

# CORPORATE GOVERNANCE



**Nexsen**

Good governance fosters better decision making. Our experienced board guides management to make the best choices for all stakeholders.

## PART III

### ITEMS 10 AND 11: Directors, Executive Officers and Corporate Governance, and Executive Compensation

Directors	161
Independence and Board Committees	165
Meeting Attendance	166
Director Compensation	167
Compensation Committee Report	170
Compensation Committee Interlocks and Insider Participation	172
Compensation Discussion and Analysis	172
Compensation Philosophy	172
Compensation Objectives	174
Compensation Approval Process	175
Base Salaries	175
Annual Cash Incentives	175
Share Performance Graph	177
Share Ownership Guidelines	178
Long-Term Incentives	179
Benefit and Pension Plans	181
Executive Officers	184
CEO Compensation and 2009 Objectives and Achievements	186
CEO Look-Back	187
Incentive Plan Awards	188
Equity Ownership and Changes in 2009	190
Pension Plan Benefits	190
All Other Compensation	192
Termination and Change of Control Benefits	193
Corporate Governance	195
Governance Committee Report	196
Audit Committee Report	199
ITEM 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	200
ITEM 13: Certain Relationships and Related Transactions, and Director Independence	201
ITEM 14: Principal Accounting Fees and Services	201
<b>Part IV</b>	
ITEM 15: Exhibits, Financial Statement Schedules	204

## PART III

### ITEMS 10. AND 11.

#### Directors, Executive Officers and Corporate Governance, and Executive Compensation

#### DIRECTORS

According to our Articles, Nexen must have between three and 15 directors. On February 11, 2009, the board set the size at 12 directors effective April 28, 2009.

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

Name (Age)	Principal Occupation	Other Directorships	Nexen Director Since
William B. Berry <sup>1,3</sup> (57)	Retired oil executive Formerly: Executive Vice President of ConocoPhillips	Willbros Group, Inc.	2008
Robert G. Bertram <sup>1</sup> (65)	Retired pension investment executive Formerly: Executive Vice President of Ontario Teachers Pension Plan Board	Mulvihill Capital Management Funds <sup>2</sup> The Cadillac Fairview Corporation Maple Leaf Sports and Entertainment Ltd.	2009
Dennis G. Flanagan (70)	Retired oil executive	Canexus Income Fund (Chair)	2000
S. Barry Jackson <sup>1</sup> (57)	Retired oil executive Formerly: Chair of Resolute Energy Inc. and Chair of Deer Creek Energy Limited	TransCanada Corporation (Chair) TransCanada PipeLines Limited (Chair) WestJet Airlines Ltd.	2001
Kevin J. Jenkins <sup>1,3</sup> (53)	President and Chief Executive Officer of World Vision International Formerly: Managing Director of TriWest Capital Partners	–	1996
A. Anne McLellan, P.C. <sup>1</sup> (59)	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. <sup>1</sup> (65)	Retired oil executive	–	2004
Thomas C. O'Neill <sup>1,3</sup> (64)	Retired chartered accountant	Adecco S.A. BCE Inc. Loblaw Companies Limited The Bank of Nova Scotia	2002
Marvin F. Romanow (54)	President and CEO of Nexen Formerly: Executive Vice President and CFO of Nexen	Canexus Income Fund	2009
Francis M. Saville, Q.C. <sup>1</sup> (71)	Chair of Nexen Formerly: Counsel with Fraser Milner Casgrain LLP, Barristers and Solicitors	–	1994
John M. Willson <sup>1</sup> (70)	Retired mining executive	Finning International Inc.	1996
Victor J. Zaleschuk <sup>4</sup> (66)	Retired oil executive	Agrium Inc. Cameco Corporation (Chair)	1997

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

<sup>2</sup> An investment management fund organization managing a series of closed-end funds listed on the Toronto Stock Exchange. Mr. Bertram is an Audit Committee member for each of these funds.

<sup>3</sup> Financial experts on Nexen's Audit Committee.

<sup>4</sup> Mr. Zaleschuk was President and CEO of Nexen from 1997 to 2001.

## PREVIOUS DIRECTORSHIPS

The information in the following table represents previous directorships held by our directors over the last five years at public and registered investment companies.

Name	Company
Flanagan	NAL Oil and Gas Trust
Jackson	Cordero Energy Inc., Resolute Energy Inc., Deer Creek Energy Limited
Newell	Canfor Corporation
O'Neill	Dofasco Inc., Ontario Teachers' Pension Plan Board
Saville	Mullen Transport Inc.
Willson	Pan American Silver Corp., Harry Winston Diamond Corp.

## EXPERIENCE AND QUALIFICATIONS

The experience and qualifications of our board members contribute to our success. The wealth of knowledge and depth of understanding of their role and our industry has a profound impact on the way we conduct business. The following chart illustrates the expertise that our directors have indicated they possess in each area.

	Managing/ Leading Growth	International	CEO/Senior Officer	Exploration	Compensation	Oil and Gas	Governance/ Board	Financial Acumen	Health, Safety, Environment and Social Responsibility	Diversity	Marketing
Berry	√	√	√	√	√	√	√	√	√	√	
Bertram	√				√		√	√		√	
Flanagan	√	√	√	√	√	√	√	√	√	√	
Jackson	√		√	√	√	√	√	√	√	√	√
Jenkins	√	√	√		√		√	√	√		
McLellan	√	√	√				√		√	√	
Newell	√	√	√		√	√	√	√	√	√	
O'Neill	√	√	√		√	√	√	√	√	√	√
Romanow	√	√	√	√	√	√	√	√	√	√	√
Saville	√	√	√		√	√	√		√	√	
Willson	√	√	√	√	√		√		√	√	
Zaleschuk	√	√	√	√	√	√	√	√	√	√	√
<b>Total</b>	<b>12</b>	<b>10</b>	<b>11</b>	<b>6</b>	<b>11</b>	<b>8</b>	<b>12</b>	<b>9</b>	<b>11</b>	<b>11</b>	<b>4</b>

Mr. Berry brings over 35 years of oil and gas exploration experience to his role, including expertise in international affairs from his work overseas and in his capacity as an executive of a global energy company. Mr. Berry has Bachelor and Masters of Science degrees in Petroleum Engineering. Mr. Berry was responsible for understanding the financial reporting of exploration and production, and finance managers reported directly to him on a functional basis. This executive-level experience and his standing committee membership on the Compensation Committee at Willbros Group, Inc. give him an extensive background in compensation matters.

Mr. Bertram has a proven track record for managing and leading growth as an executive for a large pension fund. He has a Masters of Business Administration and a chartered financial analyst designation and is considered a financial expert, with almost 40 years' experience in financial roles. As Chair of the Strategic Committee of a leading independent governance analysis and proxy voting firm and a recipient of the ICD.D designation, Mr. Bertram brings considerable knowledge to his role in the areas of governance and board. Mr. Bertram has been involved at the board level of non-public companies and not-for-profit organizations for several years. His standing committee service on these boards and as a

member of our Compensation and Human Resources Committee provide him with substantial experience on compensation matters.

Mr. Flanagan has been a member of the board for the past 10 years. He brings over 40 years of oil and gas and exploration experience, including several years in senior executive roles, including Chief Financial Officer, Chief Executive Officer and Executive Chair. During his career he was involved in all phases of several overseas projects. Mr. Flanagan's education and experience in the areas of accounting and finance qualify him as a financial expert. He has served on several standing committees, giving him extensive experience in the areas of compensation, governance, board and health, safety, environment and social responsibility issues. Mr. Flanagan brings a diverse background through his international work and varied skills and experience at the board level for both for-profit and not-for-profit sectors.

Mr. Jackson has been a member of the board for the past nine years. He brings over 35 years of oil and gas experience to his role and held several senior executive and board positions, including President and Chair of the Board. In this capacity, he was exposed to a broad range of business issues and developed expertise in marketing, governance and board matters. He has a Bachelor of Science degree in Engineering. Mr. Jackson's board and standing committee memberships at Nexen and other public companies give him expertise in the areas of compensation, governance and board. Mr. Jackson has been a member of our Compensation Committee and Audit Committee since 2001.

Mr. Jenkins has served as a board member since 1996. He brings a wealth of knowledge and practical experience to his role on the board and standing committees. He received his Bachelor of Laws from the University of Alberta and is a graduate of the Harvard Graduate School of Business Administration. Mr. Jenkins held several senior executive positions in large corporations over the past 25 years and is currently President and Chief Executive Officer of World Vision International. He served as a member of the Finance and Audit Committees for the past 10 years and 11 years, respectively, and has chaired both committees during his tenure. Mr. Jenkins' education and experience qualify him as a financial expert. He has been an active member of the

board and standing committees, providing him with extensive experience in the areas of compensation, governance, board and health, safety, environment and social responsibility.

Ms. McLellan brings diverse senior executive experience to her role through her tenures as a law school professor and associate dean, Deputy Prime Minister of Canada, Attorney General of Canada, Member of Parliament, counsel for a leading Canadian law firm and as a board member of public companies. Ms. McLellan has Bachelor of Arts and Bachelor and Masters of Laws degrees. Her board and standing committee memberships at Nexen and other public companies give her a solid background in the areas of governance, board and safety, health and environment.

Dr. Newell is a proven corporate and community leader. He holds a Masters of Science in Management Studies, is an Officer of the Order of Canada and a member of the Alberta Order of Excellence and has Honorary Doctorate degrees from three Canadian universities and one from the Northern Alberta Institute of Technology. He has also been honoured by many other organizations whose interests lie in business leadership, education, youth development and public policy. Dr. Newell brings several years of oil and gas experience to his role, including 14 years as Chief Executive Officer of the world's largest producer of crude oil from oil sands. Under his leadership, the company became an increasingly significant source of energy supply for the entire nation and a model of a reliably operated, environmentally efficient, socially responsible corporation. As President of the Alberta Chamber of Resources in the mid 1990s, Dr. Newell was instrumental in developing a comprehensive new energy vision for Canada, which led to the large-scale expansion now under way in the oil sands industry. Dr. Newell's storied career has given him extensive experience in the areas of compensation and financial acumen.

Mr. O'Neill has a proven track record for managing and leading growth as a senior executive and Chair for a large global accounting firm. Mr. O'Neill has a Bachelor of Commerce degree and is a chartered accountant and a Fellow of the Institute of Chartered Accountants of Ontario. He is considered a financial expert, with over 40 years' experience in financial roles. He worked in Brussels to broaden his international experience and serviced numerous

multinational companies. As a member of the board and standing committee memberships at Nexen and other public companies, he brings a wealth of knowledge to his role in the areas of governance, board, compensation, oil and gas, and marketing.

Mr. Romanow brings a wealth of knowledge and practical experience to his role on the board. He has a Bachelor of Engineering degree, with great distinction, and a Masters of Business Administration. He held several senior executive positions and leadership roles in corporate finance, planning, business development, marketing, exploration and development, and reservoir engineering and is currently the President and Chief Executive Officer of Nexen. Mr. Romanow has a proven track record for managing and leading growth and was the recipient of Canada's CFO of the Year for 2007 and Energy Executive of the Year for 2006. Mr. Romanow's service on two public boards and one private board and his varied career have given him a solid background in the areas of governance, board, compensation, and health, safety, environment and social responsibility and enabled him to bring a broad, diverse perspective.

Mr. Saville has served as a board member since 1994. His tenure as senior partner and counsel for a large national law firm, leadership roles at the law firm and over 40 years of energy and environmental regulatory law experience give him considerable knowledge and leadership for his role on the board and its standing committees. He has Bachelor of Arts and Bachelor of Laws degrees and is a recipient of the ICD.D designation. Mr. Saville is a recognized leader in corporate governance and a frequent speaker and author on corporate governance, international and Canadian resources law and on integrity in law, business and government. His past board and standing committee membership on the Governance and Compensation Committee of a public company, coupled with his participation on Nexen's Corporate Governance and Nominating Committee and Compensation and Human Resources Committee for the past 11 years and 7 years, respectively, give him a solid background in the areas of governance, board and compensation. Mr. Saville was Chair of the Governance Committee for four years during this time and has also been a member of the Health, Safety, Environment and Social Responsibility Committee for the past 15 years.

Mr. Willson has served as a board member for the past 13 years and brings a wealth of knowledge and practical experience to his role on the board and standing committees. He was educated in Portugal and England, receiving a Masters degree in Mining Engineering. Mr. Willson held several senior executive positions in the mining business over the past 40 years, and his work has taken him to Ghana, the United States, Canada and Greenland. He served as a member of the Finance Committee for eight years and has served on the Audit Committee for the past four years, giving him a sound understanding of accounting and financial matters. His board and committee service over the years at Nexen and other public companies, including 10 years on our Compensation Committee—seven years as the Chair, give him a solid background in the areas of governance, board and compensation. Mr. Willson's career as a mining executive and his participation as a member of the Health, Safety, Environment and Social Responsibility Committee for 10 years have provided him with extensive experience in these areas. He is also the Chair of the Reserves Committee of which he has been a member for the past 10 years.

