



sustainability report 2005 see the **value**

sustainability at nexen



Nexen is a Canadian-based, global energy company on a mission to grow value responsibly. Our business is finding and developing oil and gas to help meet society's need for heat, light, mobility and a host of everyday products. Conducting our business efficiently and effectively generates rewards for our stakeholders, but also introduces safety and operating risks, and impacts on communities and the environment.

We see clear value in doing business in a way that optimizes social and economic benefits while minimizing our environmental footprint. And in a way that is open and respectful of our many stakeholders.

At Nexen, sustainability begins with being competitive and profitable—but we won't pursue profit at any cost. How we conduct our business is just as important to us as achieving outcomes.

Our vision is to be recognized as a global leader in sustainability, maximizing value for shareholders and other key stakeholders by integrating safety, economic, environmental and social considerations into our decision-making.

A vision like ours is a long-term commitment. In this report, we review our achievements and challenges over the past year as we progress toward sustainability.

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2005 SUSTAINABILITY HIGHLIGHTS

- Achieved best-ever contractor safety performance and best-ever combined employee/contractor safety performance.
- Included in the Dow Jones Sustainability Index for the fifth year in a row.
- Our Yemen Masila operations became the first international upstream oil and gas facility to earn Round 1 Verification under Responsible Care®. Our Balzac, Alberta natural gas processing facility achieved Round 2 Re-verification.
- Provided integrity training to more than 1,500 employees and full-time contractors; expanded our annual Ethics Policy compliance process to include all employees.
- Recognized for stakeholder engagement in Colombia by the World Petroleum Council and for public consultation on coal bed methane by the Canadian Association of Petroleum Producers.
- Recognized for leading corporate governance practices by GovernanceMetrics International and the Canadian Coalition for Good Governance.
- Named one of Canada's Top 100 employers in Mediacorp's annual survey.

DISAPPOINTMENTS AND CHALLENGES FOR IMPROVEMENT

- We regret to report two contractor fatalities: a drowning in Yemen and a vehicle incident in the United States.
- Employee engagement score declined from 74% to 67% as measured by Hewitt Associates survey.
- Missed our targets for improved employee safety performance and reduced environmental incidents, but still came close to previous best-ever results.

from our leaders

Our record financial performance in 2005 went hand-in-hand with very strong performance in sustainability.

LEFT Charlie Fischer,
President and CEO

CENTRE Barry Jackson,
Chair, SESR Committee
of the Board

RIGHT Randy Gossen,
Vice President, SESR



Our safety achievements were outstanding, with our safest combined employee/contractor record ever. The number of environmental incidents increased modestly in 2005, but these results were on a par with our best ever, considering our work hours increased by 50% and we reported data from our UK operations, which were in their first full year of operations with Nexen. We continue to be recognized as a leader in social responsibility, being named in the Dow Jones Sustainability Index for the fifth consecutive year.

AN EXTRAORDINARY YEAR

2005 was an extraordinarily ambitious year. We made significant strides bringing two of the largest projects in the company's history close to production: the Long Lake oil sands project near Fort McMurray and the Buzzard field in the North Sea. Yemen had its busiest year since the early 1990s, with an active drilling program and construction of new production facilities on Block 51. We made an important discovery at Knotty Head in the deep-water Gulf of Mexico. We announced the first commercial development of coal bed methane in the Mannville coals in Canada. Against this backdrop of activity, our superior safety, environmental and social performance is especially satisfying.

FOSSIL FUELS AND SUSTAINABILITY

We believe that fossil fuels will continue to be an important part of the world's energy mix for decades to come. Companies that can produce oil and gas at low cost, while continuously reducing the environmental footprint of that production and delivering social benefits, have a long-term future. We intend to be one of those companies. We also see value in alternative energy as an opportunity to offset emissions while delivering environmental benefits and diversifying our business.

PAYING CAREFUL ATTENTION

As with our financial performance, our sustainability performance is not a one-year story. We believe that paying careful attention to social and environmental impacts—and how those impacts are anticipated and mitigated in our business plans and operations—is an integral part of delivering long-term value.

For example:

- Paying careful attention to public and environmental concerns supports progress on the Long Lake project and our coal bed methane opportunities.
- Paying careful attention to safety ensures people return home safely and helps us maintain schedules on our major construction projects.
- Paying careful attention to government and community relations at home and abroad has earned us a sterling reputation, which opens doors to opportunities worldwide.
- Paying careful attention to environmental performance reduces spills, which improves operating efficiency and reduces abandonment and remediation costs.
- Paying careful attention to corporate governance and ethics reduces the likelihood of improper payments and builds trust with all our stakeholders and our shareholders in particular.
- Paying careful attention to employee relations helps us retain key people in our existing businesses and recruit the best new graduates to support our future growth.

Paying careful attention to safety, environment and social issues is what will make Nexen a sustainable company.



KEY SUSTAINABILITY ISSUES AT NEXEN

Sustainability will continue to support our future success. As we look to the future, here are some of the major risks and uncertainties we are considering:

Reputation: How can we ensure we are trusted by investors, governments, communities and customers? How can we attract and retain the best employees? How can we support our company's reputation and that of our industry?

Global Warming: As an oil-focused company, what combination of strategies will allow us to reduce or offset carbon-related emissions in our operations? How will the Kyoto Protocol evolve and how will that affect our industry and our company?

Water Use: Water is an essential component of economic activity. In many areas of our operations, demands for this limited resource are intensifying. How can we reduce our water use and recycle or find alternate uses for our produced water?

Access to Exploration Lands: Have we anticipated and addressed the expectations of landowners and governments? Have we anticipated our potential impacts on biodiversity?

Human Rights, Corruption and Transparency: How can we ensure that our investments are part of the solution to the challenges of globalization and not part of the problem?

You can find evidence of how we are addressing many of these risks throughout this report. But like our business plans, there are no short-term, easy solutions. Rather, our ongoing, careful attention to all these issues is what will make Nexen a sustainable company.

STAKEHOLDER REVIEW OF OUR PERFORMANCE

For the past two years, we've asked an advisory group to give us independent feedback on our sustainability reporting and performance. This group includes representatives from an environmental non-governmental organization, academia, communities where we operate and Nexen employees.

Last year, the multistakeholder group concluded that Nexen's safety, environment and social responsibility (SESR) performance is aligned with the company's policies, stated beliefs and adopted principles. The group also concluded that Nexen's SESR performance predominantly meets stakeholder expectations and that our Sustainability Report meets the information needs of our main stakeholders.

In addition, the group offered eight specific recommendations on how Nexen could enhance future reporting and performance. We have been able to implement a number of those recommendations; others are under consideration. Our response to each of the points raised is on pages 38 and 39.

We also invited the auditing firm PricewaterhouseCoopers to review selected quantitative data in this report. You can find their comments on this year's report on page 37.

Charlie Fischer
President and CEO

Barry Jackson
Chair, Safety, Environment and Social Responsibility
Committee of the Board of Directors

Randy Gossen
Vice President, Safety, Environment and Social Responsibility

about us

Creating long-term value requires exceptional assets, attractive opportunities for future growth and a commitment to ethics and integrity.

Formed in 1971, Nexen explores for, develops, produces and markets crude oil and natural gas. We also have a 61.4% indirect interest in Canexus Income Fund, which manufactures and markets sodium chlorate and chlor-alkali products (chlorine, caustic soda and muriatic acid). Worldwide, we have approximately 3,000 employees.

To grow long-term value, we focus our investments where the opportunities are greatest and then apply our corporate strengths and technological expertise to build sustainable businesses there. We have strategically positioned ourselves in five of the world's most exciting petroleum basins: the North Sea, Western Canada, the Gulf of Mexico, the Middle East and offshore West Africa. In these basins, we believe we can generate attractive returns while operating in a safe, ethical and environmentally sound manner.

DEFINED GROWTH

For several years, we've been investing in large, multi-year development projects. By late 2006, we will have invested approximately \$5 billion in projects that are not yet delivering production and cash flow but soon will be. The rewards will be significant.

By 2007, we expect our production after royalties to grow approximately 50% over current volumes (to between 260,000 and 280,000 boe/d), as we bring production on stream from our world-class Buzzard development in the North Sea, the Syncrude Stage 3 expansion in Canada and the first phase of our Athabasca oil sands project. We expect equally attractive growth in cash flow per share by 2007, given our major projects have attractive fiscal terms and return their cost of capital at WTI in the mid-US\$20s per barrel.

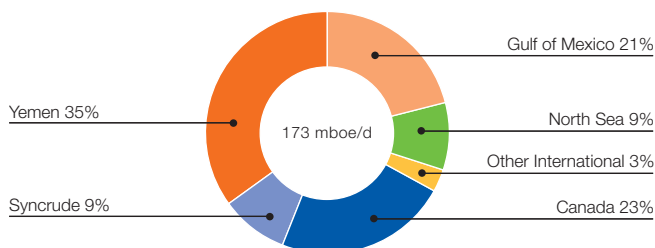
EXCITING OPPORTUNITIES

In addition to this impressive growth profile from defined projects, we have capacity for further success. We believe no other company our size has the suite of assets and opportunities we do: oil sands and coal bed methane projects in Canada, deep-water plays in the Gulf of Mexico and strong international holdings.

In Canada, we are planning additional phases of our oil sands project, which we expect will deliver 120,000 bbls/d of premium synthetic crude oil (net to Nexen) by 2016. Ultimately, we plan to develop 5 billion barrels of bitumen resource, using combined SAGD and upgrading technology that allows us to produce a premium synthetic crude oil at a significant cost advantage over our peers. We've also begun commercial development of our first coal bed methane project in Upper Mannville coals, targeting production of 150 mmcf/d by 2011.

2005 Production by Region (after royalties)

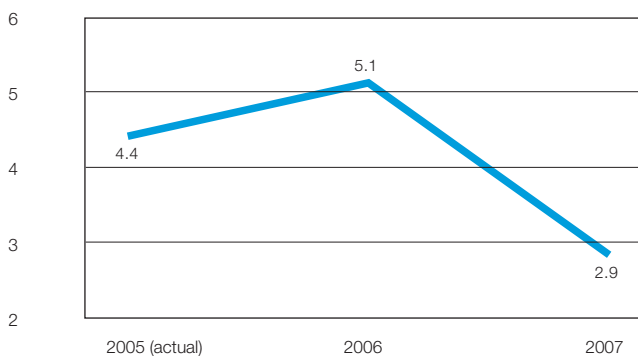
(percent)



'Other International' includes Colombia and Nigeria

Estimated Development Capital Behind Pipe

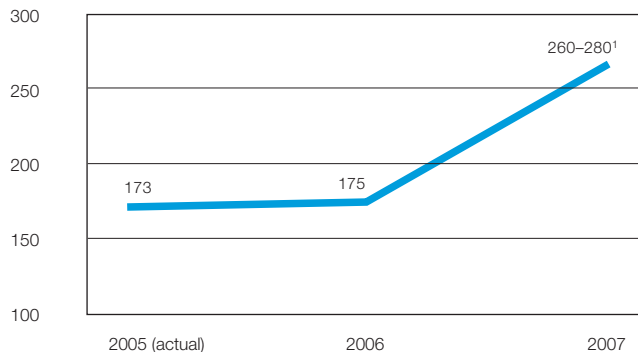
(Cdn \$ billions)



Development capital behind pipe is capital invested in multi-year projects not yet producing oil or gas or cash flow. This investment will peak in 2006.

Estimated Production (after royalties)

(mboe/d)



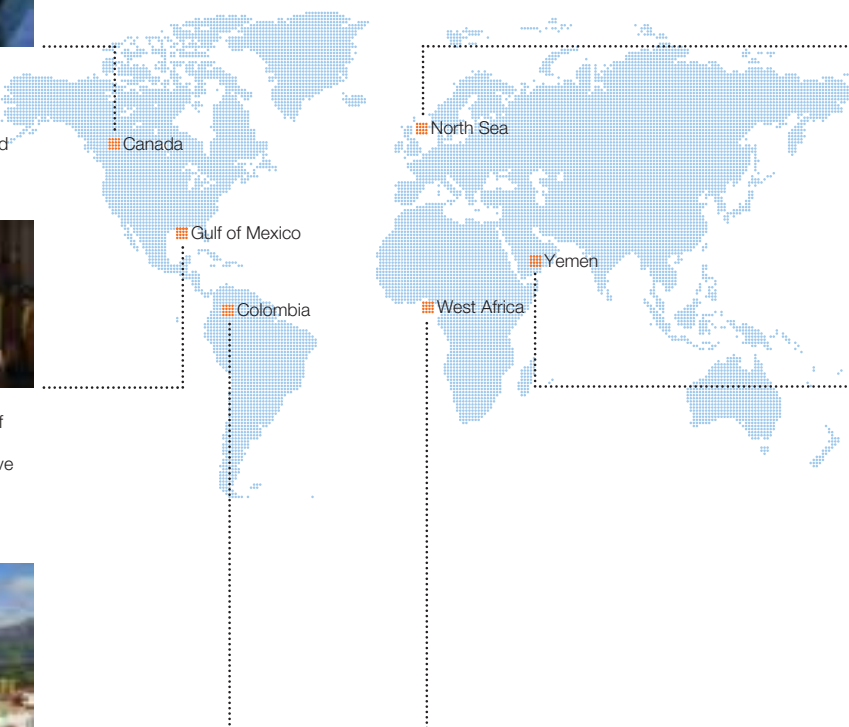
We expect 2007 production (after royalties) to grow by 50% over current volumes.

¹Estimated range

NEXEN'S INTERNATIONAL OPERATIONS



In Canada we are transitioning toward unconventional resources, including oil sands, coal bed methane and enhanced oil recovery.



Since our acquisition of properties in the UK North Sea in 2004, this has become a key growth area for us, including the Scott-Telford and Buzzard fields.



We have more than 240 blocks in the deep-water of the Gulf of Mexico, one of the world's more prospective sources for oil and gas.



Yemen has been our most significant international region since first production in 1993. Our strategy is to maximize value from existing blocks while we search for new fields in deeper horizons.



We own a 20% non-operated interest in the Boqueron Block; in 2006, we plan to drill three exploration wells.



Appraisal of the offshore Usan field is complete and a preliminary field development plan is awaiting approval from the Nigerian government.

In the Gulf of Mexico, we recently drilled the deepest oil well ever in that basin (to a total depth of over 10 kilometres) at Knotty Head, a discovery that could unfold into a world-class resource.

Internationally, we have a number of opportunities in the UK North Sea including the Buzzard development, one of the largest UK discoveries in recent years. In Yemen, our legacy assets are providing significant free cash flow to fund our ongoing capital programs. We have submitted a development plan for Usan, offshore West Africa, to government agencies for approval.

We're also continuing with one of our largest exploration programs in 2006, drilling 20 high-potential wells primarily in the Gulf of Mexico, UK North Sea, offshore West Africa and in Yemen, with rigs already secured for most of our drilling program.

With more than 260 million common shares outstanding, our market capitalization has grown to approximately \$17 billion (as of March 31, 2006). Our shares trade on the Toronto and New York Stock Exchanges under the symbol NXY.

about this report

This is our tenth public report on corporate responsibility and sustainability.

HOW WE CHOOSE WHAT WE REPORT

Three main protocols guide our sustainability reporting.

- 1** The Canadian Association of Petroleum Producers (CAPP) has developed a reporting framework called the Stewardship Initiative. For CAPP and its members, stewardship is about the continuous improvement and transparent reporting of environmental, health, safety and social performance. Nexen has achieved the highest level, Platinum status, in stewardship reporting.
- 2** Nexen is a member of the International Petroleum Industry Environmental Conservation Association (IPIECA), which introduced voluntary sustainability reporting guidelines in 2005. There is considerable overlap between IPIECA's and CAPP's reporting requirements. We are assessing the business and stakeholder value of tracking supplementary IPIECA indicators.
- 3** The Global Reporting Initiative (GRI) is a popular standard for sustainability reporting. In 2005, we asked an external consultant familiar with the GRI to assess Nexen's 2004 Sustainability Report against the guidelines. That assessment (which can be found on our website) estimated that Nexen reported on approximately 55% of the GRI's core indicators. Where we see business and stakeholder value, we are incrementally adding new GRI indicators to this report and our website.

