Policy Name: Corporate Governance

Policy Number: A103
Policy Owner: Chief Legal Officer
Policy Approver: Board of Directors
Approval Date: November 28, 2011

Policy Statement:

Nexen is committed to transparency and responsible corporate governance practices. Key elements of good corporate governance principles include honesty, integrity, accountability, mutual respect, and commitment to the organization. The Corporate Governance Policy establishes guidelines for the way in which corporate governance is carried out within Nexen. We believe that these practices benefit all of our stakeholders and must be maintained as an essential part of our operations.

1. Definitions:

360^0 Review – method of evaluating performance by gathering feedback from peers, supervisors, subordinates and one's self.

Categorical Standards for Director Independence (Categorical Standards) – sets out the requirements for determining independence of Directors and members of the Audit and Conduct Review Committee, and to consider the best practices for the level of independence of the Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee.

Chief Legal Officer – a corporate officer holding the most senior legal position concerning legal affairs in the company and associated with an executive officer position.

Contractors – refers to companies, consultant and/or individuals engaged by Nexen to provide services under consulting or other contractual arrangements.

Deferred Share Units – a unit credited by the company to a director by way of a bookkeeping entry and administered pursuant to the terms of the Deferred Share Unit Plans.

Employee – refers to a regular, temporary or contract employee of the company.

Financial Literacy – as defined by the Board as an individual having, through education, experience, supervision or oversight: an understanding of generally accepted accounting principles and financial statements and the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves. A complete definition can be found in the proxy circular.

Financial Expert – superior financial knowledge in line with the requirements of the Sarbanes-Oxley Act (2002).

How We Work: Our Integrity Guide (Our Integrity Guide) – constitutes our code of ethics and provides a framework for employees to demonstrate a commitment to ethical business practices by conducting themselves with integrity, by acting honestly and ethically and complying with relevant laws, rules and regulations and behaving in a manner which is consistent with Nexen's core values.

Mandate – sets out the duties and responsibilities of the Board, its members and Committees.

Nexen (or the company) – refers to Nexen Inc. and its majority-owned subsidiaries.

Nexen's Articles - refer to the Articles of Incorporation that Nexen filed with the federal government in order to conduct business, and any amendments to them.

Position Description – sets out duties and responsibilities for the CEO, CFO, Secretary and Board and Committee Chairs.

Skills Matrix – a collaboration of various skills and expertise that come together to form a defined skill set.

2. Objective:

This policy is designed to provide control over business affairs with sufficient accountability or monitoring by the Board of Directors. A company-wide commitment to good governance practices allows Nexen to operate in a fair, efficient and transparent manner and provide best-in-class practices relevant to an organization of Nexen's size and complexity. *National Policy 58-201 - Corporate Governance Guidelines* provides corporations with guidance on corporate governance practices. Nexen is required to annually disclose whether it follows the guidelines and, where we do not, provide explanations for divergent practices.

Nexen will review this policy annually to ensure that it includes the most current governance standards and best-in-class practices relevant to an organization of its size and complexity.

3. Persons Affected:

This Corporate Governance Policy applies to all Directors, officers, employees and contractors of Nexen.

4. Policy:

THE BOARD

Independence from Management
The Board meets without Management at every regularly scheduled meeting and as the Board deems necessary, at non-regularly scheduled meetings.

Size of Board and Selection Process
As required by Nexen's Articles, the Board consists of between 3 and 15 Directors at all times. Directors are elected by the shareholders each year at the annual general meeting of shareholders (AGM). The Board may from time to time appoint additional Directors between AGMs, who will serve until the next AGM.

All candidates for election or appointment to the Board will initially be reviewed and recommended by the Corporate Governance and Nominating Committee. The Committee maintains an evergreen list of potential Board Directors. The list is comprised of people who the Committee feels would be appropriate to be asked to join the Board if or when they are available to do so and who complement the current skills matrix and fit within the independence requirements of the Board and its Committees. From time to time, the Committee engages a search firm to identify new candidates for recommendation to the Board.

