

Safety, Environment & Social Responsibility



nexen

ANNUAL REPORT 2001

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Cover Photo: Nesting platform for Ferruginous Hawk, southern Canadian prairies. See page 15 for more details.

CERTIFICATE OF INTERNAL AUDITOR

Date: February 7, 2002
To: The Board of Directors of Nexen Inc.
From: George Cozias, Director, Corporate Audit
Subject: **Audit of Nexen's 2001 Annual Report on Safety, Environment and Social Responsibility**

At the request of the Board of Directors of Nexen Inc., we have audited the Company's 2001 Annual Report on Safety, Environment and Social Responsibility (SESR).

The audit verified the accuracy of the statistical information presented in the annual SESR report and reviewed the process used to record and report the operational statistics.

Internal audit is satisfied that the 2001 SESR operating statistics are correct as reported and comply with standards established by government regulatory agencies and corporate policies.

A handwritten signature in black ink, appearing to read 'Cozias', with a horizontal line underneath.

George Cozias
Director, Corporate Audit

OUR WAY OF DOING BUSINESS ADDS VALUE

Nexen is a dynamic and innovative Canadian-based energy and chemical producer with operations worldwide. Our core oil and gas activities include exploration, development, production and marketing of crude oil and natural gas. We are a global producer of sodium chlorate which is sold primarily to the pulp and paper industry. In addition, we manufacture chlorine, caustic soda and hydrochloric acid.

Engaged in the following global initiatives, together with our commitment to the communities where we operate, Nexen pursues opportunities that embrace the principles of corporate social responsibility and contribute to economic development, while improving the quality of life of our stakeholders.

INTERNATIONAL CODE OF ETHICS FOR CANADIAN BUSINESS

Encouraged by Canada's Minister of Foreign Affairs, Nexen championed the development of the Code which we adopted in 1997. The Code's principles have been implemented through Nexen's Integrity Program which involves a continuous improvement process calling for close attention to the balancing of economic, environmental and social responsibility aspects.

THE GLOBAL COMPACT

The Global Compact is an initiative of the United Nations Secretary General, Kofi Annan. It calls for a closer and mutually supportive partnership between the UN and the global private sector. It fosters good practices based on principles which include human rights, labour and the environment. As part of its commitment, Nexen will enter into a UN partnership project that will address basic needs such as clean water, health and education, likely in Yemen.

RESPONSIBLE CARE®

Responsible Care®, is a comprehensive health, safety, environment and community issues management system. Since 1991, Nexen Chemicals has been considered a leader in implementation. Nexen is currently implementing Responsible Care® in its oil and gas production operations, starting with its Balzac sour gas processing facility.

INTERNATIONAL PETROLEUM INDUSTRY ENVIRONMENTAL CONSERVATION ASSOCIATION (IPIECA)

IPIECA is comprised of companies and trade associations with operations in the production, transportation or refining of petroleum. It holds United Nations status, allowing it access as a non-governmental organization to UN treaty processes. Its aim is to help its members respond to long-term global environmental challenges. Nexen's Vice President, Safety, Environment and Social Responsibility is the Chair of IPIECA.

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Nexen is a member of the World Business Council for Sustainable Development, a coalition of 150 international companies which share a commitment toward sustainable development and to promoting the role of eco-efficiency, innovation and responsible entrepreneurship.

DOW JONES SUSTAINABILITY WORLD INDEX

Nexen was included as a component of the Dow Jones Sustainability World Index (DJSWI), a benchmark for companies committed to sustainable business practices, in 2001. Through a process verified by PricewaterhouseCoopers, the DJSWI evaluates how a company embraces opportunities and manages risks deriving from economic, environmental and social developments. The DJSWI outperformed the Dow Jones Global Index by approximately 44% based on seven years of total returns.

This is the fifth report to our stakeholders on our SESR initiatives. We focus on different topics each year yet still demonstrate integration of SESR across all aspects of our business. We also endeavour to include a broader range of performance data while at the same time remaining sensitive to the needs of you, the reader. We would very much appreciate hearing your impressions of how we are doing and how we can improve.

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LETTER FROM SENIOR MANAGEMENT

“Raise new questions, explore new possibilities, regard old problems from a new angle.”

– Albert Einstein



Nexen is successful because we have a winning combination of excellent people and a clear vision for the future. Building on our foundation of trust, integrity and responsible resource management, we embraced the challenges and opportunities of 2001 with renewed energy and innovation.

Our mission and mandate to Safety, Environment and Social Responsibility remain strongly entrenched in all of our operations worldwide. We are committed to the principles of the International Code of Ethics for Canadian Business and are dedicated to the responsible and socially ethical development of energy opportunities wherever they might be realized.

We are proud to provide our employees and contract personnel with a safe work environment and our focus continues to be strongly directed at incident prevention and education. Through a direct and consistent approach to addressing the issues, and not just treating the symptoms, we have achieved our lowest Injury Incident Rates (IIR) ever, despite unprecedented industry activity levels.

Many exciting milestones and initiatives were achieved or set in motion during this past year. These are a few of the highlights that are expanded upon in this report:

- Our North Vancouver Chemicals facility was awarded the Chlorine Institute’s prestigious award for plant safety in North America;
- Our “Safety Case” for the Buffalo offshore facility received approval from Regulators in Australia;
- Operating milestones for safety and environment were achieved at our Balzac, Bruderheim, Yemen, Buffalo and Taft facilities;
- We retained VCR “Gold” and CAPP Stewardship “Platinum” status.

In the area of Responsible Care®, we took steps forward in its implementation at our Balzac, Alberta sour gas processing facility and at our Yemen Masila operations. Once initial verification is complete in 2002, the Balzac complex will become the first upstream oil and gas facility in the world to adopt Responsible Care®.

Our commitment to Social Responsibility gained further momentum this year when we were selected as a component of the Dow Jones Sustainability World Index (DJSWI). The DJSWI consists of more than 200 companies that represent the top 10% of the leading sustainability companies in 64 industry groups in the 33 countries covered by the Dow Jones Global Indexes.

Our reputation as a socially responsible company, coupled with community values, provides us with the winning combination of value-based long-term strategic business opportunities that meet our vision, while achieving ethical and community conscious growth.



Charlie Fischer

President and Chief Executive Officer



Randy Gossen

Vice President, Safety, Environment
and Social Responsibility

2001 HIGHLIGHTS

- Safety performance continued to improve to best ever levels (Employees' IIR = 0.60 versus 0.65 in 2000; Contractors' IIR = 1.54 versus 2.41 in 2000), despite unprecedented industry activity levels
- Environmental incidents (spills and exceedances) continued to decline, however significant challenges continue regarding aging facilities and infrastructure in Canada
- Nexen recognized for SESR excellence:
 - Dow Jones Sustainability World Index listing
 - The Globe and Mail's Report on Business Magazine's list of 50 Best Companies
 - Canadian Association of Petroleum Producers Platinum Level Award for Environmental Stewardship
 - Voluntary Challenge and Registry Inc. Gold Level
 - In 2001, North Vancouver Chemicals Plant ranked Number 1 for employee safety in 2000 in North America by the Chlorine Institute
 - Investor Relations Magazine Best Corporate Governance Award
- Transition to operator of Australia-Buffalo offshore production operation proceeded smoothly through effective preparation of a Safety Case and approval by Australian regulatory authorities
- Urban remediation project conducted in Calgary with full approval of property owners and without controversy or media attention
- Preparation for Responsible Care® implementation in Balzac sour gas processing operations and in Yemen Masila operations
- Integrity training delivered to a wide cross-section of employees and contractors in the operating language
- Initiated the process to refine and revitalize our existing Management System.

SAFETY, ENVIRONMENT AND SOCIAL RESPONSIBILITY POLICY

VISION

Nexen Inc. as a Corporation is committed to environmental protection and the health and safety of its people, contractors and the public.

MISSION

Provide leadership, coordination and support with respect to environment, health and safety management in all operations and administrative functions and undertake the appropriate due diligence consistent with Nexen Inc. shareholders' best interest.

BELIEFS

We believe that:

- Management and staff commitment to SESR is essential to ensuring a safe and environmentally acceptable operating environment.
- Safety shall be uppermost in the minds of all personnel at facilities which we operate.
- All personnel have a responsibility to perform their jobs in a safe and environmentally acceptable manner.
- Excellence in the performance of our environmental, health and safety responsibilities adds value, and is critical to our business.
- Public perception and attitudes are a valuable component to the successful management of our business.
- The environment and the economy can co-exist.
- Community consultation is the preferred mechanism to resolve SESR issues of concern to the public.

VALUES

We value:

- Our people are our most important asset and we will not compromise our safety standards to achieve other corporate goals.
- The experience and professionalism of our people.
- The commitment, leadership and accountability of all personnel for SESR performance.
- Ongoing and open dialogue with our stakeholders.
- The health, welfare and safety of our people, contractors and the public.
- The concept of “sustainable development”: a balance of environment, economy and social responsibility.
- The commitment of our people to a safe operating environment and protection of environmental quality.
- Prompt, open, frank and complete communication on SESR issues.

