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2008 SUMMARY REPORT



STRATEGY OF CHOICE

CHOICE: it's what companies and investors value most in challenging times. Whether it's how we allocate capital, fund our growth, or decide which projects make most sense given current economic winds, choice is key.

We are a Canadian-based oil and gas company with operations worldwide. Our strategy is simple—build a sustainable energy company focused in three areas: oil sands, unconventional gas, and select conventional exploration and exploitation.

To be sustainable, we must be better than average. So we invest where we see the greatest opportunity to create long-term value—then we build enviable land positions, deploy expertise and apply technological solutions that give us a competitive edge.

Our strategy is proving successful. With North Sea Buzzard and Long Lake now adding to more than a decade of value from Yemen, we're moving into our next generation of projects: Usan offshore West Africa, discoveries in the Golden Eagle area of the North Sea, Horn River shale gas, future oil sands phases and exploration in key offshore basins worldwide.

See how our choices turn opportunities into legacy assets.



No Nexen debt to repay
before 2012

LIQUIDITY TO GROW

Assets alone don't deliver value—advantages do. And the tight credit markets are highlighting one of our greatest competitive advantages—our financial liquidity. While some companies scramble to secure financing to fund their projects, we have the financing in place to fuel our growth at our own pace.

Our decision to go to the financial markets in 2007 to secure 30-year debt is paying off. Today, our balance sheet remains healthy and we have no debt repayments before 2012. The average term to maturity of our debt is 19 years. Plus we have over \$3.5 billion in cash and committed lines of credit to draw on if we choose.

With solid financial capacity, we can also take advantage of opportunities as others are forced to sell attractive assets to shore up their balance sheets. In December 2008, we acquired an additional 15% interest in Long Lake and became operator of the upgrader—all for less than cost. Choices like this make great strategic sense, and we are on the hunt for more outstanding deals that build on our advantages.

**FINANCIAL
STRENGTH**

PLAYING IN THE BIGGEST SANDBOXES

OIL SANDS

In this game, access to resource is key. The bigger the sandbox, the more sustainable the business—especially when you leverage technology, expertise and talent to create value. The Athabasca oil sands is the world’s second largest hydrocarbon basin. So, to be a world player in the energy industry, we believe it’s key to be a leader in the oil sands.

Not only do we have the fifth largest resource here, we also have an integrated SAGD and upgrading solution that will deliver the highest-quality synthetic crude oil in North America at a cost that is cheaper than the competition. This means we suffer the least in low oil price environments and benefit the most when prices recover.

With no exploration risk, our oil sands project is unique from the rest of our portfolio. The resource is known and the technology to recover it is proven. The first phase—just 10% of our total resource—is now up and running. Given our significant land position, we can replicate Long Lake Phase 1 up to nine more times, with each phase designed to provide predictable production and steady cash flow for 40 years.

A photograph of an industrial facility featuring several large, cylindrical, corrugated metal storage tanks. The tanks are arranged in a row, with a prominent one in the foreground. A network of large, silver pipes runs across the scene, supported by vertical metal beams. Yellow safety railings and ladders are visible around the tanks. The sky is a clear, deep blue, and the ground appears to have a light layer of snow. The overall scene is brightly lit, suggesting a clear day.

40 years
of predictable production
and steady cash flow



Usan expected to reach
36,000 bbls/d
of production in 2012

ON THE HUNT FOR MORE

Next to people, reserves are our most significant asset. Yet, what we produce today is gone tomorrow. So we are constantly on the hunt for more.

We still see huge value in conventional exploration and exploitation in select basins. As the world's easy-to-find oil is being depleted, exploration efforts are heading offshore and into deeper waters. We believe the smart choice is to focus our programs in familiar territory, namely the deep-water Gulf of Mexico, the North Sea and offshore West Africa. Here we've had past success, we hold significant acreage, infrastructure exists and great potential remains. Third-party studies confirm we are headed in the right direction. Over the past decade, these three basins have ranked top ten in the world for adding value from exploration.

Our Usan development, offshore West Africa, is a great example of value created through the drill bit. With hundreds of millions of barrels to produce, it is expected to come on stream in 2012 and boost our oil production by about 36,000 bbls/d. And there's a lot more to explore in the area.

CONVENTIONAL

ANTICIPATING WHAT'S NEXT

UNCONVENTIONAL GAS

To build a sustainable energy company, we must anticipate what's next. As conventional oil and gas reserves decline, attention is turning to unconventional gas plays such as shale gas and coalbed methane (CBM). Here we have to creatively use technology to get at the resource. We moved early into these plays in Canada, establishing attractive land positions that could not be replicated easily and affordably today.

The beauty of unconventional gas, particularly shale gas, is that it could fuel our short to medium term growth. Wells can be brought on stream at peak rates with short cycle-times. This type of development is a great complement to our conventional mega projects that can span many years from discovery to first oil. And the potential here is huge—enough to more than double the size of our company based on our current proved reserves. It also increases our exposure to gas, reducing our reliance on one commodity. The current economic slowdown is providing a great opportunity to test and perfect the most economical way to produce this asset and move toward commerciality. Stay tuned.

Shale gas could more than
double
our current proved reserves





Yemen achieved the
1 billion
barrel mark in 2008

LIVING THE LEGACY

We're in the business of creating legacy assets—those that generate a ton of value over their lifetime and usually more than we projected at the start. How's that possible? Over time, we grow our knowledge, fine tune our expertise and incorporate new technologies to improve efficiencies and recoveries.

Nothing tells this story better than Yemen. Originally pegged at 300 million barrels, this asset produced its one billionth barrel in 2008 after a decade of safe operations. We've become experts at everything from training a local workforce to building multi-billion dollar facilities—expertise that's transferable around our world.

Buzzard has also become a legacy. It was the single largest contributor to our record cash flow in 2008. And the asset is still growing. Since the acquisition in 2004, we have increased our reserves by almost 50% and extended the production plateau.

Living a legacy requires we give great care to the environment and safety of our people and local communities. As governments and partners see the way we do business around the globe, doors open for us. And the cycle will repeat: opportunity, advantage, legacy, value.

**LEGACY
ASSETS**

TOMORROW'S VALUE

CHOICE

As you can see, our strategy is one of choice. It's not dependent on one asset, geographical basin or commodity. And in today's volatile environment, focused diversity is a good thing. It affords us stability and flexibility to allocate knowledge and capital—in sync with the economic world around us.

Globally, we are entering a new world of business. Tightened access to credit, re-pricing of risk and higher costs of capital are today's realities. As the global economy changes, we are adapting and growing stronger. We believe long-term demand for energy remains strong, and we are confident that our strategy focused on long-term value creation will build sustainable legacies.

Our people around the world will continue making choices that enhance our financial strength, build on our advantages and open doors to tomorrow's value. Most important, we'll do so in a way that balances our commitment to safety, the environment, social responsibility and transparent governance.



3,800 Nexen employees
make value-creating choices every day

FINANCIAL HIGHLIGHTS

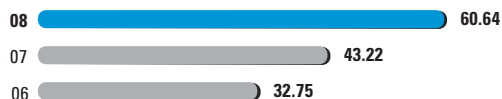
CASH FLOW

(Cdn\$ millions)



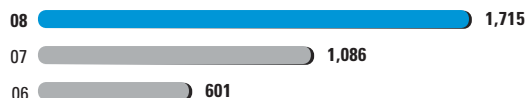
CASH NETBACKS

(Cdn\$/boe)

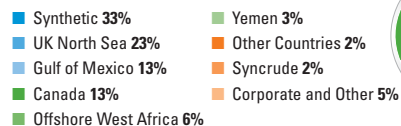


NET INCOME

(Cdn\$ millions)



2008 CAPITAL



	2008	2007	2006
Cash Flow from Operations ¹ (\$ millions)	4,229	3,458	2,669
Cash Flow per Share (\$/share)	8.04	6.56	5.09
Net Income (\$ millions)	1,715	1,086	601
Net Income per Share (\$/share)	3.26	2.06	1.15
Cash Netbacks from Oil and Gas Operations ² (\$/boe)	60.64	43.22	32.75
Capital Expenditures (\$ millions)	3,066	3,401	3,330
Production before Royalties (mboe/d)	250	254	212
Production after Royalties (mboe/d)	210	207	156
Proved Reserves ³ (mmboe)	988	1,058	1,049
Proved + Probable Reserves ³ (mmboe)	2,036	1,964	1,651

¹ Defined as cash flow from operating activities before changes in non-cash working capital and other.

² Defined as average sales price less royalties and other, operating costs and Yemen in-country taxes.

³ Represents our working interest before royalties using year-end pricing and includes our Syncrude reserves.



Marvin Romanow
President and Chief Executive Officer

2008—A RECORD YEAR

Despite a volatile year, we delivered record financial results in 2008 fueled by record commodity prices, strong netbacks and solid production. Buzzard produced its one hundred millionth barrel in just two years and Yemen produced its billionth barrel. And at Long Lake, we produced our first premium synthetic crude in January 2009. With solid financial strength, we enter 2009 with an opportunistic focus aimed at building on our advantages.