DIRECTORS

Independence

The Board annually reviews and confirms or updates the Categorical Standards. The Categorical Standards set out the requirements for determining independence of Directors and members of the Audit and Conduct Review Committee, and to consider the best practices for the level of independence of the Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee. The Categorical Standards will be publicly disclosed.

The Board annually, and when circumstances require, reviews and makes a determination on the independence of each Director in light of the Categorical Standards and applicable law. The independence determinations will be disclosed publicly.

Nexen will maintain an independent Board at all times, with at least two-thirds of the members determined to be independent.

Attendance

Directors will strive for perfect attendance at the AGM and at all Board and Board Committee meetings. They are expected to attend at least 75% of all Board and applicable Board Committee meetings, combined. Nexen will publicly disclose the Director attendance record annually. The Corporate Governance and Nominating Committee will review the circumstances that prevented any Director from achieving the minimum attendance level and report its findings to the Board.

Material Change in Status

The Board has determined that the Corporate Governance and Nominating Committee will assess the appropriateness of continued Board service when any Director has a material change in status that could compromise his or her ability to act as a Director of Nexen. Any Director who has a material change in employment or health status is required to immediately notify the Chair of the Committee. The Committee will advise the Board and provide recommendations on the Director's continued service to Nexen. It is not intended that a Director who has a material change in employment or health status be required to leave the Board, but the Committee has the responsibility to assess the continued appropriateness of Board membership under the relevant circumstances.

Orientation

Nexen has established and maintains an in-depth orientation program for new Directors which includes: information on the role of the Board and each of its Committees; company and industry information; and, the contribution individual Directors are expected to make. Each new Director receives a binder with up-to-date information on Nexen's corporate and organizational structure, recent filings and financial information, governance documents and important policies and procedures. Each new Director will attend an orientation session detailing the values and strategy of Nexen and reviewing its operations, internal structure and processes. As well,

regardless of which Committees a new Director is on or will be appointed to, each new Director will be invited to attend a full set of Committee meetings.

Continuing Education

Presentations are made regularly to the Board and Committees to educate and keep them informed of changes within Nexen and in legal, regulatory and industry requirements and standards. Special presentations on operations and issues of particular business units are provided to all Directors from time to time. Trips to various operating sites are also arranged for Directors. The Corporate Governance and Nominating Committee reviews information on available external educational opportunities and from time to time provides information making Directors aware of the opportunities. Nexen pays tuition and expenses for Directors to attend relevant external education sessions. Nexen will and does pay for membership dues for each of the Directors in an appropriate organization that provides relevant publications and educational opportunities.

Performance Evaluation

Annually the Corporate Governance and Nominating Committee in consultation with the Board will determine the format of its evaluation, and unless otherwise determined it shall consist of a questionnaire, interview process and a 360° review by members of Management, also by way of questionnaire and interviews. The responses to the questionnaire, which explores the performance of the Board as a whole, all Board Committees, and the performance and skills of individual Directors, including self-evaluation are submitted to an independent, third-party for analysis. A report is provided to the Board Chair and the Chair of the Corporate Governance and Nominating Committee, either Chair then holds one-on-one interviews with the Directors, including discussing peer performance. Management's responses to its questionnaire are reviewed by the Board Chair and/or the Chair of the Corporate Governance and Nominating Committee, either Chair then holds one-on-one interviews with the various members of Management surveyed. The Board Chair and the Chair of the Corporate Governance and Nominating Committee presents the results of the questionnaires and the interviews to the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee then reports to the Board and recommends any changes or further actions to address issues that were identified.

Compensation

Nexen reviews the compensation of Directors, the Board Chair and the Committee Chairs regularly. The Compensation and Human Resources Committee makes recommendations to the Board with respect to compensation of Directors, the Board Chair and Committee Chairs. All compensation paid to Directors will be publicly disclosed.

