



Report to Shareholders

**For the year ended
December 31, 2015**



NXT ENERGY SOLUTIONS INC.

Management's Discussion and Analysis ("MD&A")

Q4 – 2015

**As at and for the year
ended December 31, 2015**

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared by management based on information available as at April 26, 2016 and should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2015. This MD&A covers the unaudited 3 month ("Q4-15") and 12 month year-to-date ("2015 YTD") periods ended December 31, 2015, with comparative totals for the 3 month ("Q4-14") and 12 month year-to-date ("2014 YTD") periods ended December 31, 2014.

As used in this MD&A, the terms "we", "us", "our", "NXT" and the "Company" mean NXT Energy Solutions Inc.

Our functional and reporting currency is the Canadian dollar. All references to "dollars" in this MD&A refer to Canadian or Cdn. dollars ("Cdn \$") unless specific reference is made to United States or US dollars ("US\$").

Forward-looking statements

This MD&A contains forward-looking statements, which include words such as "intends", "plans", "anticipates", "expects", "scheduled", and relate primarily to:

- estimates of the amount and expected timing of revenue and costs related to existing and potential new SFD[®] survey contracts that may be obtained, conducted and completed in future periods.
- the timing and extent of potential future growth opportunities in new international markets, including new business ventures.
- plans related to development of the Company's "Vertical" business model.
- estimates related to NXT's future financial position and liquidity.

The material factors and assumptions which affect this forward-looking information include assumptions that NXT will continue to have available the necessary personnel, equipment and required local permits to conduct survey projects as intended.

These forward-looking statements are based on current expectations and are subject to a wide range of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as required by law, NXT assumes no obligation to update forward-looking statements should circumstances or the Company's estimates or opinions change.

Non GAAP measures

NXT's accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). This MD&A includes references to terms such as "net working capital" and "net working capital before the undernoted items", terms which do not have a standardized meaning prescribed by US GAAP and may not be comparable to similar measures presented by other entities. Management of NXT uses these non-GAAP measures to improve its ability to assess liquidity at a point in time. Net working capital before the undernoted items is defined as total current assets less total current liabilities, excluding amounts accumulated in work in progress and deferred revenue. Management excludes these amounts from the calculation as they will not result in future cash inflows or outflows to the Company.

Description of the Business

NXT is a Calgary based publicly traded company (now listed on the TSX) that provides a unique aerial survey service to the oil and natural gas exploration and production ("E&P") industry. NXT's proprietary, patent pending Stress Field Detection ("SFD[®]") survey technology is based on detecting subtle changes in earth's gravitational field from an airborne platform. SFD[®] data acquired is analyzed and can be used to find variations in sub-surface geological stress patterns – which are considered to be indicators of potential reservoir and trap formations. NXT's aerial SFD[®] surveys provide an effective and cost efficient method for clients to focus their decisions related to land commitments and the acquisition of traditional seismic data that is used to locate and delineate exploration prospects.

Our goal is to aid our clients in reducing their overall time, cost, environmental impact, and risk in their exploration programs. Relative to traditional land based methods, the SFD[®] survey method is environmentally non-invasive and is unaffected by ground security issues or difficult terrain. Additionally, SFD[®] surveys can generally be conducted year round and are effective both onshore and offshore. SFD[®] and NXT in Canada and the United States are the registered trademarks of NXT Energy Solutions Inc.

NXT's technology is attractive for use as an early stage exploration tool in frontier and under-developed areas, and as such, we have been seeking to expand our presence in growing new international exploration markets such as South and Central America.

Overall Performance - Business Overview

NXT recognizes that its past revenue base has been sporadic in nature, as it is derived from a limited number of clients, and conducting periodic survey projects which are relatively short-term in nature. Our primary goal is to expand our revenue base, which will be facilitated by having new clients become repeat, larger scale customers.

Our strategy has been to gain wider market acceptance of SFD[®], especially with premier clients which have high exploration activity - targets which include large National Oil Companies ("NOCs"). We seek to have each new client experience how NXT can enhance their existing geophysical tools and exploration programs, so that they become ongoing repeat customers, and ultimately generating a wider client base with recurring revenues to NXT.