PRESIDENT'S MESSAGE

In a year of unprecedented economic volatility, we achieved record financial results. Cash flow soared to \$4.2 billion or \$8.04 per share and net income topped \$1.7 billion or \$3.26 per share.

If ever there was a year that demonstrated the true peaks and valleys of being a price taker in this industry, 2008 was it. Oil began the year at around US\$96/bbl, climbed to a record US\$147/bbl, tumbled to a four-year low of just over US\$35/bbl and then redeemed itself marginally to close around US\$45/bbl. Combine these swings with a global credit freeze and demand slowdown, and you have a recipe for some tough times.

Despite this, our strategy continues to add value. To be a sustainable company, we must be able to thrive throughout the commodity price cycle, not just in high tides. Our view is that long-term supply and demand fundamentals will support higher prices. Just as US\$147/bbl wasn't sustainable at the time, neither is US\$40/bbl oil. Fortunately, we made a number of choices years ago that positioned us to weather this economic storm and ultimately come out ahead.

First, we have great financial capacity. I believe you obtain liquidity when it's available, not when you need it. We went to the credit markets in 2007 and secured 30-year debt at attractive rates. This was a great deal. Among Canadian industrial issuers, it is the largest 30-year tranche ever issued and one of the five largest investment grade debt deals done to date. Today, we have no immediate debt repayments, plenty of cash and committed lines of credit to draw on if we choose.



Second, we make money at low prices. Over the past several years, we've been steadily transitioning our portfolio away from mature declining basins toward new, high-value opportunities with lots of life ahead of them. We made significant investments in world-class mega projects like Buzzard and Long Lake. Today they are both delivering value. Buzzard proves it pays to go after high-quality barrels. Here, our quality differential, transportation and operating costs total about US\$10/boe. So at today's lower prices, Buzzard still generates lots of cash.

Third, we are opportunity rich. We built significant land positions over the past several years in unconventional gas, oil sands and offshore exploration acreage—paying reasonable value for great potential. Now we have an asset mix that not only diversifies risk, it reflects our capacity to assess and seize a broader set of opportunities.

Looking forward, the question is not,
“How do we survive low commodity prices?”
but rather “How do we want to be positioned
when prices and the economy recover?”

Now is the time to be doing our homework—perfecting upgrader operations, exploring the best solutions for shale gas extraction and scooping up great deals like the additional interest we acquired at Long Lake.

For 2009, we've crafted an oil and gas capital budget of \$2.6 billion that is self-funded at WTI oil of US\$60/bbl. Despite our strong financial position, we plan to approach 2009 with caution and maintain as much of our financial capacity as possible. We will focus our discretionary capital on projects that are economic in the current environment and proceed cautiously on others. Let me walk you through our choices.

Our legacy assets create the foundation for future growth. We expect both Buzzard and Yemen to continue generating significant value through 2009, contributing about 60% of our expected cash flow. To support base cash flow, we have secured put options on about 20% of our net production at US\$60/bbl Brent oil.

Long Lake is another legacy asset in the making. I'm very pleased our integrated process is now proven and that we now operate both the upgrader and SAGD operations. Over the next year or so, we'll ramp up our share of premium synthetic crude volumes to 39,000 bbls/d and begin to see our \$10/bbl cost advantage materialize.

While work will continue on Phase 2, we will wait to sanction it until at least 2010. By then we should have greater clarity on a number of fronts: Phase 1 performance, the economic environment and proposed climate change regulations. We are fully committed to developing the oil sands in a responsible manner. From a macro perspective, we see it as a key global source of long-term, reliable energy in a stable jurisdiction. And for Nexen, it provides an annuity-type profile to complement our lumpier value-adding growth elsewhere.

Our major development projects deliver step-change growth with great upside. Following Buzzard and Long Lake, the next major development to come on stream is Usan, offshore West Africa, expected in 2012. Despite long lead-times with multi-year development projects, we believe the initial step-change growth and incremental upside are worth the wait. Take Yemen for example. The billionth barrel produced in 2008 was more than three times our initial resource estimate. Buzzard is also growing. To date, we have increased our reserves by almost 50% since acquisition.

As the resource grows, so do our economies of scale. For years, our operating costs in Yemen were under US\$2/bbl and Buzzard's are less than US\$5/bbl. Offshore West Africa also holds much promise beyond Usan. While we estimate hundreds of millions of recoverable barrels at Usan alone, we see great potential in what surrounds it and are evaluating plans for further exploration here.

We believe exploration is a key ingredient to help fill our development pipeline. And our strategy is generating results. Our North Sea team is beating the odds, finding the prize more times than not. Our discoveries near our infrastructure at Buzzard, Scott/Telford and Ettrick allow for quick, economical tie-backs. Most exciting is the Golden Eagle area, where we have three discoveries and plans for additional drilling. We expect to fast-track development of the discoveries, which are economic even at today's low oil prices.

We'll also continue exploring in the deep-water Gulf of Mexico, a relatively under-explored basin. We have an enviable land position here and the rigs to drill our prospects. In 2009, we plan to appraise the potentially world-class Knotty Head discovery. Given discoveries can take years to bring on stream, we believe it's important to continue exploring through commodity price troughs.

A find today can be put into our development pipeline and brought on stream in a much stronger economy.

As conventional resources decline, attention inevitably turns to unconventional resources. Our choice to accumulate large tracks of shale gas lands in the Horn River basin of northeast British Columbia is proving its worth. Before we decide on commerciality, we need to get drilling costs down. So we'll spend the next year or two solving that equation. With an estimated 500 million to one billion equivalent barrels of potential here, this resource is worth unlocking.

We're well positioned to draw on our expertise from our other operations. Knowledge from Long Lake's successful drilling campaign will come in handy given the potential 1000 wells needed for shale gas. Plus our expertise in Yemen in reducing drilling costs will be valuable. The more we link our knowledge around Nexen's globe, the more valuable that knowledge becomes. We can speed up learnings and create superior solutions that put us a step ahead of the competition.

With all of these choices in hand, we are optimistic about our future. Throughout 2009, we must be flexible with both our capital programs and financial liquidity. We'll build our capacity so that we are ready to hit the ground running as the economy recovers.

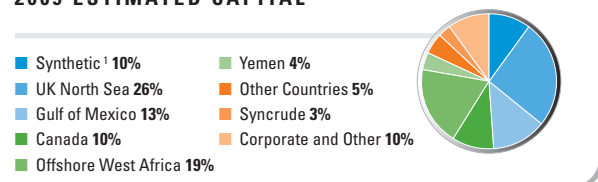
OUTLOOK FOR 2009

Oil and Gas Capital Investment ¹	\$2.6 billion
Production Before Royalties	255,000 – 270,000 boe/d
Production After Royalties	225,000 – 240,000 boe/d
Cash Flow ²	\$2.3 – \$2.9 billion

¹ Excludes acquisition of additional 15% in Long Lake.

² Assuming WTI averages between US\$50/bbl and US\$65/bbl.

2009 ESTIMATED CAPITAL



¹ Excludes acquisition of additional 15% in Long Lake.



People ask me “What’s going to be different now that you are CEO?” While there’s bound to be a natural evolution, a sustainable company cannot be about one person. I have a team of incredibly talented people who, in turn, lead powerful teams. My job is to hold the vision, ask the right questions, and make sure we’re all moving in the same direction—always responsive to the environment around us.

I thank the Board of Directors for the opportunity to lead this innovative company, and I welcome their guidance. I’m inspired by all Nexen people who bring their ideas, enthusiasm and values to work each day. We know we have advantages to build on, and continued improvement is a priority to stay ahead. With smart choices, I’m confident we will endure this period of uncertainty and continue building shareholder value for years to come.

Marvin Romanow

President and Chief Executive Officer

NEXEN OPERATIONS WORLDWIDE

CANADA

Long Lake began producing premium synthetic crude in January 2009.

UK NORTH SEA

Buzzard generates over \$1 billion in pre-tax cash flow at US\$40/bbl WTI.



GULF OF MEXICO

We're a top deep-water leaseholder with numerous prospects identified and rigs secured to drill.

OFFSHORE WEST AFRICA

Usan has hundreds of millions of recoverable barrels and we see great potential around it.

While the current economic environment is challenging, Nexen is in great shape. We have globally-diverse assets, a strong financial position and choices to create value.



Q&A

Left to right:

Larry Murphy Executive Vice President, International Oil and Gas

Roger Thomas Executive Vice President, North America

Kevin Reinhart Senior Vice President and CFO

At Nexen, decisions are made collectively and with due diligence. We draw on the unique expertise and perspectives of management and our people. Our management team is strong and dedicated to long-term value creation. After all, they are shareholders too, with a vested interest in ensuring Nexen's success.