Mr. Zaleschuk brings over 30 years of oil and gas and financial experience to his role. He has a Bachelor of Commerce degree, is a chartered accountant and held several senior executive positions at global energy companies, including his position as President and Chief Executive Officer of Nexen from 1997 to 2001. These leadership roles provide him with significant knowledge in the areas of finance, exploration and marketing. Mr. Zaleschuk is Chair of the Audit Committee for a public company and Chair of Nexen's Finance Committee and is considered a financial expert. His board and standing committee memberships at Nexen and other public companies give him a solid background in the areas of governance, board, compensation and health, safety, environment and social responsibility.

## INDEPENDENCE AND BOARD COMMITTEES

The board affirmed director independence under our categorical standards for director independence (categorical standards), which were adopted in 2003 and most recently amended on February 17, 2010. 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.

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. Legal fees paid to BJ represent less than 6% of all legal fees paid by Nexen in 2009. 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 was counsel with Fraser Milner Casgrain LLP (FMC), Barristers and Solicitors, Calgary, Alberta from February 1, 2004 to January 31, 2010. 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 <sup>1,2</sup> (6)	Compensation <sup>1</sup> (7)	Governance <sup>1</sup> (8)	Finance <sup>1</sup> (6)	HSE & SR <sup>1</sup> (6)	Reserves <sup>1</sup> (7)
<b>Management Director—Not Independent</b>						
Marvin F. Romanow						
<b>Independent Outside Directors</b>						
William Berry <sup>3</sup>	√				√	√
Robert G. Bertram		√	√	√		
Dennis G. Flanagan <sup>4</sup>				√	√	√
S. Barry Jackson	√	√	Chair			√
Kevin J. Jenkins <sup>3</sup>	√	Chair	√	√		
A. Anne McLellan, P.C.		√	√	√	√	
Eric P. Newell, O.C.	√		√		Chair	√
Thomas C. O'Neill <sup>3,5</sup>	Chair	√	√			√
Francis M. Saville, Q.C.		√	√	√	√	
John M. Willson	√	√	√			Chair
Victor J. Zaleschuk				Chair	√	√

<sup>1</sup> All members are independent. All Audit Committee members are independent under additional regulatory requirements applicable to them.

<sup>2</sup> 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 on page 166.

<sup>3</sup> Audit Committee financial expert under US regulatory requirements.

<sup>4</sup> Last year, Mr. Flanagan was not regarded as independent because of a family member who was an officer of a company with which Nexen did business beyond the prescribed independence limits. Effective December 15, 2009, this company was acquired and the family member ceased to be an officer. Accordingly, Mr. Flanagan has been independent since that date.

<sup>5</sup> The board 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.

## MEETING ATTENDANCE

Directors are expected to attend the AGM. All directors were at the 2009 AGM.

Directors strive for attendance at all board and committee meetings and are expected to attend at least 75% of meetings held in the year. In 2009, the board and committee attendance rate averaged 98.5%. The following table shows the number of committee meetings held by each committee during 2009 and the number of sessions held without management.

Board/Committee	Sessions Without Management in 2009/Meetings Held		
	Regular	Special	Overall
Board	5/5	–	5/5
Audit Committee	5/5	–	5/5
Compensation Committee	5/5	–	5/5
Governance Committee	5/5	–	5/5
Finance Committee	5/5	–	5/5
HSE & SR Committee	5/5	–	5/5
Reserves Committee	3/3	1/1	4/4
<b>Total</b>	<b>33/33</b>	<b>1/1</b>	<b>34/34</b>

## AUDIT COMMITTEE FINANCIAL EXPERT EXPERIENCE

Name	Berry	Jenkins	O'Neill
<b>Experience</b>	<p>William Berry, 57, is a retired oil and gas executive. He was formerly Executive Vice President of ConocoPhillips from 2003 to 2008. He also held other senior executive positions with Phillips Petroleum Co., including as Senior Vice President, Exploration and Production. His career in the oil and gas industry began in 1976 and includes experience working in Africa, the North Sea, Asia, Russia, the Caspian Sea and North America.</p> <p>Mr. Berry has Bachelor and Masters of Science degrees in Petroleum Engineering from Mississippi State University. He was responsible for understanding the financial reporting of exploration and production at ConocoPhillips and had finance managers report directly to him on a functional basis. He held various management roles, including as Manager, Corporate Planning and Budgeting.</p> <p>He is a director of Willbros Group, Inc. Mr. Berry serves on the Dean's Advisory Council at Mississippi State University. He also serves on the Advisory Board of Teach for America in Houston.</p>	<p>Kevin Jenkins, 53, is President and Chief Executive Officer of World Vision International. He was formerly a Managing Director of TriWest Capital Partners, an independent private equity firm, from 2003 to 2009. 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 Bachelor's Degree in Law from the University of Alberta and a Master 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>Tom O'Neill, 64, 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 lead partner for numerous multinational companies, 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 Chair of BCE Inc., the Vice Chair of Adecco S.A. and a director of Loblaw Companies Limited and The Bank of Nova Scotia. 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>

## DIRECTOR AND OFFICER LIABILITY INSURANCE

Nexen indemnifies directors and officers to the full extent permitted by law. We maintain a director and officer liability insurance policy. The policy covers costs to defend and settle claims against Nexen's directors and officers and certain named 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 2009 was approximately US\$951,000. Directors and officers do not pay premiums and no indemnity claims were made or paid in 2009.

## 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 2009 was approximately US\$27,600. Directors, officers and employees do not pay premiums and no claims were made or paid in 2009.

## 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 non-executive directors with a comprehensive compensation package of annual cash retainers, meeting fees and equity-based awards in the form of deferred share units (DSUs). This package provides

competitive remuneration for the increasing responsibilities, time commitments and accountability of board members. The CEO is the only management director and he receives no director compensation. Management, the Compensation Committee and the board regularly review the compensation for competitiveness against a peer group of major Canadian-based oil and gas and integrated pipeline companies. This director peer group is a subset of our executive peer group, which focuses on the independent Canadian companies. See pages 173 to 174 for details. Our directors compensation philosophy is consistent with our philosophy for employees and targets compensation between the 50th and 75th percentile to attract, engage and retain qualified talent to our board.

Non-executive directors may choose certain 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). Mr. Zaleschuk, a former CEO of Nexen, is a retiree in Nexen's pension plan. His pension benefit is for previous employee service.

Eligible directors may elect to receive all or part of their fees in DSUs. See page 169 for more information on DSUs.

## DIRECTOR COMPENSATION TABLE

Name	Total Fees Earned <sup>1</sup> (\$)	DSU Awards <sup>2</sup> (\$)	All Other Compensation <sup>3</sup> (\$)	Total Compensation (\$)
Berry	85,900	124,750	882	211,532
Bertram	85,900	124,750	859	211,509
Flanagan <sup>4</sup>	102,800	124,750	145,409	372,959
Hentschel <sup>5</sup>	38,167	–	2,874	41,041
Jackson	119,300	124,750	9,906	253,956
Jenkins	127,700	124,750	9,827	262,277
McLellan	119,400	124,750	5,559	249,709
Newell	122,933	124,750	11,845	259,528
O'Neill	143,600	124,750	9,191	277,541
Romanow	–	–	–	–
Saville	256,000	199,600	9,291	464,891
Thomson <sup>5</sup>	46,567	–	7,266	53,833
Willson	129,200	124,750	9,946	263,896
Zaleschuk	104,800	124,750	7,547	237,097
<b>Total</b>	<b>1,482,267</b>	<b>1,447,100</b>	<b>230,402</b>	<b>3,159,769</b>

<sup>1</sup> Includes all retainers, travel allowance and meeting fees, including those paid in DSUs.

<sup>2</sup> The grant date fair value of DSUs granted on December 7, 2009, based on the closing market price of Nexen common shares on the TSX on December 4, 2009, of \$24.95 per share.

<sup>3</sup> The total value of perquisites provided to each non-executive 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 2009 valued at the closing market price of Nexen common shares on the TSX on the payment dates and Canexus fees as set out in Note 4.

<sup>4</sup> Mr. Flanagan is the Board Chair of Canexus and was paid fees of \$84,000, received deferred trust units of Canexus valued at \$36,330 and distributions on his trust units of \$17,923 in 2009. The total is included in this column.

<sup>5</sup> Mr. Hentschel and Mr. Thomson retired from the board on April 28, 2009.

## RETAINERS AND FEES

Annual board and committee retainers are paid in quarterly installments 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 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 them for out-of-pocket travel expenses. There were no increases to director retainers or fees approved for 2010.

	2009	2010
Board Chair Retainer	250,000 <sup>1</sup>	250,000 <sup>1</sup>
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

<sup>1</sup> The Board Chair is paid only this retainer and the travel allowance, where applicable. He does not receive any other retainers or meetings fees.

### 2009 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 <sup>1</sup>		Total Fees Earned in Cash (\$)
								(\$)	(%)	
Berry	35,000	18,200	–	9,000	16,200	7,500	85,900	–	–	85,900
Bertram	35,000	18,200	–	9,000	16,200	7,500	85,900	78,400	91%	7,500
Flanagan	35,000	27,300	–	9,000	27,000	4,500	102,800	–	–	102,800
Hentschel <sup>2</sup>	11,667	9,100	–	3,600	10,800	3,000	38,167	–	–	38,167
Jackson	35,000	36,400	5,300	9,000	30,600	3,000	119,300	116,300	97%	3,000
Jenkins	35,000	36,400	5,300	9,000	36,000	6,000	127,700	–	–	127,700
McLellan	35,000	36,400	–	9,000	36,000	3,000	119,400	81,400	68%	38,000
Newell	35,000	36,400	3,533	9,000	36,000	3,000	122,933	119,933	98%	3,000
O'Neill	35,000	36,400	19,700 <sup>3</sup>	9,000	36,000	7,500	143,600	–	–	143,600
Romanow	–	–	–	–	–	–	–	–	–	–
Saville	250,000	–	–	–	–	6,000	256,000	–	–	256,000
Thomson <sup>2</sup>	11,667	12,133	1,767	3,600	14,400	3,000	46,567	43,567	94%	3,000
Willson	35,000	36,400	5,300	9,000	36,000	7,500	129,200	121,700	94%	7,500
Zaleschuk	35,000	27,300	5,300	9,000	25,200	3,000	104,800	–	–	104,800
<b>Total</b>	<b>623,334</b>	<b>330,633</b>	<b>46,200</b>	<b>97,200</b>	<b>320,400</b>	<b>64,500</b>	<b>1,482,267</b>	<b>561,300</b>		<b>920,967</b>

<sup>1</sup> Details of DSU holdings are set out in the table on page 169.

<sup>2</sup> Mr. Hentschel and Mr. Thomson retired from the board on April 28, 2009.

<sup>3</sup> 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 17, 2010, the board amended the level of the guideline to reflect the change in share value since mid 2008. This results in an ownership requirement of 18,000 shares. Share ownership includes DSUs accumulated from the annual DSU grant and received in lieu of fees. Directors must accumulate these shares or DSUs within three years of their appointment. The amount they are required to own or control is intended to represent at least three times both the base annual board retainer of \$35,000 and the value of the base annual DSU grant. The guideline will be reviewed every three years by the Corporate Governance and Nominating Committee to determine if an increase is needed, and compliance with the guideline will be reviewed annually. New directors will be advised if they are on track to meet the guideline.

New directors, if eligible, are required to take their annual retainer in DSUs until the guideline 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 an increase in the guideline that results in a director falling out of compliance with the requirement, he or she will have 18 months to meet the threshold again.

*All directors appointed prior to January 1, 2007 surpass this guideline, and directors appointed in the last three years are on track to meet the guideline.*

## 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 equity-based vehicle to align director and shareholder 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. All DSUs vest at the time of grant; however, they 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.

<b>Name</b>	<b>DSUs Held as of December 31, 2009<sup>1</sup></b>
Berry	10,044
Bertram	13,335
Flanagan	40,972
Jackson	58,644
Jenkins	54,215
McLellan	35,766
Newell	68,546
O'Neill	51,016
Romanow	–
Saville	54,520
Willson	58,920
Zaleschuk	42,756

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

## TOPS EXERCISED OR EXCHANGED AND AWARDS VESTED DURING 2009

In 2009, 111,004 tandem options (TOPs) were exercised or exchanged by non-executive directors, and all exercises or exchanges of TOPs occurred within six months of expiry. We ceased awarding TOPs to non-executive directors in 2003. In 2010, all remaining outstanding TOPs held by non-executive directors will reach their expiry periods. Non-executive directors are granted share-based awards under the DSU plan. The DSUs vest at the time of grant. We do not award directors non-equity incentive plan compensation under other long-term incentive plans, as these terms are used in applicable disclosure requirements.

Name	TOPs Awards		DSU Awards		Non-Equity Annual Incentive Compensation
	Exercised or Exchanged (#)	Value Realized <sup>1</sup> (\$)	Vested in 2009 (#)	Value Vested in 2009 <sup>2</sup> (\$)	Value Earned During the Year (\$)
Berry	–	–	5,000	124,750	–
Bertram	–	–	5,000	124,750	–
Flanagan	–	–	5,000	124,750	–
Hentschel	40,000	669,500	–	–	–
Jackson	–	–	5,000	124,750	–
Jenkins	–	–	5,000	124,750	–
McLellan	–	–	5,000	124,750	–
Newell	–	–	5,000	124,750	–
O'Neill	–	–	5,000	124,750	–
Saville	11,004	175,376	8,000	199,600	–
Thomson	60,000	1,050,501	–	–	–
Wilson	–	–	5,000	124,750	–
Zaleschuck	–	–	5,000	124,750	–
<b>Total</b>	<b>111,004</b>	<b>1,895,377</b>	<b>58,000</b>	<b>1,447,100</b>	<b>–</b>

<sup>1</sup> Reflects the closing market price at the time of the exercise or exchange, minus the exercise price, times the number of TOPs exercised or exchanged.