This process of expanding the client base has ongoing challenges, due to such factors as:

- exploration geoscientists are often inundated with new technologies, and can be inherently resistant to test and adopt new methods.
- the exploration cycle is long in nature, and generating results from SFD[®] recommendations made in past surveys takes time and patience to realize.
- large NOCs can tend to have a long decision making and approval process.
- the current, ongoing downturn in commodity prices in the oil and gas industry.

The discussion in the MD&A focuses on the highlights of NXT's ongoing business development activities, and any significant changes arising subsequent to the fiscal year ended December 31, 2015.

Estimates of the timing and securing of future contract opportunities are forward-looking expectations which are dependent upon regional political and other factors that are beyond NXT's control.

For most of 2015, NXT was working on undertaking and delivering our Bolivia survey project, which has been our largest contract to date. Our final deliverables under the initial portion of the contract were met in Q4-15, which resulted in a record year of revenues and profitability for NXT.

After securing and performing the Bolivia survey project in 2015, we have made traction with additional new prospective clients, particularly in Bolivia and Pakistan. In addition, ongoing meetings were held in recent months with several client prospects which have sizeable potential exploration survey projects in new areas of Asia, the Middle-East and Africa, including Malaysia, Sri Lanka, Ghana, the UAE and most recently Qatar. NXT is undertaking extensive marketing efforts and technical presentations at the invitation of these prospective clients in the April to May 2016 period in order to advance and secure project opportunities in these regions.

Near-term Outlook and Strategy for 2016 and beyond

NXT is continuing to expand awareness and use of the SFD[®] technology. Our market focus will be on the NOCs, small to mid-cap exploration and production ("E&P") companies, and when opportunities arise, the major E&P companies. A lucrative potential longer term new market to be pursued is joint projects with the seismic companies that acquire and sell large scale "Multi-Client" survey programs (primarily off-shore).

Geographically, NXT will continue to pursue prospects throughout South and Central America - primarily in Bolivia, Mexico, Colombia, Peru, Ecuador, Argentina, and Brazil, as well as the Pakistan / South Asia, Africa and Middle-East regions. Longer term prospects will also be pursued in the frontier areas of the Arctic and off-shore Atlantic regions (particularly where Canadian and American E&P companies are operating).

As NXT pursues various international markets, our strategy is to utilize high quality local sales representatives with the key knowledge of their area, the potential clients and the exploration sector of the oil and gas industry. This allows us to cover much larger areas and more clients with minimum fixed cost. Also, having a local presence, with knowledge of the market and customs, is often key to building relationships with new clients. NXT will also seek to maintain a local office presence in select markets in order to directly interact with key clients, such as YPFB in Bolivia.

Through the end of 2015, NXT was utilizing several independent sales representatives to pursue SFD[®] survey opportunities in such markets as Latin America (primarily Mexico and Bolivia), South Asia (Pakistan and India), the Middle-East, and South-Asia regions. Contracts with our independent international sales representatives include requirements that they adhere to NXT's code of conduct and business ethics, and compliance with anti-corruption policies.

In Q4-15, we also expanded our complement of sales staff, and added an experienced, Spanish speaking geoscientist who will aid in our efforts to serve and grow our Latin and Central America markets.

Projects in Bolivia and future opportunities

In April 2015, NXT finalized a commitment with Yacimientos Petrolíferos Fiscales Bolivianos ("YPFB", the NOC of Bolivia) to undertake a US \$13 million (net) survey project. The highlights of this milestone survey project (all amounts noted herein are net of local Bolivia sales taxes which arise on the project billings) and related recent developments include:

- following the delivery by NXT of standard project performance guarantees, in May 2015, NXT received an advance deposit (value of US \$2.5 million net of local taxes, and secured by a bank letter of guarantee issued to the client), which was later applied against the progress billings earned by NXT on the project to the end of July totaling US \$7.7 million (net).
- SFD[®] data acquisition operations commenced in Bolivia in early June, and the data acquisition phase was completed in August, with NXT's related recommendations reports delivered to YPFB in late October.
- during the data acquisition phase, YPFB chose to undertake an additional survey "expansion" project valued at approximately US \$1.0 million. The decision for YPFB's expansion was based on the rapid delivery of preliminary SFD[®] results, which had excellent correlations noted between anomalies

identified by SFD[®] and the clients' existing ones identified using seismic methods. A contract amendment was finalized in October, 2015 for this project, the final results for which were delivered by NXT in January, 2016.