PRINCIPLES

We will:

- Maintain high standards of environment, health and safety performance consistent with the well-being of society.
- Meet or exceed regulatory compliance.
- Strive to meet industry codes, guidelines and practices.
- Proactively participate in the formulation of public policy.
- Integrate environment, health and safety planning and management into our day-to-day activities, and define individual responsibilities, authority and accountability.
- Ensure that emergency response capability is in place and periodically tested for all Company operations and facilities.
- Establish measurable performance targets and assess, document, report and continuously improve our environment, health and safety performance.
- Apply science-based assessment and cost-benefit analysis to SESR decision-making.
- Recognize and reward environment, health and safety excellence.
- Strive to optimize the safety of all work sites by hiring only contractors who have superior safety performance and management systems.
- Adopt a “Pollution Prevention” approach to project planning and strive towards the reduction of emissions and wastes.
- Strive to prevent injury to people and damage to equipment, material and the environment.
- Inform stakeholders of our SESR performance.
- Address stakeholder concerns when examining risk.



OUR MANAGEMENT SYSTEM

ORGANIZATION AND RESPONSIBILITIES

Nexen is committed to defining and implementing an organizational structure that effectively identifies and supports SESR issues and initiatives throughout its activities worldwide. All levels of leadership are engaged in the visible support and implementation of SESR principles. Support for these principles flows down from senior executive to field personnel and contractors. While the Board of Directors, President and Chief Executive Officer, Senior Management and Business Unit leaders assume overall accountability for SESR issues and performance, it is the responsibility of all employees and contractors to meet or exceed the expectations set out in Nexen's SESR Management System.



OVERVIEW OF REVITALIZED MANAGEMENT SYSTEM

In 2001, we refined our management system into an integrated package that is comprised of the following 11 elements:

1.0 Management and Leadership

All levels of Nexen management will provide visible, meaningful and effective leadership of SESR principles and initiatives throughout the organization.

2.0 Regulatory Compliance

Nexen will comply with applicable regulatory requirements in all jurisdictions in which we operate.

3.0 Hazard Assessment and Management

Nexen will identify, assess and manage all SESR risks associated with our operations.

4.0 Social Responsibility and Integrity Management

Nexen will behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as well as the local community and society at large.



5.0 Emission, Waste and Environmental Liability Management

Nexen will effectively manage emissions, waste and environmental liabilities resulting from our activities in all phases of exploration, development, production and acquisitions.

6.0 Documentation and Procedure Management

Nexen will create and maintain meaningful documentation and procedures that clearly record and communicate the requirements and results of SESR principles and initiatives.

7.0 Training and Awareness

Nexen will develop and implement programs that both promote awareness of SESR principles throughout the organization and ensure competence among employees and contractors responsible for meeting SESR objectives.

8.0 Communication and Public Consultation

Nexen will develop and implement communication and consultation systems that establish and support prosperous working relationships between the Company and the communities affected by our activities.

9.0 Emergency Response

Nexen will maintain effective emergency response plans, capabilities and resources throughout the organization to minimize the impacts of incidents.

10.0 Incident Reporting, Investigation and Follow-up

Nexen will implement systems for accurately reporting incidents, conducting thorough investigations, identifying root causes and performing appropriate follow-up measures to prevent recurrence.

11.0 Continuous Improvement

Nexen will continuously evaluate and update the SESR Management System to ensure it achieves corporate objectives, complies with regulatory requirements and meets or surpasses industry standards.

Each of these SESR management system elements is supported by a series of “Standards” that each of the Company’s operations is expected to attain and against which their performance is measured and verified. This 11-element “corporate-level” SESR management system is supported by “divisional-level” policies, standards, procedures and operating practices, which translate these elements into action in Nexen’s facilities and field operations.

The 11 elements of the SESR management system are still undergoing review and revision and will be communicated across the Company in early 2002. The system will be made available electronically to all areas of the Company and ultimately will be fully linked with supporting policies, standards and procedures in all of the Company’s Divisions, Business Units and operations. Considerable effort will be required to integrate and harmonize this system with the many policies, standards and procedures that exist throughout Nexen’s worldwide organization. Nevertheless, all operations will be expected to conduct their activities in accordance with this revised management system as soon as practicable. Audits and reviews against these revised standards will commence in late 2002.

SESR EXPENDITURES/BUDGET

The SESR capital and operating expenditure budget for 2001 was approximately \$34 million, down from \$38 million in 2000. Much of the budget in 2001 was allocated to site remediation, pollution prevention and waste management. Costs included in this budget are for SESR training, awareness and consultation programs.

Nexen's commitment to the responsible environmental management of facilities that are in the abandonment and reclamation phase of their lifecycle reached \$182 million in 2001 compared with \$161 million in 2000. These numbers represent accruals for all Divisions.

AUDITS AND ASSESSMENTS

Nexen continually undertakes audits, assessments and inspections to provide us with reasonable assurance that we are in compliance with regulatory requirements and our own policies and procedures. They are a means by which we measure our performance against established standards and explore new opportunities for continuous improvement in our operations.

Inspections are regularly completed at operations facilities and development projects. Improvement continues to be observed with 2001 inspection scores in the 95% range.

Internal SESR performance and security audits are completed at our field facilities and within head office functional groups every two to four years. Accredited independent auditors ensure corporate objectivity and accountability through third-party/external audits every three to five years. Required improvements identified through these processes are reported to operations and/or functional group management, as well as senior management. Plans are developed to address audit recommendations. Corporate SESR staff monitor progress and assist in program implementation.

In 2001, Nexen completed internal audits at various oil and gas production locations in Canada. In addition, we joined with several other oil and gas companies in completing due diligence audits of several waste management facilities in Alberta and Saskatchewan. Audit results are being used in revising existing practices and establishing new procedures that will meet or exceed regulatory and corporate requirements. Audit results are reported regularly to the Board of Directors.

We also continued to monitor the progress of Business Units and functional groups as they moved forward in developing and implementing programs to address audit findings. Results for 2001 indicate that improvements are ongoing across the Company.

In 2001, the Chemicals Division Responsible Care® Group conducted integrated Responsible Care® audits of the Amherstburg, Beauharnois and Bruderheim facilities. The results of these audits were reported to senior divisional management. There were no significant issues identified from these audits and the facilities demonstrated improvement in their SESR management systems since their last audits.

IMPLEMENTATION OF RESPONSIBLE CARE®

Nexen Chemicals and Responsible Care® have become synonymous in our chemical operations for more than a decade. As additional chemicals facilities are acquired or built, a plan is developed to implement the Responsible Care® principles and codes of practices at new facilities within three years. This is the case with our latest acquisition in Aracruz, Brazil, where we are targeting Responsible Care® implementation by the third quarter of 2003.

In recent years, Nexen's Oil and Gas Divisions have begun to implement this system in some operations. Nexen Canada began the process of developing Responsible Care® supporting systems at the Balzac, Alberta sour gas processing facility in late 2000 and substantial progress was made during 2001. The Canadian Chemical Producers Association is scheduled to conduct a "Round 1" or "In Place" verification audit of the Balzac operation in early 2002. When this audit is successfully completed, it is anticipated that Balzac will become the first upstream oil and gas operation in the world to become a Responsible Care® partner.

Planning for further implementation of Responsible Care® across other Nexen Canada operations has commenced and is expected to be put into action in 2003. Plans are also in place to implement Responsible Care® in Nexen's Yemen Masila operations, commencing in mid-2002. When this initiative is successfully achieved, likely by mid- to late-2003, this operation will become the first international oil and gas operation to become a Responsible Care® partner.

SEPTEMBER 11TH

Following the tragedy in the United States on September 11th, the attention of the world focused on the Middle East including Yemen. The President of Yemen has strongly condemned all acts of terrorism and has taken vigorous action to find and root out suspected terrorists in Yemen. Nexen has operated in Yemen since 1986 without interruption. We have a long and stable relationship with the government and the people of Yemen and our number one priority is to ensure the safety of our employees and contractors.

In support of the individuals impacted by events of September 11th, Nexen made donations in the amount of US\$50,000 to the Canadian Red Cross (U.S. Appeal) and US\$25,000 to the United Way of New York City.



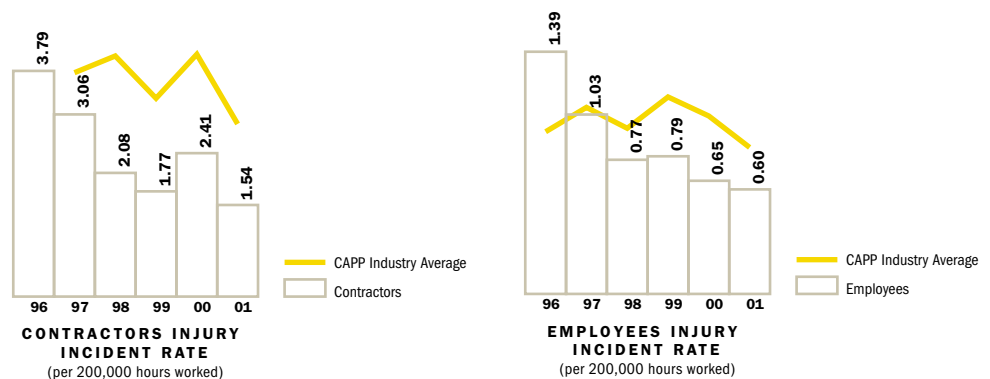
SAFETY PERFORMANCE

Our goal at Nexen is to work accident free. Through tools and training, we have empowered our contractors and employees to reduce injuries and events that can lead to injuries on our worksites.