In addition to these three guidelines, our reporting is influenced by our participation in Responsible Care®, the United Nations Global Compact initiative and Canadian Business for Social Responsibility.

STAKEHOLDERS FOR THIS REPORT

Investors are a key audience for this report. They want to see how we manage safety, environment and social risks and turn these challenges into rewarding opportunities.

Our employees, like other stakeholders, want to understand what sustainability means to us. They also want to see data supporting our performance against our stated values. Newly hired employees use this document to orient themselves to our culture around sustainability, and the report is a valuable tool in recruiting top graduates to our company.

The communities where we do business—and where we hope to do business—are another important audience. They look for evidence that we carefully manage the environmental and social impacts of our operations.

Similarly, regulators are looking for transparency in our reporting and evidence that we are helping to achieve public goals, such as lowering safety incidents and reducing specific emissions.

Non-governmental organizations are another audience. They monitor corporate behaviour on a range of issues from environmental protection, to human rights, to transparency in financial transactions.

Other audiences include socially responsible investment funds and indexes such as the Dow Jones Sustainability Index and the Jantzi Social Index that use this report to review our performance against specific sustainability criteria.

DATA FROM NEXEN'S FORMER CHEMICALS BUSINESS

Nexen's chemicals business was launched as a standalone, publicly traded income fund called Canexus Income Fund in August 2005. Up until August 17, 2005 all company-wide data in this report included our chemicals business. Data after August 17 will be reported separately by Canexus. See the titles and captions for tables and graphs in this report for specific guidance.

CONVENTIONS USED IN THIS REPORT

Where you see the words Nexen Inc. or Nexen, we are referring to the whole company and its subsidiaries (excluding Canexus). Most of this report refers to year-end 2005 data. Where notable, we have included selected 2006 updates. A number of supplemental graphs can be found on our website. Dollar figures are in Canadian dollars, unless specified otherwise. SESR data from Syncrude are not included in our totals.

COMMENTS AND FEEDBACK

We welcome comments on this report, which can be emailed to sustainability@nexeninc.com.

Stakeholders for this report:

Investors
Employees
Communities
Regulators
NGOs
Investment funds

safety performance

Each year we strive to better our safety performance in every area and achieve zero incidents.

SUSTAINABILITY CONTEXT AND CHALLENGES

A safe workplace is more attractive to prospective employees and contractors. A strong safety performance also delivers a number of economic benefits. Our workforce is more productive, with fewer days lost to injury and less time spent training employees to cover absences due to injuries. We also save the time spent in incident investigations and follow-up. Fewer injuries also result in lower insurance and workers' compensation premiums. In some cases, an incident may cause not only injuries but also environmental damage. Above all, an injury-free workplace sends our people safely home to their families and loved ones.

We face a number of challenges in reaching our goal of zero incidents company-wide. Our industry engages many contractors and we provide training and capacity building to help them enhance their safety performance. Our business is international, and language and cultural barriers can intervene. There can be pressures to complete projects quickly in the current environment of high prices. Overall, we're pleased with our steady safety improvement given these challenges.

OVERVIEW OF OUR SAFETY PERFORMANCE

In 2005, our Canadian oil and gas operations achieved their best-ever combined employee/contractor safety performance. In Yemen, we achieved best-ever contractor safety performance and very nearly matched our previous best employee safety performance. Our US operations won important industry safety awards. We also achieved our safety targets for Long Lake construction, reducing our combined employee/contractor injury incident rate by 13.6%.

However, there were two fatalities, as well as a series of incidents in our UK operations. The fatalities and the UK incidents were thoroughly reviewed and follow-up actions identified. Together with company-wide initiatives such as a comprehensive alcohol and drug policy and a strengthened focus on occupational health issues, we are continuing our commitment to safety.

TWO FATALITIES MAR SAFETY PERFORMANCE

Against Nexen's and their employer's policy, several employees of a seismic contractor in Yemen went swimming in a pool of water created by seasonal rains and one person drowned. The contractor's management conducted several follow-up meetings to reinforce the applicable safety policies. A driver working for a third-party service provider was killed while delivering oil for Nexen Marketing in the United States. A review indicated that the driver had no opportunity to prevent the

Safety Targets and Performance

	2005 IIR ¹	Best Ever	2006 Target	Benchmarks
Employee	0.46	0.29	<0.29	0.74 (OGP) ²
Contractor	1.07	1.07	<1.07	0.80 (OGP) ²
Combined				
Employer/Contractor	0.95	0.95	<0.95	0.79 (OGP) ²
Long Lake Construction ³	1.78	1.78	<1.78	1.05 (UE-1) ⁴

¹ Includes chemicals business up to August 17, 2005. Targets for 2006 exclude chemicals business.

² 2004 is most recent OGP data.

³ Combined OPTI/Nexen contractor lost-time and medical treatment injuries only.

⁴ We benchmark Long Lake construction safety to the Syncrude Upgrader Expansion (UE-1) project, which has a Total Recordable Incident Rate of 1.05 over the project life.

IIR—Injury Incident Rate; OGP—International Association of Oil and Gas Producers

Injury Incident Rate equals:

(number of medical treatment cases + number of modified work cases + number of lost-time accidents x 200,000)/hours worked.

incident, as he was killed when struck by an oncoming vehicle driving in the wrong lane. The fatality was reviewed within a broader SESR study of Nexen Marketing's facilities and trucking operations in Canada and the United States.

YEMEN MASILA PERFORMANCE AMONG WORLD'S BEST

In 2005, the Masila field and terminal in Yemen achieved its best-ever contractor Injury Incident Rate (0.28 IIR versus 0.79 target) and we were slightly off our best-ever employee safety performance (0.45 IIR versus 0.42 target). These rates are exceptionally low for such a large operation (over 8 million person-hours worked) and are comparable to the best-in-industry worldwide. A key component in achieving these lower IIRs was our focus on injury prevention at the front line. Efforts in 2005 included the roll-out across all departments of the Take Two... for Safety™ program, developed by DuPont.

Safe driving was another area for continued focus in 2005, including the installation of driving monitoring equipment, defensive driving training for all contractors and staff, radar-gun monitoring and formal vehicle inspections.

Yemen drilling and completions achieved a total recordable injury incident rate of 1.0, half that of its 2004 results, which were already the best ever achieved. Drilling presents greater injury risks than operations, as more of the work is conducted in the presence of moving and rotating equipment.

RAISING AWARENESS OF ALCOHOL AND DRUG POLICY

The use of illicit drugs and inappropriate use of alcohol, medications or other substances can have adverse effects on a worker's health, safety and job performance and can lead to environmental impacts. Recognizing our obligation to protect the health and safety of all individuals and the environment, we introduced a comprehensive Alcohol and Drug Policy in July 2005. We introduced the policy with awareness literature for all employees and contractors and provided special training for leaders.

ANTICIPATING POTENTIAL INFLUENZA IMPACTS

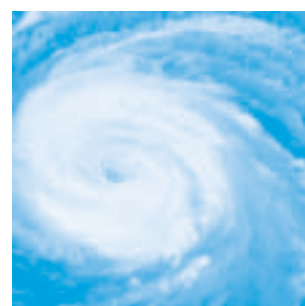
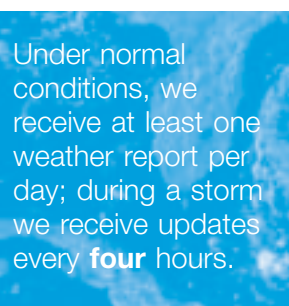
A company-wide Pandemic Influenza Committee has been developing contingency plans consistent with the World Health Organization planning efforts. The committee is using information from organizations such as the Calgary Health Region and SOS International to anticipate potential impacts of a pandemic. For example, we may modify rotation schedules in areas such as Yemen and introduce information technology options to allow more people to work from home.

AWARD-WINNING NEXEN USA PERFORMANCE

For the second consecutive year, the US Minerals Management Service recognized Nexen's leadership with its 2005 Safety Award for Excellence (SAFE). The awards honour outstanding performance in safety and stewardship in offshore oil and gas operations. Nexen won the award of excellence for moderate-activity Outer Continental Shelf operators (producing at least 1 million barrels of oil equivalent per year). Nexen has been a finalist in the SAFE awards in each of the past five years. Nexen's Eugene Island operation claimed the Lafayette District SAFE award for 2005; Eugene Island won this award for the third time in the past four years.

HURRICANES KATRINA AND RITA EVACUATIONS

The 2005 US Gulf Coast hurricane season was one of the most devastating on record. Hurricane Katrina required the evacuation of all of our facilities except one; Hurricane Rita required an evacuation of all facilities. All personnel were safely evacuated before any impacts from the storms. The storms caused the flooding of some of our shorebases and the roads leading to them. On returning to the platforms, our personnel found structures destroyed, walkways missing and a pipeline pulled from the facility. We did not send personnel aboard to re-establish production until repair crews had made the platforms safe.



The decision to evacuate an offshore platform is made by considering detailed weather reports, the projected path of the storm and its anticipated size and strength. Nexen subscribes to a professional weather service that keeps us informed on weather, wind and sea conditions. Under normal conditions, we receive at least one report per day; during a storm situation, the service issues updates every four hours.

HIGH-LEVEL SAFETY REVIEW IN THE UNITED KINGDOM

In mid-2005, we experienced several safety incidents over a short period of time in our UK operations. To reinforce the company's commitment to safety, UK management commissioned a comprehensive safety review to examine the incidents and look for any common themes or learnings. A review team visited Nexen and contractor facilities to inspect worksites and interview onshore and offshore employees and contractors, including management and operations personnel.

The team's study concluded that the relationship between Nexen and its contractors was not a contributor to the safety incidents and that the respective roles and responsibilities were well defined. Although time pressures were evident, contractors interviewed did not feel that Nexen was pushing productivity at the expense of safety. The review found that all contractors were experiencing similar problems with slip, trip and fall incidents and that many incidents were not strictly related to work tasks.

As a result of the study, we are taking increasingly visible and pro-active steps with contractors and employees to communicate, promote and augment our safety culture and to reinforce everyone's personal responsibility for their own safety and the safety of their co-workers. The findings of the safety review were documented in a newsletter and reviewed with all personnel.

26%

reduction in
employee/contractor
injuries since 2001

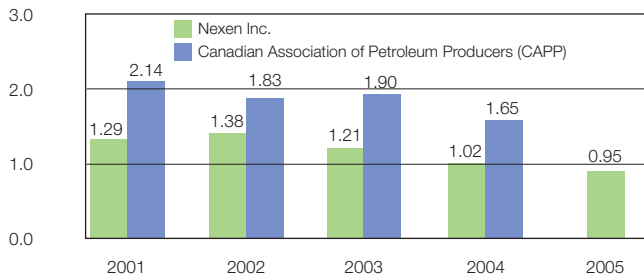
Yemen Driving Safety Performance



Vehicle incidents are down 37% since 2002 (first year of data collection). 2004 data have been restated to include Yemen Block 51 incidents.

Injury Incident Rate—Combined Employee/Contractor

(per 200,000 hours worked)¹



Our combined injury rate was at its lowest ever in 2005 and has decreased 26% over the last five years. CAPP data are not yet available for 2005.

¹ Hours worked are comprised of actual hours and hours calculated using accepted industry guidelines.



Employees practise fire control procedures at our central processing facility in Yemen.

IMPROVED OCCUPATIONAL HEALTH SUPPORT

To better promote a healthy work environment, protect worker health, prevent occupational injuries and illnesses, and provide an improved level of in-house support, an Occupational Health/Industrial Hygienist was added to the Corporate SESR group in 2005. Some key areas of focus for this position include health promotion, health hazard identification and prevention, and management of ongoing health and hygiene issues.

RESPONSIBLE CARE® IN CANADIAN OIL AND GAS

Nexen has been a leader in adopting the Responsible Care® ethic in the upstream oil and gas industry. Following successful implementation in our Balzac, Alberta and Yemen Masila facilities, the Canadian Oil and Gas business has decided to introduce Responsible Care® across its upstream operations in Western Canada.

Responsible Care® was originally developed for the chemicals industry and its management systems are designed for large, complex, centralized facilities. Our challenge will be to implement this system in our oil and gas operations, which are more field-oriented with widely distributed locations. In 2006, we will conduct a gap analysis to compare our SESR practices against those required under Responsible Care®. We will seek approval from the Canadian Chemicals Producers Association (sponsors of Responsible Care® in Canada) to formally begin implementing Responsible Care® across our Canadian business in 2007. There is a three-year timeline for member companies to have the Responsible Care® requirements in place. Based on this timeline, our Canadian Oil and Gas business is targeting verification by 2010.

BEST-EVER PERFORMANCE IN CANADIAN OIL AND GAS

Nexen's Canadian Oil and Gas business had its best-ever combined employee/contractor safety performance, with an injury incident rate (IIR) of 1.68, with best-ever contractor safety (2.26 IIR) and second-best-ever employee safety (0.61 IIR).

Highlights from 2005 include a 49% reduction in combined IIR in the Heavy Oil unit (with no recordable employee injuries), no lost-time events at the Balzac gas processing facility and no recordable injuries in the conventional oil unit.

Employees, partner companies and contractors helped us achieve these results through increased monitoring programs and inspections, formal safety training for supervisory personnel, regular safety meetings and audits, contractor pre-qualification evaluations and post-event investigations.

integrity and governance

Integrity is not just a value at Nexen—it's a defining characteristic of our company. Superior governance practices are an essential factor in our business success.

SUSTAINABILITY CONTEXT AND CHALLENGES

Nexen's commitment to governance demonstrates accountability to our owners (investors) and others who have a stake in our future. Our commitment to integrity demonstrates that the way we do business is as important as the outcome.

By demonstrating integrity and superior governance practices we earn continued confidence from the investment community—at a time when corporate scandals have shown how easily that trust can be eroded. Employees want to work for companies that behave ethically. Our culture of integrity helps us retain top performers and attract the best new talent.

Preventing corrupt business practices promotes fair competition and distributes the benefits of economic development. So even when we operate in an area of the world that has a reputation for corruption, or where less-responsible competitors have worked before us, we demonstrate a fair-minded approach to delivering benefits for host countries and communities. To us, this means we will always operate with integrity, not merely in compliance with the law. We would rather lose an opportunity than lose our reputation.

CONTINUING TO LEAD IN CORPORATE GOVERNANCE

Nexen has been recognized in Canada and internationally for its leadership in corporate governance. In 2005, we became the first recipient of the Governance Gavel Award for Excellence in Director Disclosure from the Canadian Coalition for Good Governance. The coalition is made up of 45 of Canada's largest institutional investors, with assets under management of \$810 billion.

In 2005, we earned a fourth-consecutive perfect '10' rating from GovernanceMetrics International (GMI) in a global survey of more than 3,200 companies. GMI considers board accountability, financial disclosure and internal controls, executive compensation, shareholder rights, ownership base and takeover provisions, plus corporate behaviour and environmental, health and safety issues.

We also enhanced the transparency and detail of our reporting on Executive Compensation in our 2006 Management Proxy Circular (Proxy). Beginning this year, we provide a three-year comparison of our CEO's total compensation against the increase in Nexen's market capitalization. We also provide a review of annual results (below target, met target or above target) on the key indicators used in the CEO's prior incentive compensation assessment.

To enhance performance and communication between the Board of Directors and senior management, we added a 360-degree feedback process in 2005. This complements our

existing processes where directors provide evaluations on their own and their fellow directors' individual performance, as well as overall Board and Committee performance.

Details of our full compliance with the national corporate governance disclosure guidelines are in our 2006 Proxy.

ENHANCEMENTS TO INTEGRITY PROGRAM

In 2005, we completed an ambitious two-year enhancement of our company-wide integrity program.

In early 2005, we established an Integrity Resource Centre, accountable for Nexen's global integrity program. The centre ensures that all integrity-related concerns are investigated, resolved and reported to senior management and Nexen's Board of Directors. The centre is led by an Integrity Coordinator who works with a network of 13 Integrity Leaders plus various Nexen managers worldwide.

A major initiative of our Integrity Resource Centre is to ensure that all employees and contractors have attended our Integrity Workshop. As of March 2005, our records showed that only 65% of our employees and contractors had attended. To address this gap, during 2005 we delivered the Integrity Workshop to more than 1,500 employees and contractors. One hundred and twelve workshops were held on four continents. Our participation rate rose to 91% as of early January 2006.