<sup>2</sup> Reflects the grant date fair value of DSUs granted on December 7, 2009. Mr. Hentschel and Mr. Thomson were not on the board at the time of grant.

## 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. Six members are skilled or expert in compensation—expertise most relevant to the Committee's mandate.

### CHANGES TO COMMITTEE MEMBERSHIP IN 2009

Mr. Thomson left the Committee upon his retirement from the board and Mr. Bertram joined in April 2009.

### COMMITTEE WORK PLAN / KEY ACTIVITIES IN 2009

The Committee held five meetings and sessions without management present in 2009. Additional meetings are held, when required, to accomplish business objectives and the Committee's mandate. We have an existing mandate with a 12-month rolling work plan in place for the Committee. The activities of the Committee are managed in the context of a five-year business strategic plan that is reviewed and approved annually by the board. To some extent, the work plan of the Committee is structured around compensation activities that occur in the market (e.g., compensation

survey releases) and business activities. The 12-month work plan allows us to effectively deliver the Committee's responsibilities with the flexibility to respond to market events that may arise from time to time. In reviewing Nexen's compensation philosophy, the Committee expressly included the assessment of risk in determining compensation policies and practices.

While each meeting agenda is subject to change as business needs arise, the timing of the Committee's main activities, reviews and recommendations for 2009 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 targets, compensation program and budget Reviewed CEO's prior year accountabilities and short-term and long-term results and provided a bonus recommendation to the independent directors of the board Reviewed CEO's current year objectives and provided a salary recommendation to the independent directors of the board Reviewed executives' compensation and provided bonus and salary increase recommendations Recommended appointing the new Treasurer and ratification of the appointment of the new Vice President, Corporate Planning and Business Development Reviewed impact of current compensation on change of control agreements	February 2009
Recommended appointments for the Executive Vice President, Canada and Assistant Secretary positions and reviewed a new executive position of Vice President, Global Exploration Reviewed competitive analysis and design of the annual bonus program	April 2009
Reviewed competitive analysis and design of the long-term incentive program Recommended appointing the new Senior Vice President, Synthetic Crude Reviewed retention programs for key business initiatives	July 2009
Reviewed market activity updates and forecasts Reviewed workforce plan Reviewed competitiveness of individual compensation programs and total compensation offering Discussed future introduction of performance features into the long-term incentive plan Reviewed mandate and performance of outside consultant Reviewed say-on-pay policy	October 2009
Recommended long-term incentive grants Reviewed and recommended Directors' compensation, including DSU grants Approved revised evaluation framework for annual bonus program Discussed future introduction of performance features into long-term incentive program Reviewed competitive analysis and recommended enhancement of executive share ownership guidelines Reviewed draft CCGG say-on-pay initiative	December 2009
In camera meetings	At each meeting

**SUCCESSION PLAN AND EXECUTIVE DEVELOPMENT**

Our succession planning involves a detailed, documented process for identifying and developing successors from our most talented individuals for the CEO, senior management and other positions deemed critical for the success of the company. Each year, the CEO reviews with the Committee the internal talent pool considered for these positions.

The Committee assists with candidate selection, development and performance evaluation as well as planning for illness, disability and other unscheduled absences.

**OUTSIDE CONSULTANT**

The Committee engaged Mercer (Canada) Limited (Mercer) to confidentially report and analyze market data on the compensation of the CEO and a select group of executives,

in light of our operations and compensation programs. Mercer also provided other consulting services, as required. 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 2009. 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 2008	Billed in 2009	Percentage of Total Fees Billed in 2009
Committee Work—assessment of CEO and executive compensation	58,900	83,636	100%
Management Work—consulting services	–	–	–
<b>Total Annual Fees</b>	<b>58,900</b>	<b>83,636</b>	<b>100%</b>

## EXTERNAL RECOGNITION AND VERIFICATION

We received recognition for our human resources practices during 2009.

- One of the 50 Best Employers in Canada by Hewitt Associates.
- One of the Best Employers for New Canadians and one of Canada's Best Diversity Employers by Mediacorp Canada Inc.

## COMMITTEE APPROVAL

The Committee reviewed and discussed with management the compensation disclosure in this document, including the information in the Directors section (pages 161 to 170), the Compensation Discussion and Analysis section (pages 172 to 183) and the Executive Compensation section (pages 184 to 195). 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 Compensation Committee:

Kevin Jenkins; Chair, Robert Bertram; Barry Jackson; Anne McLellan; Tom O'Neill; Francis Saville; John Willson

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee are set out on page 165. Mr. Saville and Ms. McLellan each had a relationship requiring disclosure, the details of which are set out under Certain Relationships and Related Transactions, and Director Independence on page 201. There are no Compensation Committee interlocks during 2009.

## COMPENSATION DISCUSSION AND ANALYSIS

Our compensation disclosure complies with the requirements of the Canadian Securities Administrators. As a foreign private issuer listed 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, which focus on increasing shareholder returns in the long term.

Our philosophy is to compensate executives:

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

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.

The objective and subjective performance measures are aligned with shareholder 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.

### ASSESSMENT OF RISK IN COMPENSATION POLICIES AND PRACTICES

Nexen's compensation policies and practices encourage behaviours that align with the long-term interests of the company and its shareholders. While our programs and practices are not structured to reward excessive risk-taking, we recognize that some level of risk-taking is necessary in order to achieve outcomes in shareholders' best interests. However, we have a number of mitigating strategies to limit risks within our policies and practices that are described below.

- Total direct compensation for named executive officers (named executives) reflects an appropriate balance between base salary and variable or "at risk" compensation. Typically, 75% of our named executives' total direct compensation is variable based on company and individual performance, with the remaining 25% comprised of base pay; the variable pay portion is greater for the CEO. Approximately 20% of this variable compensation is provided as an annual cash incentive and 80% in long-term incentives. This weighting toward long-term incentives mitigates the risk of encouraging achievement of short-term goals at the expense of long-term sustainability and shareholder value. Refer to page 174 for more detail on the named executives' pay mix.
- The design of our annual cash incentive program, applicable to all employees, also inherently limits risk. The cash pool available for bonus payments is determined based on a balanced scorecard of measures, including net income, operating cash flow and a combination of other

qualitative and quantitative measures. This approach diversifies the risk associated with any one single performance indicator. In addition, the nature of the primary financial measures used in cash pool determination (net income and operating cash flow) effectively ensures the company will have the ability to pay bonuses required under the program. The Compensation Committee exercises a considerable amount of discretion in assessing overall performance and can ensure that bonus payouts are not unduly influenced by an unusual result in any one given area. Finally, the total cash pool available is limited to a maximum of 200% of target.

- Our long-term incentives, applicable to eligible employees, vest over a three-year period and have a five-year term, thereby enhancing executive (and employee) focus on long-term company success and shareholder interests.
- Compensation levels are benchmarked and scenario-tested to ensure a strong pay-for-performance relationship.
- Named executives and other senior leaders are subject to share ownership guidelines, which are described on page 178. In December 2009, ownership requirements were increased and expanded to include a greater number of employees.

### 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. These surveys are used by management to formulate compensation recommendations to the Compensation Committee. 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 if our peers 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 2009, our executive peer group for named executives based in Canada 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. For the Senior VP, US Oil and Gas, market data are based on comparable positions from mid and large-cap US oil and gas companies.

#### 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	> 1 year

#### PAY MIX

The information in the following table represents the percentage of total compensation, excluding benefits, pension and perquisites, averaged over a three-year period. Actual pay mix will vary from year to year as our compensation programs are designed to meet both performance and competitiveness objectives. In general, the programs are designed to provide most executive compensation in the form of at-risk pay to ensure alignment with shareholders' interests. 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 named executives' ability to influence short and long-term business results and competitive local market practices.

Position	Base Salary	At-Risk Compensation	
		Annual Cash Incentive	Long-Term Incentive
CEO	20%	15%	65%
CFO	25%	15%	60%
Executive VPs	25%	15%	60%
Senior VPs	25%	15%	60%

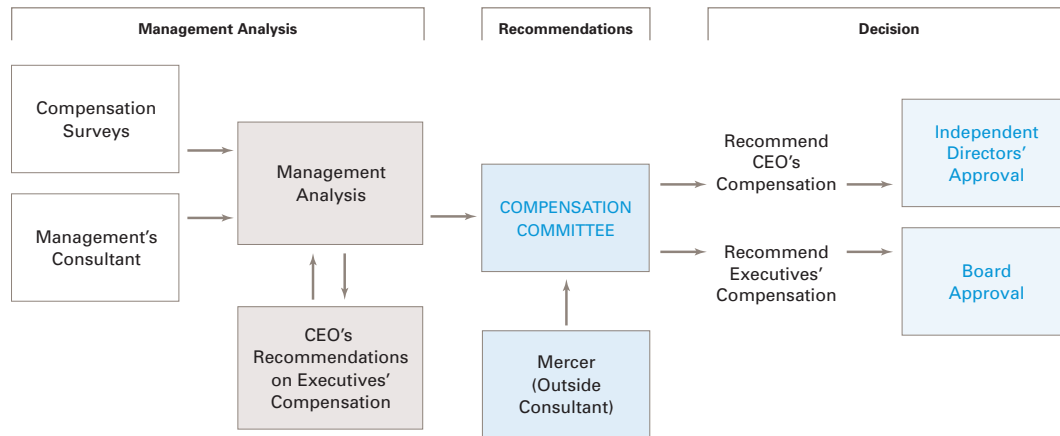
#### COMMITTEE OVERSIGHT

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

#### 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 employees between the 50th and 75th percentile of our peers. Top-performing employees will approach the 75th percentile if they continue to accumulate knowledge and experience, which is accompanied by sustained high performance.

## 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, CEO recommendations for his direct reports, including all of the other named executives, and information on prior year annual cash and long-term incentives. Before approving management's compensation recommendations, the Committee discusses a variety of potential performance scenarios, including analysis of various annual cash incentive payout factors and the impact of share price variation on our long-term incentive program (i.e., scenario-tested). For 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 long-term incentive grants to the board or, in the case of the CEO, the 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 performance and that of the individual. Consistent with our pay-for-performance philosophy, variable compensation links Nexen's business results and the named executives' performance. The decrease in the named executives' annual cash incentives in 2009 reflects the board's assessment of our company performance as described below.

### 2009 ANNUAL INCENTIVE MEASURES

After assessing 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% of the target incentive opportunity. The factors used were 88% in 2007, 120% in 2008 and 65% in 2009.

### 2009 Objective Performance Assessment (50%)

These key financial measures are consistent with our annual operating plan. Operating cash flow measures our ability to generate cash from our ongoing operations. It includes taxes and financing costs, but excludes one-time items such as gains on dispositions.

Measure	Target	Results	Results versus Target
Operating cash flow (25%)	\$2,706 million	\$2,215 million	82%
Net income (25%)	\$852 million	\$536 million	63%

### 2009 Subjective Performance Assessment (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 overall performance. Its discretion ensures that the award is not unduly positively or negatively 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, annual share performance against peers, production volumes, safety and environmental incidents and reserve-related metrics. The Committee also assesses how costs are managed, 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. The Committee also considers management's assessment of Nexen's performance and progress on the strategic plan.

### Overall Performance Assessment

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 2009, the Committee used its discretion and considered that while many of Nexen's core assets performed well, delays related to the ramp-up of Long Lake and delays at Ettrick in the North Sea had significant impacts on our ability to achieve certain financials and production targets, resulting in a payout factor of 65% for the annual cash incentive program.

### Annual Cash Incentive Payout

The cash pool available for annual incentives is 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 compensation is greater for higher levels in the organization. Individual performance is assessed by the supervisor, and a recommendation is made that reflects performance against pre-determined objectives. Award recommendations for all senior employees are then reviewed by the executive management team. The Compensation Committee assesses the CEO's performance in the context of predetermined objectives which are described in more detail on pages 186 to 187. The CEO's final incentive award is approved by the independent directors.

The CEO assesses the performance of the other named executives and discusses the recommendations with the Compensation Committee prior to approval by the board. 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.

### 2009 ANNUAL INCENTIVE TARGETS<sup>1</sup>

Position	Minimum	Target	Maximum
CEO	0%	75%	150%
CFO <sup>2</sup>	0%	55%	110%
Executive VPs	0%	60%	120%
Senior VPs	0%	45%	90%

<sup>1</sup> Reflects percentage of base salary on December 31, 2009.

<sup>2</sup> To ensure competitive compensation, the board increased the bonus target from 50% to 55% effective January 1, 2009.

### Revised Subjective Performance Assessment

Beginning in 2010, the Committee has adopted a slightly modified framework to evaluate subjective performance for the annual bonus program. Under this framework, the Committee is given the opportunity to assign greater or less emphasis to certain measurement areas depending on the strategic focus for the coming year. The subjective performance assessment will be organized into six key areas of focus outlined below.