CONTRACTOR PERFORMANCE

One of the main objectives for 2001 was the reduction in contractor events from previous years. This was particularly challenging given the very high level of industry activity in 2001. The Injury Incident Rate (IIR) for employees was the lowest on record (since 1985); for contractors it was the lowest on record (since 1992) despite unprecedented industry activity levels which generally is associated with significant numbers of inexperienced workers. For example, contractor work hours Company-wide increased from 9.2 million in 2000 to 16.1 million in 2001. In an attempt to achieve a reduction in this area, Nexen worked diligently with our contract workforce. Focusing on worker competence and worksite supervision was a high priority in 2001 and resulted in over 2,000 contractors receiving training in these two areas. Workplace safety is instilled in contractors by recognizing good performance in various beneficial ways.

To ensure that a consistent safety message was delivered to all workers in Nexen Canada, we developed a general safety orientation video as well as a service rig safety video. In 2002, we plan to develop a video that is specific to our drilling activities. Our efforts have shown positive results in the attitude of our contractors and a reduction in contractor events compared to year 2000. In 2000, we experienced 68 recordable contractor events over 2.49 million manhours of exposure and in 2001 we experienced 59 recordable contractor events over 2.68 million manhours of exposure. There has also been a significant reduction in the severity of the events from year 2000. In Yemen, where we experienced an exceptionally busy year of drilling and construction, the contractor IIR decreased by 8.5%. Our seismic contractor in Yemen achieved an exceptional milestone in late 2001 of two million work hours without a Lost-time Injury.



Note: 2001 Canadian Association of Petroleum Producers (CAPP) Industry Average is to September 2001 only.

EMPLOYEE PERFORMANCE

Nexen remains proactive in its efforts to ensure a safe working environment for employees by continuing to provide required training and through upgrades to our facilities. Occupational hygiene surveys were completed at our Canadian oil and gas field and office worksites. The focus of these surveys was to identify risks/hazards and give us an opportunity to mitigate them.

In 2001, we experienced a slight increase in the number of employee recordable injuries, however, our overall IIR continued to decline. In 2000, we had 15 employee recordable injuries and in 2001 we had 17 recordable injuries. For the second consecutive year, there were no employee or contractor fatalities.

EMERGENCY PREPAREDNESS

Nexen maintains a high state of readiness and is able to react quickly and effectively to emergencies. All of our operations have emergency response plans in place and exercises are held periodically to ensure that our personnel are well trained and that our plans are effective.

Because of the isolated location and absence of supporting emergency infrastructure in Yemen, particular emphasis has been placed on establishing and maintaining on-site emergency response teams. Emergency response drills were held at most of our Chemicals facilities in 2001.

NIGERIA

In 2001, proactive training programs were completed which included firefighting, fast response boat and man overboard training, first aid and helicopter underwater escape training. 2001 was another accident/incident free year for the Ejulebe offshore platform facilities. In July, our Nigeria operations completed the Ejulebe EJ6 in-fill well, also accident free. This achievement was greatly facilitated by the Simultaneous Operations Procedures that were put into place before the drilling of this well. In addition, a Company safety inspection and audit was carried out and completed to satisfaction.

Continued harmonization between the host communities and our community affairs program helped forge better relations, resulting in no interruptions to our operations.

We received final approval of the Ejulebe Environmental Impact Assessment from the Nigerian Federal Ministry of Environment in 2001.

AUSTRALIA

The successful transition by Nexen Petroleum Australia from being a joint venture partner to being the operator of the offshore Buffalo field, was an important milestone for Nexen. Not only was this the first Nexen operated facility in Australia and its first Floating Production, Storage, and Offloading (FPSO) operation, it was also the first time that Nexen had utilized the Safety Case concept to achieve regulatory approval for its operations.

The Regulator reviews the Safety Case and has the power to reject it. A key requirement is that worker input is actively sought in the document's preparation, to ensure that the document is "credible" and realistic.

The Safety Case must demonstrate that risks to the workforce have been reduced to "as low as reasonably practicable" (ALARP). This is a concept which not only embodies the "duty of care" responsibility, but also seeks to identify a point where the residual risks have been minimized to a level where investing resources (time, money, etc.) to further reduce the risk, becomes unreasonable.

The nearer risk levels come to a point of intolerability (when the community effectively refuses to sanction the operation), the more attention an operator is required to focus on reducing risks ALARP. The ALARP principle is also required to be demonstrated in Environmental Management.

The Buffalo field (incorporating the "Buffalo Venture" FPSO facility, with its cross-functional 18 person crew, and the associated unmanned Wellhead Platform) although closer to East Timor, lies in Australian waters, 560 kilometres northwest of Darwin, and falls under the jurisdiction of Australian offshore legislation. This requires the preparation and submission of a Safety Case to the Australian Offshore Safety Regulator.

ENVIRONMENTAL PERFORMANCE

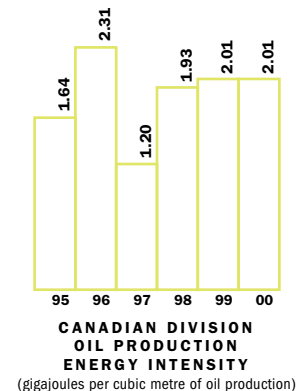
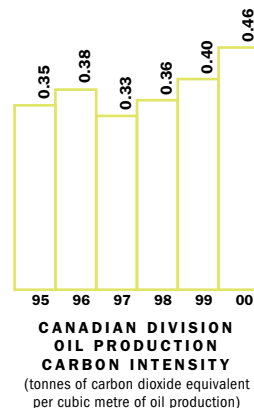
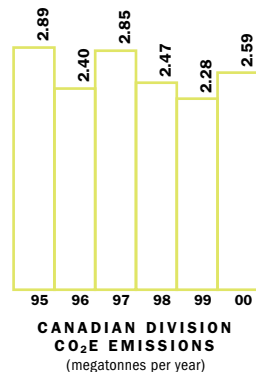
ENVIRONMENTAL QUALITY

Nexen continues to develop and implement programs to minimize adverse environmental effects associated with Company activities. Many potential concerns are avoided or mitigated through the integration of environmental values in project planning. Environmental reviews are completed for all proposed development projects, and scheduling, design or construction techniques may be altered in response to identified environmental issues. By addressing environmental considerations at an early stage, potential impacts are minimized or avoided completely.

A notable effort throughout Nexen Canada has been the staged removal of all underground tanks and vessels such as flare knock-outs and water disposal culverts and replacing them with approved above ground tanks and secondary containment. By removing underground storage containers, the inspection and maintenance of the vessels is easier and less costly, resulting in a decreased likelihood of release to the environment from these vessels.

Some of Nexen Canada's operations are in areas of important wildlife habitat. In addition to minimizing negative impacts of our operations, we endeavour to enhance local conditions or undertake other activities to protect the environment. Some of our more notable successes in these areas have been in locations where we co-exist with endangered or threatened species. For example, a stack at the Balzac sour gas processing facility acts as a nesting platform for Peregrine Falcons. Since 1994, a mated pair of these raptors has nested on the site, producing between two and five chicks each year. The gas plant operators co-operate with regulatory personnel in monitoring these birds, assisting injured chicks, participating in banding operations, and returning chicks to their nest (46 metres above ground) as they learn to fly. To ensure breeding success and avoid nest abandonment, stack testing and maintenance procedures have been modified so as not to disturb the birds during the critical nesting period.

In our natural gas operations across the Western Canada grasslands area, several of our facilities have been adopted by the Ferruginous Hawk as nesting sites (see cover photo). In an effort to maintain local populations of these threatened raptors as the facilities are decommissioned, alternate nesting platforms are provided. Decommissioning is delayed until after the nesting season and the nests are physically relocated to nesting platforms in the local vicinity but away from gas operations.





The restoration of native prairie habitats is an important consideration in many of the areas where Nexen explores for and produces oil and gas. To enhance our ability to successfully revegetate and restore these areas, Nexen actively supports native prairie restoration research in grassland ecosystems. Of note is Nexen's major contribution to a prairie restoration project managed by the Nature Conservancy of Canada. Nexen is also conducting research into the use of plants to remediate salt and hydrocarbon-contaminated lands (phytoremediation).

In 2001, Nexen received a "Platinum Level" award in the Canadian Association of Petroleum Producers' Environment, Health and Safety (EH&S) Stewardship Program. The award signifies that Nexen is at the highest level of participation, indicating that we have fully implemented the required EH&S management systems components and that the effectiveness of these is tested periodically through internal and external audits. Participation in the program demonstrates to stakeholders that the upstream industry is making continuous improvement toward reducing its "environmental footprint" and injuries to workers. Stewardship is a voluntary initiative and companies representing over 90% of Canadian oil and gas production have agreed to participate. Nexen also continued at the Gold Reporter Level in the Canadian Climate Change Voluntary Challenge and Registry. This is, in part, a recognition of our continuing actions to reduce greenhouse gas (GHG) emissions from our operations. Although significant success has been achieved in capturing previously flared or vented methane from Nexen Canada's heavy oil operations (approximately 500,000 tonnes/year CO₂ equivalent), our overall GHG emissions and energy intensity per unit of production are beginning to rise. This is mainly a result of declining gas reservoir pressures, which require increased compression capacity and an increase of heavy versus light oil in Nexen Canada's production mix. Statistics for 2001 were not available at the time of publication.