ADDRESSING INTEGRITY CONCERNS

On February 1, 2005, we introduced our Integrity Hotline. While the hotline is an important part of our Integrity Program, we also encourage employees to raise integrity-related concerns directly with their manager, an Integrity Leader, the Integrity Resource Centre, the Chief Legal Officer, or a Human Resources representative.

A total of ten integrity concerns were raised in 2005: seven via the hotline and three via other reporting avenues. Of the ten concerns, six were raised by Nexen employees; four by contractors or external parties. The issues raised touched on inappropriate or offensive behaviour, compensation and benefits concerns, misuse of company time, inappropriate procurement procedures, and privacy related matters. Of the ten concerns raised, eight have been resolved and two continue to be investigated. A number of the concerns required disciplinary action. In other cases, we made changes to our business practices. While we take all ten of these concerns seriously, all issues arising out of those concerns were immaterial and quickly addressed. All integrity concerns are documented and reviewed with the Audit and Conduct Review Committee of Nexen's Board of Directors, which meets five times per year.

4th

consecutive top ranking
from GovernanceMetrics
International

Left, Marty Tate (Dallas) and right, Neil Marchant (Aberdeen) are Integrity Leaders, volunteers who support Nexen's integrity program.



ENHANCING COMPLIANCE PROCESSES

Another major improvement to our integrity program was to automate our annual compliance process. In the past, only targeted employees were required to acknowledge their compliance with certain policies. In December 2005, we asked all of our employees and contractors to acknowledge their compliance with our Ethics Policy. We also required this same group to complete online integrity training. Ninety-three percent of our employees and contractors (excluding Yemeni nationals) acknowledged their compliance with the Ethics Policy and completed online integrity training. We are following up with those who haven't yet completed the process to bring our participation rate to 100%.

We encountered logistical difficulties as we introduced the compliance process for our Yemeni national employees. To date, 42% of Yemeni nationals have acknowledged their compliance with the Ethics Policy (and also completed the online integrity training). We are working to achieve a significant increase in this percentage in 2006.

PREVENTING IMPROPER PAYMENTS

Nexen issued a revised Prevention of Improper Payments Policy in late 2005. The revised policy ensures a more consistent application across the company, focuses on high-risk countries and establishes a new Compliance Committee to manage the policy. The policy provides more detailed direction in several risk areas. For example, any gift or entertainment for a public official that is over US\$100 in value (for a particular event) must be approved by the Compliance Committee.

Training is an important means of reducing the risk of improper payments and clarifying Nexen's policy in specific circumstances. In 2005, we delivered training to 46 employees in Canada, Colombia and the United Kingdom whose roles are related to compliance on this issue. Further training will be delivered in 2006.

Nexen's Director of Corporate Audit reports quarterly on the administration of the Improper Payments Policy to the Audit and Conduct Review Committee of the Board of Directors. In 2005, no violations of the policy were recorded.

ENHANCING OUR SESR MANAGEMENT SYSTEM

We manage our SESR performance through a series of policies, reporting responsibilities and programs throughout the organization. Our documented SESR Management System covers 11 themes from Management and Leadership through Continuous Improvement. Accountability for the system includes the SESR Committee of the Board, a Senior Executive SESR Committee and a management and staff group that implements, stewards and reports on our SESR performance.

A thorough revision and update of the system is currently underway. Enhancements will include additional focus on industrial hygiene, occupational health, process safety, emergency preparedness and supply chain management.

MAKING POLITICAL CONTRIBUTIONS

Nexen supports the democratic process and a variety of political parties. In 2005, we made political contributions in Canada totaling just over \$72,000. Our political contributions meet all federal and provincial donation legislation. All contributions must be approved by our President and CEO and documented. We do not make political contributions outside Canada.

CONTINUING OUR SARBANES-OXLEY COMPLIANCE

In 2005, we implemented processes advancing our continued compliance with the Sarbanes-Oxley Act of 2002 (SOX). For the second year, Nexen complied with SOX, which requires companies registered with the US Securities Exchange Commission to maintain comprehensive procedures covering director and auditor independence, financial disclosure and fraud prevention.

An aerial photograph of an offshore oil rig in the middle of a vast, blue ocean. The rig is a complex of dark metal structures, including a tall derrick. The water is choppy with small waves. The sky is bright and slightly hazy. A semi-transparent blue horizontal bar is overlaid across the middle of the image, containing text.

economic

We continue to enhance our shareholder relations, economic performance and supply chain management.

shareholder relations

Our goal is to efficiently deliver transparent communications to shareholders so they understand our plans, progress and results.

SUSTAINABILITY CONTEXT AND CHALLENGES

Shareholders are the owners of Nexen. Effectively communicating our business strategy and results to them is critical to earning their long-term support. Strengthening the demand for our shares among analysts, investors and potential shareholders supports the company's long-term plans for growth. Shareholders naturally seek a strong return on their investment. An increasing number of investors also consider a company's performance in non-financial areas, such as labour relations, product stewardship and safety performance. A 2005 study by SAM Research demonstrates that the sustainability-driven companies included in the Dow Jones Sustainability Index perform as well as, or modestly better than, companies without a similar commitment.

Demonstrating a direct link between sustainability practices and share price performance can be a challenge. Many investors are tuned to short-term financial indicators. As with our long-cycle time projects, the positive results delivered from responsible business practices are often best seen over the long term.

BEST INVESTOR RELATIONS WEBSITE

We take a holistic view of communications, focusing on both printed documents and our website, as we know investors access our information in different ways for different purposes. Recent awards have acknowledged our communications efforts.

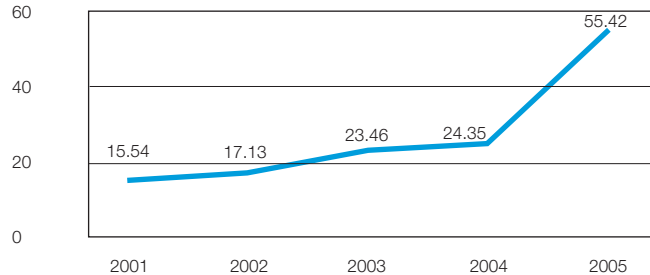
Our investor relations website was ranked as the best investor relations (IR) site in the energy industry, according to IR Web Report. Our IR website also ranked second in Canada and 19th globally across all industries, a step up from last year's ranking. IR Web Report evaluated the website based on content, format and timeliness.

We were also awarded *Oilweek* magazine's 2004 Annual Report Award for Financial Statements and Analysis in the senior oil and gas category. The *Oilweek* awards recognize outstanding achievement in the areas of financial statements and analysis and editorial/graphic design for Calgary-based energy and utility companies.

In 2005, we enhanced our external reporting by dividing our printed communications into separate reports: a shareholder letter, Form 10-K, corporate profile and a sustainability report. Through this approach, we have been better able to articulate our key messages to diverse stakeholders in a comprehensive yet plain-language manner.

Closing Common Share Price (TSX)

(December 31; Cdn \$)



Nexen had the seventh-best performing stock on the S&P TSX Composite Index in 2005. Data reflects 2-for-1 stock split in the second quarter of 2005.

ATTRACTING NEW INVESTMENT

We pursue many initiatives to keep shareholders and the investment community informed and to attract new investment. Each year, we present at approximately 20 general and industry-specific investor conferences, meet with over 200 existing and potential shareholders and take hundreds of phone calls, answering questions ranging from our strategy and operations to market reactions and the impact of world events. Each quarter, we host a conference call providing further clarity on our earnings press release. The calls are open to the public, and replays and a transcript are made available on our website within 24 hours. All investor presentations are posted on our website.

In efforts to expand our shareholder base, we've enhanced our marketing into the United States, growing our US shareholder base to about 35% over the past few years. We're now expanding into Europe, as oil sands projects such as Long Lake have attracted global interest.



economic performance

Strong commodity prices, attractive cash operating margins and outstanding marketing contributions drove our 2005 results to new highs.

SUSTAINABILITY CONTEXT AND CHALLENGES

We believe, and studies prove, that in the long term, companies that follow sustainability business practices outperform those with narrower priorities. The way we do business strengthens the financial market's confidence in Nexen, so we can continue to secure the capital we need to grow.

Nexen's business success is built on long cycle-time projects, where our investments are focused on projects that can take years to bring into production. We have patiently built a portfolio of assets and we've demonstrated our conviction to stay on course, to develop in-house technical skills, secure early and large land positions, nurture relationships with local government and communities, and understand safety, environmental and social issues.

Stewarding two very large projects—Long Lake and Buzzard—into commercial production over the next two years has its challenges. These projects require extensive planning and financial and human resources—in very competitive capital and labour markets. Our employees, contractors and joint venture partners are responding magnificently and our divestment programs have enhanced our financial flexibility. Also, crude oil prices and interest rates are variables we can plan for, but cannot control. Ultimately, we choose projects that will return their cost of capital at prices much lower than today's prices.

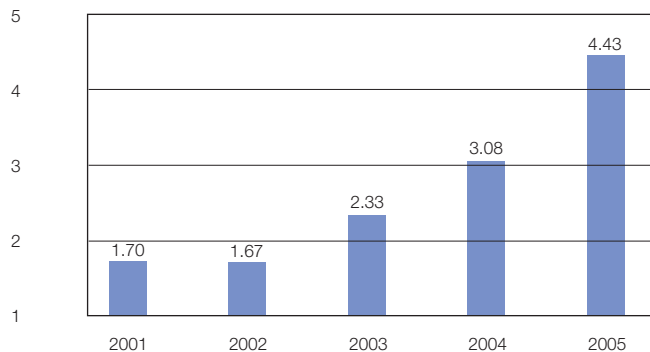
ANOTHER RECORD-SETTING FINANCIAL YEAR

This past year was our best ever. Net income exceeded \$1 billion for the first time ever and cash flow from operations was a record \$2.4 billion. Earnings per share increased more than 45% to \$4.43, while cash flow per share topped \$9.23. During the year, our stock price grew 128%. This increase grew shareholder value by more than \$8 billion.

Operationally, we also had a strong year, achieving what we set out to do. We completed Canadian asset dispositions at attractive prices and restructured our chemicals business into an income trust, selling 39% of it to the public. These transactions raised more than \$1.4 billion and we used the proceeds to reduce net debt and fund our largest capital program ever. We began commercial development of our coal bed methane project in Canada, successfully integrated the assets and people associated with our 2004 North Sea acquisition, significantly advanced construction at Long Lake, and announced more exploration success, including a potential world-class discovery in the deep-water Gulf of Mexico at Knotty Head. Despite asset dispositions and hurricane disruptions, we achieved our 2005 production targets and produced 242,000 boe/d before royalties (173,000 boe/d after royalties).

Earnings Per Share

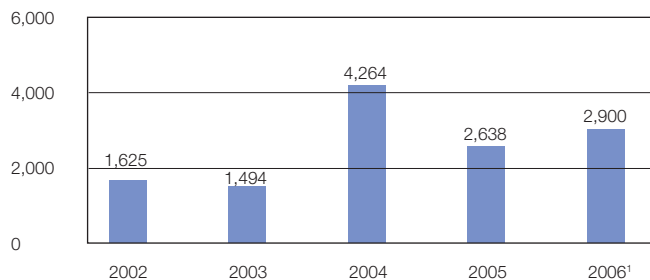
(Cdn \$/share)



Nexen's earnings per share increased 44% over 2004. Data reflects 2-for-1 stock split in the second quarter of 2005.

Capital Investment, Including Business Acquisitions

(Cdn \$ millions)

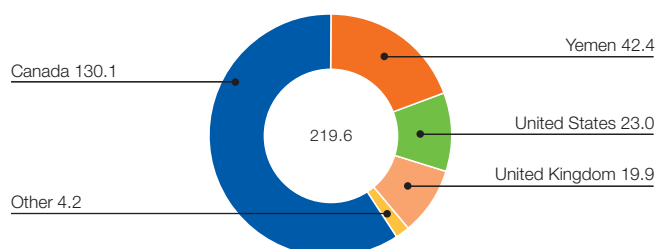


In 2006, we plan to invest \$2.9 billion, with 45% of the capital allocated to major development projects.

¹ Estimated

Annual Salaries 2005¹ (by region)

(Cdn \$ millions)



¹ 'Other' includes Barbados, Colombia, Equatorial Guinea, France, Nigeria, Singapore, Spain and United Arab Emirates.

¹ Salaries for all regular, fixed term and national employees; does not include overtime, bonus or other compensation.

\$1^{bn}

net income exceeded for the first time ever

45%

increase in earnings per share

128%

rise in stock price, growing shareholder value by over \$8 billion

\$2.6^{bn}

invested in capital programs

Royalties Paid¹ (Cdn \$ millions)

	2001	2002	2003	2004	2005
Canada	209	202	202	174	162
United States	75	61	113	126	122
Yemen	808	879	849	935	1,186
Australia ²	9	40	6	6	-
Other ³	15	57	11	6	11
Total	1,116	1,239	1,181	1,247	1,481

¹ Royalties are cash payments and in some international operations, the government's share of Nexen's production. In Australia, royalties also include a Petroleum Resource Rent Tax.

² Includes results of discontinued operations as described in Note 11 of Nexen's Audited Consolidated Financial Statements.

³ Includes mainly Colombia and Nigeria.

Current Income Tax Provision (Cdn \$ millions)

	2001	2002	2003	2004	2005
Canada	6.1	4.1	5.0	6.3	1.0
United States	0.5	(10.1) ¹	2.7	8.3	9.5
Yemen	190.7	206.6	200.7	226.7	296.3
Australia ²	16.4	16.3	(4.1)	(0.4)	-
Colombia	-	2.0	1.4	2.3	27.8
Nigeria	0.9	1.3	0.6	-	-
Other	1.8	2.6	3.9	4.5	4.7
Total	216.4	222.8	210.2	247.7	339.4

¹ Negative amounts represent refunds of taxes paid in prior years.

² Results of operations from Australia, including current income taxes, are shown as Discontinued Operations in our 2005 Annual Report.

INVESTMENT IN DEVELOPMENT PROJECTS

In 2005, we invested \$2.6 billion in capital programs, with more than 60% of this directed toward major development projects including Buzzard, Long Lake, Syncrude Stage 3, Yemen Block 51 and coal bed methane. These are multi-year projects where early and extensive planning is key to success. We focused on keeping these projects on time and on budget, and by year-end 2007, our net production is positioned to grow by 50% over 2005 volumes.

Syncrude Stage 3 is expected on stream in the summer of 2006 adding 8,000 bbls/d to its production capacity, followed by royalty-free Buzzard production in late 2006 which will peak at 85,000 boe/d in 2007. Bitumen production at Long Lake is

In 2006, we will conduct our largest exploration program ever, including 20 high-potential wells worldwide.

expected to start in late 2006, with upgrader start-up in the second half of 2007. We expect our share of premium synthetic oil from here to approximate 30,000 bbls/d. There is more production to come in the next decade and beyond from subsequent phases of oil sands development, our coal bed methane projects in Canada and from development of Usan, offshore Nigeria and Knotty Head in the Gulf of Mexico.

INVESTMENT IN EXPLORATION

In 2005, we invested \$456 million in exploration and had a number of exploration successes, including:

- The potentially significant Knotty Head discovery in the Gulf of Mexico;
- Smaller discoveries in the Gulf of Mexico at Big Bend, Anduin and Wrigley; and
- Two successful appraisal wells in the Usan field on Nigeria's OPL-222, offshore West Africa.

In 2006, we will build on this success with our largest exploration program ever, including 20 high-potential wells worldwide.

INVESTMENT IN CORE ASSET DEVELOPMENT

In 2005, we invested \$504 million in our core assets in Canada, the Gulf of Mexico, Yemen and the North Sea. Our investment in maturing assets is directed at maximizing the value we extract to support our transition to major projects in established basins, exploration in newer basins and unconventional resources.

RESERVES—BOOKED AND BEYOND

Overall, we added 82 million boe of proved reserves, replacing 91% of our production. At year end, proved and probable reserves totaled 1.6 billion boe, more than double our proved reserves. This reflects significant future value as we complete our major projects, delineate discoveries and sanction new development projects. In 2006, we are planning our largest capital program ever, and expect to invest \$2.9 billion to further our projects and explore for new growth opportunities.

supply chain

All our suppliers and contractors are required to adopt our sustainability policies or demonstrate that their own are at least as strong.