Key Performance Area	Objective
Strategic performance and other key initiatives	Demonstration of our core growth strategies in action and assessment of various other key initiatives
Capital efficiency (investment value creation)	Creating full cycle value from our capital investments
Operating efficiency	Meeting our shorter-term operational targets
Competitive assessment	Assessing our performance and strategies relative to our industry peers
How we do business	Building and maintaining our social licence to operate
People and talent	Ensuring we have the talent and engagement to support our initiatives

At the end of the annual performance assessment cycle, the Committee will assess company performance with special consideration for the key performance areas previously determined.

### REIMBURSEMENT

If, as a result of misconduct, Nexen's performance results were restated in a way that would have resulted in lower 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 shareholder and executive interests by ensuring that compensation is not increased as a result of willful misconduct.

### SHARE PERFORMANCE GRAPH

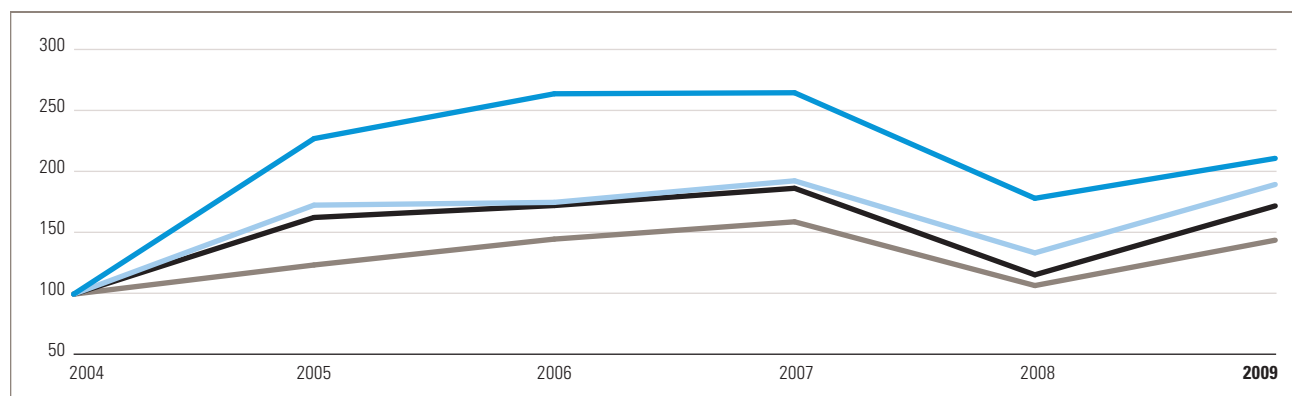
There is no inherent connection between base salary levels and Nexen share performance as salary determination is based on market competitiveness and internal relativity, as well as individual performance and potential. There is some correlation between our annual cash incentive program payouts and share performance as relative share price performance is a measure included in determining the payout factor. In addition, the annual incentive program payout reflects an assessment of overall company performance, which is also directly or indirectly assessed by current or potential investors, who ultimately determine our share price.

The sharp increase to our share price from 2004 to 2005 partially reflects the company's strong performance year in 2005, which resulted in a payout factor of 200% for the annual incentive program. Our share price leveled in subsequent years and at the same time our payout factors were reduced to 120% in 2006 and 88% in 2007. At the end of 2008, turbulence in the global financial markets and slumping commodity prices had a significant impact on Nexen's share price, not unlike that of other public companies. Despite this decline, we achieved record financial results and strong relative share price performance in 2008, leading to a program that exceeded target, resulting in a payout factor of 120%. During 2009, we experienced some recovery in our share price. While many of Nexen's core assets performed well, delays related to the ramp-up of Long Lake and delays at Ettrick in the North Sea had significant impacts on our ability to achieve certain financials and production targets resulting in a payout factor of 65% for the annual cash incentive program.

With respect to our long-term incentive program, a direct correlation exists between our share price performance and the actual gains realized by participating employees. The significant drop in our share price in 2008 resulted in a number of our earlier long-term incentive grants moving into an out-of-the-money position offering zero value to

participating employees. Some of the value of these long-term incentive grants has been re-gained with the rise in our share price in 2009, but many outstanding long-term incentive grants remain out-of-the-money. Our long-term incentive plan does not allow for repricing of grants.

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, 2009. Our common shares are included in each of these indices.



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

	2004/12	2005/12	2006/12	2007/12	2008/12	2009/12
— Nexen Inc.	100.00	228.69	265.80	266.65	179.29	212.36
— S&P/TSX Oil & Gas Exploration & Production Index	100.00	173.65	175.95	193.77	134.13	190.75
— S&P/TSX Energy Sector Index	100.00	163.43	173.34	187.61	116.00	173.00
— S&P/TSX Composite Index	100.00	124.13	145.55	159.86	107.10	144.65

<sup>1</sup> Assuming an investment of \$100 and the reinvestment of dividends.

The Compensation Committee reviews a detailed analysis of the total compensation earned by the CEO during his tenure in this role as it relates to shareholder value creation. This analysis includes a comparison of total CEO compensation earned related to the increase in Nexen's market capitalization, as well as a comparison to the value created in excess of a relevant peer group.

## SHARE OWNERSHIP GUIDELINE

All executives are expected to demonstrate their commitment to Nexen by holding more shares than required under our board-approved guideline. The guideline, and compliance with it, is reviewed annually by the Compensation Committee and the board. See page 190 for the current share ownership of each named executive.

In December 2009, the Committee amended the level and scope of the share ownership guideline to enhance the alignment between all executives and shareholders. The enhanced guideline includes: i) increased levels of share ownership; ii) greater number of employees covered by the guideline; and iii) removal of the net value of exercisable options or TOPs from the share ownership calculation. Share ownership is limited to shares purchased and held within the Nexen employee savings plan and any other personal holdings. Under this guideline, there is a specified time frame for compliance, which is three years from the date of the amendment (December 2009) or five years from the date of their appointment, whichever is later.

Position	Required Share Ownership
CEO	4 times annual salary
CFO and Executive Vice Presidents	2.5 times annual salary
Senior Vice Presidents	2 times annual salary
Vice Presidents and Other Senior Leaders	1 times annual salary

## LONG-TERM INCENTIVES

Nexen's long-term incentive programs, 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 shareholders. 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, with the exception of the Senior VP, US Oil and Gas, who was granted STARs in 2009.

In determining the number of TOPs and STARs to grant each year, Nexen considers the program's dilutive impact on shareholders and market information on the value of 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. In determining the type of long-term incentives to award, management and the Compensation Committee also consider alternative long-term incentive programs used by our peers. As a result of a regular review of the competitiveness and design of our long-term incentive plans, in 2009 the Compensation Committee approved introducing a performance-based long-term incentive vehicle for implementation in 2010. This incentive vehicle will be introduced only for those employees who are critical to the strategic success of the company (senior management level and above), with 25% of the TOPs or STARs granted to these employees to include a performance vesting feature. The number of performance-based TOPs or STARs that vest for payout will be subject to the attainment of market, operational and/or financial performance measures. The specific performance range(s) will be ultimately determined by the Committee at the time of each annual grant.

## 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 exercise price and the closing market price of our common shares on the date the TOPs are exchanged; or
- exercise their vested TOPs for shares upon payment of the exercise price. 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 shareholder dilution over time and ii) Nexen receives a Canadian income tax deduction.

### 2009 TOPs Plan Exercises and Exchanges

Total Exercised or Exchanged	Exercised for Shares	Exchanged for Cash
5,262,226	1,145,756 (22%)	4,116,470 (78%)

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

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 10 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.

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 participating employees below mid-level department manager in Canada and to all levels of participating employees in the US and UK. 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 intentionally timed so that they do not occur immediately prior to the release of material information (i.e., 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 inception of the TOPs plan in 2004 through December 31, 2009, 11,126,192 TOPs have been exercised for common shares. This represents a dilution of 2.13%.

## GRANTS IN THE LAST THREE YEARS

Our 2009 long-term incentives recognized employees for future potential within Nexen, sustained high performance and retention risk. The TOPs granted in 2009 represent 0.83% of total outstanding shares.

Year	Granted to Executive Officers	Granted to Employees	Percentage of Employees Receiving Grants	Total Number Granted
<b>TOPs</b>				
2009	1,772,000	2,577,700	5%	4,349,700
2008	1,526,000	2,008,100	6%	3,534,100
2007	1,735,000	2,272,100	7%	4,007,100
<b>STARs</b>				
2009	100,000	5,172,500	46%	5,272,500
2008	–	4,917,200	53%	4,917,200
2007	–	4,194,600	54%	4,194,600

## 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. Named executives participate in the same plans provided to all employees in the same location.

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

### HEALTH AND WELFARE BENEFITS

Our benefit plans are designed to help protect employees' health and that of their dependants and help 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 the employee savings plan.

For US-based employees, savings plan benefits are a component of the US-defined contribution pension plan described on page 182.

### FLOW-THROUGH SHARES

Named executives are able to participate in our internal offerings of Nexen flow-through shares, which are periodically made available to all employees resident in Canada. Flow-through shares are a tax effective vehicle which provide an additional opportunity to invest in the future of Nexen.

### 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 Canadian-based named executives participated in the defined benefit pension plan in 2009. Features of the defined benefit pension 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 10 years before retirement, multiplied by the years of credited service;
- plan participants may annually elect to increase their defined benefit accrual formula from 1.8% to 2%. Employees electing 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 in 2009 was \$11,700;
- integration with Canada Pension Plan (CPP) to provide a maximum offset of one-half of the current CPP benefit, pro-rated by years of credited service to a maximum of 35 years;
- members who retire after 10 years of service are eligible for an early retirement benefit at age 55 with a 4% reduction per year of early retirement for each year that benefits commence prior to age 60; and
- ability for participants to periodically switch prospectively between the defined benefit pension plan and defined contribution pension plan at different stages in their career.

Benefits on retirement are generally paid monthly for the life of the retiree, subject to standard payment elections. The normal form of benefit paid is a joint life and survivor benefit with a five-year guarantee. If elected, it is payable for the participant's lifetime 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, 2009, as indicated in the notes to our Consolidated Financial Statements, the:

- registered defined benefit pension plan's accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) was \$211 million, which includes all active and inactive plan participants; and
- projected defined benefit obligation was \$243 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 6.5% per year as at December 31, 2008;
- a discount rate of 6.0% per year as at December 31, 2009;
- a long-term compensation rate increase of 4% per year; and
- an assumed rate of inflation of 2.5% per year.

To enhance the funded status of the registered defined benefit pension plan, we contributed \$52 million in special payments to the plan in 2009. As of December 31, 2009, the plan had a \$21 million surplus.

#### DEFINED CONTRIBUTION PENSION PLAN (US)

Under this qualified retirement plan, Nexen provides participants with a profit-sharing contribution equal to 6% of eligible compensation up to the Social Security taxable wage base and 11.5% of eligible compensation that exceeds the Social Security taxable wage base. For 2009, the maximum profit-sharing contribution under the plan was \$22,301. In addition, a matching contribution equal to 100% of employee contributions, to a maximum of 6% of eligible compensation, is also available under the plan. Mr. Reinsborough defers compensation and receives an employer matching contribution to the full extent available under the plan.

The profit-sharing contributions are subject to a two-year vesting schedule while the matching contributions vest immediately. Investment decisions are made by the plan participant from a variety of investment options. The plan is intended to be an Employee Retirement Income Security Act (ERISA) 404(c) plan. One named executive (Mr. Reinsborough) participated in the plan during 2009.

#### NON-QUALIFIED RESTORATION PLAN (US)

This plan is intended to be an unfunded and non-qualified deferred compensation arrangement that provides deferred compensation benefits to a select group of management or highly compensated employees. The plan is established and maintained for the purpose of providing benefits in excess of applicable legislative limits. The plan complies with Section 409A of the Internal Revenue Code.

Under the plan provisions, a maximum of 50% of base salary and 100% of annual cash incentives may be deferred. Elections for the future distribution of benefits are required to be entered into upon the date of plan participation. Any changes to distribution or deferral elections must be compliant with Section 409A of the Internal Revenue Code. Investment decisions are made by the plan participant from a variety of investment options. During 2009, there were no distributions of assets to Mr. Reinsborough.

## 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 181 to 182. For executives, the average of the 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 Obligation

At December 31, 2009, as indicated in the notes to our Consolidated Financial Statements, the:

- projected benefit obligation for the executive plan was \$76 million (which, consistent with accounting standards, includes an assumption for future salary increases) for all active and inactive plan participants; and
- accumulated benefit obligation (the projected benefit obligation, excluding future salary increases) for the defined benefit plan was \$65 million.

The key assumptions used for determining the projected benefit obligation under the executive benefit plan 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 2009, the

sum of all supplemental allocations for eligible participants was \$42,276 and is estimated to be \$45,000 in 2010.

### Pension Benefit Security

The pension expense for the executive benefit 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 an irrevocable letter of credit. The letter of credit allows the plan to turn to the issuing bank for funding the pension obligation if the company fails to meet its obligations. The cost of obtaining the letter of credit in 2009 for all plan participants was \$1,368,230.

## RETIREMENT BENEFITS

All Nexen retirees are provided with retirement benefits that consist of a \$5,000 life insurance policy and reimbursement for provincial health care 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 executive officers and significant employees, including prior offices and non-executive positions for each of them during the past five years. Start dates with Nexen are indicated for officer and other significant employee positions.