ENVIRONMENTAL INCIDENTS

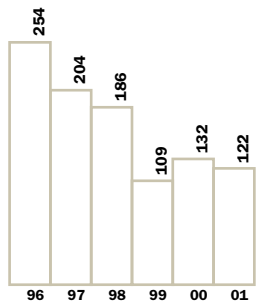
The second lowest number of reportable environmental incidents in Company history occurred in 2001, dropping from 132 in 2000 to 122 in 2001. Nexen Canada recorded 108 reportable environmental events in 2001. This is down slightly from the 111 events recorded in 2000. Performance targets included an emphasis on reducing events associated with human error and the Company achieved a reduction of greater than 35% for these types of events in 2001. Improvements were also seen at

CLIMATE CHANGE

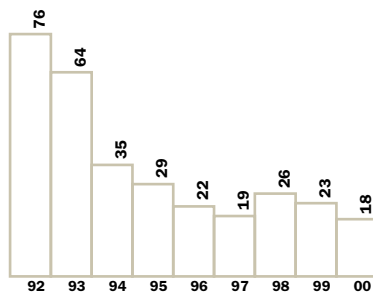
The Canadian federal government has indicated it would like to be in a position to ratify the Kyoto Protocol by mid-2002. There is growing concern that Canada will ratify without understanding and/or communicating how we will meet our obligations and how the burden will be shared.

The government of Canada signed the Protocol and, if ratified, does so on behalf of all Canadians. Industry expects that it will be required to do its share with respect to its direct emissions, but the responsibility for the majority of emissions related to transportation and heating must be broadly distributed to individual consumers if the desired impact is a change in consumer behaviour leading to lower GHG emissions.

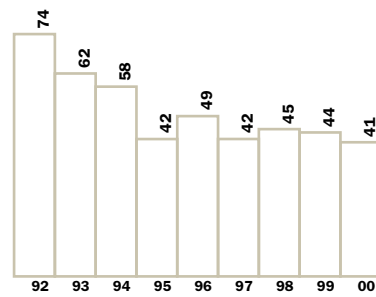
Nexen is active in domestic and international industry groups whose activities are constructive and lead to informed debate. We are neutral with respect to the future of the Kyoto Protocol, but have concerns regarding fairness, competitiveness and the future investment climate in Canada.



**NEXEN INC.
ENVIRONMENTAL INCIDENTS**
(number of reportable spills and exceedances)



**CHEMICALS DIVISION ENVIRONMENT
CANADA NATIONAL POLLUTANT
RELEASE INVENTORY (NPRI)**
(emissions per unit output - g/t)



**CHEMICALS DIVISION
CANADIAN CHEMICAL PRODUCERS
ASSOCIATION NATIONAL EMISSIONS
REDUCTION MASTERPLAN (NERM)**
(emissions per unit output - kg/t)

those locations which have been upgraded to address chronic problems. Of note is the fact that our contractors and landowners are now actively assisting us in identifying potential problems so that they can be addressed proactively.

None of the reported environmental incidents resulted in significant adverse environmental effects and all were fully remediated. For 2002, Nexen Canada will establish additional performance criteria which will better reflect the frequency and significance of environmental incidents, including number of spills per unit of production.

Our International Oil and Gas Division and Nexen U.S.A. operations continued to show excellent environmental performance, with only eight small spills in 2001 versus 21 in 2000. Over its eight and a half years of operation, the Yemen Ash Shihr Export Terminal surpassed 600 million barrels of oil exports involving in excess of 450 ship loadings with no significant spills.

REGULATORY COMPLIANCE

- Nexen and one of its contractors were assessed one joint administrative penalty of \$1,500 as a result of an incident in which air monitoring equipment was accidentally disconnected at our Balzac sour gas processing facility.
- Remediation of the chlor-alkali plant in Squamish, B.C. is on schedule and on budget in compliance with a Remediation Order issued by the British Columbia Ministry of the Environment, Lands and Parks in 1999.

WASTE MANAGEMENT

Nexen is committed to establishing and maintaining environmentally acceptable methods for waste management throughout our operations. We strive to apply the four "Rs" – reduce, reuse, recycle, recover – wherever possible and to apply leading-edge pollution prevention technology in all of our operations. For example, in 2001 we began operation of an enhanced recovery facility to treat and recover marketable oil from sludges, tank bottoms and other heavy oil materials at our Plover Lake, Saskatchewan battery site.

INDONESIA

Nexen International drilled the offshore well, Kayu Manis 1, in 200 metres of water off the coast of Seram in eastern Indonesia. The location, chosen to optimize the probability of encountering the target reservoir, was near the coral reef associated with the atoll complex, Karang Bais, about 12 kilometres from the island of Seram. An environmental assessment and environmental management plan were prepared, submitted to the regulator and approved. Nexen decided to undertake further studies, aimed at understanding the potential effects of drilling on the coral reef, to ensure that all reasonable steps were being taken to minimize the risk of disturbance. SKM Consultants, an Australia-based consultancy with marine expertise in the Timor Sea, was retained to undertake a contemporary literature search, review the drilling operating plans and approved environmental management plan and make recommendations for additional protective measures as required. Their activity was supported by video footage collected from two diving expeditions to the reef in advance of the drilling program. The video footage was collected to allow the consultant to identify coral species, distribution and abundance and establish a pre-drilling baseline of conditions of the coral reef at depths reachable by the divers. A post-drilling survey duplicating these pre-drilling activities will be conducted in the first quarter of 2002.

Nexen has conducted research, with other partners in the field, on using sulphur (a by-product of sour gas processing) as an alternative thermal source for electricity generation. While the research program was successful in demonstrating that sulphur can be used as a fuel source for electrical generation, disposal of the combustion gases (in particular SO₂) needs additional technical and economic evaluation to determine feasibility. Some unique technological methods of capturing and sequestering the SO₂ were assessed, but were identified as requiring additional research and refinement. The future refinement of this leading-edge technology may eventually provide a demand for the annual excess of two or more million tonnes of sulphur.

Waste Minimization and Emissions Reduction

Nexen Chemicals is actively involved in the programs of Environment Canada's National Pollutant Release Inventory and the Canadian Chemical Producers Association's National Emissions Reduction Masterplan. We continue to achieve steady progress towards emissions reduction. Statistics for 2001 were not available at time of publication.

SITE REMEDIATION

The most effective approach to environmental protection is through proactive measures. This "pollution prevention" approach is put into practice at Nexen through:

- engineering design of new facilities
- facility expansions
- ongoing upgrading of existing facilities
- recycling of waste streams
- construction of spill containment facilities; and
- extensive pipeline corrosion monitoring and line replacement programs.

While every effort is made to minimize pollution, Nexen is also addressing contamination associated with historic activities.

Building upon the current best available remediation technologies, Nexen has continued to conduct its own research and supports the research of others in an effort to improve our land remediation and reclamation processes. For example, a pilot program supported by Nexen was successful in removing sulphur from sulphur-contaminated clay soils, conserving the soil and introducing a new remediation technology. This is particularly beneficial as the only practical alternative technology available at this time is to landfill the material.

Nexen has continued to develop and enhance its soil and water treatment technologies to address the specific contamination conditions at its decommissioned Squamish Chemical Plant Site. As a result, an online mercury analyzer has been developed. This technology has other commercial applications and Nexen is in discussions with several parties to expand the use of this technology within the resource and environmental industries.

SITE REMEDIATION PROJECTS

Balzac Sour Gas Processing Facility and Field

Site remediation targets identified in the rolling 10-year plan were all met during 2001. These included the assessment of six leases and the remediation of over 20,000 tonnes of contaminated soil on three other lease sites. Nexen's growing expertise in the areas of remediation and assessment has resulted in savings of nearly 10% over historic costs. These savings translate to a greater benefit being derived from those funds allocated to environmental remediation.

Okotoks Decommissioned Gas Plant Site

All remaining facilities and contaminated soil were successfully dismantled and remediated and the majority of surface reclamation works completed. As surface reclamation and groundwater remediation activities are finalized, Nexen is working with the Town of Okotoks to develop the former gas plant property (160 acres) in a manner that contributes to the sustainability of the community's economy, while protecting environmental green space.

Moose Jaw Asphalt Refinery

A groundwater remediation system was installed in the fourth quarter of 2001 to contain and remediate off-site contamination. This remediation program (identified in 2001) was implemented to restrict groundwater flow and protect the Moose Jaw River. This asset was sold at the end of 2001.

Canadian Oil and Gas Well Site Reclamation

Continuing the previous year's program, an additional three leachate collection projects were initiated in southern Saskatchewan to reclaim salt-affected sites. Six locations are now in the process of being remediated and improvements in land capability and quality have already been observed. In Canada, 66 wells were abandoned in 2001; approximately 75 wells have been identified for abandonment in 2002.