Performance-Based Compensation

Directors who are not Officers of Nexen are not eligible to receive stock options. They do receive alternate performance-based compensation, currently deferred share units. All performance-based compensation granted to Directors will be publicly disclosed.

Retirement

Directors who are 75 years of age will not be eligible to stand for election at the next AGM. Directors who turn 75 during their term are eligible to finish out that term.

Term Limit
Nexen has not set a limit on the number of annual terms for which its Directors may stand for re-election. While term limits ensure fresh viewpoints on the Board, they also cause a company to lose the valuable contributions of those Directors who best understand the business of the company and the challenges it faces. In order to achieve board renewal in the absence of term limits, annual performance evaluations are conducted and Nexen has a strict retirement age policy.

BOARD COMMITTEES

Independence from Management
Board Committees meet without management at each regularly scheduled meeting.

A Director who is an Officer of Nexen will not be a member of any Board Committee.

Committees
Nexen is required to have an audit committee (Audit and Conduct Review Committee) a compensation committee (Compensation and Human Resources Committee), a nominating/corporate governance committee (Corporate Governance and Nominating Committee) and a reserves committee (Reserves Review Committee). The Board has also authorized a Finance Committee and a Health, Safety, Environment and Social Responsibility Committee. The Board may also authorize other Committees, as it feels are appropriate.

Member Independence
All members of the Audit and Conduct Review Committee, Compensation and Human Resources Committee and the Corporate Governance and Nominating Committee will be independent pursuant to Nexen's Categorical Standards and applicable law. The Categorical Standards set out additional independence requirements for members of the Audit and Conduct Review Committee. A majority of the members of the Finance Committee, the Reserves Review Committee and the Health, Safety, Environment and Social Responsibility Committee will be independent pursuant to Nexen's Categorical Standards and applicable law. The Board annually reviews and makes a determination on the independence of each of the members of the Committees in light of the Categorical Standards. Independence of all Committee members will be publicly disclosed.

Audit and Conduct Review Committee Financial Experts
All members of the Audit and Conduct Review Committee will be financially literate. "Financial literacy" is defined by the Board and the definition will be publicly disclosed. At least one member of the Audit and Conduct Review Committee will be an audit committee financial expert under applicable law. The Board annually reviews and makes a determination on audit committee financial experts. Those members of the Audit and Conduct Review Committee who are determined to be audit committee financial experts will be publicly disclosed.

Reporting
The Board receives reports from the Board Committees following each Committee meeting. The Board Committees also report to other Board Committees from time to time, as required.

BOARD, BOARD COMMITTEES AND INDIVIDUAL DIRECTORS

Advisors

The Board and all Board Committees will have the authority to engage independent advisors, at Nexen's expense, to assist them in carrying out their responsibilities. Individual Directors may engage independent advisors at Nexen's expense in appropriate circumstances and with the approval of the Corporate Governance and Nominating Committee.

CHAIRS

Term Guidelines for Chairs

The Board has determined that the Board Chair and Committee Chairs will serve for a term of no more than five years, unless circumstances exist that make continuity of leadership desirable at the time. Accordingly, on February 10, 2005, the Board adopted term guidelines of five years for service as the Board Chair or a Committee Chair, subject to review by the Corporate Governance and Nominating Committee in each case.

OFFICERS

Succession Planning

The Compensation and Human Resources Committee reviews and reports to the Board annually on the succession plan for Nexen's CEO and senior management.

DIRECTORS AND OFFICERS

Share Ownership

The Board regularly reviews its guidelines for shareholdings of Directors and Officers. The guidelines will be publicly disclosed.

Loans

Nexen will not make any loans to its Directors or Officers.

DISCLOSURE

Compensation Consultant/Advisor

If an independent compensation consultant or advisor has been retained to assist in determining compensation for any of the Directors or Officers, Nexen will disclose: the identity of the consultant or advisor; the mandate for which they were retained; and the nature of any other work the consultants or advisor was retained by Nexen to perform.