- progress billings totaling US \$13 million (net) for the full value of the initial contract were received in 2015 by NXT's Bolivia branch. Additional billings totaling US \$1 million (net) for the project expansion were issued to YPFB (one half in each of December, 2015 and January, 2016) and have also been received in full.
- NXT also had ongoing discussions concerning potential SFD[®] survey project opportunities with several of YPFB's affiliated, subsidiary companies which have exploration acreage in Bolivia. Two entities expressed interest in obtaining SFD[®] data for certain of their exploration lands in Bolivia - YPFB Chaco, and YPFB Andina (which is a partnership with Repsol, a major Spanish oil company). A contract with YPFB Chaco to purchase initial SFD[®] data (which was acquired in summer 2015) in the amount of US \$0.2 million was completed and delivered by NXT in Q4-15.
- while conducting operations in Bolivia in summer 2015, NXT acquired additional proprietary SFD[®] data flight lines requested by YPFB Andina and minor additional SFD[®] data for YPFB Chaco. These parties indicated that they are in process of approving formal contracts to purchase this data, which has a sales value of approximately US \$1.0 million (net), and negotiation of this is currently in process. There is, however, some risk that this process may not result in formal contracts to purchase the SFD[®] data from NXT.

In summary, the Bolivia survey contracts performed in 2015 and the potential future Bolivia data sales is summarized as follows:

amounts in US\$ millions, net	contract value	amounts received to December 31
YPFB – initial survey contract	13.0	13.0
YPFB Chaco survey	0.2	0.2
YPFB – project expansion	1.0	0.5
Total for contracts commenced in 2015	14.2	13.7
YPFB Chaco and YPFB Andina – proposed 2016 data purchases	1.0	-
Total awarded surveys and proposed 2016 Bolivia data sales	15.2	13.7

In Q4-15 and January 2016, NXT conducted various technical presentations with YPFB's exploration groups, with the objectives of:

- integrating the SFD[®] survey data with YPFB's existing geophysical data, which further enhances the use and value of the data provided by NXT.
- evaluating potential new SFD[®] survey opportunities which may be of interest for YPFB to undertake as part of its' exploration plans for later in 2016 and 2017.

Project opportunities in Pakistan

Our past SFD[®] survey project for Pakistan Petroleum Ltd. ("PPL"), one of the NOCs active in Pakistan, gave NXT significant exposure to numerous E&Ps active in the South Asia region. In Pakistan, remote sensing technologies such as SFD[®] were recognized in 2015 as a geophysical tool for use in meeting spending commitments, such as the commitments required on the sizeable exploration concession blocks awarded in frontier areas of Pakistan. Multiple client prospects had expressed interest in conducting potential SFD[®] surveys in Pakistan (subject to the eventual approval in 2015 of the amendments to Pakistan's petroleum policy), and NXT continues to pursue these opportunities.

In early 2015, NXT was awarded a US \$1.44 million survey project to be conducted in Pakistan, subject to receipt by the client of all relevant government permits and approvals, which could potentially occur in the near future. In addition, Oil & Gas Development Company Limited ("OGDCL"), a new prospective NOC client in Pakistan, completed a vendor pre-qualification stage in fall 2015 for a formal tender invitation process, which is expected to be offered in the near future, for a large-scale, remote sensing aerial survey project for which SFD® would be an ideal technology for meeting their exploration requirements.

Opportunities in the Mexico market

NXT gained Petrol os Mexicanos ("PEMEX", the NOC of Mexico) as a new client in 2012, and continues to work to create a long-term supplier relationship with PEMEX. This requires patience and perseverance, as PEMEX has been undergoing extensive changes in strategy and structure since late 2013, as they deal with the significant reforms of Mexico's energy industry.

The reforms of the 2013-2014 period had a significant effect on PEMEX and its ongoing exploration activities. Mexico is inviting foreign E&P partners into its formerly closed exploration market, by way of inviting open "bid rounds" on certain exploration blocks / concessions which will be released over time. This process is intended to yield long-term benefits for all of Mexico, as it should eventually attract significant new capital and expertise to expand development of Mexico's oil and gas industry. Expanded exploration in Mexico, and especially in the deep water and salt domains of the Gulf of Mexico, is an area where SFD® can excel at rapidly providing PEMEX and others with independent high-impact prospect generation data.