Nexen Chemicals

Site remediation programs were undertaken at the Brandon and Bruderheim facilities during 2001. The Brandon remediation program is a long-term program that was initiated in 1997. It has successfully restricted the migration of contaminated groundwater and is recovering contaminated groundwater, steadily reducing the extent of the plume.

MIDDLE EASTERN ARCHAEOLOGY

In 2001, Nexen sponsored a University of Calgary professorship in Middle Eastern Archaeology that will shed new light on ancient worlds in the Arabian Peninsula. The professorship is valued at \$300,000 over three years and has been taken up by University of Calgary archaeologist and Middle Eastern antiquities expert Dr. Bill Glanzman. Dr. Glanzman is the field director of an international team of archaeologists and earth scientists excavating a 3,000-year-old temple in northern Yemen, known as the Mahram Bilqis. The sanctuary, which still lies largely buried under the sands of the Rub al-Khali desert, is believed to have been used throughout the reign of the Queen of Sheba and was a sacred site for pilgrims throughout the Arabian peninsula from around 1200 BC to 550 AD.

The excavation of the temple site made international headlines when it was revealed that the sanctuary could be up to one mile in width and is packed with artifacts, artwork and pottery fragments, and ancient inscriptions. Yemen abounds in archaeological sites of the five ancient southern Arabian kingdoms, providing what some say is the world's last corner of uncharted archaeological exploration. Like the Mahram Bilqis, however, many of these sites remain buried under the sands of the Arabian desert.

Nexen continues to conduct archaeological investigations associated with our own activities in Yemen. We have been able to avoid or mitigate damage that might have occurred due to our main oil pipeline re-alignment project.

International Division Well Site Reclamation

Our International Division operates approximately 245 wells across Yemen, Australia, Colombia and Nigeria. Of this total, fewer than five wells are inactive. No wells have been identified for abandonment in 2002.

	2001			2000			1999		
	Producing	Shut-in	Abandoned	Producing	Shut-in	Abandoned	Producing	Shut-in	Abandoned
Canada*	4,188	929	66	3,838	662	60	3,153	662	100
United States	145	234	0	141	210	6**	152	199	3
International	245	1	0	Figures not available					
Total	4,578	1,164	66	3,979	872	66	3,305	861	103

* includes U.S. wells managed by Nexen Canada

** includes abandonment of one platform and two pipelines

Squamish Decommissioned Chlor-alkali Plant

The regulatory requirements for the Squamish site environmental investigations and remediation plans, schedules and activities continue to be met. All onsite and offsite land and water environmental impact studies have been completed and submitted to the regulators. In addition to completing these studies, Nexen continued to successfully implement its site remediation strategy, removing major sources of contaminated material, and the pumping and treatment of contaminated groundwater.

Two hectares of land were successfully remediated and back-filled with clean soil. The operating groundwater treatment system has produced significant reductions in the groundwater contamination underlying and extending from the site. Similarly, soil treatment technology was successfully demonstrated using a pilot plant and a full-scale facility is being constructed for operation in 2002 and 2003.



SOCIAL RESPONSIBILITY PERFORMANCE

Corporate social responsibility (CSR) is defined by the World Business Council on Sustainable Development (WBCSD) as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large. In the last few years, our approach to CSR has become more comprehensive and operationally integrated.

BUSINESS PRACTICES

Ethics, Governance and Anti-Corruption

Our Board of Directors sets the standards for Nexen globally and takes corporate governance and our obligation to maximize shareholder value over the long term very seriously. Our Board has taken a broad view of governance which sees corporate social responsibility as a key driver. We place heavy emphasis on our Board's Committee system. In 1990, Nexen was one of the first companies to establish an Environment, Health and Safety Committee (now Safety, Environment and Social Responsibility). Briefings on SESR are regularly conducted for Nexen's Board of Directors. Our comprehensive approach to governance is a corporate obligation and moral imperative. Nexen received the "Best Corporate Governance" award at the Investor Relations Magazine Canada Awards in 2001.

Nexen is actively involved in public education issues related to corruption and commits resources both domestically and internationally. We have taken steps to ensure that employees are aware of the risks involved with corruption. In 2001, eight Improper Payments Workshops were held at various locations where we operate.

In 2001, at their request, Nexen gave presentations on CSR to branches of the federal government including Export Development Canada, the Department of Foreign Affairs Subcommittee on Human Rights and International Development, Public Works and Government Services Canada and the International Development Research Centre. The expertise of Nexen's representatives was sought by educational initiatives in 2001 including Harvard University's Weatherhead Center for International Affairs, the University of Toronto's Corporate Social Responsibility Program and the Canadian Petroleum Institute's International Executive Management Program.

PUBLIC POLICY AND GOVERNMENT RELATIONS

Nexen places a high value on establishing and maintaining positive relations with governments in the areas where we operate. Successful operations are predicated on attention to detail with respect to not only the technical "below ground" issues but the "above ground" matters as well. Nexen's government relations department plays a valuable role in building and managing effective partnerships with Canadian and host country representatives in order to gain a broader awareness and understanding of the above ground issues.

Nexen enjoys a positive working relationship with regulatory agencies in the jurisdictions within which we operate. We regularly meet with government personnel and participate on committees or working groups charged with reviewing existing legislation or considering new regulatory requirements or other

policy initiatives and activities. In facilitating Nexen's objectives to conduct and grow its business internationally, government relations performs functions that include the following:

- monitor, analyze and report on political, economic and social issues and developments within our host country locations;
- support corporate citizenship initiatives such as the Scholarship Program and English Language Project in Yemen;
- coordinate government meetings, VIP visits and special events;
- meet regularly with senior government officials to encourage initiatives that are important for our industry;
- participate in Nexen's Above Ground Review process to advise on issues within a political, economic and social context;
- maintain ongoing embassy and government contacts at each of our locations; and
- act as a resource to country managers and executives who work on special government relations projects.

Human Rights

While the development of the International Code of Ethics for Canadian Business was an important milestone, 2001 was the year for the next important step to be taken – the implementation of a revised Human Rights policy. Professor Errol Mendes, then Director of the Human Rights Research and Education Centre at the University of Ottawa, assisted in drafting the Policy. It recognizes that we can only address human rights within our sphere of influence as a company. The process also involved senior Nexen staff from our international, SESR, legal, human resources, finance, audit, corporate security, government relations and corporate planning and business development departments. Employee training on the new Policy is planned for 2002.

Building and Facility Security

Nexen's corporate security department oversees all aspects of security within the Company. The department deals with issues such as personal security, physical security, crisis management and investigations and is responsible for the corporate Crisis Management Plan. The plan provides the Executive Crisis Management Team with guidelines in the event of a crisis.

In 2001, Nexen relocated and consolidated its head office. The new Nexen Building has won a number of awards including the Building Owners and Managers Association's Environmental Building of the Year in 1994. Corporate security assisted in having the appropriate security measures put in place including a card access system. In addition, corporate security works closely with building management and the contracted guard force to ensure the safety of all employees.

Security co-ordinators for site and transportation security have been appointed to co-ordinate security activities to protect Nexen Chemicals, designated as a high priority resulting from terrorism fears. They will work closely with corporate security and review security guidelines of the Chlorine Institute, the American Chemistry Council and Canadian Chemicals Producers Association and will make recommendations for improved site and transportation security measures.

Privacy

Nexen, while already very protective of employee information, took steps in 2001 to further embrace the philosophy of Canada's *Personal Information Protection and Electronics Documents Act* and to adopt the principles of the legislation globally. A Privacy Officer has been appointed and a team has been assigned to implement new policies, procedures and education relating to the privacy legislation.

COMMUNITY INVESTMENT

At Nexen, community investment is an important element of CSR. We focus on building our relationships with internal and external stakeholders. This is possible through the active involvement of our people in community affairs initiatives and activities.

Community Affairs Programs (CAP)

Nexen continued to operate and expand its Community Affairs Programs in various locations. In Yemen, the annual budget of US\$600,000 was allocated to sustainable water, power supply, education and health support projects in several communities near our Masila Block operations. Notable were a US\$200,000 contribution to a power generation and distribution system in the village of Raidah and a US\$110,000 contribution to the construction of a surgery ward in a new hospital in Ash Shihir, which serves a population in excess of 100,000 people. Other contributions were made toward construction of new schools and refurbishment of existing schools, and the supply of student desks in eight communities.

Water supply project contributions were made to three villages, which in turn help supply numerous other small villages that surround them. Although the costs are not accounted for within the annual CAP budget, Nexen treats in excess of 1,000 local villagers per month who visit the health clinic at the Masila Central Processing Facility. Access to this clinic and to periodic assistance with medevac

ABOVE GROUND ISSUES REVIEW

Nexen strives to make sound investment and business decisions. We work in a number of settings where conflict is part of the national or regional reality including Yemen, Colombia and Nigeria. Conflict can be driven by economic, social, political or environmental concerns and cannot be ignored, not only due to investment risk but also the indirect impact associated with conflict.

Nexen uses Global Characterization (a proprietary product of JFA Global Ltd.), a worldwide, regional or country-oriented opportunity framing tool/process. It evaluates “Below Ground” (technical, volume and cost) and “Above Ground” (socio-political, strategic and commercial) considerations to arrive at a defensible, repeatable and comprehensive assessment of risk. The purpose is to provide senior management with a risk-based opinion respecting the potential investment and our ability to operate in accordance with good corporate governance principles.