SUSTAINABILITY CONTEXT AND CHALLENGES

The petroleum industry depends on its suppliers for most materials and services due to a high level of outsourcing. In 2005, Nexen's total spend was approximately \$3.3 billion (\$2.6 billion on capital expenditures, and \$700 million on operating expenditures). Of this total, almost two-thirds was spent with third-party suppliers. Working with our suppliers and contractors has the potential to leverage positive sustainability results.

The oil and gas industry requires safe, high-performance equipment. We work with our direct suppliers to improve processes and adherence to Nexen standards. Our long-term view is to develop relationships with suppliers who share our values around ethics, integrity, safety, environmental protection and social responsibility. In such a relationship, we can focus on product performance and 'total installed cost' instead of always seeking the lowest price on each piece of a project.

SESR BUILT INTO CONTRACTS AND VENDOR APPROVALS

At the pre-qualification stage, major supply and service vendors receive copies of Nexen's policies on ethics and safety, environment and social responsibility (SESR) and are asked to sign a statement agreeing to abide by them. Vendors who don't adopt our policies must demonstrate that their own policies meet Nexen's expectations.

In our Canadian Oil and Gas business, vendors seeking to do business with us must first review our Contractors' SESR Handbook and complete a questionnaire regarding their health, safety and environmental management systems, past safety and environmental performance, training programs for employees, and liability insurance and Workers' Compensation Board coverage—all supported by appropriate documentation. While working for Nexen, corrective actions and non-compliance issues are dealt with using a Vendor Accountability Process. This process enables us to work with vendors in a fair and consistent manner to improve their SESR performance. Failure to participate in this program could lead to a vendor being removed from our registered vendors list. Evaluations take the form of internal/external audits, internal SESR evaluations, on-site inspections and work observations.

Upon the completion of the vendor's project—or at least annually—vendors working for our Canadian Oil and Gas business are evaluated in key performance areas including safety, environment, costs, equipment condition and work quality. Results are documented and communicated to other Nexen business units. We are in the process of implementing a database to streamline and improve our vendor management processes.

BUYING AND SELLING ENERGY

Nexen is both a buyer and a seller of energy. We buy crude oil and natural gas from producers and electrical power from the grid. We market Renewable Energy Certificates, which are derived from EcoLogo™-certified renewable sources such as biomass and wind. As a buyer, the greatest environmental risk is that of a crude oil spill. Oil is typically delivered from small storage tanks at a producing site to a larger central storage tank and from there to a large-diameter pipeline. We will not pick up from, or deliver to, an oil storage facility that does not meet our safety or environmental standards. Most of our trucking is handled by third parties, and we pre-qualify and audit their performance.

Most of the oil and gas we sell is destined for roughly a dozen refineries in North America. These refineries are owned by major energy companies and we find their safety and environmental practices equivalent to ours. The major pipeline companies in North America also have advanced safety and environmental programs.

WORKING WITH RESPONSIBLE CARE®

Our Balzac, Alberta and Yemen Masila facilities participate in the Responsible Care® program, an environmental and safety initiative that began in the chemicals industry. Several program requirements address supply chain issues. For example, we evaluate companies supplying chemicals used in our facilities and our product carriers. In Yemen, we have a comprehensive management system for the selection and management of contractors and an extensive mentoring and inspection process for local contractors. All export oil is shipped through Nexen's offshore terminal. There is a comprehensive marine tanker selection and inspection process; no tanker over 20 years old is accepted at our terminal.





We consider air quality and greenhouse gases, land stewardship and water management in all our projects.

environment

air quality and greenhouse gases

Although future regulatory requirements are uncertain, we are reducing our emissions at source and supporting ongoing research into emissions reduction.

SUSTAINABILITY CONTEXT AND CHALLENGES

Climate is weather averaged over long periods—and climate is always changing. However, there are indications that the Earth is experiencing an unusual variability in climate-related phenomena. This variability could be associated with natural or anthropogenic (man-made) sources or some combination of the two. Scientists studying current trends and historic data have suggested that under certain scenarios temperature could increase by 1° to almost 6° Celsius. Temperature and associated climatic changes in the upper end of that range could result in serious societal and ecological impacts. Numerous mitigation and adaptation strategies have been proposed to lessen the degree of impact, the timing of those impacts and provide options to potentially affected populations and communities.

Changes in land use practices (such as deforestation) and the combustion of hydrocarbons have been associated with increasing levels of greenhouse gases (GHGs) in the atmosphere. While the need to understand and address potential climate change is pressing, society's need for energy is also critical. There is a direct relationship between an increase in the quality of life and access to reliable and affordable energy. As developing countries strive to increase their standard of living there could be a significant growth in consumption of all forms of energy and resultant emissions.

This section describes a number of initiatives that we are taking to reduce emissions at source, prepare for compliance with anticipated regulatory requirements, invest in emissions reduction research and generate carbon offsets.

Abbreviations used in this section

GHG – greenhouse gas
CO₂ – carbon dioxide
CO_{2e} – carbon dioxide equivalent

See the glossary at the end of this report for definitions of these and other terms.

THE CANADIAN CONTEXT

A former federal government in Canada ratified the Kyoto Protocol in 2002. In doing so, they committed Canada to achieve a 6% reduction of 1990 GHG emissions during the period 2008 to 2012. Canada's natural resource based economy has performed very well in the past decade; energy exports to the US have been a significant contributor. As a result there has been a larger-than-expected growth of GHG emissions to the extent that compliance with the 6% commitment now requires an estimated 30% reduction in GHG emissions. As a result of the January 2006 federal election a new party came into power. In opposition they had been critical of the policies and programs

associated with Kyoto; to date they have not clarified their intentions on this issue.

The existing Canadian GHG-reduction strategy regulates the greenhouse gas emissions of Large Final Emitters (LFEs). LFEs include about 700 companies in the mining, manufacturing, oil and gas, and thermal electricity sectors. Canada's commitments call for LFEs to collectively achieve emission reductions of between 35 and 55 megatonnes per year during the first reporting period (2008–2012). Industry has multiple avenues for meeting their targets, including reducing emissions at source, investing in the Clean Development Mechanism and making contributions to a new Technology Investment Fund.

Our GHG emissions in Canada are expected to increase in the future, with the Long Lake project beginning commercial production in 2007. Oil sands projects generate greater CO₂-equivalent emissions than conventional oil and gas operations. The first phase of Long Lake is expected to produce 60,000 bbls/d of premium synthetic crude oil and generate 2.0 to 2.5 million tonnes of CO_{2e} per year. Nexen's working interest in Long Lake is 50%, leaving us responsible for roughly 1 million tonnes of CO_{2e} per year. Nexen and its partner OPTI Canada are planning a second phase to Long Lake, which would double production.



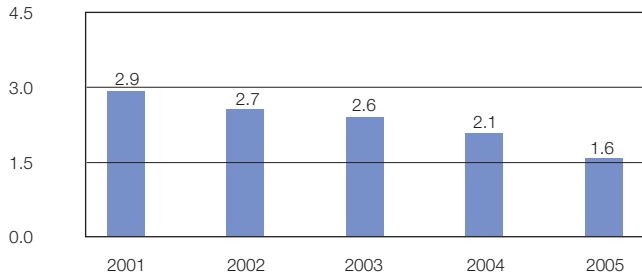
Research into solvent vapour technology has the potential to enhance oil recovery and reduce CO₂ emissions.

73%

decrease in methane venting in Canada since 2001

CO₂-Equivalent Emissions: Canadian Oil and Gas

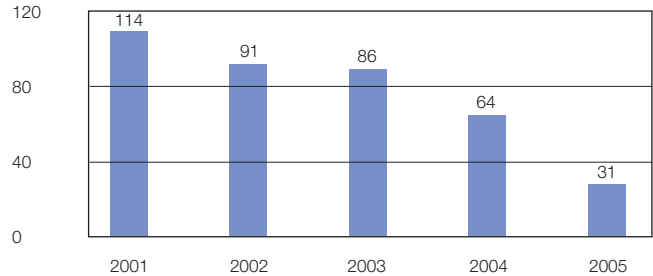
(million tonnes)



CO₂-equivalent emissions have declined steadily since 2003 due to vent gas capture; we also divested some properties in 2005.

Total Methane Vented: Canadian Oil and Gas

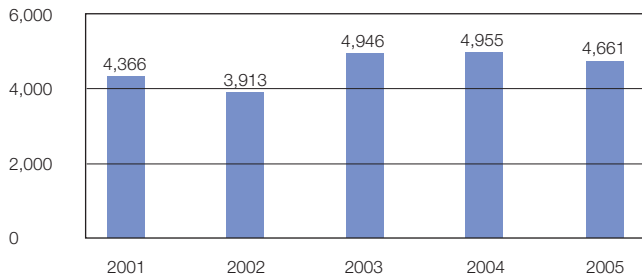
(million cubic metres)



Our vent gas capture program has helped us decrease venting by 73% since 2001.

SO₂ Emissions: Canadian Oil and Gas

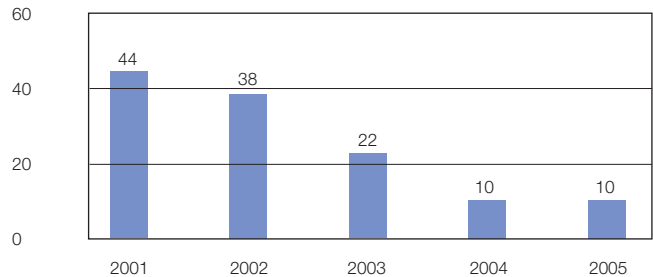
(tonnes)



SO₂ emissions declined modestly in 2005 due to lower gas processing volumes at Balzac, Alberta.

Total Gas Flared: Canadian Oil and Gas

(million cubic metres)



We've reduced flaring by 77% compared to 2001.

CO₂-Equivalent Emissions¹: Company-wide

(million tonnes)

	2001	2002	2003	2004	2005
Canada	2.92	2.68	2.62	2.12	1.56
United States	0.36	0.23	0.28	0.29	0.22
Yemen	1.06	1.29	1.17	1.65	1.59
UK	-	-	-	0.03 ²	0.34
Other International ³	0.36	0.44	0.43	0.38	0.13 ⁴
Total	4.70	4.64	4.50	4.47	3.84

¹ Emissions from Canada include direct emissions from operations plus indirect emissions from electric power consumption. All other Nexen operations generate their own electric power, so power-related emissions are included in their totals.

² December 2004 data only.

³ Includes Nigeria and Australia.

⁴ Australia field abandoned late 2004; Nigeria field sold mid-year 2005.

ADDITIONAL INDICATORS AVAILABLE ONLINE

You can find the following air emissions and related data for Nexen's worldwide operations on our website:

- Production Carbon Intensity
- Production Energy Intensity
- Energy Use
- Flared Gas
- Vented Gas

You can also find the following data from our Canadian Oil and Gas business:

- NO_x
- N₂O

National Pollutant Release Inventory data for our Canadian Oil and Gas business can be found at www.ec.gc.ca/pdb/npri.

77%

reduction in flaring in
Canada since 2001

EMISSIONS FROM NEXEN'S UK OPERATIONS

The European Union (EU) has committed to an aggregated emissions reduction. Member states have negotiated a reduction level they will meet, with the UK agreeing to reduce its emissions by 8%. The EU GHG scheme is split into two phases. Phase 1, which is designed to test reporting and compliance mechanisms, runs from 2005 through 2007. Phase 2 is the Kyoto 1st compliance period, from 2008 to 2012. To help achieve the Phase 1 objectives, every combustion installation in the UK above 20 megawatts, including our Scott platform, now requires a permit to emit CO₂.

Based on past emissions, each facility is assigned an annual emissions allowance in tonnes of CO₂; the Scott platform has an allowance of 310,000 tonnes per year. Through the scheme, facilities emitting more than their allowance have the option of reducing emissions at source or purchasing credits to offset excess emissions. Companies emitting less CO₂ than allowed can sell those credits. In 2005, Scott had lower than anticipated emissions, in part due to an extended facility shut-down. We have marketed some of our excess credits and some credits have been reserved for future use. These surplus allowances can be used for compliance in 2006 and 2007.

The Buzzard field will be included in the scheme when production begins in late 2006. Buzzard's interim CO₂ allowance, allocated from the 'new entrants reserve', is 430,000 tonnes for Phase 1. We expect that our UK operations will operate within their allocations during Phase 1. EU and member state discussions for Phase 2 are underway.

VENT GAS CAPTURE FROM HEAVY OIL

Our Canadian Oil and Gas business has achieved a dramatic reduction in methane vented over the past five years, from 114 million cubic metres vented in 2001 to 31 million cubic metres in 2005. Due to its high global warming potential (21 times the greenhouse effect of CO₂), methane emission reductions are particularly effective in addressing GHG emissions. Through our vent gas capture program, we have reduced CO₂-equivalent emissions by an estimated 2 million tonnes since 1998.

The greatest reductions have been achieved in our Heavy Oil business unit. In 2005, we invested \$1.6 million in our Cactus Lake, Saskatchewan field—initially developed only as a heavy oil resource—to install a system of gas gathering pipelines, fuel conditioners and compressors. These facilities enable us to capture 30,000 cubic metres per day of methane that previously would have been vented, along with a further 20,000 cubic metres per day of other solution gas. The captured gas is used in our own operations and sold externally.

NEW AIR EMISSIONS DATA MANAGEMENT SYSTEM

We are beginning an era where GHG emissions have to be carefully measured and reported. Regulators expect companies to provide a clear, auditable record of their emissions as a basis for measuring increases in, or reductions against, those emissions.

To enhance data capture, quality and auditability, Nexen has hired a full-time air emissions specialist and is introducing an automated air emissions data management system. This system will track both direct emissions from our operations and indirect emissions (for example, emissions from purchased electricity generated at thermal power plants). The automated processes will replace several stand-alone data systems, improving consistency and reporting frequency. The system is being introduced in our Canadian operations in 2006, with plans to introduce it in other divisions over time.

REDUCED PARTICULATES FROM YEMEN FLARE STACK

A 2005 voluntary initiative has greatly reduced the particulates being emitted from a flare stack at our central processing facility in Yemen. As production increased and the gas-to-oil ratio changed, the higher flow rates through the low-pressure stack created unacceptable levels of black smoke. We spent US\$700,000 to install a larger blower and a new, larger flare tip with an internal mixing capability for gas and air, and increased the air velocity flowing through the stack. These enhancements resulted in improved combustion efficiency and dramatically reduced particulate emissions.

We are also examining the feasibility of tying in some natural gas that is currently flared as a supplemental fuel supply for our diesel-powered generators. This has the potential to significantly reduce GHG emissions by reducing both diesel fuel consumption and flaring.



Enhancements to a flare stack at our central processing facility in Yemen have significantly reduced particulate emissions.

\$1^m

committed to university
research program on
CO₂ monitoring

NEAR-ZERO EMISSION WIND ENERGY

As part of Nexen's investment in alternative energy, our Power Marketing division is launching its first wind power project at Soderglen Ranch, Alberta. The 50/50 joint venture with GW Power Corporation, a renewable energy company, involves building 47 wind turbines. The turbines will begin to be installed in May 2006 and will be in full operation by the fall, eventually producing enough power to supply 50,000 homes. Since the wind farm will produce electricity with near-zero emissions, it will generate carbon offset credits for Nexen. The project's environmental reviews included migration studies to minimize the impact on local and migratory wildlife. Nexen and GW Power conducted a thorough public consultation prior to construction. Future expansion of the Soderglen site is an option.

UNIQUE OPPORTUNITY TO CAPTURE CO₂

The province of Alberta, Canada has a unique opportunity to sequester CO₂. Here you will find industries with large volumes of CO₂ emissions located in proximity to oil and gas fields where CO₂ could be used to stimulate production. And depleted oil and gas fields in the province, as well as deep saline aquifers, have the potential to serve as secure geological storage locations.