CONVERSATIONS WITH MANAGEMENT



Kevin Reinhart

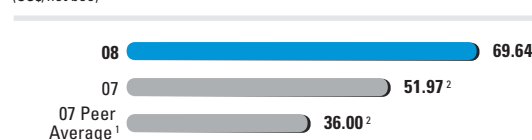
Q In 2008, the world experienced unprecedented financial turmoil. How has Nexen positioned itself to weather this storm and what will you do as the new CFO to ensure Nexen has sufficient financial resources for the future?

A Our financial position is very strong. Even after acquiring an additional 15% in Long Lake, we have over \$3.5 billion in cash and available committed credit facilities and zero debt maturities for the next three and a half years. We built this liquidity during good times because when you actually need the cash during market downturns, it's often too late. Many companies with otherwise solid business models are now suffering because they don't have access to sufficient liquidity today.

Financial strength provides us with options. We can choose to continue to invest in organic projects that will generate value over the long term. We can also be opportunistic in acquiring valuable assets at attractive prices and we've consistently demonstrated our ability to do this. In the late nineties, we acquired interests in a number of deep-water

ATTRACTIVE CASH NETBACKS POSITION US WELL

(US\$/net boe)



¹ Includes Canadian large cap exploration and production companies.

² Sourced from JS Herold.

blocks in the Gulf of Mexico, during a period of weak oil prices. We repeated this strategy in 1998 when we acquired a working interest in what has become our Usan discovery, offshore West Africa. And just recently, we acquired an additional interest in our Long Lake oil sands development for less than cost. We continue to look for similar opportunities in today's environment but we are mindful of the importance of not deploying our liquidity too early. We continue to monitor the financial landscape very closely and will adjust our capital spending as necessary.

We remain optimistic on commodity prices over the long term and believe our strategies will continue to generate value. We develop assets with long cycle-times and have structured our financing to manage short-term market volatility. By building liquidity in good times and taking a disciplined, counter-cyclical investment approach during downturns, we will not only endure the current financial turmoil, but also come out with a stronger portfolio of assets. Our financial strength affords us choices in a challenging environment.



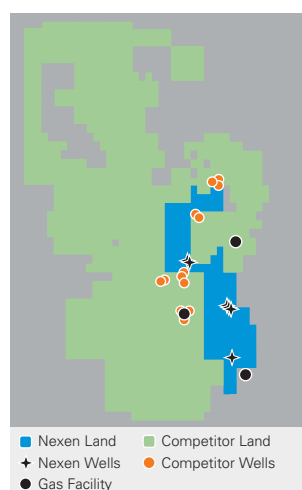
Roger Thomas

Q There has been a lot of excitement around shale gas in northeast British Columbia where Nexen has a significant land position. However, given growing North American unconventional gas supply and low natural gas prices, does this play really have the ability to be a company maker?

A The simple answer is yes. The resource potential that we see here is incredible—3 to 6 trillion cubic feet of contingent resource, which at the high end could double Nexen’s proved reserves. We identified this play early so we managed to acquire a large contiguous land block at a good price. Since then, we have seen land prices increase almost tenfold.

However, there are certain things that we need to be able to do to make this play commercially viable. In this industry, we are price takers and therefore need to focus on what we can control—namely costs. For example, we need to reduce our drilling and completion costs by becoming more efficient. This is not something new to us. When you compare drilling costs in Yemen today from when we started, they have come down by more than 60%.

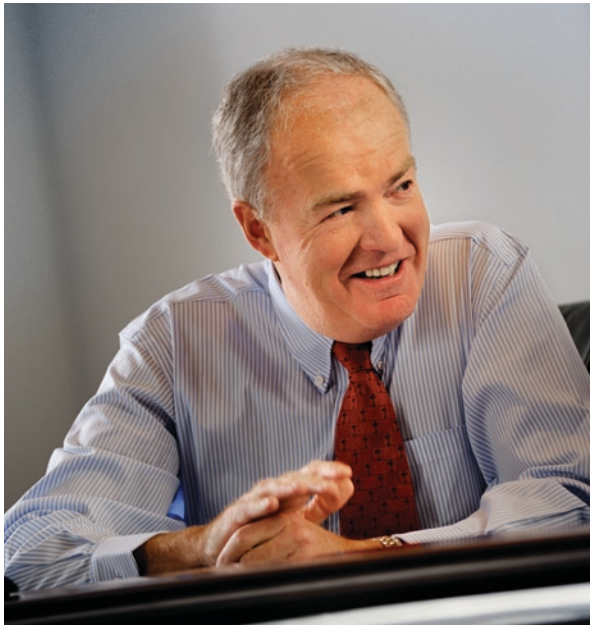
OUR SHALE GAS LANDS ARE IN THE HEART OF HORN RIVER BASIN



Infrastructure is another key to the development of the Horn River basin. Unlike the Barnett shale, this basin lacks significant pre-existing infrastructure. We have a producers group in place that is working together so we can better manage all development in the area and the infrastructure will come with time.

The Horn River play could add short cycle-time production to our company-wide portfolio, which typically has long cycle-time projects. In the Canadian division, it advances our strategy of transitioning from mature conventional fields to long-lived resource plays. Frankly, this play is a tremendous opportunity for Nexen.

The resource potential we see at Horn River is incredible. However, certain things must happen to make this play commercially viable.



Larry Murphy

Q Internationally, Buzzard has been a huge success for Nexen. Offshore West Africa, the Usan development is well underway with first production expected in 2012. Where else do you expect to see growth in Nexen's international operations?

A Buzzard is clearly a legacy asset that continues to grow and exceed our initial expectations from when we acquired it. For example, we have increased our proved reserves by almost 50% and extended our production plateau by over three years. Our strategy is to grow production in the UK North Sea with smaller discoveries near existing infrastructure. This strategy is proving to be successful. Our next major development project is likely the Golden Eagle area. This area includes discoveries at Golden Eagle, Pink and Hobby, and we expect to drill our Lily prospect next. Plans to fast-track development of this area are also underway. And we are leveraging our knowledge of the North Sea basin into the Norwegian sector. We have ten offshore licenses there with plans to drill our first exploration well in the near future.

OUR NEXT MAJOR DEVELOPMENT IS LIKELY THE GOLDEN EAGLE AREA



Usan has allowed us to establish an exploration and production presence offshore West Africa. Besides the world-class discovery at Usan, we have captured significant surrounding exploration acreage and already made two smaller discoveries. This area has the potential to repeat the success of Yemen and Buzzard, and allow us to grow production here.

On the international stage, we are as good as anyone. We have an ability to select world-class projects, work with international governments and operate a geographically diverse portfolio. For example, we successfully pre-qualified for future oil and gas opportunities in Iraq. When we operate in any country, we take the concept of a 'Social License to Operate' very seriously. We recognize we are guests of the host nation and work to be a welcomed partner. Whether through the drill bit or a timely acquisition, we believe we can continue growing our international production.

UNDERSTANDING OUR OIL SANDS ADVANTAGE

NOT EVERY BARREL OF OIL IS EQUAL

The Athabasca oil sands resource is one of the largest oil deposits in the world—second only to Saudi Arabia. The challenge is unlocking the value of the resource in a responsible way. It's not enough to just be in the oil sands. To be a leader in developing this resource, we knew we needed a competitive advantage that sets us apart.

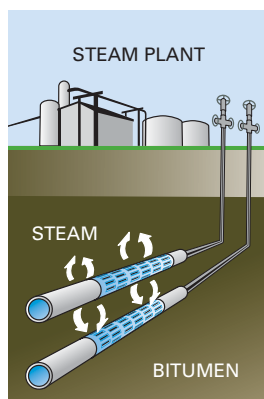
Today our integrated SAGD and upgrading solution produces the highest-quality premium synthetic crude (PSC™) at a substantial cost savings compared to competing processes. To understand our advantage, let's discuss the resource itself and the economic hurdles to producing it.

UNDERSTANDING BITUMEN

Oil sands or bitumen is a heavy tar-like substance that is trapped between the sands in the ground. Because of its heavy density (visualize a hockey puck), bitumen doesn't flow to the surface like conventional oil, so ordinary extraction technology doesn't work here. Some operations, like Syncrude, mine shallow bitumen with large trucks and shovels. But in other places, like on our oil sands leases, the bitumen is buried too deep—800 feet—for mining to be affordable.

GETTING THE OIL TO FLOW WITH SAGD

To get the bitumen to the surface, we chose steam-assisted-gravity-drainage technology or SAGD. In simple terms, SAGD uses steam to melt the bitumen so it can flow. To accomplish



this, two horizontal wells are drilled about five meters vertically apart. As steam is injected into the higher well, the surrounding bitumen is heated and flows by gravity to the deeper well, which brings it to the surface. The bitumen is then processed to separate out the water, which gets recycled back into steam.