<b>Officer (Age)</b>	<b>Current and Past Position(s)</b>	<b>Effective Date of Current Position</b>	<b>Executive Officer Since</b>
Marvin F. Romanow (54)	President and CEO and a director Formerly: Executive VP and CFO since June 1, 2001	January 1, 2009	1997
Kevin J. Reinhart (51)	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
Gary H. Nieuwenburg (51)	Executive VP, Canada Formerly: Senior VP, Synthetic Crude since November 1, 2007; VP, Synthetic Crude since July 11, 2002	May 1, 2009	2001
James T. Arnold (50)	Senior VP, Synthetic Crude Formerly: Division VP Operations and Projects, Synthetic Oil since February 1, 2009; Chief Operating Officer at OPTI Canada Inc. since October 13, 2005; VP, Development at OPTI Canada Inc. since January 1, 2000	July 16, 2009	2009
Brian C. Reinsborough (48)	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
Catherine J. Hughes (47)	VP, Operational Services, Technology and Human Resources Formerly: Division VP, Operational Services, Technology and Human Resources since December 1, 2009; Division VP, Operational Services and Technology since September 1, 2009; VP Oil Sands at Husky Oil Operations Ltd. since October 1, 2007; VP Exploration and Production Services at Husky Oil Operations Ltd. since September 1, 2005; President at Schlumberger Canada Ltd. since February 1, 2001	February 17, 2010	2010
Kim D. McKenzie (61)	VP and Chief Information Officer Formerly: Division VP, Information Technology since January 1, 1992	November 1, 2007	2007
Kevin J. McLachlan (46)	VP, Global Exploration Formerly: Division VP, Global Exploration since July 1, 2009; Division VP, International Exploration since August 1, 2008; Manager, Exploration, since January 1, 2006; East Coast Exploration Manager at Imperial Oil Resources since April 1, 2005; Planning Manager at ExxonMobil Canada West, Production, since June 1, 2004	February 17, 2010	2010
Eric B. Miller (47)	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 (45)	VP, Corporate Planning and Business Development Formerly: Treasurer since July 11, 2002	January 16, 2009	1998
Brendon T. Muller (41)	Controller Formerly: Manager, Corporate External Reporting since November 1, 2003	April 9, 2007	2007
J. Michael Backus (39)	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
Richard G. Jensen (56)	Chief Operating Officer, International Operations Formerly: Division VP, International Production and Development since December 1, 2005; Division VP, International Production and Operations since October 1, 2004	July 1, 2008	2008 <sup>1</sup>

<sup>1</sup> While he is not an executive officer, he is an employee who is expected to make significant contributions to the business of Nexen and, therefore, is considered a significant employee.

## COMPENSATION EXCHANGE RATE

The exchange rate used to convert US dollars to Canadian dollars is the 2009 average rate of 1.1568. Unless otherwise noted, all figures are in Canadian dollars.

## 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, estimated option-based award value, non-equity incentive plan compensation and all other compensation as shown below. Grants of TOPs and STARs 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	Salary	Option-Based		Non-Equity Annual Incentive Plan Compensation <sup>3,4</sup>	Pension Value <sup>5</sup>	All Other Compensation <sup>6</sup>	Total Compensation
			TOPs/STARs Awards <sup>1</sup> (#)	Estimated TOPs/STARs Value <sup>2</sup>				
Marvin F. Romanow, <sup>7</sup> President and CEO	2009	1,100,000	550,000	5,351,775	429,000	3,949,300	179,978	11,010,053
	2008	601,250	475,000	2,747,514 <sup>8</sup>	700,000	317,800	119,016	4,485,580
	2007	566,250	180,000	1,533,060	330,000	323,300	118,150	2,870,760
Kevin J. Reinhart, <sup>9</sup> Senior VP and CFO	2009	440,000	150,000	1,459,575	175,000	381,300	124,438	2,580,313
	2008	365,000	130,000	733,964 <sup>10</sup>	300,000	128,800	104,582	1,632,346
	2007	332,833	80,000	681,360	132,000	190,300	103,922	1,440,415
Gary H. Nieuwenburg, Executive VP, Canada	2009	474,000	220,000	2,097,225 <sup>11</sup>	156,000	624,300	56,552	3,408,077
	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
James T. Arnold, Senior VP, Synthetic Crude	2009	375,833	170,000	1,402,206 <sup>12</sup>	99,000	87,300	238,747 <sup>13</sup>	2,203,086
	2008	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-
Brian C. Reinsborough, <sup>14</sup> Senior VP, US Oil and Gas	2009	416,453	100,000	1,069,242	113,368	87,636	35,466	1,722,165
	2008	392,774	70,000	317,578	218,527	77,589	29,342	1,035,810
	2007	324,465	70,000	641,015	130,052	63,793	27,979	1,187,304

1 All named executives were granted TOPs in 2009 with the exception of Mr. Reinsborough, who received STARs.

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 Nexen's 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 current 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 2009.

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

4 For Mr. Romanow, Mr. Reinhart and Mr. Nieuwenburg, includes discretionary recognition in 2008 for the acquisition of an additional interest in Long Lake from OPTI.

5 Represents the current service cost, plus changes in compensation in excess of actuarial assumptions, less required member contributions to plan. Mr. Reinsborough's value represents the sum of company-provided contributions to the US qualified and non-qualified retirement plans.

6 The total value of the perquisites portion of All Other Compensation provided to each named executive is less than \$50,000 and less than 10% of their annual salary. See the All Other Compensation table on page 192 for details of these amounts.

7 Mr. Romanow is a director of Canexus and was paid fees of \$34,000, received notional deferred trust units of Canexus valued at \$25,950 and distributions on his trust units of \$11,290 in 2009. In 2008, he 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 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 \$5,280. These amounts are included in the All Other Compensation table on page 192.

8 Reflects Mr. Romanow's annual grant of 180,000 TOPs on December 8, 2008 with a grant date fair value of \$975,744 and a grant of \$295,000 TOPs he received upon appointment as President and CEO in January 2009 with a grant date fair value of \$1,771,770.

9 Mr. Reinhart is a director of Canexus and was paid fees of \$34,000, received notional deferred trust units of Canexus valued at \$25,950 and distributions on his trust units of \$11,290 in 2009. In 2008, he was paid fees of \$34,000, received notional deferred trust units valued at \$15,600 and distributions on his trust units of \$6,399. In 2007, he was paid fees of \$32,500, received notional deferred trust units valued at \$19,560 and distributions on his trust units of \$5,280. These amounts are included in the All Other Compensation table on page 192.

10 Reflects Mr. Reinhart's annual grant of 80,000 TOPs on December 8, 2008 with a grant date fair value of \$433,664 and a grant of 50,000 TOPs he received upon appointment as Senior VP and CFO in January 2009 with a grant date fair value of \$300,300.

11 Reflects Mr. Nieuwenburg's annual grant of 170,000 TOPs on December 7, 2009 with a grant date fair value of \$1,654,185 and a grant of 50,000 TOPs he received upon appointment as Executive VP, Canada in May 2009 with a grant date fair value of \$443,040.

12 Reflects Mr. Arnold's annual grant of 100,000 TOPs on December 7, 2009 with a grant date fair value of \$973,050 and a grant of 70,000 TOPs he received upon hire in February 2009 with a grant date fair value of \$429,156.

13 Mr. Arnold received a \$200,000 special bonus upon hire.

14 Mr. Reinsborough's compensation has been converted from US to Canadian dollars using the average exchange rate for the applicable year: 1.1568 in 2009, 1.0660 in 2008 and 1.0748 in 2007.

## CHANGES IN COMPENSATION ARRANGEMENTS IN 2009

We did not introduce any new compensation or benefit program in 2009 for Nexen's named executives.

The compensation paid to named executives in 2009 is consistent with our philosophy and objectives of targeting total compensation between the 50th and 75th percentile as detailed on pages 172 to 174.

## CHANGES IN PENSION OBLIGATIONS

The Summary Compensation Table pension value reflects the current service cost, less required member contributions to the plan, plus any changes in obligations resulting from compensation increases in excess of actuarial assumptions. Actual compensation changes may vary from the assumed rate of compensation increase and will vary among each executive from year to year. These values differ from the termination values reported under the change of control agreements on pages 194 to 195, which disclose additional lump sum pension benefits provided if a change of control occurs.

## CEO COMPENSATION AND 2009 OBJECTIVES AND ACHIEVEMENTS

The CEO's responsibility is to provide leadership in setting and achieving goals that create value for our shareholders in the short and long term. Mr. Romanow's 2009 annual cash incentive award was based on the corporate results described on pages 175 to 176, 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. Romanow's achievement of objectives, and its assessment of his contribution to continued shareholder value growth and strategic plan execution, he was awarded an annual cash incentive of \$429,000, which is his target bonus times 52%. Mr. Romanow's objectives for 2009 are outlined below, along with a summary of achievements in each area.

### Executing our strategies

In 2009, Mr. Romanow met this objective by refocusing on our key growth strategies, taking steps to streamline our portfolio and ensuring that our core assets continued to perform well.

Our key growth strategies progressed well during 2009.

- At Long Lake, we demonstrated that our technology works. The gasifier and upgrader are now producing the highest quality synthetic crude in North America. We acquired an additional 15% of the project at 60% of sunk costs and assumed operatorship of upgrader.
- We achieved exploration success in the North Sea and offshore West Africa which positions us well for future years. We also were successful in bringing new production on stream in the North Sea and the Gulf of Mexico and in advancing development of Usan, offshore West Africa.
- Significant progress was made in our shale gas business by realizing significant cost savings and productivity improvements through industry-leading completions.

### Enhancing financial capacity and maintaining ample liquidity

Our long standing belief in maintaining ample liquidity and financing long-term assets with long-term debt meant that we were well positioned when the economic recession started. As a result, we did not overreact to the situation but continued to focus on advancing our core strategies with a prudent capital program and ongoing cash management practices. Our crude oil put protection program provided us with protection against falling oil prices without limiting our upside when prices rebounded.

In July 2009, in the midst of ongoing market volatility, we successfully executed a US\$1 billion bond issue to enhance our liquidity. We generated strong operating cash flows during the year which, together with financing from our long-term credit facilities, were used to fund the purchase of the Long Lake acquisition and our 2009 capital investment program.

## Managing physical assets to achieve a balance of short-term returns and long-term sustainability

Under Mr. Romanow's direction, we achieved strong performance in our core assets including the UK, US, Yemen, Canada and Colombia. While major milestones were achieved at Long Lake, challenges were encountered that delayed the ramp up of the project. Difficulty in achieving consistent steam production necessitated a turnaround in September, which has since improved plant reliability and production.

## Attracting and retaining people to enhance our execution capabilities

We maintained a strong corporate culture under Mr. Romanow's leadership and has seen an increase in employee engagement during the past year as measured by external benchmarking. Mr. Romanow also focused on attracting world-class talent to our organization by hiring experienced senior professionals with expertise in oil sands, shale gas and deep water exploration.

## Achieving operational excellence and strong returns from capital investment

Mr. Romanow led initiatives which resulted in excellence in safety performance, and operating and capital cost savings throughout the business. In this context, our core producing assets continued to deliver strong performance. Our capital investment program delivered strong results with proved reserve additions that were double our annual production (before royalties and the adoption of the new SEC reserves rules).

## Ensuring Nexen's continuing leadership position in "how we do business"

We remain fully committed to the highest standards of governance, integrity and social responsibility. Mr. Romanow's personal involvement with our various integrity initiatives ensures these programs have broad visibility and are embedded into our corporate culture.

## CEO LOOK-BACK

In 2009, the Compensation Committee reviewed look-back information and analyzed Mr. Romanow's total pay and shareholder 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 for the CEO position.

	<b>2009</b>
<b>Cash</b>	
Base Salary	1,100,000
Annual Cash Incentive	429,000
<b>Equity</b>	
Value of TOPs <sup>1</sup>	5,351,775
<b>Total Direct Compensation</b>	<b>6,880,775</b>
All Other Compensation <sup>2</sup>	179,978
Pension Value <sup>3</sup>	3,949,300
<b>Total Compensation</b>	<b>11,010,053</b>
Total Market Capitalization Growth (\$millions)	2,046
Total Cost as a % of Market Capitalization Growth	0.54%

<sup>1</sup> Reflects the estimated fair value of TOPs using the Black-Scholes pricing model valued on the grant date. See Note 2 on page 185 for details of this calculation.

<sup>2</sup> See page 192 for details of All Other Compensation.

<sup>3</sup> Represents the current service cost, less required member contributions to the plan, plus changes in compensation in excess of actuarial assumptions.

## INCENTIVE PLAN AWARDS

To value incentive plan awards (TOPs/STARs), 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 2009

The term for TOPs/STARs granted in 2009 is five years and vests one-third each year for three years starting one year after the grant date. All named executives were granted TOPs in 2009 with the exception of Mr. Reinsborough, who was granted STARs.