Within Global Characterization, the “Country Operating Environment” (COE) component is used to evaluate the impact of the physical, operating and cultural environments on potential investment in exploration, exploitation and production. A team approach is used; the score reflects a composite judgement of participants who represent many perspectives. Nexen developed the Above Ground Operating Strategy Review to provide quality information on the COE. Reviews are conducted by personnel who are removed from the immediate operating entity and are experts in their fields (SESR, Security and Government Relations). While developed to support Global Characterization, the Above Ground Operating Strategy Review is also used to provide strategic advice to senior management.

Information comes from internal and external sources and is verified through an intensive, in-country process. The process involves interviews aimed at verifying other information sources, consistency of opinion or fact respecting critical factors and obtaining unique perspectives and insights. The interviews take place with individuals or groups from a cross-section of society including senior elected officials and bureaucrats of all levels of government, other businesses, non-governmental organizations, community representatives and others.

The Above Ground Strategy also provides a solid basis upon which to build an effective community affairs program which Nexen believes is critical to our business success. Communities in the vicinity of our operations have a legitimate right to participate in decision-making for issues affecting them and are entitled to benefits from oil and gas development. The Company’s approach has enabled it to successfully operate in zones of conflict and reinforced that good ethical business practices strongly facilitate the achievement of corporate goals.



of seriously ill people is provided to the inhabitants of the Masila region. This has greatly assisted our Company in maintaining excellent relations with the local communities.

In conjunction with the UN and other potential donors, Nexen expects to begin implementation of a moderately sized community water and sanitation demonstration project in the Hadhramout region later this year. The project will also involve capacity building in Yemen water management institutions and will be carried out over several years with the objective of establishing a sustainable model of water and waste water management that can be repeated elsewhere in Yemen.

Community Affairs Programs also operate on an ongoing basis in association with Nexen's operations in Canada, Nigeria, Colombia and Australia. In Nigeria, Nexen has a Community Liaison Officer in Warri who receives and addresses numerous requests for assistance from Niger Delta communities. Nexen funds of US\$150,000 are directed to selected "host communities" and are utilized in a wide variety of social and infrastructure projects in the Niger Delta.

Public Consultation

Community consultation is founded on building awareness and commitment in the communities where we operate. Community consultation actively seeks to involve the public and community in the processes and decisions that may impact their lives. We believe that communities have a legitimate right to know about planned and ongoing activities and to participate in the decision-making for those issues that affect them. Nexen believes that, in identifying shared concerns, we are better able to find shared solution and opportunities.

COLOMBIA

In 2001, operations focused on the Guando development, operated by our partner PetroBras and exploration in two blocks operated by Nexen, Fusa and Villarrica. A 1999 Above Ground Issues Review identified the area near Melgar (the Guando discovery in the Boqueron block) and Fusagusaga (the Fusa and Villarrica blocks) as one of the most favourable with respect to supporting oil and gas development. This assessment was based on proximity to Bogota, the presence of military and police institutions in the region, well-developed infrastructure (roads and communities) as well as a diverse economy.

The Guando development hasn't been declared a commercial discovery yet; delineation of the field and design of permanent facilities continues. Oversight management of the PetroBras programs and performance is accomplished via management and technical committees, in-country working level contacts within drilling, engineering, construction, security, SESR and inspections by Calgary-based personnel.

The seismic exploration programs in the Fusagusaga and Villarrica blocks were conducted in difficult terrain. In the Fusagusaga block the activity was conducted in areas known for tourism and agriculture which required special operating practices and community consultation. Villarrica is less developed and care was taken to minimize disturbance. Comprehensive impact assessments and environmental management plans were prepared for both, submitted to the regulators and subsequently approved for the seismic programs.

A well, Atadero 1, has been planned for the Fusa block. A site-specific environmental assessment and an environmental management plan were prepared for this location in conjunction with extensive community consultation. Approval has been received, construction on the well site has commenced and a community investment program has been designed and is being implemented. Drilling should commence early in 2002.

Community relations is the cornerstone of all security programs in Colombia. In 2001, the Above Ground Issues Review Team revisited Colombia to ascertain if the assumptions respecting continued investment in Colombia prepared in 1999 were still valid. The team concluded that although there had been changes in the national economy and the peace process, Nexen could still continue to invest with the expectation of strong returns for our shareholders while living our values.

Capacity Building and Technology Transfer

Nexen implemented its “Yemenization Program,” a partnership among the government, community stakeholders and the Company. It is a three-year English language and technical course which qualifies Yemeni people for full time employment in a number of fields. Yemeni employment by Nexen continues to increase at a steady pace – about nine percent a year since 1993. The Yemenization Program isn’t designed to implement a quota system. It was developed as an effective means to give benefits to the local workforce while reducing the need and costs associated with an expatriate workforce. Currently, 65% of the Company’s employees in Yemen are nationals, with a target of 80% by 2009.

A Scholarship Program is offered to qualifying Yemeni students enabling them to receive a post-secondary education in Canada. Candidates are selected based on their ability to succeed and a commitment to bring their knowledge back to their country when their post-secondary education is complete. The multi-tiered selection process is based primarily on objective criteria ensuring that the integrity of the process is maintained and only the most capable students are awarded scholarships. During the course of implementing the Scholarship Program, it became evident that some talented secondary school graduates from rural Yemen were not considered for scholarships due to limited English skills. In 2001, Nexen established a pilot project where the top scoring candidates from the Hadhramout area were awarded in-country English language scholarships. In 2001, 10 Hadrhami students completed an intensive nine-month English as a Second Language Program with excellent results.

Nexen Canada offers post-secondary scholarships to students who attend high school in the areas where we operate. Students who will be graduating from Grade 12 are eligible. Selection concentrates on identifying individuals with a high academic standing, who are also actively involved in community and extra-curricular school activities. In 2001, Nexen Canada awarded 16 new scholarships, with total program expenditures for the year of approximately \$60,000. Two additional scholarships established in memory of past employees and family members were also awarded in 2001.

Nexen gets involved in other initiatives that build capacity. One example is our support through employment and financial contribution to Champions Career and Employment Service Centre. Champions is a group of different agencies dedicated to advancing workforce participation of people with disabilities. Nexen also became involved with Operation Minerva which provides opportunities for young women to job shadow female mentors in careers that were once male-dominated. In May 2001, three junior high school girls spent time with a group of female geologists, engineers and geophysicists from Nexen.

Aboriginal Relations (Canada)

One of the highest priorities for Aboriginal community leaders is the creation of employment opportunities for their people. Unemployment rates typically exceed 50% and are often as high as 90%. The resulting poverty is a primary driver of the social issues being faced by Aboriginal people. All current demographic studies indicate that a young and growing Aboriginal population will certainly put additional pressure on the urgent need to integrate Aboriginal people into our workforce.

The objective of our Aboriginal Employment Strategy is to ensure that Nexen responds to this urgent issue in a socially responsible manner. We do this by working with Aboriginal leaders to create programs that will encourage Aboriginal people to obtain the necessary qualifications so they may successfully pursue employment opportunities with us. The Nexen Award for Academic Excellence in Science and Math was created in partnership with Onion Lake First Nation to encourage their students to challenge these subjects and keep the door open for a future in one of the science-based professions.

We work with Aboriginal Student Centres at post secondary institutions to ensure that students are aware of Nexen programs specifically targeted to the Aboriginal community. These relationships have resulted in a significant increase in Nexen's participation in pre-employment programs such as intern positions, mentoring, work practicums and summer student positions for Aboriginal people.

In 2001, Nexen supported the Aboriginal Leadership and Management Program at the Banff Centre. The Program focuses on enhancing the capabilities of Aboriginal leaders and managers to provide effective and credible governance of their First Nations and associated businesses.

Cash Donations, Sponsorships and Matching Gifts

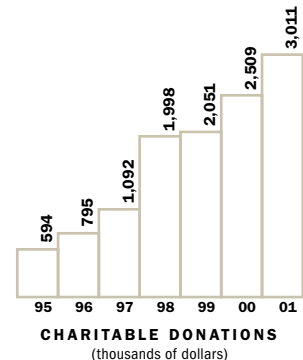
Nexen invested over \$3.0 million Company-wide in charitable organizations in 2001. Once again, our United Way campaigns (which were held at 13 locations) far exceeded expectations. Employee giving along with Company matching (paid in January 2002) totalled \$762,776. We also matched \$104,782 in employees' charitable donations to other organizations in 2001. In Calgary, we are supporters of the Alberta Children's Hospital and other health care initiatives; programs that meet immediate needs such as homelessness and women's shelters, as well as programs that contribute to the quality of life such as educational, environmental and arts initiatives.

Nexen Canada pledged \$350,000 to the Nature Conservancy of Canada's native grassland re-establishment at the Old Man on His Back Prairie and Heritage Conservation Area. In addition, major donations were made to the Adult Learning Centre, Hospitals of Regina Foundation for the purchase of a CT scanner; Job Safety Skills Society to deliver safety education to Saskatchewan high school students; and the National Aboriginal Achievement Foundation. It also renewed its educational partnership with Albert Community School in Regina.