Nexen has joined together with like-minded companies to research the possibility of a large-scale CO₂ capture, transportation and storage network. The Integrated CO₂ Network project (ICO₂N) would capture CO₂ emissions from oil sands and other industrial operations and deliver the CO₂ to oil and gas reservoirs for either enhanced oil recovery or storage. This project has the potential to reduce GHG emissions and improve recovery from existing oil fields.

Five anchor partners (Nexen, Suncor, Shell Canada, Husky and Air Products) have committed funding to research the project. A number of other energy producers as well as fertilizer, petrochemical and power generation companies are also funding the project. However, with costs estimated at \$2 to \$4 billion for the CO₂-capturing facilities and \$1 to \$2 billion for a 400-kilometre pipeline, it is essential that the project's interests be aligned with government environment policies and regulations. A partnership between industry, the Alberta government and the Canadian government will be integral to moving this project forward.



The wind power project at Soderglen Ranch, Alberta, will produce electricity with near-zero emissions, generating carbon offset credits for Nexen.

SPONSORSHIP FOR CARBON STORAGE RESEARCH

The geological storage and entrapment of CO₂ has the potential to dramatically reduce the release of this greenhouse gas into the atmosphere. The Government of Canada has set a long-term goal of capturing 50 megatonnes of CO₂ per year for storage and entrapment. However, the public must be assured that the gases have been captured permanently in the storage reservoir. Nexen has committed \$1 million (over five years) to a research program at the University of Calgary, Canada, to develop remote monitoring technologies to contribute to this goal. The program will also advance research in in-situ upgrading of heavy oil, enhanced production of coal bed methane through CO₂ injection and groundwater monitoring.

INVESTMENT IN GASIFICATION RESEARCH

It takes large volumes of hydrogen—typically generated from natural gas—to upgrade oil sands into synthetic crude oil. Nexen is sponsoring a three-year research project at the University of Saskatchewan, Canada, to develop new technology to produce hydrogen from the gasification of substances such as wood, biomass, coal or asphaltenes—all of which represent a readily available, lower-value feedstock than natural gas.

One of the unique aspects of our Long Lake project is its use of gasification technology to turn a waste product, asphaltene, into synthetic gas to use for steam generation and bitumen upgrading. The process itself creates emissions, but the upside is that natural gas usage is significantly reduced, leaving more natural gas available for high-end applications such as heating homes or creating higher-value petrochemicals. Gasification is an intermediate step toward a future 'closed-loop' system of cost-effective production of hydrogen and capture of CO₂.

land stewardship

In every project, we strive to minimize the impact of our operations on the natural environment by careful planning, a responsible approach and innovative methods.

SUSTAINABILITY CONTEXT AND CHALLENGES

Access to land is one of the core issues facing onshore petroleum exploration and production companies. Oil sands and coal bed methane will be an important part of our future in Canada and both present a larger-than-average footprint compared to conventional oil and gas operations. Treating landowners with respect is essential to securing our social license to operate. Planning ahead to minimize our surface disturbance and avoid waterways and sensitive habitats leads to safer, more economical locating of roads, piping and facilities as well as lower environmental impacts. The steps we take to minimize the likelihood of spills reduce our cost of remediation when our operations are complete. Biodiversity is an increasing concern, with regions such as the Canadian boreal forest recognized as an important global ecosystem.

Challenges include the spread of urban communities, with residential development priorities sometimes conflicting with energy development. Together with urban encroachment comes the 'not in my backyard' philosophy, encouraging industry to seek opportunities further and further from communities. Nexen has close to 4,000 producing wells worldwide, most of them onshore; the ultimate remediation of our well sites is planned and budgeted for, but this stands out as an important future responsibility.

HORIZONTAL DRILLING REDUCES CBM FOOTPRINT

When it comes to drilling wells to capture coal bed methane (CBM), environmental and economic benefits go hand-in-hand. To capture economic quantities of CBM, it typically requires a greater number of wells than required to capture conventional natural gas. For example, we might need to drill one well per quarter-section (65 hectares) over several adjoining sections of land. If drilled individually, that could require multiple access roads, multiple temporary storage facilities for produced water, and multiple landscapes partially cleared of their natural habitat or farmers' fields disrupted.

In many cases, we are able to drill multiple wells from one central pad. Using a technique known as horizontal drilling, our wells travel at an angle underground, allowing us to access CBM from a larger area while minimizing surface disturbance. Using horizontal drilling means that fewer access roads and pipeline rights-of-way will have to be built. When you consider that Nexen plans to drill about 180 CBM wells (gross) in 2006, the potential land savings are considerable.

In most cases, the well pad will also have an injection well, so that produced water associated with CBM production can be reinjected to deep formations on site. This reduces traffic associated with water disposal and the risk of a spill during loading and transit.

ENVIRONMENTAL MAPS HELP REDUCE IMPACTS

Using wildlife, vegetation and disturbance data, the Canadian Oil and Gas business is generating environmental constraint maps to help anticipate and minimize our environmental impact and protect the natural biodiversity of the areas where we operate. These maps identify areas of environmental significance, including wildlife movement corridors, nesting sites, watercourses, old growth woodlands, and areas of historical, archaeological and cultural importance, helping us to select suitable locations for our wells, access roads, pipelines and other facilities. Although not a statutory requirement, the constraint maps help communicate the information needed to comply with regulatory requirements such as the Fisheries Act and the Species at Risk Act.

TURNING WASTE SAND INTO ASPHALT

The Long Lake project team has created a useful product from the hundreds of tons of waste sand that each of our 78 well pairs produce during the drilling phase: cold mix asphalt. The sand brought to surface by the SAGD (steam-assisted gravity drainage) drilling process is mixed and heated in a rotary kiln with screened gravel from a local pit and make-up oil. Once cooled, it can be spread just like asphalt and also dug up, reheated and used again.

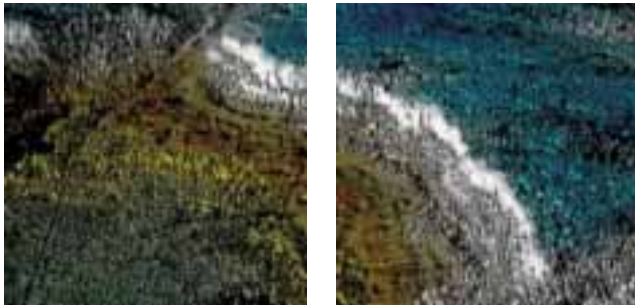
Working with a local paving contractor, we expect to produce 100,000 tonnes of asphalt (at a cost of about \$40 per tonne) by the end of August 2006. While asphalt roads are initially more expensive than gravel, paving the Long Lake facility roads will have long-term benefits such as increased safety, reduced vehicle damage and lower road maintenance costs.

REDUCING THE IMPACT OF SEISMIC SURVEYS

Exploring for oil and natural gas requires seismic surveying. Historically, this has involved clearing a grid of straight lines through private land or bush. We've adopted several innovations to greatly reduce the environmental impact of surveying.

In wildlife habitat and sensitive ecosystems, we often use smaller mulching machines that allow us to create a meandering seismic line rather than a straight cut. This provides cover for species such as moose, which might otherwise be easily tracked by predators and hunters.

A seismic project could use more than 100,000 wooden stakes, each topped with metal wire and fluorescent plastic tape. Wildlife and livestock sometimes eat the plastic; even one stake missed during clean-up could entangle itself in farm equipment. And the used stakes represent a large volume of waste. We now use handheld computers and global positioning system (GPS) technology to conduct 'stakeless surveying' on most of our new seismic work, reducing waste and impact.



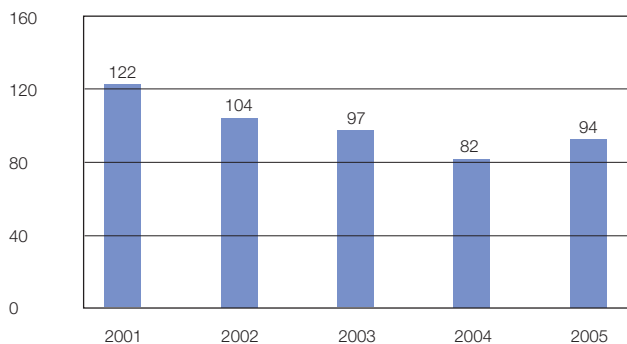
LIDAR technology allows us to remove surface features from an aerial photograph, helping us choose low-impact locations for our facilities.

LIDAR (light detection and ranging) technology also offers an opportunity to minimize our environmental footprint. When planning a survey for a future operating site, it can be challenging to plan optimal cutlines, access roads or drilling sites. LIDAR allows you to take an aerial photograph and then strip away various features, such as all trees above a certain height. Using this technology helps us to avoid wetlands and other sensitive habitat, plan roads or piping on safe, stable grades and reduce the need for survey crews to disturb habitat while conducting visual inspections.

SUPPORT FOR NIGERIAN MONTANE FOREST RESEARCH

Nexen Nigeria has donated \$25,000 to help build a permanent research facility at Ngel Nyaki, on the Nigeria–Cameroon border. The facility houses the Nigerian Montane Forest Project, headed up by Dr. Hazel Chapman, a biologist affiliated with New Zealand’s University of Canterbury. The Montane Forest is one

Environmental Incidents



The increase in reportable incidents reflects the inclusion of our UK assets for a full year. In 2005, spills accounted for 91% of our incidents, and exceedances accounted for 9%. Excludes incidents from Long Lake construction. No environmental fines or penalties were levied against Nexen or its subsidiaries in 2005.

of the most threatened habitats in Africa and is home to many rare species of plants and animals. The research station now contains computer, library and laboratory facilities for on-site research as well as living quarters, enabling year-round fieldwork.

PLASTICS RECYCLING TRIALS IN YEMEN

Employees at the central processing facility (CPF) and terminal have started collecting plastic products, including used chemical drums and bottles, for recycling. Until recently, plastics were disposed of in a landfill site. They are now being passed to a third-party recycling facility which shreds the materials and turns them into lube oil containers. The CPF is currently recycling a limited amount of plastic to test the operation and ensure it is being operated in an environmentally acceptable manner.

Well Status: 2004 and 2005

(on December 31)

	Producing	Shut-in	2005
			Undergoing Reclamation
Canada	3,237	658	277 ¹
United States	122	353	2
International	421	20	0 ²
Total	3,780	1,031	279
<hr/>			
			2004
Canada	3,494	758	684 ¹
United States	154	252	1
International	399	41	6
Total	4,047	1,051	691

Wells Abandoned and Reclaimed: 2004 and 2005

(Between January 1 and December 31)

	Abandoned	2005
		Reclaimed
Canada	116	54
United States	3	0
International	25	5
Total	144	59
<hr/>		
		2004
Canada	109	55
United States	3	0
International	26	1
Total	138	56

Gross well count; Nexen-operated wells only. 'International' includes Australia, Equatorial Guinea, Nigeria, United Kingdom and Yemen.

¹ As the result of a significant asset disposition in Western Canada during 2005, the responsibility for approximately 400 sites under reclamation was transferred to the new asset owners.

² Estimated as of December 31, 2005.

water management

We strive to minimize our offshore impacts and take great care in dealing with produced water from our land-based operations. We also help provide several communities in Yemen with reliable fresh water.

SUSTAINABILITY CONTEXT AND CHALLENGES

Nearly every aspect of Nexen's operations hinges on the responsible use of water. Yemen is one of the most water-scarce countries on Earth. An expanding population, agriculture and industry all compete for finite potable water resources in Western Canada. Our operations in the US Gulf Coast and the UK and our exploration programs in West Africa are exclusively offshore.

The handling of produced water is a challenge in our industry, especially in coal bed methane operations. Steam injection for oil sands development requires considerable quantities of water, which is why we draw our water from non-potable deep formations and recycle that water several times. In Yemen, we help neighbouring communities access water for drinking and sanitation and are sponsoring a related community development project in the village of Ressib. We cooperate with researchers to ascertain the impact of offshore platforms on marine life. Offshore operations also present unique safety considerations, given their remote location and the risk posed to operations and personnel by hurricanes or tropical storms.

USING SERPENT TO STUDY IMPACT OF PLATFORMS

Our North Sea oil-producing platforms are participating in a three-year research project studying the impact of such platforms on sea life. Known as SERPENT, which stands for 'scientific and environmental ROV (remote operated vehicle) partnership using existing industrial technology', the program is a joint initiative between Nexen, the National Oceanography Centre in Southampton, Oceanlab at Aberdeen University and FRS Marine Lab, Aberdeen.

Baseline studies for the North Sea SERPENT were conducted at the Buzzard site and at a control site before installation began. Now that the infrastructure is being installed, the team will monitor changes in sediments and marine life. The study will compare the differences between the new Buzzard structure and the mature Scott/Telford platforms, examine the role of oil and gas platforms as artificial reefs and refuges for fish, and monitor biodiversity in the area. This is just one of several SERPENT projects taking place around the world, from the Gulf of Mexico to Australia to Brazil.

Nexen is providing project funding of £60,000 (Cdn \$120,000) over the next three years. We are also sharing underwater footage taken by ROVs as part of our normal operations to supplement the images and data collected by a special robust biodiversity (ROBIO) lander.

RE-USING WATER FROM OIL SANDS PRODUCTION

The intense development of the Athabasca oil sands in Western Canada is placing increased importance on water management practices at our Long Lake project. Ours was one of the first oil sands upgrading developments to commit to not using surface water in its operation. Our source water is gathered from both fresh and brackish (saline) water wells. We will re-use more than 90% of the produced water we recover with our bitumen production. After multiple re-uses of this recovered water, process-affected water will be disposed of into deep formations beneath the bitumen. We will conduct extensive monitoring of the level and quality of local groundwater throughout the project.

Long Lake participates in the Regional Aquatic Monitoring Program (RAMP) which covers the Municipality of Wood Buffalo, where our project is located. RAMP includes government, community and industry representatives and gathers aquatic and environmental data related to water resources in the region. The group also measures snow and rainfall and monitors hydrology—the movement of water through the landscape. Nexen and its partner OPTI have taken the lead in forming a network of SAGD producers in the southern end of the Wood Buffalo region that will monitor the regional effects of groundwater withdrawal.



Long Lake employees participate in a twice-annual 'count and release' program monitoring the quantity and health of fish in the Clearwater River.

US \$1^m

contribution to the water
resource pilot project in
Ressib, Yemen

FRESH WATER AND SANITATION PROJECT IN YEMEN

Nexen and the United Nations (UN) set up a joint water resource pilot project in Ressib, Yemen in 2004 to provide a sustainable fresh water supply, support good hygiene practices and address inadequate sanitation and waste disposal facilities. The project involves developing wells, pumps, a distribution system and waste treatment facilities, and providing training on long-term maintenance and sustainability. Community members will be trained to operate and maintain the system as well as learning environmental and sanitation practices.

Designed to serve as a water management model that could be replicated elsewhere in Yemen, the project is part of our commitment to the Global Compact, a UN initiative to engage the business community in addressing global problems such as poverty and human rights. We are contributing US \$1 million to the project, with the UN Development Programme and the Canadian International Development Agency each giving \$500,000.

HANDLING OF COAL BED METHANE PRODUCED WATER

In 2005, Nexen and its partner Trident Exploration declared the first commercially viable coal bed methane (CBM) development in the Mannville coals in Alberta, Canada. CBM is a form of natural gas embedded in coal deposits. To release the gas, we first have to pump out the water in the seams. This process can generate large volumes of saline, non-potable water.

The community of Fort Assiniboine, Alberta was concerned that produced water from CBM might contaminate their fresh water aquifers and wells. We take special precautions to ensure that will not happen. All produced water is reinjected into deep subsurface locations—up to ten times deeper than residential and farm wells and well beneath the coal zones where the water originated. We also measure local water quality before we begin operations to establish baseline groundwater quality.

We have significant CBM land holdings and have positioned ourselves as one of the leaders in CBM in Canada. Only by carefully addressing community concerns regarding produced water and surface impact issues can we fully realize the potential of this resource.

PRACTICAL TRAINING IN OIL SPILL RESPONSE

Accidents can happen to even the most environmentally conscious companies and being prepared can make the difference between averting a problem and facing a major disaster. In Yemen, our Emergency Response Team,

comprising 25 volunteers at the central processing facility and 15 at the marine terminal, are responsible for responding to all emergency situations, including oil spills. Supervisors conduct training sessions every two weeks, and a major oil spill exercise was held at the terminal in December 2005, which included both classroom and practical work to ensure the team is up to date with its oil spill response tactics. The training was conducted together with Oil Spill Response Ltd., a Nexen supplier with specialized equipment to deal with large spills.