Name	Grant Date	TOPs/STARs Granted <sup>1</sup> (#)	% of Total TOPs Granted to Employees	Exercise Price (\$)	Expiry Date	Grant Value <sup>3</sup> (\$)	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for 5-Year Term	
							5% (\$)	10% (\$)
Romanow	Dec. 7, 2009	550,000	12.6%	24.95 <sup>2</sup>	Dec. 6, 2014	5,351,775	3,791,274	8,377,723
Reinhart	Dec. 7, 2009	150,000	3.4%	24.95 <sup>2</sup>	Dec. 6, 2014	1,459,575	1,033,984	2,284,834
Nieuwenburg	May 1, 2009 <sup>4</sup>	50,000	1.1%	22.72	April 30, 2014	443,040	313,856	693,539
	Dec. 7, 2009	170,000	3.9%	24.95 <sup>2</sup>	Dec. 6, 2014	1,654,185	1,171,848	2,589,478
Arnold	Feb. 23, 2009 <sup>5</sup>	70,000	1.6%	15.72	Feb. 22, 2014	429,156	304,020	671,805
	Dec. 7, 2009	100,000	2.3%	24.95 <sup>2</sup>	Dec. 6, 2014	973,050	689,322	1,523,222
Reinsborough	Dec. 7, 2009	100,000	–	US23.70 <sup>2</sup>	Dec. 6, 2014	1,069,242	757,466	1,673,803

1 All named executives were granted TOPs in 2009, with the exception of Mr. Reinsborough, who was granted STARs.

2 Reflects the December 4, 2009 closing market price of Nexen common shares on the TSX for TOPs grants and on the NYSE for the STARs grant.

3 Reflects the estimated fair value of the TOPs/STARs at the time of grant using the Black-Scholes pricing model. See Note 2 on page 185 for details.

4 Mr. Nieuwenburg received this grant upon his appointment as Executive VP, Canada. The exercise price is the closing market price of Nexen common shares on the TSX on April 30, 2009.

5 Mr. Arnold received this grant upon hire. The exercise price is the closing market price of Nexen common shares on the TSX on February 20, 2009.

### INCENTIVE PLAN AWARDS—TOPS EXERCISED OR EXCHANGED AND VALUE VESTED OR EARNED IN 2009

The TOPs value realized in 2009 occurred within seven 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 2009 represents what could have been earned if named executives exercised TOPs immediately upon vesting. As shown in the table, the TOPs awards vesting in 2009 had some in-the-money value upon vesting. 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 Annual Incentive Plan Compensation
	Exercised or Exchanged (#)	Value Realized <sup>1</sup> (\$)	Vested in 2009 (#)	Value Vested in 2009 <sup>2</sup> (\$)	Value Earned During the Year <sup>3</sup> (\$)
Romanow	228,000	3,167,490	173,400	294,984	429,000
Reinhart	100,000	1,275,750	80,000	131,104	175,000
Nieuwenburg	120,000	1,377,900	100,000	163,880	156,000
Arnold	–	–	–	–	99,000
Reinsborough	92,000	1,057,145	64,060	208,416	113,368
<b>Total</b>	<b>540,000</b>	<b>6,878,285</b>	<b>417,460</b>	<b>798,384</b>	<b>972,368</b>

1 Reflects the closing market price at the time of the exercise or exchange, minus the exercise price, times the number of TOPs exercised or exchanged.

2 Reflects the closing market price at the time of vesting, minus the exercise price, as defined in the TOPs plan. Most TOPs awards vesting in 2009 had an exercise price greater than the market price. See table on page 189 for further details of the exercise prices of TOPs vested.

3 Represents compensation earned in respect of 2009 and paid in 2010.

## OUTSTANDING INCENTIVE PLAN AWARDS

Name	Date Granted	Expiry Date	Exercise Price (\$)	Granted <sup>3</sup> (#)	Vested and Unvested TOPs/STARs at Dec. 31, 2009 <sup>1,2</sup>		Vested TOPs/STARs at Dec. 31, 2009 <sup>2</sup>	
					Number of Securities Underlying Unexercised TOPs/STARs (#)	Value of Unexercised TOPs/STARs <sup>4</sup> (\$)	Number (#)	Value <sup>4</sup> (\$)
Romanow	Dec. 12, 2000	Dec. 11, 2010	9.025	200,000	200,000	3,239,000	200,000	3,239,000
	Dec. 6, 2005	Dec. 5, 2010	27.285	124,000	124,000	–	124,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.600	160,000	160,000	–	160,000	–
	Dec. 3, 2007	Dec. 2, 2012	28.390	180,000	180,000	–	120,600	–
	Dec. 8, 2008	Dec. 7, 2013	19.360	180,000	180,000	1,054,800	61,200	358,632
	Jan. 2, 2009	Jan. 1, 2014	21.450	295,000	295,000	1,112,150	–	–
	Dec. 7, 2009	Dec. 6, 2014	24.950	550,000	550,000	148,500	–	–
<b>Total</b>				<b>1,689,000</b>	<b>1,689,000</b>	<b>5,554,450</b>	<b>665,800</b>	<b>3,597,632</b>
Reinhart	Dec. 12, 2000	Dec. 11, 2010	9.025	80,000	80,000	1,295,600	80,000	1,295,600
	Dec. 6, 2005	Dec. 5, 2010	27.285	70,000	70,000	–	70,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.600	80,000	80,000	–	80,000	–
	Dec. 3, 2007	Dec. 2, 2012	28.390	80,000	80,000	–	53,600	–
	Dec. 8, 2008	Dec. 7, 2013	19.360	80,000	80,000	468,800	27,200	159,392
	Jan. 2, 2009	Jan. 1, 2014	21.450	50,000	50,000	188,500	–	–
	Dec. 7, 2009	Dec. 6, 2014	24.950	150,000	150,000	40,500	–	–
<b>Total</b>				<b>590,000</b>	<b>590,000</b>	<b>1,993,400</b>	<b>310,800</b>	<b>1,454,992</b>
Nieuwenburg	Dec. 6, 2005	Dec. 5, 2010	27.285	80,000	80,000	–	80,000	–
	Dec. 4, 2006	Dec. 3, 2011	31.600	100,000	100,000	–	100,000	–
	Dec. 3, 2007	Dec. 2, 2012	28.390	100,000	100,000	–	67,000	–
	Dec. 8, 2008	Dec. 7, 2013	19.360	100,000	100,000	586,000	34,000	199,240
	May 1, 2009	April 30, 2014	22.720	50,000	50,000	125,000	–	–
	Dec. 7, 2009	Dec. 6, 2014	24.950	170,000	170,000	45,900	–	–
<b>Total</b>				<b>600,000</b>	<b>600,000</b>	<b>756,900</b>	<b>281,000</b>	<b>199,240</b>
Arnold	Feb. 23, 2009	Feb. 22, 2014	15.720	70,000	70,000	665,000	–	–
	Dec. 7, 2009	Dec. 6, 2014	24.950	100,000	100,000	27,000	–	–
<b>Total</b>				<b>170,000</b>	<b>170,000</b>	<b>692,000</b>	<b>–</b>	<b>–</b>
Reinsborough <sup>5</sup>	Dec. 6, 2005	Dec. 5, 2010	US 23.605	50,000	50,000	18,799	50,000	18,798
	Dec. 4, 2006	Dec. 3, 2011	US 27.500	52,000	52,000	–	52,000	–
	Dec. 3, 2007	Dec. 2, 2012	US 28.400	70,000	70,000	–	46,900	–
	Dec. 8, 2008	Dec. 7, 2013	US 15.200	70,000	70,000	706,920	23,800	240,356
	Dec. 7, 2009	Dec. 6, 2014	US 23.700	100,000	100,000	26,606	–	–
<b>Total</b>				<b>342,000</b>	<b>342,000</b>	<b>752,325</b>	<b>172,700</b>	<b>259,154</b>

1 Excludes grants that have been fully exercised.

2 The number and value of unvested TOPs/STARs can be determined by subtracting the vested TOPs/STARs from the vested and unvested TOPs/STARs. The value of unvested TOPs/STARs can be confirmed on page 195 in the Change of Control Table.

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

4 The difference between the closing market price of Nexen common shares on the TSX on December 31, 2009 of \$25.22 per share (US\$23.93 on the NYSE) and the exercise price of TOPs/STARs, times the number of TOPs/STARs. Where the exercise price exceeds the market value per share, the value shown is zero.

5 Mr. Reinsborough was granted STARs in 2009 and TOPs prior to 2009.

## EQUITY OWNERSHIP AND CHANGES IN 2009

The Compensation Committee approved revised share ownership guidelines in December 2009. Share ownership under the new guidelines no longer includes the net value of exercisable TOPs. Mr. Romanow's requirement to hold three times his annual salary has been increased to four times his annual salary under the new guidelines. Mr. Reinhart and Mr. Nieuwenburg were required to hold two and a half times their annual salary, and the remaining named executives are required to hold two times their annual salary. Remaining vice presidents and other senior leaders are now required to hold one times their annual salary.

Name	December 31, 2008	December 31, 2009	Net Change	Equity at Risk	
	Shares	Shares	Shares	Value <sup>1</sup> (\$)	Multiple of Salary <sup>2</sup>
Romanow	186,635	205,899	19,264	5,192,773	5
Reinhart <sup>3</sup>	46,040	65,855	19,815	1,660,863	4
Nieuwenburg	77,016	99,750	22,734	2,515,695	5
Arnold	–	5,319	–	134,145	– <sup>4</sup>
Reinsborough	7,573	17,793	10,220	492,549	1 <sup>5</sup>
<b>Total</b>	<b>317,264</b>	<b>394,616</b>	<b>72,033</b>	<b>9,996,025</b>	

<sup>1</sup> Equity at risk is the market value of common shares using the closing market price of Nexen shares on the TSX on December 31, 2009 of \$25.22 per share (US\$23.93 on the NYSE).

<sup>2</sup> Reflects the equity at risk, divided by the named executive's 2009 salary amount shown on page 185.

<sup>3</sup> Includes 1,581 shares held by spouse.

<sup>4</sup> Mr. Arnold became an officer on July 16, 2009 and has five years to meet the guideline.

<sup>5</sup> Mr. Reinsborough met the previous guideline and has three years to meet the revised guideline.

## PENSION PLAN BENEFITS

All named executives, except Brian Reinsborough, 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 181 to 183 for details.

### PENSION VALUE EARNED AND BENEFIT OBLIGATION CHANGES IN 2009

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 2009. The notes to the table below show additional past service credits authorized by the board for the named executives who participate in the Canadian defined benefit pension plan and the executive benefit plan.

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

## DEFINED BENEFIT PLAN TABLE

Name	Years of Credited Service	Annual Benefits Payable		Accrued Obligation at Jan. 1, 2009	Compensatory Change <sup>3</sup>	Non-Compensatory Change <sup>4</sup>	Accrued Obligation at Dec. 31, 2009
		At Year-End <sup>1</sup>	At Age 65 <sup>2</sup>				
Romanow	22.50 <sup>5,6</sup>	473,994	706,110	4,347,000	3,949,300	1,422,700	9,719,000
Reinhart	15.33	139,435	277,931	1,266,000	381,300	316,700	1,964,000
Nieuwenburg	5.00 <sup>7</sup>	127,936	292,138	1,142,000	624,300	293,700	2,060,000
Arnold	0.92 <sup>8</sup>	7,374	126,696	–	87,300	26,700	114,000
<b>Total</b>		<b>748,739</b>	<b>1,402,875</b>	<b>6,755,000</b>	<b>5,042,200</b>	<b>2,059,800</b>	<b>13,857,000</b>

<sup>1</sup> All information as of December 31, 2009. Represents the sum of the benefits accrued under the registered and executive benefit pension plans.

<sup>2</sup> Represents a value based on projected years of credited service at a 2% accrual rate to age 65 and actual pensionable earnings used to calculate the benefit amount in the previous column.

<sup>3</sup> Includes the 2009 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 may be found in the pension and other post-retirement benefits Note 13 in our 2009 Consolidated Financial Statements.

<sup>4</sup> 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.

<sup>5</sup> Ten years of additional past service credits were granted to Mr. Romanow by the board in 2001. This was a competitive practice to recognize that he was at a certain level in his career in 2001, when he was appointed to a new position.

<sup>6</sup> 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 22.50 years of defined benefit pension plan service. A pension benefit, which is reflective of pensionable bonus, will also be based on 29.75 years of service, which includes 7.25 years of defined contribution service.

<sup>7</sup> 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 five years of defined benefit pension plan service. A pension benefit, which is reflective of pensionable bonus, will also be based on 28.58 years of service, which includes the 23.58 years of defined contribution service.

<sup>8</sup> Mr. Arnold joined the defined benefit pension plan on February 1, 2009.

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 10 years up to December 31, 2009; 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, 2009.

Name	Years of Credited Service			Final Average Earnings	Accrued Annual Pension Benefit <sup>1</sup>		Estimated Annual Pension Benefit at Age 60 <sup>2</sup>	
	Up to Dec. 31, 2004	From Jan. 1, 2005	Total		Under the Defined Benefit Pension Plan	Under the Executive Benefit Plan	Under the Defined Benefit Pension Plan	Under the Executive Benefit Plan
Romanow	17.50	5.00	22.50	1,095,833	30,556	443,438	45,316	551,990
Reinhart	10.33	5.00	15.33	514,478	37,481	101,954	59,867	167,395
Nieuwenburg	–	5.00	5.00	590,756	12,222	115,714	35,130	198,711
Arnold	–	0.92	0.92	410,000	2,241	5,133	26,815	59,660

<sup>1</sup> All information is as of December 31, 2009.