There are many advantages to SAGD operations. First, we can access our deeper bitumen resource. Second, SAGD operations have a smaller footprint on the earth's surface than open pit mines. That's because we drill multiple wells from a single pad. The sand stays underground and therefore we don't need to worry about large tailing ponds. Today, we have substantial experience in operating SAGD wells. In fact, once our operations are fully ramped up, we will be the world's largest SAGD producer.

THREE ECONOMIC HURDLES OF SAGD BITUMEN PRODUCTION

1. High cost of natural gas
2. High cost of diluent
3. Low realized bitumen price

OUR CHOICES

Substantially Reduced. We produce our own syngas for fuel from the bottom of the barrel that others throw away.

Eliminated. We upgrade our bitumen on-site versus needing expensive diluent to transport it to market.

Eliminated. Our bitumen is upgraded into PSC™ which typically sells at a premium to WTI oil.

We take the bottom of the barrel, which has no value, and apply technology to build a huge advantage.



Gary Nieuwenburg Senior Vice President, Synthetic Crude

UPGRADING FOR FURTHER VALUE

Bitumen is a low-value product that requires upgrading before going to the end user. If we were just a bitumen producer, we would have to buy expensive diluent (a thinner) to transport the bitumen to market. And then we would sell this low-value crude at a significant discount to WTI—which at today's low oil prices, wouldn't be worth the investment.

Our integrated process goes a few steps further to add a lot more value. First, we separate the bitumen into the top and bottom of the barrel. Partially upgraded bitumen forms the top and liquid asphaltenes form the bottom. Then, using a hydrocracker, the bitumen is further upgraded to the highest-quality synthetic crude on the market today. It will command a premium price. The bottom of the barrel is turned into synthetic gas as a source of fuel. We use that fuel to generate steam for the SAGD process, power for the upgrader, and as a hydrogen source for the hydrocracker.

FUELING OUR COST ADVANTAGE

Let's compare this to other upgrading operations. In a traditional process, the bottom of the barrel is turned into a solid, called coke, which is stockpiled or disposed of. We turn this portion of the barrel into a fuel source, which means we don't need to purchase large amounts of natural gas like our competitors do. And that's our biggest advantage. With NYMEX gas at US\$6/mcf, we can generate a cost savings of around \$10/bbl.

PROVING OUR TECHNOLOGY

For several months now, we have been converting the bottom of the barrel into syngas. In January 2009, we produced our first premium synthetic crude. These two achievements prove our process works. As we ramp up our Long Lake production over the next year or so, we will begin to see that \$10/bbl operating cost advantage materialize. Then, as market conditions allow, we can begin developing additional phases.



Bitumen trapped in the oil sands

Long Lake PSC™ priced at a premium to WTI



A responsible approach

A hands-on demonstration teaches fire safety during a community event sponsored by the Long Lake Project and local volunteer fire department.

Value is not *just* measured in dollars or barrels. To be sustainable, we must engage all employees to make responsible choices—those we are proud to share with future generations. A broader vision of sustainable business practices has always been part of how we do business.

For our operations to be sustainable, they must deliver long-term value to our stakeholders. Our sustainability efforts include seeking ways to reduce environmental impacts, improving our safety record and partnering with communities to build capacity and create lasting value.

MINIMIZING ENVIRONMENTAL IMPACTS

As part of the Horn River Basin Producers group, we are engaging industry peers, government and community stakeholders to reduce the environmental footprint of industry activities by planning shared access roads and facilities. At Long Lake, our technology choices will enable us to more effectively participate in future carbon capture.

We also continued to be part of the global sustainability conversation by sponsoring and participating in the 19th World Petroleum Congress. In addition, The Carbon Disclosure Project recognized us for the quality of our 2008 voluntary climate change disclosure. Closer to home, approval for 15 sour gas wells and five pipelines northeast of Calgary was achieved without a regulatory hearing because of our successful two-year stakeholder consultation process.

IMPROVING HEALTH AND SAFETY

Health and safety are top priorities for Nexen. In 2008, we significantly improved contractor safety performance in our Canadian conventional drilling operations and came very close to achieving our best ever employee and combined employee-contractor safety performance worldwide. Our goal is zero incidents, so we are always looking to improve both employee and contractor safety.

In 2008, we were included on the Dow Jones Sustainability World Index for the eighth consecutive year.

For an in-depth review of our sustainability, please read our Sustainability Report available June 2009 at www.nexeninc.com.

We also conducted audits of our health, safety, environment and social responsibility management systems in our Synthetic and US business units. These audits help identify our strengths and areas where we can improve.

BUILDING LASTING ECONOMIC AND SOCIAL BENEFITS

We believe in partnering with the communities where we operate. In 2008, Nexen and OPTI marked the Long Lake commissioning by committing \$2.5 million to support education initiatives in the area. In Yemen, we celebrated the 10th anniversary of our Yemen Scholarship Program, which provides funding for Yemeni students to complete post-secondary degrees in Canada. We also assisted when major flooding hit Yemen, providing \$1 million for flood relief, as well as equipment and volunteer people power.



In building legacy assets, we will be part of local neighbourhoods for many years. We earn our place here by ensuring both Nexen and community members benefit from the value we create.

We believe in good governance and transparent communication—not just in uncertain economic times, but as an ongoing conversation. Our Board of Directors sets the direction for governance, management provides the leadership, and employees integrate their values into actions every day.

A DIVERSE AND EXPERIENCED BOARD

Our directors oversee management to ensure we are making the best choices for creating long-term value responsibly. They are strong, experienced individuals with considerable skills and knowledge to strategically guide Nexen through economic highs and lows.

At year end, we saw the retirement of Charlie Fischer as Nexen's President and CEO and as a valued board member. Following our annual meeting in April 2009, two other dedicated directors, Dave Hentschel and Dick Thomson, will also be leaving. We thank all three gentlemen for their exceptional contributions to Nexen. We also welcome Marvin Romanow, our new President and CEO, William Berry and Robert Bertram to our Board. In choosing new directors, we ensure that our collective board expertise covers all areas of guiding an international, top-tier business. We are confident our Board is well equipped to guide Nexen's future.

Transparent and effective governance is key in the ongoing stewardship conversation between directors, management and shareholders.

COMPENSATION LINKED TO STRATEGY

With massive government bailouts in the United States, executive compensation has come under increased public scrutiny. At Nexen, our compensation for both directors and executives is linked to strategic business objectives, including increasing shareholder returns. Simply put, you benefit, they benefit. See our management proxy circular for complete details.

We comply 100% with all Canadian and NYSE requirements and guidelines for corporate governance disclosures.

See our proxy circular for specifics on our board committees, director and executive bios and their compensation.

STAKEHOLDER ENGAGEMENT AND ETHICAL OPERATIONS

We are committed to meaningful, transparent communication and ethical business practises. We actively solicit dialogue with stakeholders on many fronts—from our Governance Roadshow, to community meetings with our neighbours, to third-party verifiers of our Sustainability Report. We also invite and address any concerns that come through our anonymous Integrity Helpline. Operating with integrity is essential to our long-term success. To that end, all Nexen people agree annually to comply with our Ethics Policy.

EXTERNAL RECOGNITION

While governance practices speak for themselves, external recognition helps reinforce what we are doing well and where we can improve. Below is recognition we've received on our 2008 governance:

- The Award of Excellence in Corporate Governance Disclosure from the Canadian Institute of Chartered Accountants;
- Recognition from the Canadian Coalition for Good Governance for new best practices in shareholder communications and compensation disclosure;
- The Best Corporate Governance Practices in North America by IR Global Rankings;
- Ranked 7th, scoring 92 out of 100, in the Report on Business corporate governance rankings; and
- A 10 out of 10 ranking from GovernanceMetrics International.

We believe that good governance is a journey, not an end point. When combined with a sound strategy, it will result in superior long-term value creation. We look forward to a continued conversation on our plans, choices and results.

OUR GLOBAL FAMILY

Our Nexen family spans continents, cultures and communities. It is rich with opportunities to learn and create outstanding results. As we invest in our people, we invest in our future. So we believe in sharing knowledge across our organization and also across generations. Just as new projects, such as shale gas, incorporate learnings from our successes in Yemen and at Long Lake, employees across generations learn from each other.

For example, as new graduates join Nexen, they are rotated through a number of positions and groups. This helps them gain broader experience, clarify their interests and deepen their understanding of what it takes for Nexen to be successful. We also learn from new employees. They come with enthusiasm, fresh ideas, a tech-friendly approach and an insatiable desire to question the ‘way we’ve always done things’.



Krystle Merkley is walking in her grandfather's footsteps. She's the latest generation in her family to work at our Balzac gas plant.

Employees are rewarded with a competitive compensation package that values performance.

INNOVATION AT WORK

Nexen is a company that encourages ‘possibility thinkers’ who can see beyond current circumstances and create innovative solutions for value creation. To promote an innovative spirit, we encourage multi-disciplinary teams where not everyone thinks the same way. We also encourage movement throughout the company. We believe you can invest your whole career under Nexen’s roof and experience a number of vastly different jobs around the globe.