AFFORDABLE CLEAN WATER FROM BIOSAND FILTERS

Cholera outbreaks are common throughout Equatorial Guinea, and claim many lives. These outbreaks are made worse by limited access to clean water, especially during the dry season (November to February). In May 2005, Nexen's Equatorial Guinea (EG) team began working with the Centre for Affordable Water and Sanitation Technology (CAWST), a Calgary-based not-for-profit agency, whose biosand water filters could provide the people of Equatorial Guinea with a simple, effective and self-sustainable means of household water treatment.

With Nexen providing both financial and logistical support, and ExxonMobil co-sponsoring the project, the EG team hosted sessions on the construction and maintenance of the low-cost biosand filter and a community steward training program to ensure the sustainability of the project. To spread the benefits of the training into the affected communities, the steel moulds used to construct the water filters were donated to a national church group and UNICEF.

USING PRODUCED WATER TO IRRIGATE CROPS

Our operations in Yemen recover thousands of barrels of produced water as a byproduct of our oil production—most of that water is slightly below the drinking water standards set by the World Health Organization. Two years ago, we started a project to see if we could put the produced water to use in that water-scarce country.

We noted that some native reeds had begun growing near our central processing facility. We planted two beds of these reeds, one slightly below the other, and allowed the produced water to filter through the beds. The reeds proved to be effective in removing the last traces of hydrocarbons from our produced water. We have now hired an environmental consulting firm to look at the feasibility of scaling up the process, to assess ways of preventing salt build-up in the soil and to analyze whether the reeds meet livestock feed standards.

A photograph of three young girls sitting at a wooden desk in a classroom. They are wearing white headscarves and light-colored blouses. The girl in the foreground is looking towards the camera, while the two girls behind her are looking towards the left. The desk has several blue folders or notebooks on it. The background is a wall with peeling, light-colored plaster. The overall scene is brightly lit, suggesting a window is nearby.

social

We involve the local community and promote good employee relations, aboriginal partnerships and human rights from the start.

community involvement

While government can grant a company a permit to operate, it is the community that gives permission. We strive to earn that permission by building relationships based on integrity, trust and dialogue.

SUSTAINABILITY CONTEXT AND CHALLENGES

Respectful consultation with communities where we do business is a key component in earning our social license to operate. We seek to ensure that communities share in the benefits from energy development in their backyard. Respectful community relations helps deliver regulatory approval for our new developments. Through our community investments—in financial and human resources—we seek to make our host communities more vibrant places to live and work. Community outreach helps demystify our industry, supporting eased access to lands. Community input helps us plan our operations in a way that minimizes inconvenience to residents and local businesses. Employing and spending our dollars locally multiplies economic benefits. Hiring and developing nationals in Yemen supports that country's energy and economic future.

In some countries, local communities can become reliant on services provided by companies—services the host country cannot afford. With increased industry activity worldwide, it can be a challenge for some communities to respond to multiple industry offers of consultation. Nexen sets its community investment budget using a formula that considers pre-tax earnings; these earnings may rise or fall over time, creating fluctuations in our capacity to invest. Another challenge is the overall reputation of our industry; peer companies that neglect community involvement can foster an environment of distrust.



The Balzac Community Advisory Panel serves as an open communication channel with local residents, businesses and governments.



Enas Al-Bahr is one of the Yemen scholarship recipients; she will graduate in May 2006 with a degree in information systems technology.

SMALL INVESTMENTS PAY BIG DIVIDENDS IN YEMEN

Just over a third of Nexen's community investment budget, about \$2.4 million, was spent in our international business, including Yemen, Colombia, Nigeria and Equatorial Guinea. Some of these investments are large and high-profile, such as our Yemen scholarship program and the Ressib water and sanitation project. But sometimes it is the smaller, informal projects that deliver the most immediate benefits to neighbours in need.

We are expanding our Yemen operations in an area known as Block 51, adjacent to our original operations in Masila. This is dry, dusty territory where access to water is fundamental to community survival. In the village of Al-Hazem, the water well hadn't produced for several months; five nearby villages also depended on this water source. In Wadi Adm, the community's water well and pumping equipment were badly in need of repair. In the Bedouin community of Haradh, the villagers depend on a seasonal karef (pond) for their water. When the pond dries up, people have to travel 40 kilometres to the closest water source.

With a modest budget and a personal commitment from the Block 51 operations, drilling and community relations teams, the wells and pumping equipment at Al-Hazem and Wadi Adm were repaired and water supplies restored. In Haradh, we installed a 20,000-litre water tank, which we replenish regularly.

The Block 51 government and public relations team were awarded certificates of merit by the Yemen Ministry of Oil and Minerals, recognizing the excellent working relationships established among Nexen, the community and the Ministry.

A VIEW TO THE FUTURE AT LONG LAKE

Nexen and its partner OPTI Canada Inc. are developing the Long Lake project with a long-term perspective. Our community investments show the same foresight.

We are investing \$100,000 over the next three years to enhance YMCA-run child care services in Fort McMurray, Canada. Supporting this initiative will help ensure the Wood Buffalo community, which includes Long Lake's current and future employees, has access to a first-class facility that will provide a safe and caring environment for their children. The non-profit YMCA of Wood Buffalo oversees 95% of the licensed child care for the region and offers the only out-of-school care program. More than 400 children attend the association's early childhood development programs each day. The Long Lake project's donation will help offset the cost of acquiring, instead of leasing, their facility as well as supporting needed renovations.

The Long Lake partners are also investing \$150,000 in an indoor running track, a key feature of Keyano College's Sport and Wellness Centre, currently under construction in Fort McMurray. The centre will provide significant long-term benefits for the local community as well as for our employees and their families.

AWARD FOR COMMUNITY WORK IN COLOMBIA

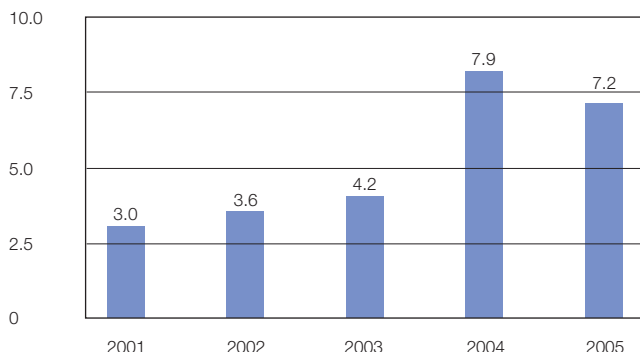
In early 2005, Nexen Colombia was selected as the recipient of the 2004 Nexen President's SESR Excellence Award. The award was made in recognition of the Colombia team's outstanding approach to community relations under extremely difficult conditions. The team organized citizen advisory committees, community hearings and local employment initiatives, all in the context of Colombia's ongoing internal conflict. The Colombia team earned further recognition later in the year, as the recipient of the World Petroleum Council (WPC) Excellence Award for Social Performance. The WPC gives out only two awards for social performance every three years at its global congress.

EMPLOYEES RESPOND TO GLOBAL CALAMITIES

Individual employees donated over \$100,000 in response to three global tragedies: the Asian tsunami, the impacts of Hurricanes Katrina and Rita, and the South Asian earthquake. Nexen matched employee contributions dollar for dollar, and provided additional corporate funding, bringing the total special relief contributions to \$540,616.

Community Investment

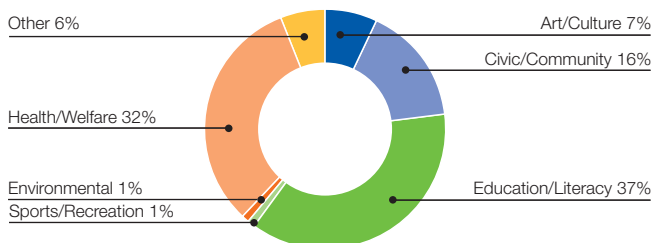
(Cdn \$ millions)



We follow the Imagine Canada guidelines, committing 1% of our pre-tax earnings to community investment, based on a three-year average. Our 2005 total investments decreased slightly due to the timing of some multi-year commitments.

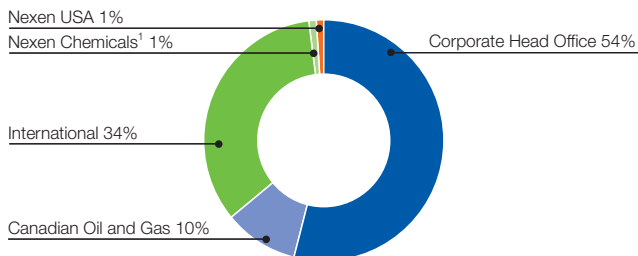
Community Investment by Category

(percent)



Community Investment by Division

(percent)



¹ First six months of 2005

\$7.2^m

investment
in the community
in 2005

SUPPORTING FORT ASSINIBOINE'S DEVELOPMENT

Fort Assiniboine is in the heart of Nexen's first commercial coal bed methane (CBM) development in central Alberta. CBM is a relatively new energy source in Canada and requires different extraction techniques—typically, more wells per section and higher volumes of produced water. We recognized the need for an in-depth public consultation process to explain CBM to the community, understand community concerns and develop plans to mitigate impacts on the environment and the community.

What evolved was a partnership between the community of Fort Assiniboine, Nexen and our Corbett CBM project partner, Trident Exploration. At the center of the collaboration is the Project Liaison Committee. This group was created in 2003 as a forum for industry to work with residents, farmers, business owners and others in the area to hear the concerns, ideas and attitudes of local citizens.

Early in the process, community leaders told us they were looking beyond the economic spin-offs from the dollars that would be invested in the region: their goal was to attract young families and increase tourism. To support these goals, we brought in our in-house multimedia group to develop two videos which have become important marketing tools for the region. The videos won a 'runner-up' award from Alberta Tourism. Nexen's overall approach to public involvement in the region earned us a Canadian Association of Petroleum Producers 2005 Steward of Excellence Award.

COMMUNITY INVOLVEMENT IN BALZAC, ALBERTA

One of the key elements of the Responsible Care® program is maintaining close contact with the local community. Following the successful Round 2 Re-verification of the Balzac, Alberta gas plant, we created a community advisory panel. The 25-person group includes a mix of local industry representatives, residents, regulators, municipal officials, emergency responders and community associations. To date, the group has reviewed development plans for the area (by Nexen and others) and emergency response planning. The meetings are hosted by the Balzac plant manager and facilitated by an independent third party with extensive experience in public consultation.

2005 COMMUNITY INVESTMENT HIGHLIGHTS

We follow the Imagine Canada guidelines, committing 1% of our pre-tax earnings to community investment, based on an average of the three preceding years. In 2005, we invested \$7.2 million. This was less than the \$7.9 million invested in 2004, when we made a special \$1 million investment in the Wadi Arf and Al-Ma'di electricity project in Yemen. Our record earnings in 2005 will support increased investments in the future.

Investment highlights from 2005 include:

- For the fifth successive year, Nexen and its Masila partners have sponsored scholarships for deserving Yemeni students; in 2005, Nexen invested \$1.5 million in scholarships and other education and literacy programs.
- \$1 million over five years to the University of Calgary to support research into the geological sequestration of CO₂, enhanced oil recovery and groundwater quality monitoring. See page 21 for details.
- \$750,000 over five years to support The University of Saskatchewan's Thinking the World of our Future campaign. Our contribution will be directed to a Centre for International Business Studies, a Centre for Aboriginal Achievement and oil sands research.
- The United Way was again a special focus for North American employees. Pledges in 2005 totaled \$631,091, which included pledges from employees with Canexus Income Fund. With company matching, our total contribution reached a new high of over \$1.2 million.
- \$200,000 over 10 years to sponsor a hands-on exhibit demonstrating the scientific principles behind paleontology at the Royal Tyrell Museum, a world-class dinosaur and paleontology museum at Drumheller, Alberta.
- US \$120,000 to support three health and welfare projects in Yemen; sponsoring a Canadian medical team to provide specialized training for Yemeni health professionals; a social development program specifically designed for women; and a donation to finish construction of health clinics at Al-Radha and Sadhba.

employee relations

Paying careful attention to our people—and fostering a unifying, inspiring corporate culture—has helped us shape the company to take on large projects and expand internationally.



SUSTAINABILITY CONTEXT AND CHALLENGES

In 2005, we sold a portion of our Canadian Oil and Gas business which led to 46 people leaving Nexen. We welcomed 175 employees from the United Kingdom, recruited hundreds of employees and contractors for the Long Lake project and spun off our chemicals business as a standalone income trust.

Nexen is a company in transition: 48% of our employees have been with the company for less than five years and 27% of our current regular workforce will be 55 or older by the year 2010. Unlike previous years of modest growth, our projects are now advancing in significant stages, such as Long Lake and Buzzard.

This context drives our People Strategy, focused on strategic staffing; leadership; career and performance communication; rewards and recognition; learning and development; and continuous improvement.

EMPLOYEE SURVEY RESULTS

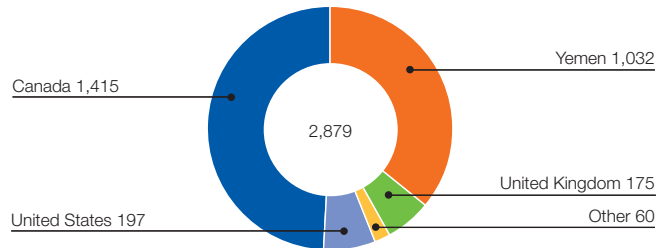
After a four-year run, Nexen has slipped from the ranks of the Top 50 Employers in Canada, as measured in a survey by Hewitt Associates and *The Globe and Mail* newspaper. It's common for companies to skip the survey in a year when there is significant corporate restructuring. We chose to participate in 2005 despite the uncertainty facing our Chemicals and Canadian Oil and Gas employees at the time the survey was completed. We also had many new employees in the United Kingdom who were unfamiliar with Nexen.

In last year's survey we ranked 66th, down from 43rd place the previous year. Our employee engagement score declined from 74% to 67%. While disappointed that we didn't achieve Top 50 standing, we believe we gained significant value from surveying our employees during a year of change.

At the same time, Nexen was again named in the Top 100 Companies to Work For in Canada list, in a survey conducted by Mediacorp and published in *Maclean's* magazine. We were also named one of Alberta's Top 20 Employers in 2005 by Mediacorp.

Employees by Region

(year-end 2005)



'Other' includes employees at the following locations: Barbados, Colombia, Equatorial Guinea, France, Nigeria, Singapore, Spain and United Arab Emirates.

INCREASED EMPLOYEE TURNOVER IN OUR INDUSTRY

In the current environment of high commodity prices, the oil and gas sector has seen increased activity and capital investment. The industry has also taken on a new look, with the continued emergence of oil and gas trusts, a general rejuvenation of the junior oil and gas sector and a significant shift of focus to the Athabasca oil sands. As would be expected in this environment, employee turnover rates and related hiring activity have increased across our sector compared to past years.

We have seen our employee turnover rates increase from an average of approximately 3.6% over the previous five years to 7.4% in 2005. The most recent available voluntary turnover survey data, as presented in the Mercer Total Compensation Survey, shows a market median of 7.9% for Canadian exploration and production companies for 2004. In the absence of 2005 survey results (not yet available), our experience in recruitment and participating in informal sector surveys indicates that higher turnover rates in 2005 are common among our peers. We believe our 2005 rate of 7.4% positions us at about average in our sector.

PROACTIVE EMPLOYMENT STRATEGY AT LONG LAKE

Nowhere is the competition for labour more intense than in the oil sands region surrounding Fort McMurray, Canada where the Long Lake project is located. Thanks to a proactive approach to human resource planning, Long Lake has been able to progress from pilot phase to a multi-billion-dollar construction program ready for commercial production in 2007. Workforce planning is already underway for Phase 2 of Long Lake's development, with construction estimated to begin in 2009 or 2010.