<sup>2</sup> 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 are 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 five years as indicated in the notes below.

Name	Accumulated Value at Jan. 1, 2009	Compensatory <sup>2</sup>	Non-Compensatory	Accumulated Value at Dec. 31, 2009
Romanow <sup>1</sup>	331,641	–	85,365	417,006
Nieuwenburg <sup>2</sup>	410,801	–	105,741	516,542

<sup>1</sup> Mr. Romanow joined the defined benefit pension plan in 1997, after 7.25 years in the defined contribution pension plan.

<sup>2</sup> Mr. Nieuwenburg joined the defined benefit pension plan in 2005, after 23.58 years in the defined contribution pension plan.

## DEFINED CONTRIBUTION PLAN TABLE (US)

The following table represents the value of the accumulated pension assets, along with employer contributions, within the respective qualified and non-qualified plans. Under these plans, there are no market or preferential earnings provisions.

Name	Accumulated Value at Jan. 1, 2009 <sup>1</sup>	Compensatory <sup>2</sup>	Non-Compensatory <sup>2</sup>	Accumulated Value at Dec. 31, 2009 <sup>3</sup>
Reinsborough	876,863	87,636	206,138	1,170,637

<sup>1</sup> The exchange rate used to convert US to Canadian dollars at the beginning of the year is the December 31, 2008 rate of 1.2246.

<sup>2</sup> The exchange rate used to convert US to Canadian dollars during the year is the 2009 average rate for the year of 1.1568.

<sup>3</sup> The exchange rate used to convert US to Canadian dollars at the end of the year is the December 31, 2009 rate of 1.0466.

## ALL OTHER COMPENSATION

The total value of perquisites provided to any executive was less than \$50,000 and less than 10% of the named executive's annual salary in 2009. Certain perquisites shown below are at the maximum reimbursable amount available to executives. This maximum is often higher than what the named executive actually claimed in the year. These perquisites are not available to the broader employee population.

Name	Perquisites			Other Compensation				Total All Other Compensation
	Car Allowance	Other Perquisites <sup>1</sup>	Total	Life Insurance Premiums <sup>2</sup>	Savings Plan Contributions	Other Compensation	Total	
Romanow	31,200	10,500	41,700	1,038	66,000	71,240 <sup>3</sup>	138,278	179,978
Reinhart	19,200	7,100	26,300	498	26,400	71,240 <sup>3</sup>	98,138	124,438
Nieuwenburg	19,200	7,100	26,300	1,812	28,440	–	30,252	56,552
Arnold	17,600	7,100	24,700	1,062	12,985	200,000 <sup>4</sup>	214,047	238,747
Reinsborough	22,211	10,729	32,940	2,526	– <sup>5</sup>	–	2,526	35,466

<sup>1</sup> Represents a maximum reimbursement amount for financial counseling, luncheon club membership, medical exam and security monitoring. For Mr. Reinsborough, represents actual reimbursement for similar perquisites. For the CEO position only, this also includes a maximum reimbursement amount for a golf club membership.

<sup>2</sup> The life insurance premiums provided to the named executives are made available to all employees.

<sup>3</sup> Includes fees of \$34,000, deferred trust units of Canexus valued at \$25,950 and distributions on trust units of \$11,290.

<sup>4</sup> Mr. Arnold received a \$200,000 special bonus upon hire in February 2009.

<sup>5</sup> Benefits previously classified as savings plan are now classified as pension.

## 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 as follows:

Event	Action
Resignation	<ul style="list-style-type: none"> <li>All salary and benefit programs cease</li> <li>Annual incentive bonus is not paid</li> <li>TOPs/STARs must be exercised within 90 days</li> <li>Pension paid as a commuted value or deferred benefit</li> </ul>
Retirement	<ul style="list-style-type: none"> <li>Salary and benefit coverages cease except for a \$5,000 life insurance policy</li> <li>Monthly benefit to cover the cost of provincial health care premium continues in certain jurisdictions</li> <li>Annual incentive bonus paid on a pro-rata basis</li> <li>TOPs/STARs must be exercised within 18 months</li> <li>Pension paid as a monthly benefit</li> </ul>
Death	<ul style="list-style-type: none"> <li>All salary and benefit programs cease except for a one-year benefit coverage for surviving dependants and payout of any applicable insurance benefits</li> <li>Annual incentive bonus paid on a pro-rata basis</li> <li>TOPs/STARs must be exercised within 18 months</li> <li>Pension benefits distributed to surviving spouse or to a designated beneficiary in the event of no spouse</li> </ul>
Termination without cause	<ul style="list-style-type: none"> <li>All salary and benefit programs cease</li> <li>TOPs/STARs must be exercised within 90 days</li> <li>Pension paid as a commuted value or deferred benefit</li> <li>Severance provided on an individual basis reflecting service, age and salary level</li> </ul>
Termination for cause	<ul style="list-style-type: none"> <li>All salary and benefit programs cease</li> <li>Annual incentive bonus is not paid</li> <li>TOPs/STARs must be exercised on termination</li> <li>Pension paid as a commuted value or deferred benefit</li> </ul>

### PAYMENTS ON RESIGNATION

There are no additional payments for named executives upon resignation. The following table discloses values that would have been provided in the normal course had they resigned effective December 31, 2009: i) the lump sum value of pension benefits accrued under the defined benefit pension plan and executive benefit plan; and ii) the value of vested TOPs. 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 pension benefit option is not available.

Name	Termination Scenario	Pension	Value of Vested TOPs <sup>1,2</sup>	Total
Romanow	Resignation	6,268,000	3,597,632	9,865,632
Reinhart	Resignation	1,610,000	1,454,992	3,064,992
Nieuwenburg	Resignation	1,410,000	199,240	1,609,240
Arnold	Resignation	80,000	–	80,000
Reinsborough <sup>3</sup>	Resignation	–	259,154	259,154

<sup>1</sup> Does not include unvested TOPs/STARs, which will vest according to the TOPs/STARs plan over 90 days for resignation.

<sup>2</sup> The difference between the closing market price of a Nexen common share on the TSX at year-end of \$25.22 (US\$23.93 on the NYSE) and the exercise price of TOPs, times the number of vested TOPs.

<sup>3</sup> Mr. Reinsborough does not participate in the defined benefit pension plan as he is employed in the US.

The nature of our time-vested TOPs/STARs ensures that retiring executives maintain a significant equity interest for at least 12 months (last vesting period) after departure.

## CHANGE OF CONTROL AGREEMENTS

Nexen has entered into change of control agreements with each of the named executives and other key executives. 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. Romanow's change of 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 named 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 <sup>1</sup>
Romanow	36	30
Reinhart	24	–
Nieuwenburg	24	–
Arnold	24	–
Reinsborough	24	–

<sup>1</sup> Within 12 months after change of control and only if the CEO has remained an employee.

The next table outlines the estimated incremental payments named executives would be entitled to had a change of control and a subsequent termination of employment occurred on December 31, 2009. 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.

Named 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 named executive's change of control agreement. 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<sup>1</sup>

Name	Severance Period (# of months)	Base Salary	Bonus Target Value	Benefits Uplift	Other Employee Benefits	Additional Lump Sum Value of Pension <sup>2</sup>	Accelerated TOPs/STARs Value <sup>3</sup>	Total Incremental Obligation
Romanow	36	3,300,000	2,475,000	429,000	329,500	16,188,000	1,956,818	24,678,318
Reinhart	24	880,000	440,000	114,400	129,100	2,037,000	538,408	4,138,908
Nieuwenburg	24	1,000,000	600,000	130,000	136,300	2,721,000	557,660	5,144,960
Arnold	24	840,000	378,000	109,200	126,700	535,000	692,000	2,680,900
Reinsborough	24	832,905	374,807	108,278	77,159	175,271	493,179	2,061,599
<b>Total</b>		<b>6,852,905</b>	<b>4,267,807</b>	<b>890,878</b>	<b>798,759</b>	<b>21,656,271</b>	<b>4,238,065</b>	<b>38,704,685</b>

<sup>1</sup> Assumes a triggering event occurred at December 31, 2009.

<sup>2</sup> Does not include regular termination pension values, which are reported in Payments on Resignation on page 193. Benefits payable under the registered defined benefit pension plan are funded from the pension trust and payable in the form of a monthly pension benefit if the named executive is 55 or older. For Mr. Reinsborough, the value does not include benefits presently residing in the qualified and non-qualified retirement plans.

<sup>3</sup> Value of TOPs/STARs that automatically vest on a change of control, based on the number of TOPs/STARs with accelerated vesting, times the closing market price of Nexen common shares on the TSX on December 31, 2009 of \$25.22 (US\$23.93 on the NYSE), 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 193.

## 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 and *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 169. For this plan, Nexen follows the TSX rules, which, unlike the NYSE rules, exempt plans from shareholder approval where the common shares issued under the plan are purchased on the open market rather than issuing new shares.

Annually, the CEO certifies to the NYSE that he is not aware of any violation by Nexen of the NYSE's corporate governance listing standards. Our CEO has not had to provide any notification of non-compliance to the NYSE, since no executive officer is aware of any non-compliance with any applicable provisions of section 303A of the NYSE 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, our code of ethics and our corporate governance policy and categorical standards are available at [www.nexeninc.com](http://www.nexeninc.com), and we intend to provide disclosure in this manner. Shareholders wishing to receive a copy of these documents may contact the Governance Office by telephone at 403.699.4926, or by email at [governance@nexeninc.com](mailto:governance@nexeninc.com).

## GOVERNANCE COMMITTEE REPORT

The Governance Committee assists the board 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 relevant to an organization of Nexen's size and complexity.

All Committee members are independent and knowledgeable on our corporate governance programs. Seven 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 2009

Mr. Thomson, as Chair of the Committee, left upon his retirement from the board and Mr. Bertram and Mr. Jackson joined in April 2009.

### KEY ACTIVITIES IN 2009

- Reviewed board committee composition, including consideration for committees that promote a knowledgeable and informed board.
- Recommended committee memberships in a manner that promotes issue exposure and knowledge development on key matters for the company.
- Reviewed the board chair succession plan.
- Recommended a revised Integrity Guide.
- Recommended updates to governance documents, including mandates for the board, individual directors and all board committees (including amendments to more specifically delineate responsibilities for assessing and addressing risk), the external communications policy and the corporate governance policy.
- Received regular reports on management's dialogue with governance-related stakeholders.
- Continued advancement of the online performance evaluation process by recommending new questions to further explore the areas of how the board acts when company performance targets are not being met, risk management oversight, sustainability risk management, board and CEO relations and financial understanding.
- Consulted with Dr. Richard Leblanc, Assistant Professor of Corporate Governance, York University, on the board's performance evaluations.

### THE BOARD AND COMMITTEES

The Committee has determined that the board leadership structure is appropriate, given the specific characteristics and circumstances of the company. The CEO and board chair positions are separate and the Board Chair is independent.

The Committee reviews board and committee memberships annually, considering director independence, qualifications, 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.

### RISK MANAGEMENT OVERSIGHT

The board regularly receives an assessment from management on key risks facing Nexen, assessed by probability of occurrence and expected market reaction. These risks and associated mitigation strategies are allocated and reported upon to the appropriate committees and/or the full board according to their mandates. The Committee oversees the allocation of risks identified to the appropriate committee or the full board. These risks include Long Lake project execution, the global recession (including the impact of commodity prices and credit risk), concentration of cash flow from the Buzzard project, rig commitments, marketing division performance, timing delay on capital projects, political and security risk in jurisdictions where we operate, environment regulation, proximity of operations to urban centres, fiscal term certainty, development/project risk, operational risk, commodity price risk, reporting/disclosure risk and human resource risk.

## NOMINATING A NEW DIRECTOR FOR ELECTION

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

Before recommending a new board candidate, the Committee considers his or her performance, independence, competencies, financial acumen, skills and diversity. 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. While the board does consider gender, ethnic background, geographic origin and other personal characteristics when looking at diversity, it is the skills, experience, character and behaviour qualities that are most important in determining the value that an individual could bring to the board. Prior to nomination, potential directors must disclose possible conflicts of interest with Nexen, and background checks, as appropriate, are completed. See [www.nexeninc.com](http://www.nexeninc.com) for the individual director mandate.

The Committee requires the corporate secretary to maintain an evergreen list of potential directors whose skills complement the board and whom the Committee would evaluate if the individual is available when an opening arises.

The Committee will also consider a board nominee recommended by a shareholder. See page 199 for information on communicating with the board.

## BOARD CHAIR TERM

We have a well-established governance practice and guideline for a five-year rotation of the board and committee chairs. Ever since Nexen became a fully independent oil and gas company in 2000, we have rotated these chair positions every five years. In 2009, the Committee discussed the end of Mr. Saville's five-year term as board chair in 2010. The Committee considered his strong leadership and Nexen's current circumstances and decided to extend the term for two more years. Francis Saville will remain the board chair until 2012. When making this decision, the Committee considered the management and board changes we have experienced in the past year and determined continuity of the board chair is critical to our success and to maintaining good corporate governance leadership.