Annual Governance Reporting

Nexen will annually publicly disclose its governance practices in compliance with relevant Canadian and U.S. laws or rules.

Ongoing Governance Disclosure

Nexen will publicly disclose its Corporate Governance Policy; Categorical Standards; Mandates of the Board, Individual Directors and all Board Committees; Position Descriptions for the Board Chair, Committee Chairs, CEO, CFO and Secretary; Our Integrity Guide; and, the External Communications Policy, as referred to in this Corporate Governance Policy.

Nexen will publicly disclose any waivers of any of the provisions of or any changes to any one of its Corporate Governance Policy; Categorical Standards; Mandates of the Board, Individual

Directors and all Board Committees; Position Descriptions for the Board Chair, Committee Chairs, CEO, CFO and Secretary; Our Integrity Guide; and, the External Communications Policy, as referred to in this Corporate Governance Policy.

Access to Disclosures
Documents and information referred to in this Policy as being publicly disclosed may be accessed through the Governance section of Nexen's website (www.nexeninc.com). As required by law, certain information is included in Nexen's annual Proxy Circular or its Annual Report filed with Canadian and U.S. regulatory agencies.

5. Roles and Responsibilities:

THE BOARD

The Board is responsible for the stewardship of Nexen, providing independent, effective leadership to supervise the management of Nexen's business and affairs and to grow value responsibly, in a profitable and sustainable manner.

The Board annually reviews and confirms or updates its Mandate which sets out the duties and responsibilities of the Board. The Board Mandate will be publicly disclosed.

DIRECTORS

Each individual Director of Nexen will contribute actively and collectively to the effective governance of Nexen. The Board annually reviews and confirms or updates the Individual Director Mandate which sets out the duties and responsibilities of individual Directors. The Individual Director Mandate will be publicly disclosed.

BOARD COMMITTEES

The **Audit and Conduct Review Committee** assists the Board in fulfilling its oversight responsibilities with respect to (i) the integrity of annual and quarterly financial statements to be provided to shareholders and regulatory bodies; (ii) compliance with accounting and finance based legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; (iv) the system of internal accounting and financial reporting controls that Management has established; (v) performance of the internal and external audit process and of the independent auditor; and, (vi) implementation and effectiveness of Our Integrity Guide, which constitutes our code of ethics and the compliance programs.

The **Compensation and Human Resources Committee** assists the Board in fulfilling its oversight responsibilities with respect to (i) key compensation and human resources policies; (ii) Chief Executive Officer compensation; (iii) executive Management compensation; (iv) Board of Directors compensation; and, (v) executive Management succession and development.

The **Corporate Governance and Nominating Committee** assists the Board in fulfilling its oversight responsibilities with respect to (i) the development and implementation of principles and systems for the management of corporate governance; (ii) identifying qualified candidates and recommending nominees for Director and Board Committee appointments; and, (iii) evaluations of the Board, Board Committees, all individual Directors, the Board Chair and Committee Chairs, all with a view to ensuring Nexen is "leading edge" in implementing best-in-class corporate governance relevant to an organization of Nexen's size and complexity.

The **Finance Committee** assists the Audit and Conduct Review Committee and the Board in fulfilling their oversight responsibilities with respect to (i) financial policies and strategies including capital structure; (ii) financial risk management practices; (iii) pension matters; and, (iv) transactions or circumstances which could materially affect the financial profile of Nexen.

The **Health, Safety, Environment and Social Responsibility Committee** assists the Board in fulfilling its oversight. The Committee's primary purpose is to assist the Board in fulfilling its oversight with respect to due diligence in the development and implementation of leading health, safety, environmental and social responsibility systems and culture relevant to an organization of Nexen's size and complexity.

The **Reserves Review Committee** assist the Audit and Conduct Review Committee and the Board in fulfilling their oversight responsibilities with respect to the annual review of Nexen's oil and gas reserves and disclosure of reserves data and related oil and gas activities.