VALUES MATTER

Many employees tell us what most attracted them to Nexen is our values and the responsible way we operate globally. Because Nexen doesn’t exist without people, our values are really the collective values of our people. We live these each day—in how we conduct ourselves with ethics and integrity, operate safely, respect the environment, integrate stakeholder perspectives, support community initiatives and balance work and family life.

A career at Nexen is all about choices: to learn new skills, broaden experiences and add value that makes a lasting difference.



Proving up value

Buzzard Platform Since acquiring Buzzard, we have increased proved plus probable reserves by almost 50%.

Reserves give an investor a sense of our future production, but they don't tell our whole story. We have vastly more in our opportunity pipeline than what we are permitted to recognize as reserves. As we draw on our historical performance and 30-year track record of profitability, we'll prove up this value—from potential to profits.

We now have over 2 billion boe of proved and probable reserves, which represents a reserves life index of over 20 years. Yet there's more to come as our reserve bookings only reflect a fraction of the choices we have made. Take oil sands for example. So far we've booked 1 billion barrels of proved and probable reserves for Phases 1 and 2 of Long Lake—but we have enough resource potential to develop up to 10 phases. Our booked reserves also reflect little for our undeveloped discoveries in the UK North Sea, Gulf of Mexico and our unconventional CBM and shale gas plays in western Canada. As these projects take shape, we expect to book significantly more reserves, revealing the value of our choices.

BEFORE ROYALTIES, YEAR-END PRICING

(mmboe)	Oil and Gas Activities									Mining		Total Oil, Gas and Mining
	International				United States		Canada			Total Oil and Gas	Syncrude ³	
	Yemen	United Kingdom		Other Intl	Oil	Gas	Oil	Gas	Bitumen			
Oil	Oil	Gas	Oil	Oil						Gas	Oil	Gas
Proved Reserves												
December 31, 2007	41	203	4	38	25	37	56	62	268	734	324	1,058
Extensions and Discoveries	1	5	–	–	–	1	2	6	19	34	8	42
Revisions–Performance	11	17	–	–	2	(3)	(2)	7	–	32	–	32
Revisions–Economic	–	(16)	–	(2)	(4)	(1)	(24)	(3)	–	(50)	–	(50)
Production	(22) ⁴	(37)	(1)	(2)	(3)	(5)	(6)	(8)	(2)	(86)	(8)	(94)
December 31, 2008	31	172	3	34	20	29	26	64	285	664	324	988
Probable Reserves^{1,2}												
December 31, 2007	15	139	5	60	39	21	24	34	523	860	46	906
Extensions, Discoveries and Conversions	(1)	(23)	–	–	–	(2)	1	(1)	209	183	–	183
Revisions–Performance	–	18	(1)	(1)	(17)	(1)	(8)	(6)	–	(16)	–	(16)
Revisions–Economic	(1)	(2)	–	2	(14)	(2)	(4)	(4)	–	(25)	–	(25)
December 31, 2008	13	132	4	61	8	16	13	23	732	1,002	46	1,048
Proved + Probable^{1,2}												
December 31, 2007	56	342	9	98	64	58	80	96	791	1,594	370	1,964
Extensions, Discoveries and Conversions	–	(18)	–	–	–	(1)	3	5	228	217	8	225
Revisions–Performance	11	35	(1)	(1)	(15)	(4)	(10)	1	–	16	–	16
Revisions–Economic	(1)	(18)	–	–	(18)	(3)	(28)	(7)	–	(75)	–	(75)
Production	(22) ⁴	(37)	(1)	(2)	(3)	(5)	(6)	(8)	(2)	(86)	(8)	(94)
December 31, 2008	44	304	7	95	28	45	39	87	1,017	1,666	370	2,036

1 We internally evaluate all of our reserves and have at least 80% of our proved reserves assessed by independent qualified consultants each year; 90% were assessed this year. Our reserves are also reviewed and approved by our Reserves Committee and our Board of Directors. Proved reserve estimates represent our working interest using The Canadian Oil and Gas Evaluation Handbook (COGEH) standards modified to reflect Securities and Exchange Commission requirements and year-end constant pricing, but have been estimated on a before royalty basis. Gas is converted to equivalent oil at a 6:1 ratio.

2 Probable reserves have been prepared in accordance with COGEH standards using year-end constant pricing and are estimated on a before royalty basis. US investors should read the Cautionary Note to US Investors at the end of this report.

3 US investors should read the Cautionary Note to US Investors at the end of this report.

4 Production includes volumes used for fuel in Yemen.

PERFORMANCE REVIEW

	2008	2007	2006	2005	2004
Highlights					
Net Sales ¹	7,424	5,583	3,936	3,932	2,944
Cash Flow from Operations ²	4,229	3,458	2,669	2,403	1,942
Per Common Share (\$/share)	8.04	6.56	5.09	4.62	3.78
Net Income	1,715	1,086	601	1,140	793
Per Common Share (\$/share)	3.26	2.06	1.15	2.19	1.54
Capital Expenditures	3,066	3,401	3,330	2,638	1,681
Business Acquisitions	–	–	78	–	2,583
Dispositions	6	4	27	911	34
Production^{3,4}					
Production Before Royalties (mboe/d)	250	254	212	242	250
Production After Royalties (mboe/d)	210	207	156	173	174
Financial Position					
Working Capital	2,503	412	476	29	40
Property, Plant and Equipment, Net	14,922	12,498	11,739	9,594	8,643
Total Assets	22,155	18,075	17,156	14,590	12,383
Net Debt ⁵	4,575	4,404	4,730	3,639	4,285
Long-Term Debt	6,578	4,610	4,673	3,687	4,259
Shareholders' Equity	7,139	5,610	4,636	3,996	2,867
Shares and Dividends					
Common Shares Outstanding (millions)	519.4	528.3	525.0	522.2	516.8
Number of Registered Common Shareholders	1,624	1,569	1,454	1,294	1,329
Closing Common Share Price (TSX) (Cdn\$/share)	21.45	32.10	32.10	27.71	12.18
Dividends Declared per Common Share (Cdn\$/share)	0.175	0.10	0.10	0.10	0.10
Cash Flow from Operations²					
Oil and Gas					
United Kingdom	3,308	2,101	477	284	30
Yemen	638	664	877	929	581
Canada	389	179	229	397	426
United States	508	480	573	667	700
Other Countries	133	87	94	48	57
Marketing	(356)	73	432	138	100
Syncrude	400	319	240	223	183
	5,020	3,903	2,922	2,686	2,077
Chemicals	85	90	83	95	82
	5,105	3,993	3,005	2,781	2,159
Interest and Other Corporate Items	(292)	(350)	(254)	(335)	(196)
Income Taxes	(584)	(185)	(82)	(43)	(21)
Total Cash Flow From Operations	4,229	3,458	2,669	2,403	1,942

¹ Represents net sales from continuing operations.

² Cash flow from operations is defined as cash generated from operating activities before changes in non-cash working capital and other.

³ Production is Nexen's working interest share and includes our share of production from Syncrude.

⁴ Natural gas is converted at 6 mcf per equivalent barrel of oil.

⁵ Net debt is defined as long-term debt and short-term borrowings less cash and cash equivalents.

PERFORMANCE REVIEW

	2008	2007	2006	2005	2004
Production Before Royalties					
Crude Oil and NGLs (mmbbls/d)					
United Kingdom	99.7	81.2	16.9	12.6	1.5
Yemen	56.6	71.6	92.9	112.7	107.3
Canada	16.2	17.1	20.0	29.2	36.2
United States	9.3	16.4	17.0	22.2	30.0
Long Lake	3.9	–	–	–	–
Other Countries	5.8	6.2	6.3	5.6	8.0
Syncrude	20.9	22.1	18.7	15.5	17.2
	212.4	214.6	171.8	197.8	200.2
Natural Gas (mmcf/d)					
United Kingdom	18	16	20	23	3
Canada	131	118	108	124	146
United States	78	101	111	116	148
	227	235	239	263	297
Total Production Before Royalties (mboe/d)	250	254	212	242	250
Production After Royalties					
Crude Oil and NGLs (mmbbls/d)					
United Kingdom	99.7	81.2	16.9	12.6	1.5
Yemen	30.6	39.8	51.8	60.6	53.5
Canada	12.3	13.4	15.8	22.6	28.2
United States	8.1	14.5	15.0	19.6	26.5
Long Lake	3.9	–	–	–	–
Other Countries	5.3	5.7	5.7	5.1	7.2
Syncrude	18.2	18.8	16.9	15.3	16.6
	178.1	173.4	122.1	135.8	133.5
Natural Gas (mmcf/d)					
United Kingdom	18	16	20	23	3
Canada	109	98	91	101	115
United States	66	86	94	99	126
	193	200	205	223	244
Total Production After Royalties (mboe/d)	210	207	156	173	174
Oil and Gas Cash Netback Before Royalties¹ (\$/boe)					
Producing Assets					
United Kingdom	87.70	67.85	55.53	42.93	39.19
Yemen	31.11	25.52	26.35	22.56	14.99
Canada	32.97	20.07	22.87	25.46	21.24
United States	56.42	42.28	40.42	45.85	35.35
Syncrude	53.83	41.94	37.86	43.34	31.07
Other Countries	86.58	61.94	57.71	49.18	28.55
Company-Wide Oil and Gas	60.64	43.22	32.75	30.57	22.66

¹ Defined as average sales price less royalties and other, operating costs and Yemen in-country taxes. Calculation details can be found in the Statistical Supplement on our website.