We have employed a 'managed open site' contractor workforce strategy, recruiting a mix of alternative union, non-union, union and international workers to support critical construction activities in 2005 and 2006. This has allowed the project to access the broadest possible pool of workers. Long Lake also arranged to have a number of processing components assembled in other centres, such as Nisku, Alberta, and had the completed modules shipped to the site. This strategy helped ease the on-site workload and also helped keep the project on track. Other components of our workforce strategy included flexible schedules designed to attract skilled workers from other parts of Canada and incentive payments for contract employees with continued service on the project.

DIVERSITY IN THE WORKPLACE

Nexen's philosophy is to seek the best individual for every position, regardless of gender, race, national origin or some other characteristic. We do not set targets or quotas for diversity. An exception is Yemen where, as part of our agreement with the Yemen government, we seek to maximize opportunities for Yemeni nationals, who now make up 77% of our Masila workforce (including contractors).

We currently track the percentage of women in our workforce (31.8%) and the percentage of women in management (14.4% in manager-level roles and above). We are considering the value of inviting employees to self-identify as Aboriginal, a visible minority, or a person with a disability. Such data could help us in strategic workforce planning.

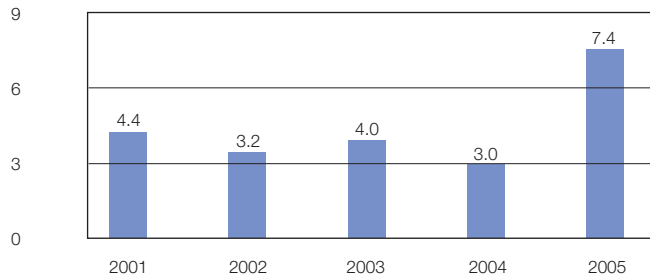
Above all, the company abides by all human rights, personal information protection and employment standards legislation. We are committed to providing a workplace where the dignity of the individual is respected and there is freedom from harassment or the fear of harassment.

UNIONS AND COLLECTIVE AGREEMENTS

Historically, our chemicals business had the highest percentage of unionized employees, with more than 50% of its workforce covered by collective agreements. With the launch of Canexus Income Fund as a standalone business, our Balzac, Alberta facility (represented by the Communications, Energy and Paperworkers Union) and our operations in Yemen (Masila Labour Union) are our two remaining unionized operations, with 68 and 773 unionized employees respectively. Based on Nexen's total workforce of 2,879 employees, 29.4% of our employees are covered by collective agreements.

Voluntary Turnover Rate

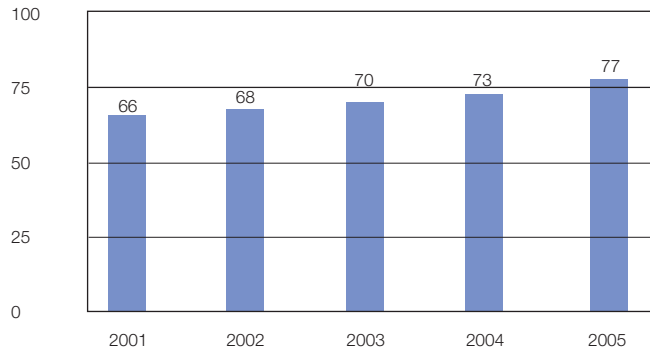
(percent)



Our 2005 voluntary turnover rate of 7.4% is comparable to the 7.9% for oil and gas exploration and production companies (2004 Mercer Total Compensation survey).

Yemeni Nationals in Canadian Nexen Petroleum Yemen

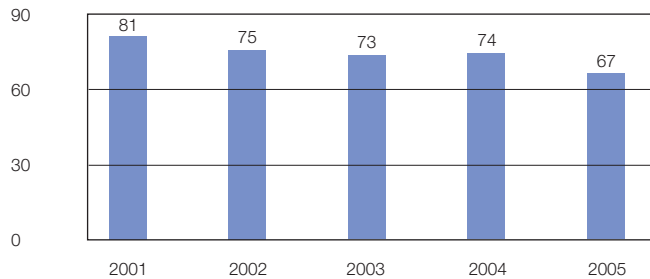
(percent)



Yemeni nationals increased to 77% of our workforce (including contract employees) at Masila at year-end 2005, continuing the upward trend. Nexen employs over 1,000 people in Yemen.

Employee Engagement Score

(percent)



Employee engagement moved down several points in 2005 in the Hewitt Associates survey. This indicator measures employees' support for Nexen's goals and their level of satisfaction and commitment.

aboriginal partnerships

By building awareness of the needs and aspirations of Aboriginal communities, we demonstrate our willingness to be a partner of choice.

SUSTAINABILITY CONTEXT AND CHALLENGES

Aboriginal people in Canada have rights that are protected by the Canadian Constitution. Resource development touches upon Aboriginal and Treaty rights, and these rights must be addressed. Aboriginal leaders are increasingly involved in project approval processes and land use assessments; this underscores the need to establish meaningful relationships with Aboriginal communities in the local area.

The pace of development in Western Canada places a strain on the limited resources of Aboriginal communities, challenging their capacity to consult with industry. Bridging the gap between community expectations for participation in resource development projects and community capacity continues to be a challenge. We firmly believe that education is fundamental to enhancing that capacity.

FOCUS ON ABORIGINAL RECRUITMENT

The Aboriginal community is growing faster than any other segment of the Canadian population. These new entrants into the labour force will create a pool of potential employees for Nexen to draw upon. Through our significant recruitment efforts, we strive to be an employer of choice in the Aboriginal community. We participate in post-secondary career and recruitment fairs to expose new graduates to our company. We maintain strong relationships with universities in Western



Canada to ensure we are aware of students coming into the labour force with credentials we are seeking. Most post-secondary institutions have active Aboriginal student associations. We work with these associations and provide support for the programs they offer.

SUNCHILD E-LEARNING COMMUNITY

Education is one of the keys to improving the quality of life for Aboriginal people. Recognizing this, we were one of the first energy companies to support the Sunchild E-Learning Community, an internet-based high school program reaching 20 First Nations communities across Alberta. The program connects some 500 students with a pool of talented and experienced teachers, operating in real time with regularly scheduled classes. In addition to the financial support provided as a founding corporate sponsor, we provide direct support to the program in the communities of Fort McMurray First Nation and Chipewyan Prairie Dene First Nation.

ABORIGINAL LEADERSHIP AND MANAGEMENT PROGRAM

Aboriginal leadership, organizations and communities in Canada face significant management capacity challenges. The Aboriginal Leadership and Management programs at The Banff Centre provide Aboriginal leaders with the knowledge and skills needed to set strategic direction and pursue economic growth. Nexen has been a sponsor of this program since 2001. We initially provided \$75,000 to sponsor the Negotiation Skills Training course, and have since increased our sponsorship to \$150,000 to become the Lead Partner of the entire program. Without our support, many of the participants would not be able to access this excellent training opportunity.

ABORIGINAL STUDENT LEADERSHIP AWARDS

We contribute to the success of Aboriginal students by providing bursaries and scholarships totaling \$50,000 per year. While some of these programs are administered directly by Nexen, many are the result of partnerships with post-secondary institutions such as our Aboriginal Student Leadership awards at the Northern Alberta Institute of Technology. Each year, ten \$2,000 awards are given to Aboriginal students demonstrating the qualities of leadership, mentoring fellow students and being a role model in and out of school.

Nelson Daychief of the Sunchild E-Learning Community says the Nexen-sponsored program addresses the unique needs of Aboriginal students.

human rights

Nexen's approach to human rights is driven by our commitment to the International Code of Ethics for Canadian Business, the United Nations Global Compact initiative and our own Human Rights Policy.

SUSTAINABILITY CONTEXT AND CHALLENGES

The Universal Declaration of Human Rights calls on 'every individual and every organ of society' to play its part in securing universal observance of human rights. Three common contexts in which we address human rights are in anti-discrimination, security provisions and corruption prevention. In all our operations, we commit to a workplace that is free from discrimination in hiring and advancement and free from harassment or other abuses. Inappropriate use of force by government or third-party security officials can lead to human rights violations. Corruption diverts revenues from other needed national investments and can exacerbate civil conflicts.

We have the necessary policies in place to promote respect for human rights. Our security contracts include provisions consistent with UN guidelines and we have advanced training to prevent improper payments. Our challenges include delivering human rights training across the company in the near term and developing monitoring mechanisms to test our performance against our Human Rights Policy.

PROMOTING HUMAN RIGHTS TO PEER COMPANIES

Together with Canadian Business for Social Responsibility (CBSR), we developed and delivered a Business and Human Rights workshop for 20 extractive industry professionals in Calgary, Canada on May 17, 2005. The program reviewed human rights risk assessment and examples of how companies are embedding human rights policies in their operations.

We were also one of several sponsors and a presenter at the two-day CBSR event *Human Rights: Everyone's Business*, in Toronto, Canada in October 2005. The program included case studies from major multinational corporations and keynote addresses by former Canadian Prime Minister Joe Clark and Amnesty International (Canada) Secretary General Alex Neve.

TRAINING PACKAGE NEARING COMPLETION

Throughout 2005, we have contributed to a Business and Human Rights training package being developed by the International Petroleum Industry Environmental Conservation Association (IPIECA). The training materials should be finalized by mid-2006. We will identify target groups and a timetable for delivering this training over 2006 and 2007.



Photo: Jan Jekielek/The Epoch Times.

Former Canadian Prime Minister Joe Clark addresses a Nexen-sponsored business and human rights conference.

ACTIVE IN GLOBAL HUMAN RIGHTS INITIATIVES

Since 2001, we have been an active member of the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative. The initiative calls on corporations, governments, labour and civil society to commit to ten principles supporting human rights, labour rights, the environment and anti-corruption efforts.

In November 2005, Nexen participated in a UN-sponsored global consultation, *Human Rights and the Extractive Industry*. The consultation considered existing initiatives and standards relevant to the extractive sector and sought to clarify the human rights responsibilities of business.

Nexen also participated in the first-ever Global Compact meeting in Shanghai, China delivering a paper on Investment for Sustainable Development.

ENHANCED ABOVE GROUND REVIEW PROCESS

Nexen conducts Above Ground Reviews (AGRs) to evaluate new or incremental investments and how changing political, social, economic and security conditions could affect our ability to operate. An AGR takes into consideration a range of socio-political risks, including human rights.

In 2005, we completed an internal review of our AGR process. We have enhanced the program by adding mitigation strategies to the risks identified and implementing a more comprehensive review of AGR findings with senior management and our Board of Directors.

In 2005, we conducted one AGR, reviewing conditions in Uruguay on behalf of our chemicals business. An AGR does not conclude with a recommendation whether or not to make a particular investment. Rather, it documents risks and potential mitigation strategies which management considers together with geological, commercial and other risks.



performance verification

We incorporate comments and recommendations made by third-party experts and stakeholders to ensure the quality and integrity of our sustainability reporting.

audit and review processes

SESR AUDITS AND INSPECTIONS

Trained internal auditors and third-party auditors conduct formal reviews of the safety and environmental performance of each of our operations every two to four years. Audit results are communicated five times per year to the Board of Directors. Twenty-two different non-financial audits were conducted in 2005, compared with 33 conducted in 2004. In 2006, we plan to conduct 16 non-financial audits.

VERIFICATION AT YEMEN AND BALZAC

Nexen's chemicals business was one of the founders of the Responsible Care® program. This global initiative promotes the safe and environmentally sound management of chemicals. Nexen continues as a leader in Responsible Care®, being the first company to introduce the program to its oil and gas operations.

Responsible Care® is an important element in our external assurance, as the program features a formal verification process. The verification reviews whether appropriate management systems are in place, are practised, and continuously improved upon. Every three years, each operation is verified by a team of industry experts, public advocates and local citizens.

In April 2005, our Yemen Masila operations and terminal became the first oil and gas facility in the developing world to earn Responsible Care® in-place verification. This accomplishment followed two years of preparation and a week-long verification of Masila's operations by an independent, five-person team. In its final report, the team stated that it was "...impressed with the results of the Responsible Care® implementation process considering the challenges presented by distance, culture (and language...)". It was noteworthy that the team did not discover any *Findings Requiring Action*; they did present 20 *Opportunities for Improvement* which are now being acted upon.

Our Balzac facility achieved its Round 2 Re-verification in January 2006, following a November 2005 review by an independent, four-person verification team. The team noted several *Best Practices*, observed that decision-making and actions at Balzac are clearly underpinned by the Responsible Care® ethic and that the management system includes provisions to continuously improve practices and identify deficiencies. The team identified two *Findings Requiring Action*:

- Develop a formal process to enable Balzac to cross-reference Responsible Care® requirements with existing management systems of Enersul, an independent company handling sulphur forming and shipping at the site; and
- Set emission, effluent and waste reduction plans with targets and completion dates (an action that will be new to Nexen).



The Multistakeholder Review Team (left to right):

FRONT ROW Mark Brownlie (Pembina Institute); Rob Saunders (Lloydminster community); Don Abel (Balzac plant employee); Dale Kluin (Fort Assiniboine community).

BACK ROW Carl Reine (head office employee); David Lantz (Balzac community); Brian R. Sinclair (University of Calgary); Matt McCulloch (Pembina Institute); Mickey Cadden (Wood Buffalo community).

Both these recommendations are being acted upon. Readers can find the external verifiers' report for both Yemen and Balzac at www.ccpa.ca.

EXTERNAL ASSURANCE FOR THIS REPORT

To complement our existing audits and inspections, we conduct a two-pronged external assurance process for our sustainability reporting.

The sustainability practice group at PricewaterhouseCoopers (PwC) reviewed selected quantitative information in this report and provided their conclusion on whether or not the data were fairly stated. PwC's Assurance Statement appears on page 37. PwC also provided recommendations on improving our data management processes.

We also assembled a team of diverse experts and stakeholders representing Nexen's employees, communities where we operate (Balzac, Alberta; Fort Assiniboine, Alberta; Wood Buffalo, Alberta; Lloydminster, Alberta/Saskatchewan), non-governmental organizations (Pembina Institute) and academia (University of Calgary). The Pembina Institute led a multistakeholder evaluation of this report. The group's assessment of this report appears on page 36.

assurance statement 1

PEMBINA INSTITUTE AND MULTISTAKEHOLDER GROUP

OBJECTIVES AND SCOPE

We were asked to lead a multistakeholder evaluation of Nexen's 2005 Sustainability Report (the Report). The purpose of this engagement was to evaluate the quality of the Report, and Nexen's sustainability performance. Our goal was to ensure a fair and meaningful assessment, and to provide insights as to where future reports and Nexen's sustainability performance could be improved. We were not involved in the preparation of any part of the Report. Our responsibility was to elicit and synthesize the views and opinions of a sample of Nexen's stakeholders. The scope of our assessment included the Report in its entirety.

METHODOLOGY

Nexen initiated the multistakeholder evaluation and was engaged and responsive throughout. We formed a nine-person multistakeholder review team representing Nexen's workforce, four communities where Nexen operates, academia and an environmental non-governmental organization. The multistakeholder team held three half-day workshops following reviews of draft reports. We provided Nexen with summary reports following each workshop. Nexen addressed many of our comments during the report preparation process, including our recommendations from last year. Our remaining comments are provided below.

ASSESSMENT CRITERIA

The team evaluated Nexen's reporting and performance in the context of their alignment with:

- Stakeholders' expectations of an organization endeavouring to become a sustainable company.
- Nexen's commitments and principles based on its SESR Policy and the company's adoption of the International Code of Ethics for Canadian Business, the UN Global Compact, and the Canadian Association of Petroleum Producers Stewardship initiative.
- Sustainability reporting principles (e.g., neutrality, completeness, clarity) described in the Global Reporting Initiative's Sustainability Reporting Guidelines.

OBSERVATIONS AND RECOMMENDATIONS

The team believes Nexen is, and is viewed as, a leader in developing principles and demonstrating practices of sustainability in the energy sector. As such, our recommendations are for Nexen to demonstrate leadership through:

- Clearly communicating its core values.
- Continuing to act on recommendations from the previous multistakeholder assurance team, specifically around monitoring human rights performance, setting and communicating long-term targets, and helping to improve the environmental and social performance of its suppliers.
- Effectively demonstrating how it reconciles seeing itself as a 'producer of fossil fuels' with true long-term sustainability, and explain why alternative energy sources would not play a central role.
- Expanding reporting on its economic impacts on various stakeholders, such as employee benefits and purchases of goods and services from suppliers.
- More aggressively promoting and pursuing GHG reductions as part of a robust climate change strategy.
- Providing key sustainability-related performance data, including water consumption, waste generation, water quality impacts, and human rights impacts, for the entire company; and describing the associated data management systems applied therein.
- Pursuing 'green building' design, construction, retrofit, operations, and performance in all facilities, including the corporate headquarters in Calgary.
- Better identifying its impacts on biodiversity and how these impacts are being positively addressed.
- Better identifying how Nexen engages in collaborative relationships with Aboriginal peoples.