Mandates

Each current Board Committee has developed a Mandate, setting out its duties and responsibilities, which has been approved by the Board. All Board Committee Mandates are reviewed annually by the Corporate Governance and Nominating Committee and the relevant Board Committee. Any changes to Board Committee Mandates will be approved by the Board. All Board Committee Mandates will be publicly disclosed.

CHAIRS

The Board has adopted and maintains and annually reviews and updates or confirms the Position Descriptions for the Board Chair and the Committee Chairs which set out the duties and responsibilities of the Chairs. The Position Descriptions for the Board and Committee Chairs will be publicly disclosed.

OFFICERS

Duties and Responsibilities of the Chief Executive Officer (CEO)

The Board has adopted and regularly reviews and updates or confirms the CEO Position Description which sets out the duties and responsibilities of the CEO. The CEO Position Description will be publicly disclosed.

The Board also reviews and approves annual objectives for the CEO. The independent Directors, with recommendations from the Compensation and Human Resources Committee, annually approve CEO compensation in light of the achievement of the annual objectives and performance measurement indicators and considering Nexen's performance and relative shareholder returns, the value of similar incentive awards to CEOs at comparable companies and the awards given to Nexen's past CEOs.

Duties and Responsibilities of Other Officers

The Board has adopted and regularly reviews and updates or confirms Position Descriptions which set out the duties and responsibilities for each of the Chief Financial Officer (CFO) and the Secretary. The CFO and Secretary Position Descriptions will be publicly disclosed.

6. Compliance:

Nexen strives to be “leading edge” in implementing best-in-class corporate governance practices relevant to an organization of its size and complexity. Under *National Instrument 58-101 – Disclosure of Corporate Governance Practices*, Nexen must annually disclose whether or not it is complying with *National Policy 58-201 – Corporate Governance Guidelines*.

The Board Chair will take all reasonable steps to provide that Directors comply with aspects of the policy related to the Board, its Committees and individual Directors.

The Corporate Governance and Nominating Committee assists the Board in overseeing the development and implementation of principles and systems for the management of corporate governance and take all reasonable steps to satisfy itself that Nexen is “leading edge” in implementing best-in-class corporate governance practices relevant to an organization of its size and complexity.

The Secretary will take all reasonable steps to provide for compliance with this policy.

Directors, Officers, employees and consultants are required to comply with Our Integrity Guide, Trading in Securities and Reporting Policy and External Communications Policy.

7. Related Policies:

A102 How We Work: Our Integrity Guide
A152 Trading in Securities and Reporting Policy
A160 External Communications Policy

8. Revision History:

DATE	REVISION #	DESCRIPTION OF CHANGE
November 28, 2011	10th Revision	• Administrative changes
December 6, 2010	9th Revision	• Minor changes to improve our practices and to align with other governance documents
December 7, 2009	8th Revision	• Re-formatted to align with other company policies • Minor changes to improve our practices and to align with other governance documents
December 9, 2008	7th Revision	• Minor changes in the description of two committees to be consistent with other governance documents
December 4, 2007	6th Revision	• Minor revisions to align with other governance documents • Changes to improve the clarity of our position and/or practices
December 5, 2006	5th Revision	• Minor revisions to align with other governance documents • Changes to improve the clarity of our position and/or practices
October 13, 2005	4th Revision	• Added disclosure requirements for the identity, mandate and nature of any other work provided by a compensation consultant hired to assist in determining compensation of any directors and officers
February 10, 2005	3rd Revision	• Minor revisions to align with other governance documents • Changes to improve the clarity of our position and/or practices • Added a section on Access to Disclosures and updated the Annual Governance Reporting section to be more general
July 17, 2003	2nd Revision	• Changes to the constitution and independence of the Board • Changes to the relationship between the Board, Management and stakeholders • Minor revisions to align with other governance documents
November 1, 2000	1st Revision	• Changes to improve the clarity of our position and/or practices
September 18, 1996	Policy Creation	• New policy created and authorized