EXECUTIVE MANAGEMENT



Marvin F. Romanow

President and Chief Executive Officer

Marvin has been with the company since 1990. Prior to being appointed President and CEO in January 2009, he was the Executive Vice President and CFO. Marvin's career has spanned many leadership roles in corporate finance, planning, business development, exploration and development, and reservoir engineering. He is a director of the Canexus Income Fund and the Canadian Energy Research Institute. He is a past board member of Syncrude Canada.

Marvin received his Bachelor of Engineering degree and MBA from the University of Saskatchewan.

Kevin J. Reinhart

Senior Vice President and Chief Financial Officer

Kevin joined Nexen as Controller in 1994. He held the positions of Director of Risk Management and Treasurer and then Senior Vice President, Corporate Planning and Business Development. He was appointed Senior Vice President and Chief Financial Officer in January 2009. He is a director of the Canexus Income Fund.

Kevin is a Chartered Accountant and holds a Bachelor of Commerce degree from Saint Mary's University, Halifax.

Laurence Murphy

Executive Vice President, International Oil and Gas

Larry has been with Nexen since 1986 in a variety of positions in the Petrogas Operations, Corporate Planning and International divisions. Larry has been the Senior Vice President, International Oil and Gas since 1999 and was appointed Executive Vice President, International Oil and Gas in 2007.

Larry holds a Bachelor of Science degree in Mechanical Engineering from University College in Ireland.

Roger D. Thomas

Executive Vice President, North America

Since joining Nexen in 1978, Roger has held various positions including Business Manager, Specialty Chemicals Division; Vice President, Oil and Gas Marketing; and Vice President, Corporate Planning. He was appointed Executive Vice President, North America in 2007.

Roger graduated from the University of Toronto and York University, with a Bachelor of Arts degree in Economics/History. He is also a graduate of the Executive Program at the University of Michigan.

Gary H. Nieuwenburg

Senior Vice President, Synthetic Crude

Gary joined Nexen in 1981 and has held various positions of increasing responsibility including Vice President, Exploration and Production, Canadian Oil and Gas; and Vice President, Corporate Planning and Business Development. He was appointed Senior Vice President, Synthetic Crude in 2007.

Gary holds a Mechanical Engineering degree from the University of Manitoba.

Brian C. Reinsborough

Senior Vice President, United States Oil and Gas

Since joining Nexen in 1992, Brian has progressed through the US Oil and Gas division in various roles including Exploration Manager, Deepwater; Vice President, Exploration; and Vice President, Exploration, Operations and Production. In 2007, he was appointed Senior Vice President, US Oil and Gas.

Brian holds a Master of Geology degree from the University of Texas in Austin and a Bachelor of Geology degree from New Brunswick's Mount Allison University.

Tim J. Thomas

Senior Vice President, Canadian Oil and Gas

Tim joined Nexen in 1991 and has held various positions including Vice President, Yemen Operations and International Business Development; President and General Manager, Yemen Operations; General Manager, Business Development (London); and Vice President, Exploration and Production, Canadian Oil and Gas. Tim was appointed Senior Vice President, Canadian Oil and Gas in 2007.

Tim holds a Bachelor of Science degree in Petroleum Engineering from the Imperial College of Science in the UK.



Una M. Power

Vice President,
Corporate Planning and
Business Development

Una joined Nexen in 1992 and has held numerous positions in the Finance area including Treasurer, Manager of Investor Relations and Controller. She was appointed Vice President, Corporate Planning and Business Development in January 2009.

Una holds a Bachelor of Commerce Honours degree from Memorial University in Newfoundland. She is a Chartered Accountant and Chartered Financial Analyst.

Robert J. Black

Vice President,
Energy Marketing

Bob joined Nexen in 1992 as the Manager of Crude Oil Marketing and served as Executive Vice President, North American Marketing for Nexen Marketing. In 2002, Bob was appointed Vice President, Energy Marketing.

Bob holds a Bachelor of Arts in Economics from the University of Calgary.

Randy J. Jahrig

Vice President,
Human Resources and
Corporate Services

Randy joined Nexen in 1990. He has served as a Staff Human Resources Advisor in the Chemicals division; Vice President of Human Resources for the Canadian Oil and Gas division; and in 2005, continued in his role as Vice President, Human Resources, Canada and International.

Randy holds a diploma in Business Administration from NAIT and is a Certified Human Resources Professional.

Kim D. McKenzie

Vice President and
Chief Information Officer

Kim joined Nexen in 1985 as the Manager, Business Systems. He was appointed Vice President, Information Technology in 1992 and subsequently Vice President and Chief Information Officer in November 2007.

Kim graduated from the University of Alberta with a Bachelor of Commerce degree.

Eric B. Miller

Vice President,
General Counsel
and Secretary

Eric joined Nexen in 1993 and has held several senior legal positions within Nexen's domestic and international divisions. He is currently the Vice President, General Counsel and Secretary.

Eric holds a Bachelor of Commerce degree from the University of Calgary, and a Bachelor of Laws and Master of Business Administration degrees from Osgoode Hall Law School and the Schulich School of Business (York) in 1989. In 2007, Eric received the ICD.D designation from the Institute of Corporate Directors.

Brendon T. Muller

Controller

Brendon joined Nexen's corporate accounting group in 2002 and quickly took on increased responsibility in managing the company's external financial reporting to the U.S. and Canadian regulatory bodies. He was appointed Controller in 2007.

Brendon graduated with a Bachelor of Commerce degree from the University of Calgary and is a Chartered Accountant.

J. Michael Backus

Treasurer

Mike joined Nexen in 1997 and has held several positions within the company, including Drilling and Completions Engineer; Reservoir Engineer; Investor Relations Analyst; and Manager of Planning for Synthetic Oil. He was appointed Treasurer in February 2009.

Mike is a Professional Engineer and holds both Bachelor of Commerce and Bachelor of Science degrees from the University of Saskatchewan.

BOARD OF DIRECTORS



Francis M. Saville, Q.C.

Residence
Calgary, Alberta,
Canada

Director Since
1994

Nexen Shares
48,860

DSUs
46,117

Principal Occupation
Chair of Nexen

Francis Saville, 70, Chair of Nexen, is counsel with Fraser Milner Casgrain LLP, Barristers and Solicitors. He joined the firm in 1965 and had an extensive practice in the areas of energy and environmental law, as well as municipal law and land-use planning. He specialized in representing energy corporations in regulatory applications.

Marvin F. Romanow

Residence
Calgary, Alberta,
Canada

Director Since
2009

Nexen Shares
187,432

DSUs
–

Principal Occupation
President and
CEO of Nexen

Marvin Romanow, 53, has been President and Chief Executive Officer of Nexen Inc. since January 1, 2009. He was Executive Vice President and Chief Financial Officer since June 2001. Prior to this, he held a variety of finance positions at Nexen. Marvin is a director of the Canexus Income Fund and the Canadian Energy Research Institute. He is a past board member of Syncrude Canada.

Bill B. Berry

Residence
Houston, Texas,
United States

Director Since
2008

Nexen Shares
–

DSUs
5,000

Principal Occupation
Retired oil and
gas executive

William Berry, 56, is a retired oil and gas executive. He was formerly Executive Vice President of ConocoPhillips from 2003 to 2008. He also held senior executive positions with Phillips Petroleum Co. His career in the oil and gas industry began in 1976 and includes experience working in West Africa, the North Sea, Asia, Russia, Caspian Sea and North America.

Robert G. Bertram

Residence
Aurora, Ontario,
Canada

Director Since
2009

Nexen Shares
16,000

DSUs
5,000

Principal Occupation
Retired pension
investment executive

Robert Bertram, 64, is the retired Executive Vice President of Ontario Teachers Pension Plan Board (Teachers'), a position he held from 1990 to December 2008. He led Teachers' investment program and had oversight of the pension fund's growth to \$108.5 billion from \$19 billion when it was established in 1990. Prior to that, he spent 18 years at Telus Corporation, formerly Alberta Government Telephones. Before leaving Telus, he was Assistant Vice President and Treasurer.

Dennis G. Flanagan

Residence
Calgary, Alberta,
Canada

Director Since
2000

Nexen Shares
31,264

DSUs
35,660

Principal Occupation
Retired oil and
gas executive

Dennis Flanagan, 69, is a retired oil and gas executive. He worked in the oil and gas industry for more than 40 years with Ranger Oil Limited (Ranger) and ELAN Energy Inc. (ELAN), most recently as Executive Chair of ELAN until it was bought by Ranger in 1997. He was involved in all phases of exploration and development in Canada, the US and the UK North Sea.