CONCLUSIONS

Notwithstanding the areas for improvement identified above, based on our assessment we believe:

- Nexen's SESR reporting and performance predominantly meet stakeholder needs and expectations
- Nexen's SESR performance is aligned with the company's commitments and adopted principles.

Pembina Institute
Calgary, Alberta, Canada
May 8, 2006

assurance statement 2

PRICEWATERHOUSECOOPERS

We have been asked to review selected quantitative performance information presented both in Nexen's Sustainability Report (the Report) and in the Sustainability section of Nexen's corporate website (www.nexeninc.com) for the year ended December 31, 2005. Nexen management is responsible for collection and presentation of the information within the Report and on the corporate website. Our responsibility is to indicate whether anything has come to our attention to suggest that the information requires material adjustment.

SCOPE

We reviewed the 2005 performance information for the following indicators:

Canadian Oil and Gas business

- CO₂-equivalent emissions
- SO₂ emissions
- Total gas flared
- Methane vented
- Production Carbon Intensity
- Production Energy Intensity
- Environmental incidents
- Average spill size
- Well site reclamation
- Waste production*
- Water consumption*
- Fines and penalties
- Employee injury incident rate
- Contractor injury incident rate

* Indicators marked with an asterisk do not include Nexen's Long Lake operations.

Nexen Inc. ('company-wide')

- Charitable and community contributions
- Employee engagement score
- Percentage of employees and contractors who have completed Integrity Workshop
- Percentage of employees and contractors who have signed Statement of Compliance with Ethics Policy
- Voluntary turnover rate

We did not review the narrative sections of the Report except insofar as they incorporated the selected quantitative information.

The Report contains financial performance information extracted from Nexen's 2005 consolidated financial statements, which are audited by Deloitte & Touche LLP. We did not review this information.

The Report contains a statement from the Pembina Institute describing the results of multistakeholder evaluation. This evaluation was conducted separately and independently from our review.

METHODOLOGY

Our review was completed in accordance with the International Standard on Assurance Engagements (ISAE) 3000, developed by the International Federation of Accountants. As such, we planned and performed our work in order to obtain limited, rather than absolute, assurance with respect to the selected quantitative information that we reviewed. Our review criteria were based on relevant regulations, Nexen management definitions and generally accepted industry standards. Our procedures included obtaining, examining and evaluating evidence relating to the selected information. Our review was carried out by a team comprising individuals with backgrounds and experience in environment, health and safety, social, and financial assurance. We believe our work provides a reasonable basis for our conclusion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the selected quantitative information listed above and set out in the Report and on Nexen's corporate website requires material adjustment or is not fairly stated in accordance with the selected criteria.



PricewaterhouseCoopers LLP
Calgary, Alberta, Canada
May 5, 2006

response to multistakeholder group recommendations

Last year, we invited a group of individuals representing our many stakeholders to provide input on our sustainability reporting and performance.

This multistakeholder group helps make our reporting more accountable to you, our readers.

As part of their observations on last year's report, the group offered eight recommendations on how we might improve our reporting and sustainability performance. Here are our responses to their recommendations:

More clearly define the company's sustainability vision and strategy

Nexen's sustainability vision is articulated in our SESR Policy, available on our website. Our policy was drafted in 1999 and last revised in 2003. One of our goals for 2006 is to revisit our policy against those of other sustainability-driven companies and update the document by year-end.

We are a global energy company with an emphasis on exploration and unconventional oil and gas operations. We believe that oil and gas will continue to be an important part of the world's energy mix for decades to come. Companies that can produce oil and gas at low cost, while continuously reducing the environmental footprint of that production and delivering social benefits, have a long-term future. We intend to be one of those companies.

Research and technology is an important part of our sustainability strategy. On page 21 of this report the reader can find examples of advanced research in gasification and carbon capture and sequestration. Another important area of our research focuses on heavy oil, where current technology captures only about 10% of the oil in place. We are leaders in piloting solvent vapour technology to reduce heavy oil or bitumen viscosity. This technology has the potential to substantially increase oil recovery as well as reducing water use (for steam generation for heavy oil and bitumen recovery) and related greenhouse gas emissions.

Set and communicate long-term targets

We set targets for safety and environmental incidents. In both cases, our long-term target is zero. On an annual basis, we strive to better our best-ever performance, whether that occurred one year or ten years ago.

With respect to emissions to the environment, we continually seek ways to improve our operating practices, including reducing the resources we consume and reducing waste.

In Canada, with a recent change in the federal government, we are in a period of uncertainty with respect to the regulation of GHG emissions. We will be in a better position to consider targets for GHG reduction when the regulatory framework is

clearer. We have already substantially reduced methane venting in our heavy oil business. We will continue to pursue similar opportunities because they make good economic and environmental sense.

We have a major oil sands project at Long Lake that we expect to bring into commercial production in 2007. By their nature, oil sands projects generate greater CO₂-equivalent emissions than conventional oil or gas production. When Long Lake moves from start-up into ongoing production and debottlenecking, we will have additional opportunities to enhance our operating efficiency and reduce waste streams, including CO₂-equivalent emissions.

We began tracking waste generation and water use in our Canadian Oil and Gas business in 2003. We will consider targets for reduction as we improve our data management in these areas.

To help us achieve longer-term targets, we see increasing value in measuring and tracking the many preventive and proactive actions we take daily in our operations. These so-called 'leading indicators' (such as training and planned inspections) help us identify those actions that play the strongest role in minimizing the safety and environment incidents that we have traditionally tracked using 'lagging' indicators (such as the number of vehicle incidents or the number of environmental incidents).

In all cases, our purpose in gathering and managing data is to add value. Wherever we can see the potential for adding value to our business or the community at large, we will benchmark our performance.

Articulate an alternative energy position

As noted above, we see our company as a low-cost producer of fossil fuels, delivering energy for society's needs while mitigating environmental impacts and delivering social benefits.

We also see value in alternative energy as an opportunity to offset emissions while delivering environmental benefits and diversifying our business.

For example, we expect that our wind farm project at Soderglen, Alberta will be profitable as well as provide offsets for our higher-CO₂-equivalent operations such as oil sands. We are also part of an industry group researching the potential of using geothermal energy in oil sands development.

Our marketing business is developing expertise in marketing Renewable Energy Certificates. An example is our multi-year agreement with Canadian Hydro Developers, Inc. to market 40,000 MWh of electricity per year to the Alberta Urban Municipalities Association. Twenty percent of the electricity sold is sourced from low-impact renewable energy sources, certified under the EcoLogo™ program.



Become more proactive in pursuing greenhouse gas reductions through energy efficiency activities at Nexen facilities

We have completed a number of energy efficiency projects in the past, including an energy and environmental audit of our Balzac, Alberta facility in 2003. The Canadian Oil and Gas business has established an eco-efficiency team to identify, assess and pursue improvement projects, beginning in 2006.

Improve reporting on non-GHG air emissions

We currently report on our use and emissions of 30 substances in Canada. Emissions data are publicly available from the National Pollutant Release Inventory website. In 2006, we will make a link to these data from our website.

Expand supply chain focus to address upstream (e.g., suppliers) sustainability issues

Nexen's suppliers and contractors are provided with copies of our core policies, including our Ethics Policy, Prevention of Improper Payments Policy and Safety, Environment and Social Responsibility Policy. Contractors must agree to adopt policies that meet or exceed our policies. The facilities covered by the Responsible Care® program, Balzac and Yemen Masila, also have a supply chain management system. We are increasing our auditing of contractor performance.

We agree that there is more we can do in this area. This will require significant work and results may be years away.

Ensure management and monitoring systems and related metrics are established to support Nexen in meeting its human rights commitments, including employee diversity

Measuring human rights performance is an evolving discipline. We have enhanced our Above Ground Review risk assessment processes and through our Integrity Program, we now have opportunities for individuals inside and outside the company to raise concerns about any breaches of conduct or infringement

of human rights. The SESR Board Committee receives regular updates on security issues. We see an opportunity to tie a number of these approaches together in a more formal management system. See the section on human rights on page 33 for a number of recent initiatives on training and peer company work.

With respect to diversity, we track the percentage of women in our work force and in manager-level roles and above. Our human resources department is considering the value of inviting employees to self-identify by other diversity criteria.

Consider making facility-level data publicly available

Our Balzac, Alberta gas processing facility, the Long Lake project and our Yemen operations represent our largest facilities close to human populations. Since Balzac and Yemen are covered by Responsible Care®, members of the public can access the results of specific Responsible Care® verifications from www.ccpa.ca. We will create links to these reports from our website. Balzac has established a Community Advisory Panel; this group could guide us on what facility-specific information would be meaningful to them.

The environmental impact assessment for the Long Lake project is available at www.longlake.ca. As part of our project approval, we are obligated to report on indicators such as groundwater withdrawal, airborne emissions, biodiversity, wildlife sightings and wetland inventories. All this information is available upon request from Alberta Environment.

We participate in several groups that publicly report environmental data from our operations and the region. The Wood Buffalo Environmental Alliance operates air monitoring stations throughout the region, providing real-time air quality measurements. The Regional Aquatics Monitoring Program provides information on the health of rivers and lakes in northeastern Alberta. The multistakeholder Cumulative Environmental Management Association considers a range of impacts, including air, water, terrestrial and traditional ecological knowledge.

associations and programs

We supplement our verification efforts by participating in the following associations and programs:



Founded in 1995, **Canadian Business for Social Responsibility** is the globally recognized source for corporate social responsibility knowledge and expertise in Canada.



The **Global Compact** is an international initiative championed by United Nations Secretary-General Kofi Annan to bring companies together with UN agencies, labour and civil society to support ten principles in the areas of human rights, labour, anti-corruption and the environment.



Nexen is a platinum level participant in the Stewardship initiative of the **Canadian Association of Petroleum Producers**; this certifies that our management systems and performance are independently verified.



The **International Petroleum Industry Environmental Conservation Association** is a non-profit organization established in 1974. Members include petroleum companies and national, regional and international associations addressing environmental and social issues in the petroleum industry.



Founded in 1985 by the Canadian Chemical Producers' Association (CCPA), **Responsible Care** is an 'ethic' for the safe and environmentally sound management of chemicals. Each member and partner company must commit to implementing the Guiding Principles and Codes of Practice.



We support **Transparency International**, the global civil society organization leading the fight against corruption. They bring together relevant players from government, civil society, business and the media to promote transparency in elections, public administration, procurement and business.



The **Dow Jones Sustainability Indexes** provide asset managers with reliable, objective benchmarks to manage sustainability portfolios. They are the first indexes tracking the financial performance of leading sustainability-driven companies worldwide.



Nexen is included in the **Jantzi Social Index**, a socially screened, market capitalization-weighted common stock index of 60 Canadian companies that pass a set of broadly based environmental, social and governance rating criteria.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are "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. Forward-looking statements are generally identifiable by terms such as "intend", "plan", "expect", "estimate", "budget" or other similar words. The forward-looking statements are subject to known and unknown risks and uncertainties, and other factors that may cause actual results, levels of activity and achievements to differ materially from those expressed or implied. Please read Item 7 and the note regarding forward-looking statements on page 79 in our 2005 Form 10-K for a full discussion of the risks and uncertainties associated with our business.

DESIGN AND PRODUCTION

Concept, design and production by Flag Communication, a Computershare company.

This report is printed on Mohawk Options, a Forest Stewardship Council (FSC) certified paper, which contains 100% post-consumer fibre and is manufactured with wind power. Printed in Canada by Hemlock Printers Ltd., the first printer in the Pacific Northwest to obtain FSC certification.



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glossary

Asphaltenes

The heaviest component of crude oil, typically a waste product at conventional oil sands projects. At Long Lake, asphaltenes are converted into synthesis gas (supplying a major portion of the project's energy requirements) and hydrogen (used to upgrade the bitumen into a premium synthetic crude oil).

Barrels of Oil Equivalent (BOE)

MBOE is a thousand BOE and MMBOE is a million BOE. Natural gas is converted to oil at 6,000 cubic feet (mcf) per BOE.

Bitumen

A highly viscous, tarry, black hydrocarbon composed of carbon, hydrogen, sulphur, nitrogen and oxygen.

Block 51

Nexen operates and has an 87.5% working interest in this production area in Yemen.

Carbon Dioxide (CO₂)

A naturally occurring atmospheric gas; also the by-product of burning fossil fuels.

Carbon Dioxide Equivalent (CO₂e)

Measure used to compare emissions from greenhouse gases based on their global warming potential (GWP). For example, for the first Kyoto compliance period, the GWP for methane is 21 times greater than that for CO₂.

Clean Development Mechanism

An arrangement under the Kyoto Protocol allowing industrialized countries to invest in, and receive credit for, greenhouse gas reduction projects in developing countries as an alternative to projects in their own countries.

Coal Bed Methane (CBM)

Natural gas deposits found in the pores of coal seams, extracted by easing pressure and releasing water (in wet coal) or drilling a steel-encased hole (into dry coal).

Corporate Governance

Processes, policies, laws and institutions affecting the way a corporation is directed, administered or controlled as well as its relationships and fiduciary duties towards various stakeholders.

Corporate Social Responsibility

A commitment to behave ethically and contribute to economic development while improving the quality of life of our workforce and their families as well as the local community at large.

Environmental Incident/Exceedance

Events detrimental to the environment, such as oil and water spills, unauthorized emissions and unapproved cutting of forested areas. The threshold for reporting an incident or exceedance to a regulator varies by jurisdiction.

Gasification

A key process at Long Lake in which upgrader by-products are converted to synthetic gas for use as fuel (as an alternative to natural gas).

Greenhouse Gases (GHGs)

Gaseous components of the atmosphere that contribute to the greenhouse effect. GHGs are contributed to the atmosphere by natural

and man-made processes. Common GHGs include carbon dioxide, nitrous oxide, methane, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Injury Incident Rate (IIR)

A common standard for benchmarking safety performance. IIR is calculated as: Number of lost-time accidents plus number of medical treatment cases plus number of modified work cases multiplied by 200,000 divided by number of hours worked.

In-situ Recovery

Method of extracting deep deposits of oil sands without removing the overburden.

Large Final Emitters (LFEs)

Refers to about 700 Canadian energy-intensive companies (including Nexen) in the mining, oil and gas, manufacturing and thermal electricity sectors regulated under Canada's GHG-reduction strategy.

Oil Sands (a.k.a. Tar Sands)

Sand deposits containing a heavy hydrocarbon (bitumen) in the pore space of sands and fine-grained particles.

Premium Synthetic Crude Oil

The Long Lake project will upgrade bitumen into a light-sweet crude oil with a specific gravity of 39° API.

Produced Water

Water extracted from a petroleum formation along with other oil and gas production fluids.

Renewable Energy

Energy derived from sources that are constantly replenished by natural processes such as wind, water, solar and geothermal.

Responsible Care®

A global voluntary initiative to improve safety and environmental management of chemicals throughout their life cycle.

SESR

A Nexen-wide group of professionals supporting enhanced safety, environment and social responsibility (SESR) performance.

Steam Assisted Gravity Drainage (SAGD)

This technology involves drilling two parallel horizontal wells and injecting steam into the shallower well, where it heats the bitumen that then flows by gravity to the deeper producing well.

Sustainability

Integrating economic, environmental and social considerations into decision-making.

Syncrude Canada Ltd.

Nexen holds a 7.23% share in Syncrude—the world's largest producer of crude oil from oil sands—based in Fort McMurray, Alberta.

Synthesis Gas (Syngas)

Fuel artificially made as opposed to natural gas which is found in nature. At Long Lake, asphaltenes are converted into synthesis gas for use in steam generation and as a hydrogen source for the upgrader.

West Texas Intermediate (WTI)

A benchmark crude oil against which other crudes are priced.



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