Mr. Saville is committed to the success of Nexen and to top-tier corporate governance. He does an excellent job of enhancing board effectiveness and has diligently worked with the CEO to facilitate a smooth transition since the CEO's appointment at the start of 2009. There is great value to continuity of leadership from Mr. Saville at this time, both to complete the CEO transition and to continue to lay a solid foundation of trust between the board and management. We continue to plan for board chair succession in 2012 and beyond.

## SAY-ON-PAY POLICY

After careful consideration, we have decided not to adopt a say-on-pay policy (advisory vote on executive compensation) at this time. We believe we have governance and compensation practices in place that achieve substantially the same results. The Canadian Coalition for Good Governance (CCGG) released a Model Shareholder Engagement and Say on Pay policy, which Nexen management commented on and discussed with them. As well, our Board Chair and the head of our compensation committee met with representatives of the CCGG in this regard. The CCGG ultimately released a final form of policy which we have considered, but declined to adopt at this time. We believe we have shareholder engagement and compensation disclosure practices that are top tier. Say on pay developments will be reviewed in the coming year as the form and substance of say on pay initiatives becomes clearer. For more details on our compensation practices, see the Compensation Discussion and Analysis on pages 172 to 183.

## PERFORMANCE EVALUATIONS

The board and management work together to foster continual, 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 development. Visit [www.nexeninc.com](http://www.nexeninc.com) for a special report on our director evaluation process. This report describes the assessment process and the purpose of each of the six performance components, the four evaluation tools and the reporting and follow-through process.

Our six-part performance evaluation review, together with the skills matrix, are our primary tools 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 9.5 years. Our retirement age is 75.

The Committee strengthened the online evaluation process in 2009 by recommending new questions to further explore the areas of how the board acts when company performance targets are not being met, risk management oversight, sustainability risk management, board and CEO relations and financial understanding. Additionally, questions were either expanded or added to reflect best practices. The changes included: i) adding the assessment of compensation policies, procedures and practices and ii) assessing performance metrics and risk management relating to annual cash and long-term incentives.

The board rates its overall effectiveness on a 10-point scale, where 10 is the best. The average rating of 8.9 in 2009 is consistent with the 2008 average rating. A portion of this high score is attributed to the board receiving concise materials and presentations, which provides sufficient time for board discussion and inquiry. Even though this score shows a high degree of effectiveness, we continually look for opportunities to improve board value and processes in all areas of their oversight responsibilities.

## EXTERNAL RECOGNITION

We received recognition for our governance practices during 2009.

- The Award of Excellence in Corporate Governance Disclosure in the 2009 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.
- Current global rating of 10 out of 10 from GovernanceMetrics International for governance practices and disclosure.
- Ranked 8th, with a score of 86 out of 100, in the Report on Business 2009 corporate governance rankings.

## COMMITTEE APPROVAL

The Committee has reviewed and discussed the governance disclosure in this document, including the information in the Directors section (pages 161 to 170). 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 Governance Committee:

Barry Jackson, Chair; Bob Bertram; Kevin Jenkins; Anne McLellan; Eric Newell; Tom O'Neill; Francis Saville; John Willson

## ETHICS POLICY

On January 1, 2010 we replaced our ethics policy with *How We Work: Our Integrity Guide* (our guide). Our guide provides improved communication regarding expected behaviours and uses simplified language, real-life examples and Questions and Answers. It also includes an overview of Nexen's 22 integrity-related policies, provides guidance for making ethical decisions and lists options for reporting concerns about business conduct.

Under our guide, 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 guide has been adopted as a code of ethics for our principal executive officer, principal financial officer and principal accounting officer or controller.

Any waivers from the provisions of our guide for a director or executive officer must be approved by the Audit Committee and board and disclosed to the public in accordance with regulatory requirements. Any waivers of the provisions of our guide for any employee may be made by Nexen's chief legal officer.

Our guide is available at [www.nexeninc.com](http://www.nexeninc.com) and if we amend or waive any provision of it, it will be disclosed online. We also file our guide and any amendments to it on SEDAR at [www.sedar.com](http://www.sedar.com). To request a copy of the guide, contact the Integrity Resource Centre by emailing [integrity@nexeninc.com](mailto:integrity@nexeninc.com) or calling 403.699.6789.

## Reporting Concerns

There are several ways that a stakeholder can report concerns about Nexen's business practices. These include contacting a member of Nexen's management team, the Integrity Resource Centre, our integrity helpline or the Chair of our Audit and Conduct Review Committee.

- Employees, customers, suppliers, partners, shareholders and other external stakeholders who have a concern are encouraged to raise the matter with Nexen management or our Integrity Resource Centre by:

✉ Mail: Nexen Inc.  
801 – 7th Avenue SW  
Calgary, Alberta, Canada T2P 3P7  
Attention: Integrity Resource Centre

✉ Email: [integrity@nexeninc.com](mailto:integrity@nexeninc.com)

☎ Phone: 403.699.6789

- Concerns may also be reported through the use of our integrity helpline, which is a secure reporting system operated by EthicsPoint, an independent third-party service provider. The helpline offers the option for anonymous reporting should the reporter wish to protect their identity. To learn more about our integrity helpline and for global, toll-free call numbers, visit [www.nexeninc.com](http://www.nexeninc.com) and click on the Integrity Helpline link at the top of the page. Alternatively you may access the helpline directly by:

💻 Online: [www.ethicspoint.com](http://www.ethicspoint.com)

☎ Phone: 1.866.384.4277  
(toll-free in North America)

- Specifically, if you wish to raise concerns about Nexen's financial statements, accounting practices or internal controls and do not feel comfortable raising the matter using the reporting methods described above, you can make a report directly to the Chair of the Audit and Conduct Review Committee of Nexen's board. The matter should be documented and mailed to Nexen Inc. at the address provided above in an envelope labeled: "To be opened by the Chair of the Audit and Conduct Review Committee only".

## COMMUNICATING WITH THE BOARD

Shareholders 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](mailto:board@nexeninc.com)

We receive inquiries on many subjects. 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 201 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
Jarislowsky, Fraser Limited <sup>1</sup> Suite 2005, 1010 Sherbrooke Street West Montreal, Quebec, Canada, H3A 2R7	43,857,995	8.39%	January 31, 2010

<sup>1</sup> The beneficial owner has sole voting power over 38,196,468 shares, shared voting power over 5,661,527 shares and sole power to dispose of all shares.

#### SECURITY OWNERSHIP OF MANAGEMENT

At February 18, 2010, the following directors, certain executive officers and all directors and executive officers as a group beneficially owned the following Nexen common shares:

Name of Beneficial Owner	Number of Shares <sup>1</sup>	Exercisable TOPs <sup>2</sup>
William B. Berry	–	–
Robert G. Bertram	16,000	–
Dennis G. Flanagan	31,264	20,000
S. Barry Jackson	72,000	–
Kevin J. Jenkins	12,540	60,000
A. Anne McLellan, P.C.	300	–
Eric P. Newell, O.C.	12,000	–
Thomas C. O'Neill	16,000	–
Marvin F. Romanow	206,875	766,100
Francis M. Saville, Q.C.	59,864	60,000
John M. Willson	15,055	–
Victor J. Zaleschuk	63,371	140,000
Kevin J. Reinhart	66,235	327,800
Gary H. Nieuwenburg	100,116	281,000
James T. Arnold	5,542	23,800
Brian C. Reinsborough	17,895	172,700
<b>All Directors and Executive Officers as a Group (23 persons)</b>	<b>783,683</b>	<b>2,436,290</b>

<sup>1</sup> The number of shares held and TOPs exercisable by each beneficial owner represents less than 1% of the shares outstanding.

<sup>2</sup> Includes all TOPs exercisable within 60 days of February 18, 2010. 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.

## 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 2009 as defined under that standard. Certain other transactions described below that are not related party transactions, involving Nexen and certain of our directors, were entered into in 2009.

#### 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. He has been counsel with the firm from February 1, 2004 to January 31, 2010. FMC provided legal services to us in each of the last five years. Mr. Saville does not solicit or participate in these services and did not receive any portion of the fees we pay to FMC, nor was he a partner or an employee of the firm. He is independent under our categorical standards.

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. Legal fees paid to BJ represent less than 6% of all legal fees paid by Nexen in 2009. 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.

## ITEM 14.

### Principal Accounting Fees and Services

#### AUDIT COMMITTEE REPORT

The Audit Committee assists our board in overseeing:

- the integrity of annual and quarterly financial statements;
- our compliance with accounting and finance-based legal and regulatory requirements;
- the independent auditor’s qualifications and independence;
- the internal accounting system and financial reporting controls established by management;
- performance of the internal and external audit process and independent auditor; and
- implementation and effectiveness of *How We Work: Our Integrity Guide*, which constitutes our code of ethics, and related compliance programs.

The Committee is responsible for appointing (subject to shareholder approval), compensating and overseeing the independent registered chartered accountant (IRCA). The IRCA is accountable to and reports directly to the Committee and understands that it must maintain an open and transparent relationship with the Committee, which represents our shareholders.

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

Management is responsible for our internal controls and financial reporting process. The IRCA is 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 2009

Mr. Thomson left the Committee upon his retirement from the board and Mr. Berry joined in April 2009.

#### KEY ACTIVITIES FOR 2009

- Reviewed and approved the quarterly Consolidated Financial Statements and reports on Form 10-Q.
- Met with management and the IRCA to review the December 31, 2009 Consolidated Financial Statements.
- Discussed the scope and result of the external audit with the IRCA.
- Discussed matters required by Canadian and US regulators with the IRCA.
- Received written disclosures from the IRCA required by US regulators.
- Discussed with the IRCA their independence.
- Oversaw the compliance activities by management to report on the effectiveness of internal control over financial reporting as at December 31, 2009.
- Approved the annual corporate audit plan and reviewed quarterly progress updates.
- Reviewed management's annual and quarterly SOX control assessments.
- 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, 2009, based on the reviews and discussions referred to above.
- Recommended approval of the Form 10-K to the board.
- Reviewed updates on new accounting and regulatory standards that affect Nexen, including progress on our transition to International Financial Reporting Standards.
- Approved a revised *Integrity Guide*.
- Reviewed and approved the decision to file an Annual Information Form in lieu of Form 10-K for 2011.

#### 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 2009, management assessed our disclosure controls and procedures and our internal control over financial reporting and concluded that they were effective as of December 31, 2009. The integrated audit report for 2009 is included in our Form 10-K.

## IRCA ENGAGEMENT AND FEES BILLED

Before Nexen or any subsidiary engages the IRCA for additional audit or non-audit services, the Committee must approve the engagement. Since May 6, 2003, the Committee has approved all audit, audit-related, tax and other services provided by the IRCA. The Committee concludes that the services provided by the IRCA as described in All Other Fees below maintain that firm's independence.

Type of Fee	Billed in 2008	Billed in 2009	Percentage of Total Fees Billed in 2009
<b>Audit Fees</b>			
For the integrated audit of Nexen's Consolidated Financial Statements included in our annual report on Form 10-K	2,812,000 <sup>1</sup>	3,061,149 <sup>2</sup>	
For the integrated audit of the Consolidated Financial Statements of Canexus <sup>3</sup>	215,600 <sup>3</sup>	238,172 <sup>4</sup>	
For the first, second and third quarter reviews of Nexen's Consolidated Financial Statements included in Form 10-Qs	110,000	117,000	
For the first, second and third quarter reviews of the Consolidated Financial Statements of Canexus <sup>3</sup>	45,000	45,000	
For comfort letters and submissions to commissions	3,000	130,000	
<b>Total Audit Fees</b>	<b>3,185,600</b>	<b>3,591,321</b>	<b>62%</b>
<b>Audit-Related Fees—Nexen and Canexus<sup>3</sup></b>			
For the annual audits and quarterly reviews of subsidiary financial statements and employee benefit plans	1,144,700	1,786,308	
<b>Total Audit-Related Fees</b>	<b>1,144,700</b>	<b>1,786,308</b>	<b>30%</b>
<b>Tax Fees—Nexen and Canexus<sup>3</sup></b>			
For tax return preparation assistance and tax-related consultation	139,800	151,269	
<b>Total Tax Fees</b>	<b>139,800</b>	<b>151,269</b>	<b>3%</b>
<b>All Other Fees</b>	<b>216,300<sup>5</sup></b>	<b>262,848</b>	<b>5%</b>
<b>Total Annual Fees</b>	<b>4,686,400</b>	<b>5,791,746</b>	<b>100%</b>

<sup>1</sup> Consulting of \$936,000 to complete the 2007 audit and \$1,876,000 to commence the 2008 audit.

<sup>2</sup> Consulting of \$1,276,498 to complete the 2008 audit and \$1,784,651 to commence the 2009 audit.

<sup>3</sup> Includes fees for Canexus Income Fund, Canexus Limited Partnership and its subsidiaries.

<sup>4</sup> Consisting of \$152,000 to complete the 2008 audit and \$86,172 to commence the 2009 audit.

<sup>5</sup> Petroview NW Europe subscription.

## EXTERNAL RECOGNITION AND VERIFICATION

Nexen was recognized in 2008 and in 2009 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 IRCA, 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, 2009 and that the Form 10-K be approved.

### Submitted on behalf of the Audit Committee:

Tom O'Neill, Chair; Bill Berry; Barry Jackson; Kevin Jenkins; Eric Newell; John Willson