In Australia, as part of the "First Oil" celebration, donations totalling Aus\$10,000 were made to the Asthma Northern Territory and the Cancer Council of the Northern Territory to support educational projects that help children and their peers understand and deal with those living with asthma and cancer.

Nexen Chemicals made over \$88,000 in charitable donations over the course of the year, distributing its contributions broadly in the communities in which it operates.

In 2001, Nexen Petroleum U.S.A. made over US\$50,000 in charitable donations. Of specific note were donations to the New York State World Trade Center Disaster Fund, The International Association of Firefighters, United Way and The American Red Cross. Nexen was a Founding Sponsor of the First Annual "Kidslink Foundation" Golf Tournament, which was instrumental in presenting US\$90,000 to the Celebration Shop, a music ministry for terminally ill children, and a total of US\$60,000 to two Dallas/Fort Worth area children's hospitals.





EMPLOYEE RELATIONS

Nexen has locations in Canada, U.S.A., Yemen, Nigeria, Australia, Brazil, Colombia and Singapore. Our workforce numbers over 2,000 worldwide and our voluntary turnover rate is 3.8%. We are committed to being the “Employer of Choice” and ranked 28th in the top 50 companies in the Globe and Mail’s Report on Business Magazine’s annual ranking. Our People Strategy is critical in achieving success and in recruiting, retaining, developing, rewarding and supporting employees. It defines the nature of the commitment that must exist between Nexen and our employees.

Integrity Workshops

Nexen has implemented an innovative and comprehensive Integrity Program. Our approach is based on empowerment and accountability. During 2001, a cross-divisional team of “Integrity Program Leaders” delivered *The Quest Integrity Workshop* to over 1,800 employees and contractors worldwide. In countries where the working language is other than English, the workshop materials and video were translated into the operating language. “QUEST” is an acronym for Nexen’s five pillars of integrity. In 2001, the *Quest Workshop* was recognized as continuing professional development for members of the American Association of Petroleum Landmen and the Association of Professional Engineers, Geologists and Geophysicists of Alberta.



Q – Query

What does integrity mean?

U – Unlock Ideas

Nexen’s values, principles and expectations

E – Explore Options

Dealing with dilemmas/getting assistance

S – Select a Path

Case studies which explore integrity issues

T – Take Responsible Action

Risks, rationalizations and rewards of acting/
not acting with integrity

Partnerships With Employees

We provide compensation and benefits packages that attract qualified individuals and encourage them to remain with Nexen. We encourage both reward and recognition programs. For example, employees who go “above-and-beyond” are eligible for participation in an employee recognition program with cash awards. We strive for all employees to have full, open and honest discussions with their supervisors and others. In the areas of performance, personal/technical development and career aspirations, the Career and Performance Communication process is in place. For more general discussions, our President and CEO holds monthly employee lunch sessions. There is a question and answer area on our intranet site which is accessible to all employees. These processes promote open and direct communication between employees and management, which fosters a fun, inspiring, challenging and professional work environment.

Effectively Develop Employees

We have a set of core competencies and values that are important for the Company’s and employees’ success. We provide technical and personal developmental opportunities that are interesting, challenging and rewarding. An educational assistance program exists to reimburse employees for relevant training. Some of the internal learning opportunities we offer are: Project Management and Coaching training as well as the Nexen Information Forum, a forum to share best practices.

Foster a Common Corporate Culture

We appreciate and respect the diversity of our Divisions while maintaining our commitment to our common core values and philosophies. We encourage diversity in an effort to mirror the face of the communities where we operate. We work closely with the Aboriginal liaisons to introduce career opportunities at Nexen. We are flexible when aligning employee and corporate needs by offering flexible work options such as permanent part-time, telecommuting, and job sharing (job rotation). We currently have approximately 920 employees who can access our computer system remotely allowing them to work away from the office. We consider work-life balance essential for our employees and provide designated days off, personal flex days, volunteer days, a wellness subsidy, Employee and Family Assistance program, and a fitness centre at our head office. We actively engage the youth in our communities through our summer and co-op student and work experience programs. We have an engineering internship program, a new graduate program and participate in local career fairs and campus recruiting.

SUPPLIER RELATIONS

Nexen had a very active capital investment program in 2001 of \$1.4 billion, at a time when industry activity levels were also high, stretching supplier capacity in Western Canada and other markets. High activity levels created a tight labour market for oil and gas suppliers, with numerous new hires and longer working hours. In this taxing environment, Nexen worked with its core suppliers to complete its capital programs in a safe and responsible manner. The Company's emphasis on responsible SESR practices by suppliers includes: supplier prequalification; safety programs and performance evaluation when awarding contracts; SESR audits; and other efforts contributing to a safe workplace. A key objective in 2001 was the preparation of contracts with Nexen's suppliers prior to SAP (Systems, Applications and Products) implementation. SAP is a process-oriented software system that focuses on how we manage our costs and related work activities. As a result, many informal relationships with suppliers became visible and were documented. In addition to the current benefits, this enables the reduction and optimization of Nexen's supply base over subsequent years. It will also enable Nexen to be more selective in awarding business to suppliers that provide the best mix of price, performance and SESR capability.

CUSTOMER RELATIONS

Nexen is committed to ensuring that risk is effectively managed with respect to the transportation of its products – whether by rail, truck or at marine loading terminals. We work with customers to ensure that the transportation of our products meets or exceeds SESR and industry standards. In our Chemicals Division, Responsible Care® reviews of our customers' sites are performed. With regard to the transportation of oil, each purchaser and vessel must agree to comply with the Rules and Regulations of Company-operated Terminals. Our Terminal operations conform to or exceed the standards prescribed by the International Safety Guide for Oil Tankers and Terminals. The Terminal Manager has the authority to turn away vessels that do not comply with the safety or environmental standards of the Terminal.

In addition, our Marketing Division has assisted the Balzac sour gas processing facility with its goal of becoming the first Responsible Care® upstream oil and gas operation in the world. Through the establishment of a Responsible Care® team, Marketing has focused on disseminating information on SESR by distributing Material Safety Data Sheets to all of its customers for propane, butane, condensate and sulphur being sold from the Balzac sour gas processing facility. To further improve safety, our Marketing Division requires transporters of products, mostly trucks, to be subjected to random inspections at the request of the Plant.

ECONOMIC PERFORMANCE

In 2001, Nexen continued to build long-term value growth for shareholders. We achieved record production and the second highest cash flow and earnings in our history. We successfully managed through another year of fluctuating commodity prices. Nexen's 2001 capital program, our largest ever at \$1.4 billion, delivered outstanding results:

STRONG FINANCIAL RESULTS

We generated \$1.4 billion in cash flow (\$11.20 per share), compared to \$1.6 billion (\$12.01 per share) we generated last year. For the full year, net income averaged \$450 million (\$3.40 per share) on net revenue of \$2.7 billion as compared to \$602 million (\$4.52 per share) in 2000 on net revenue of \$2.8 billion.

RECORD PRODUCTION

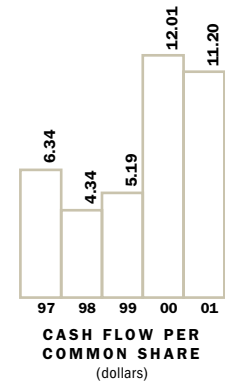
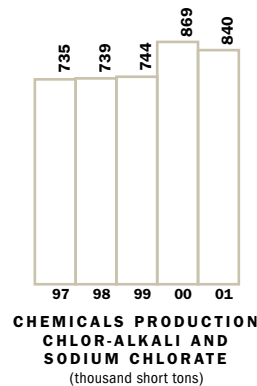
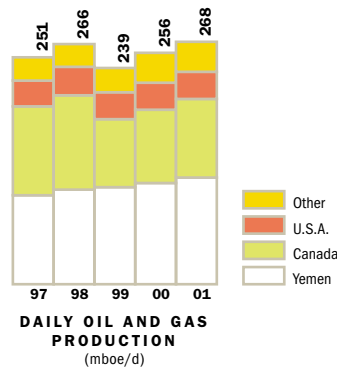
We produced 268,000 equivalent barrels per day in 2001, up 5% from the prior year and we ended the year producing over 279,000 equivalent barrels per day. Our core assets in the United States, Canada and Yemen, as well as our producing assets in Australia and Nigeria, all delivered strong performance.

SOLID RESERVE REPLACEMENT

Proved reserve additions totalled 135 million equivalent barrels and replaced 137% of annual production of 98 million equivalent barrels. The cost of finding and developing our reserve additions averaged \$9.47 per boe on a proved basis and just over \$6 per barrel on a proved plus probable basis in 2001. Over the past three years, these costs have averaged just \$6.44 on a proved basis and \$5 per barrel on a proved and probable basis.

NEW DISCOVERIES

Our exploration success continued in 2001 with two new discoveries at Durango and Aspen in the deep-water Gulf of Mexico. These add to our discoveries at Gunnison, also in the Gulf of Mexico, Ukot, offshore Nigeria, and at Guando in Colombia. All are moving swiftly towards the development phase.