David A. Hentschel

Residence
Tulsa, Oklahoma,
United States

Director Since
1985*

Nexen Shares
70,925

DSUs
35,656

Principal Occupation
Retired oil and
gas executive

Dave Hentschel, 75, is the retired Chair and CEO of Occidental Oil and Gas Corporation, the worldwide oil and gas subsidiary of Occidental Petroleum Corporation. He was President and CEO of Nexen from January 1996 until June 1997.

S. Barry Jackson

Residence
Calgary, Alberta,
Canada

Director Since
2001

Nexen Shares
72,000

DSUs
48,145

Principal Occupation
Retired oil and
gas executive

Barry Jackson, 56, is the retired Chair of Resolute Energy Inc. and Deer Creek Energy Limited. He was formerly President, CEO and a director of Crestar Energy Inc. (Crestar). He has worked in the oil and gas industry since 1974 and held senior executive positions with Northstar Energy Corporation and Crestar.



Kevin J. Jenkins

Residence
Calgary, Alberta,
Canada

Director Since
1996

Nexen Shares
12,415

DSUs
48,789

Principal Occupation
Managing Director of
TriWest Capital Partners

Kevin Jenkins, 52, is a Managing Director of TriWest Capital Partners, an independent private equity firm. He was President, CEO and a director of The Westaim Corporation from 1996 to 2003. From 1985 to 1996, he held senior executive positions with Canadian Airlines International Ltd. (Canadian). He was elected to Canadian's board of directors in 1987, appointed President in 1991 and appointed President and CEO in 1994.

A. Anne McLellan, P.C.

Residence
Edmonton, Alberta,
Canada

Director Since
2006

Nexen Shares
300

DSUs
26,943

Principal Occupation
Counsel with Bennett
Jones LLP, Barristers
and Solicitors

The Honourable Anne McLellan, 58, has been counsel at Bennett Jones LLP, Barristers and Solicitors and Distinguished Scholar in Residence at the University of Alberta in the Institute for US Policy Studies since 2006. Previously, she served as the Liberal Member of Parliament for Edmonton Centre from 1993 to 2006. Between 2003 and 2006, she served as the Deputy Prime Minister and Minister of Public Safety and Emergency Preparedness.

Eric P. Newell, O.C.

Residence
Edmonton, Alberta,
Canada

Director Since
2004

Nexen Shares
12,000

DSUs
57,824

Principal Occupation
Retired Chair and CEO of
Syncrude Canada Ltd.

Eric Newell, 64, is the retired Chancellor of the University of Alberta, a position he held from 2004 to 2008. He is also the retired Chair and CEO of Syncrude Canada Ltd. (Syncrude), positions he held from 1994 and 1989, respectively, until January 2004. He served as President of Syncrude from 1989 to 1997. Prior to that, he worked with Imperial Oil Limited and Esso Petroleum Canada Ltd.

Thomas C. O'Neill

Residence
Toronto, Ontario,
Canada

Director Since
2002

Nexen Shares
16,000

DSUs
45,618

Principal Occupation
Retired Chair of
PwC Consulting

Tom O'Neill, 63, is the retired Chair of PwC Consulting. He was formerly CEO of PwC Consulting, COO of Pricewaterhouse-Coopers LLP, Global, CEO of Pricewaterhouse-Coopers LLP, Canada, and Chair and CEO of Price Waterhouse Canada. He worked in Brussels in 1975 to broaden his international experience and from 1975 to 1985 was client service partner for numerous multinationals, specializing in dual Canadian and US-listed companies.

Richard M. Thomson, O.C.

Residence
Toronto, Ontario,
Canada

Director Since
1997*

Nexen Shares
92,004

DSUs
72,672

Principal Occupation
Retired banking executive

Dick Thomson, 75, is a retired banking executive. He was with the Toronto-Dominion Bank, one of Canada's largest banks, since 1957, as Chair from 1978 until his retirement in 1998 and as President from 1972 to 1978.

John M. Willson

Residence
Vancouver,
British Columbia, Canada

Director Since
1996

Nexen Shares
15,055

DSUs
48,200

Principal Occupation
Retired mining executive

John Willson, 69, is the retired President and CEO of Placer Dome Inc., a position he held from 1993 to 1999. He was President and CEO of Pegasus Gold Inc. from 1989 to 1992 and was with Cominco Limited prior to that. During his career, he worked in Ghana, Montana, Washington State, British Columbia, the Northwest Territories and Greenland.

Victor J. Zaleschuk

Residence
Calgary, Alberta,
Canada

Director Since
1997

Nexen Shares
63,152

DSUs
37,430

Principal Occupation
Retired oil and
gas executive

Vic Zaleschuk, 65, is the retired President and CEO of Nexen, a position he held from 1997 to 2001. He joined Nexen in 1986, as the company was developing operations in Yemen and expanding its international strategy. From 1986 to 1994, he was Senior Vice President, Finance and from 1994 to 1997, he was Senior Vice President and CFO.

* Retiring April 2009

CORPORATE INFORMATION

HEAD OFFICE

801 – 7th Avenue SW
Calgary, Alberta, Canada T2P 3P7
T 403.699.4000
F 403.699.5800
www.nexeninc.com

INVESTOR RELATIONS CONTACT

Michael J. Harris
Vice President, Investor Relations
T 403.699.4688
F 403.699.5730
mike_harris@nexeninc.com

ANNUAL GENERAL MEETING

10:00 a.m. M.T.
Tuesday, April 28, 2009
The Fairmont Palliser Hotel
133 – 9th Avenue SW
Calgary, Alberta, Canada

STOCK SYMBOL—NXY

Toronto Stock Exchange (TSX)
New York Stock Exchange (NYSE)

PREFERRED SECURITIES

7.35% Subordinated Notes
TSX—NXY.PR.U
NYSE—NXYPRB

COMMON SHARE TRANSFER AGENT AND REGISTRARS

CIBC Mellon Trust Company
Calgary, Toronto, Montreal and
Vancouver, Canada
BNY Mellon Shareowner Services
Jersey City, New Jersey, US

DIVIDEND REINVESTMENT PLAN

The offering circular (and for
US residents, a prospectus) and
authorization form may be obtained
by calling CIBC Mellon Trust Company
at 1.800.387.0825 or at
www.cibcmellon.com

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta, Canada

CONVERSIONS

Natural gas is converted at 6 mcf
per equivalent barrel of oil.

DOLLAR AMOUNTS

In Canadian dollars unless
otherwise stated.

OPERATING ENTITIES

Canada

Nexen Crossfield Partnership
Nexen Med Hat-Hatton Partnership
Nexen Oil Sands Partnership

United States

Nexen Petroleum Offshore U.S.A. Inc.
Nexen Petroleum U.S.A. Inc.

International

Canadian Nexen Petroleum
East Al Hajr Ltd.
Canadian Nexen Petroleum Yemen
Nexen Ettrick U.K. Limited
Nexen Exploration Norge AS
Nexen Exploration U.K. Limited
Nexen Petroleum Colombia Limited
Nexen Petroleum Deepwater
Nigeria Limited
Nexen Petroleum Exploration and
Production Nigeria Limited
Nexen Petroleum Nigeria Limited
Nexen Petroleum U.K. Limited

Marketing

Nexen Energy Marketing
Europe Limited
Nexen Energy Marketing
London Limited
Nexen Marketing
Nexen Marketing Singapore Pte. Ltd.
Nexen Marketing U.S.A. Inc.

Chemicals

Canexus Chemicals Canada
Limited Partnership
Canexus U.S. Inc.
Canexus Química Brasil Ltda.

OFFICERS

Francis M. Saville, Q.C.

Chair of the Board

Marvin F. Romanow

President
and Chief Executive Officer

Kevin J. Reinhart

Senior Vice President
and Chief Financial Officer

Laurence Murphy

Executive Vice President,
International Oil and Gas

Roger D. Thomas

Executive Vice President,
North America

Gary H. Nieuwenburg

Senior Vice President,
Synthetic Crude

Brian C. Reinsborough

Senior Vice President,
United States Oil and Gas

Tim J. Thomas

Senior Vice President,
Canadian Oil and Gas

Una M. Power

Vice President,
Corporate Planning
and Business Development

Randy J. Jahrig

Vice President,
Human Resources
and Corporate Services

Kim D. McKenzie

Vice President
and Chief Information Officer

Eric B. Miller

Vice President,
General Counsel and Secretary

Brendon T. Muller

Controller

J. Michael Backus

Treasurer

Rick C. Beingsesner

Assistant Secretary

Sylvia L. Groves

Assistant Secretary

For more information on our officers
and directors, please see Item 10 in
our Form 10-K.

FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute “forward-looking statements” (within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended) or “forward-looking information” (within the meaning of applicable Canadian securities legislation). Such statements or information (together “forward-looking statements”) are generally identifiable by the forward-looking terminology used such as “anticipate”, “believe”, “intend”, “plan”, “expect”, “estimate”, “budget”, “outlook”, “forecast” or other similar words and include statements relating to or associated with individual wells, regions or projects. Any statements as to possible future crude oil, natural gas or chemicals prices, future production levels, future cost recovery oil revenues from our Yemen operations, future capital expenditures and their allocation to exploration and development activities, future earnings, future asset dispositions, future sources of funding for our capital program, future debt levels, availability of committed credit facilities, possible commerciality, development plans or capacity expansions, future ability to execute dispositions of assets or businesses, future cash flows and their uses, future drilling of new wells, ultimate recoverability of current and long-term assets, ultimate recoverability of reserves or resources, expected finding and development costs, expected operating costs, future demand for chemicals products, estimates on a per share basis, sales, future expenditures and future allowances relating to environmental matters and dates by which certain areas will be developed or will come on stream, and changes in any of the foregoing are forward-looking statements. Statements relating to “reserves” or “resources” are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the reserves and resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: market prices for oil and gas and chemicals products; our ability to explore, develop, produce, upgrade and transport crude oil and natural gas to markets; the results of exploration and development drilling and related activities; volatility in energy trading markets; foreign-currency exchange rates; economic conditions in the countries and regions in which we carry on business; governmental actions including changes to taxes or royalties, changes in environmental and other laws and regulations; renegotiations of contracts; results of litigation, arbitration or regulatory proceedings; and political uncertainty, including actions by terrorists, insurgent or other groups, or other armed conflict, including conflict between states. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management’s future course of action would depend on our assessment of all information at that time.

Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. Undue reliance should not be placed on the statements contained herein, which are made as of the date hereof and, except as required by law, Nexen undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement. Readers should also refer to Items 1A and 7A in our 2008 Annual Report on Form 10-K for further discussion of the risk factors.

Cautionary Note to US Investors The United States Securities and Exchange Commission (SEC) permits oil and gas companies, in their filings with the SEC, to discuss only proved reserves that are supported by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. In this disclosure, we may refer to “recoverable reserves”, “probable reserves”, “recoverable resources” and “recoverable contingent resources” which are inherently more uncertain than proved reserves. These terms are not used in our filings with the SEC. Our reserves and related performance measures represent our working interest before royalties, unless otherwise indicated. Please refer to our Annual Report on Form 10-K available from us or the SEC for further reserve disclosure.

In addition, under SEC regulations, the Syncrude oil sands operations are considered mining activities rather than oil and gas activities. Production, reserves and related measures in this report include results from the Company’s share of Syncrude.

Under SEC regulations, we are required to recognize bitumen reserves rather than the upgraded premium synthetic crude oil we will produce and sell from Long Lake.

Cautionary Note to Canadian Investors Nexen is required to disclose oil and gas activities under *National Instrument 51-101—Standards of Disclosure for Oil and Gas Activities* (NI 51-101). However, the Canadian securities regulatory authorities (CSA) have granted us exemptions from certain provisions of NI 51-101 to permit US style disclosure. These exemptions were sought because we are a US Securities and Exchange Commission (SEC) registrant and our securities regulatory disclosures, including Form 10-K and other related forms, must comply with SEC requirements. Our disclosures may differ from those of Canadian companies who have not received similar exemptions under NI 51-101.

Please read the “Special Note to Canadian Investors” in Item 7A in our 2008 Annual Report on Form 10-K, for a summary of the exemption granted by the CSA and the major differences between SEC requirements and NI 51-101. The summary is not intended to be all-inclusive or to convey specific advice. Reserve estimation is highly technical and requires professional collaboration and judgment.

Because reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. Variations as a result of future events are expected to be consistent with the fact that reserves are categorized according to the probability of their recovery.

Please note that the differences between SEC requirements and NI 51-101 may be material.

Our probable reserves disclosure applies the Society of Petroleum Engineers/World Petroleum Council (SPE/WPC) definition for probable reserves. *The Canadian Oil and Gas Evaluation Handbook* states there should not be a significant difference in estimated probable reserve quantities using the SPE/WPC definition versus NI 51-101.

In this disclosure, we refer to oil and gas in common units called barrel of oil equivalent (boe). A boe is derived by converting six thousand cubic feet of gas to one barrel of oil (6mcf:1bbl). This conversion may be misleading, particularly if used in isolation, since the 6mcf:1bbl ratio is based on an energy equivalency at the burner tip and does not represent the value equivalency at the well head.

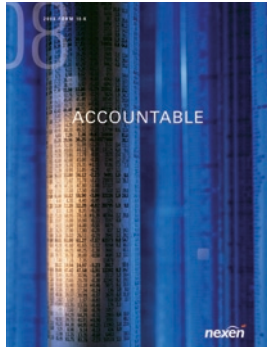
Resources Nexen’s estimates of contingent resources are based on definitions set out in *The Canadian Oil and Gas Evaluation Handbook* which generally describes contingent resources as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Such contingencies may include, but are not limited to, factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. Specific contingencies precluding these contingent resources being classified as reserves include but are not limited to: future drilling program results, drilling and completions optimization, stakeholder and regulatory approval of future drilling and infrastructure plans, access to required infrastructure, economic fiscal terms, a lower level of delineation, the absence of regulatory approvals, detailed design estimates and near-term development plans, and general uncertainties associated with this early stage of evaluation. The estimated range of contingent resources reflects conservative and optimistic likelihoods of recovery. However, there is no certainty that it will be commercially viable to produce any portion of these contingent resources.

Nexen’s estimates of discovered resources (equivalent to discovered petroleum initially-in-place) are based on definitions set out in *The Canadian Oil and Gas Evaluation Handbook* which generally describes discovered resources as those quantities of petroleum estimated, as of a given date, to be contained in known accumulations prior to production. Discovered resources do not represent recoverable volumes. We disclose additional information regarding resource estimates in accordance with NI 51-101. These disclosures can be found on our website and on SEDAR. Additional disclosure of our Horn River shale gas resource can be found in our press release dated April 22, 2008.

Cautionary statement In the case of discovered resources or a subcategory of discovered resources other than reserves, there is no certainty that it will be commercially viable to produce any portion of the resources. In the case of undiscovered resources or a subcategory of undiscovered resources, there is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

ANNUAL PUBLICATIONS

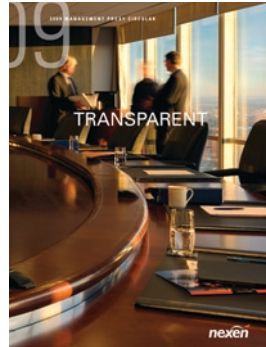
The following reports are available on our website at www.nexeninc.com/investors and hard copies may be ordered online or by calling **403.699.4354**.



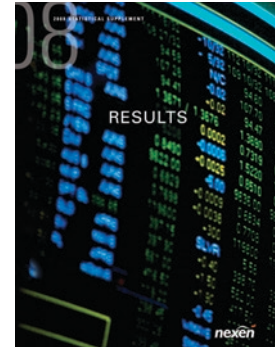
2008 Form 10-K



2008 Sustainability Report
(available June 2009)



2009 Management
Proxy Circular



2008 Statistical Supplement

2008 AWARDS AND RECOGNITION

Global 100 list

from *Corporate Knights Magazine* and Innovest for most sustainable international corporations

Best Corporate Governance Practices in North America

IR Global Rankings

Report on Business Corporate Governance

ranked 7th scoring 92 out of 100

GovernanceMetrics International

10 out of 10 for governance disclosure

Canada's 30 Best Pension and Benefits Plans

from *Benefits Canada* magazine and Hewitt Associates

Environmental Leadership Award

from Fort McMurray Chamber of Commerce for Long Lake Project

Corporate Reporting Award of Excellence

from Canadian Institute of Chartered Accountants (CICA) for top financial, governance and sustainability disclosures in oil and gas

Corporate Reporting Award of Excellence

from the CICA for top governance disclosure across all sectors

Oilweek Annual Report Awards

from *Oilweek Magazine*/ATB Financial for best editorial/graphic design in senior oil and gas

Best Sustainability Report Award

from *Oilweek Magazine*/ATB Financial for top Sustainability Report overall

World Petroleum Congress

President for 3rd term

Randy Gossen—Nexen's VP, Global Business Relations

Top 100 Best Companies to Work For

from *The Sunday Times* (UK)
Nexen UK division ranked 30th

Eric L. Harvie—Glenbow Award

for continued sponsorship of Glenbow Museum's education programs

Canadian Event Industry Awards

for 'Feel the Beat' employee event

Healthy Living Award

from Government of Scotland for healthy menus on Scott platform





801 - 7th Avenue SW, Calgary, Alberta, Canada T2P 3P7 T 403.699.4000 F 403.699.5800 www.nexeninc.com