10.54 Form of Indemnification Agreement between the Registrant and William B. Berry and Robert G. Bertram (filed as Exhibit 10.54 to Form 8-K dated December 10, 2008).
- 10.55 Amending Agreement dated as of December 9, 2008 to the Amended and Restated Agreement Respecting Change of Control and Executive Benefit Plan Entitlements with Marvin F. Romanow dated as of September 17, 2008 (filed as Exhibit 10.55 to Form 8-K dated December 10, 2008).
- 10.56* Tandem Option Plan amended June 30, 2007.
- 11.1* Statement regarding the Computation of Per Share Earnings for the three years ended December 31, 2008.
- 21.1* Subsidiaries of the Registrant.
- 23.1* Consent of Independent Registered Chartered Accountants.
- 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 20, 2009.

NEXEN INC.

By: /s/ Marvin F. Romanow
Marvin F. Romanow
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 20, 2009.

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

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

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

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

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

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

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

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

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

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

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

/s/ Marvin F. Romanow
Marvin F. Romanow
President, Chief Executive Officer
and Director (Principal Executive Officer)

/s/ Kevin J. Reinhart
Kevin J. Reinhart
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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

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

EXHIBIT 31.1

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 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 20, 2009

/s/ Marvin F. Romanow

Marvin F. Romanow

President and Chief Executive Officer

EXHIBIT 31.2

Certifications

I, Kevin J. Reinhart, 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 20, 2009

/s/ Kevin J. Reinhart

Kevin J. Reinhart

Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certification Of Periodic Report

I, Marvin F. Romanow, 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, 2008 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 20, 2009

/s/ Marvin F. Romanow

Marvin F. Romanow

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, Kevin J. Reinhart, Senior 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, 2008 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 20, 2009

/s/ Kevin J. Reinhart

Kevin J. Reinhart

Senior 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.