NEW OPPORTUNITIES

In addition to proceeding with the development of our recent discoveries, we are targeting exceptional growth in Canada with our strategic initiative to produce and upgrade bitumen into light sweet crude oil at Long Lake, Alberta. The technology we've acquired through our Opti Joint Venture eliminates the need to purchase natural gas and diluent, allowing us to produce and upgrade bitumen at substantially lower costs than competing technology.

Our goal is to double the Company's value every five years, while achieving top-quartile performance in SESR and cost efficiencies. The concept of value drives every decision we make.

For more information about Nexen's economic performance, see our 2001 Annual Report – www.nexeninc.com.



THE ROAD AHEAD – 2002 OBJECTIVES/FUTURE PLANS

CORPORATE DIVISION

- Ensure due diligence and full regulatory compliance.
- Attain zero major environmental and safety events and continuously improve our SESR performance through continued special emphasis on high-risk activities such as drilling and well servicing.
- Complete development and implementation of a revised SESR management system based on 11 key elements.
- Refine and revise environmental performance indicators to better reflect operational variables and environmental significance.
- Support implementation of Responsible Care® in the Balzac sour gas processing and Yemen Masila operations and develop a strategy to implement Responsible Care® across all Divisions.
- Conduct a third-party audit of Nexen's SESR management system and a cross-section of our operations.
- Ensure that emergency response capability is in place and tested in all areas of operation and is integrated with the corporate Crisis Management Plan.
- Establish a Nexen major marine spill response management team.
- Develop and implement a focused and effective approach to manage risks and opportunities associated with Climate Change.
- Effectively implement all remediation projects in a manner that meets stakeholder expectations.
- Provide effective SESR technical support to all new and emerging International Division exploration and production projects.
- Provide support across all Divisions in integrating Corporate Social Responsibility aspects into business practices.
- Plan, organize and conduct effective and efficient public consultation programs for new projects and ongoing operations, with particular focus on the Company's sour gas exploration and production reclamation operations in Canada.
- Review and optimize management system for industrial hygiene, with particular focus on workplace ergonomics issues.
- Participate in industry association activities and take a leadership role for issues of particular importance to the Company (e.g. Climate Change, Corporate Social Responsibility, public safety and sour gas, SESR performance stewardship, UN Global Compact).

CANADIAN OIL AND GAS DIVISION

- Ensure due diligence and full regulatory compliance.
- Attain zero major environmental and safety events and continuously improve our SESR performance through continued special emphasis on high-risk activities such as drilling and well servicing.
- Ensure that emergency response capability is in place and tested in all areas of operation and is integrated with the corporate Crisis Management Plan.

U.S. OIL AND GAS DIVISION

- Strive to achieve zero reportable safety and environmental events.
- Conduct Minerals Management Service Safety and Environmental Management Plan audits at two locations.
- Develop training guidelines for Minerals Management Service Well Control and Production Safety Training.

INTERNATIONAL DIVISION

- Continue to contribute to capacity-building in Yemen by enhancing the training and competency of the national SESR workforce.
- Maintain and enhance the proficiency of the Yemen Masila Emergency Response Team through staging of realistic training exercises.
- Commence implementation of Responsible Care® in the Yemen Masila operations.
- In cooperation with the UN Global Compact, plan, organize and begin implementation of a community water and sanitation project in a village near the Yemen Masila operation.
- In Colombia, build and maintain good relations with environmental authorities, other governmental entities and communities, while developing Nexen exploration projects; provide SESR training to new national staff.
- In Australia, Buffalo production to reduce oil in water from the produced formation; Buffalo infill drilling to use best efforts to reduce overboard discharge of drill cuttings.
- Continue with host community programs associated with our Nigeria Ejulebe operations.

CHEMICALS DIVISION

- Continue to enhance the Responsible Care® concepts through new approaches to ongoing opportunities, awareness, leadership and recognition.
- Develop a plan to upgrade and revise engineering standards and continue efforts to harmonize policies/procedures.
- Improve value derived from participation, involvement in issues related to external committees.

INDUSTRY LEADERSHIP

In 2001, Nexen continued taking a leadership role in chairing the International Petroleum Industry Environmental Conservation Association and in implementation of the Canadian Association of Petroleum Producers' Environment, Health & Safety Stewardship Program. Nexen contributes business leadership, policy development and public dialogue through our active involvement in industry associations and non-governmental organizations including:

- Adult Learning Centre Foundation
- Alberta Chamber of Resources
- Alberta Ecotrust Foundation
- Alliance for Environmental Technology
- American Chemistry Council
- Brazil Chemical Association (Associação Brasileira da Indústria Química)
- Calgary Science Centre
- Canada Arab Business Council
- Canadian Association of Petroleum Producers (CAPP)
- Canadian Chamber of Commerce in Mexico
- Canadian Chemical Producers Association
- Canadian Council for the Americas
- Canadian Oilsands Network for Research and Development
- Canadian Petroleum Institute, International Executive Petroleum Management Program
- Chlorate Process Safety Association
- Chlorine Institute
- Climate Change Central (Alberta)
- Conference Board of Canada
- International Association of Oil and Gas Producers (Anti-Corruption Task Force)
- International Petroleum Industry Environmental Conservation Association (IPIECA)
- National Council on Canada Arab Relations
- Nature Conservancy of Canada
- Natural Resources Canada Minister's Science and Technology Advisory Committee
- Oil Spill Response Limited
- Petroleum Technology Research Centre
- ProNatura
- Ranch Ehrlo Society
- Saskatchewan Climate Change Stakeholders Advisory Committee
- Saskatchewan Minister of Labour – Safety Advisory Council
- Saskatchewan Petroleum Industry/Government Environment Committee
- Saskatchewan Science Centre
- Saskatchewan Trade & Export Partnership
- Society of Petroleum Engineers, Environment, Health & Safety Section
- Transparency International
- United National Global Compact
- World Business Council on Sustainable Development
- World Petroleum Congress

GLOSSARY

ANTHROPOGENIC CLIMATE CHANGE: a change in the global climate that can be attributed to human activities and which is in addition to any changes caused by natural process.

BITUMEN: a thick form of crude oil, so heavy that it will not flow unless heated or diluted with lighter hydrocarbons.

CLEAN DEVELOPMENT MECHANISM (CDM): measures under the Kyoto Protocol that are intended to encourage investment in developing countries that contribute to sustainable development and reduce or limit greenhouse gas emissions.

CRITICAL SOUR WELLS: wells with the potential for large H₂S releases or for any release that can affect population centres.

\$ OR DOLLARS: all dollar amounts are in Canadian currency unless otherwise stated.

ENVIRONMENTAL INCIDENTS: spills exceeding environmental authorizations.

FLEXIBLE MECHANISMS: market-based mechanisms included in the Kyoto Protocol to augment domestic action to reduce or limit greenhouse gas emissions. The Clean Development Mechanism is an example of a flexible mechanism.

GLOBAL COMPACT: an initiative by Kofi Annan, Secretary General of the United Nations, to engage the private sector in helping combat global problems of poverty alleviation.

GREENHOUSE GAS EMISSIONS (GHG): gas that traps heat in the earth's atmosphere and may contribute to the potential environmental risk of global climate change. These gases include carbon dioxide, nitrogen oxides and methane and are produced by natural processes and human activities.

INJURY INCIDENT RATE (IIR): number of medical aids plus modified work plus lost time multiplied by 200,000, all divided by the number of worker exposure hours.

INTERNATIONAL CODE OF ETHICS FOR CANADIAN BUSINESS: a statement of values and principles that addresses the areas of community participation and environmental protection, human rights, business conduct, employee rights, health and safety.

KYOTO PROTOCOL: a protocol to the International Convention on Climate Change requiring nations to reduce GHG emissions.

LOST-TIME INJURIES (LTI): injuries that result in workers being unable to report to their next scheduled work shift.

MAJOR INCIDENT: incidents that result in a critical injury or fatality, regulatory enforcement action, significant adverse impact to the environment or the Company's reputation, or a significant monetary loss to the Company.

PRODUCED WATER: water produced along with oil and gas extraction which must be separated before the product is marketable.

PRODUCTION CARBON INTENSITY: the mass of carbon dioxide emissions emitted during the production of each cubic metre of oil and gas. The greenhouse gas potentials of other greenhouse gases are included in the calculation.

PRODUCTION ENERGY INTENSITY: energy consumed (gigajoules) in the production of each cubic metre of oil and gas.

RECORDABLE INJURIES: injuries that require medical interventions, result in workers being unable to report for their next scheduled work shift (lost-time injuries) or require workers to be assigned to duties other than their normal work.

RESPONSIBLE CARE®: a commitment to the responsible management of a product through its entire life cycle.

SAFETY CASE: a life-of-facility document that describes how risks to people, processes and the environment are reduced to ALARP (as low as reasonably practicable).

SALINIZATION: in soil of an arid, poorly drained region, the accumulation of soluble salts by the evaporation of the waters that bore them to the soil zone, may also result from brine spills.

SOUR GAS: natural gas containing hydrogen sulphide (H₂S) which is flammable, has a strong rotten egg odour and can be dangerous to animals and humans.



GLOBAL COMPACT



Responsible Care
A Total Commitment



World Business Council for
Sustainable Development



Canadian Association of
Petroleum Producers
Environment, Health & Safety Stewardship



*Gold*TM
Champion
Level Reporter