NXT will continue to pursue new opportunities with PEMEX, and other exploration entities which are looking to enter the Mexico market.

The SFD® "Vertical" Business Model

A separate initiative that we undertook in late 2014 was researching ways to monetize our existing "library" of proprietary SFD® data obtained in past survey flights. The objective is to create a vertically integrated exploration entity (a "Vertical") which utilizes a combination of external funding, an independent and experienced exploration management team, and a high-value data set of existing SFD® identified prospects. The ultimate goal is for NXT to receive a significant equity and royalty interest in the Vertical in consideration for the sale to the Vertical of certain of our existing, proprietary SFD® data.

Developing the Vertical business model with the appropriate structure will be a long-term project to develop SFD® identified prospect areas in an effort to yield an additional return to NXT shareholders.

A Vertical model "feasibility study" process started in Fall 2014, following which NXT advanced the Vertical concept, including:

- conducting an extensive geotechnical analysis of a defined portion of NXT's proprietary SFD® data library, and further developing an inventory of prospect leads, and
- developing an initial financing and exploration plan, which we intend to use in future to further develop the Vertical concept, with a view to obtaining a commitment for sufficient external equity funding.

At the present time, NXT continues to believe that the Vertical concept will eventually be implemented to create long-term value. Current commodity price conditions, which many analysts expect to continue through 2016, make the ability to attract exploration financing challenging. In the meantime, NXT will continue to assess alternative opportunities to apply SFD® in a Vertical model in attractive global markets.

Some of the ongoing challenges, risks and uncertainties that NXT will face in an ultimate realization of the Vertical concept include:

- structuring the Vertical entity so that it will be able to raise sufficient equity financing (potentially a minimum of \$100 million) to allow it to undertake a meaningful exploration program (i.e. capex required for land acquisition or farm-in, drilling and completion costs, etc.) to develop exploration prospects identified using SFD[®] data.
- attracting experienced joint venture partners, on suitable terms, where this is assessed as critical to developing certain exploration prospect areas.
- sourcing and retaining exploration and development staff, ideally with experience operating in the foreign markets to be pursued.
- operating exploration and development activities in foreign jurisdictions which may lack ongoing political and fiscal stability and certainty.

As the ultimate execution of the Vertical concept is dependent on many factors, there is no certainty as to the ultimate timing and financial impact which it may have on NXT's future performance.

NXT's data library continued to expand in 2015 and now includes significant amounts of data in Colombia, Mexico and Bolivia as well as Canada and the USA. NXT can potentially use this data in new Vertical opportunities or sell it directly to clients.

Intellectual Property ("IP") and Research & Development ("R&D")

Ongoing objectives to realize additional future revenue growth include expanding our SFD[®] equipment capacity, adding to our core group of interpretation staff and our ability to provide integration of SFD[®] with client geological and geophysical data. We continue to research and advance the development of algorithm software which may be able to be deployed to aid in enhancing the SFD[®] data interpretation process.

Initiatives to expand and protect our IP (including patenting and new R&D initiatives) continue, which should also serve to allow us to expand on our technology disclosures in order to build further industry awareness, understanding, and acceptance of SFD[®]. Squire Patton Boggs LLP, a United States ("US") based leader in IP protection, has been advising on our IP strategy, including the prior filing of an initial US provisional patent application in May 2012. In November 2014, NXT filed a related patent amendment submission in the US and since that time has undertaken new patent applications in select strategic international markets. NXT is in process of conducting further R&D related to the SFD[®] technology, and intends to draft additional new claims for patent applications to be filed in the US in the near future.

Selected Annual Financial Information

	2015	2014	2013
Survey revenue	\$ 17,422,151	\$ 3,913,367	\$ 2,684,095
Net income (loss)	10,540,228	(1,563,361)	(5,341,561)
Net income (loss) per share ⁽¹⁾			
Basic	0.22	(0.04)	(0.13)
Diluted	0.21	(0.04)	(0.13)
Net cash flow from (used in) operating activities	6,984,922	(3,581,186)	(774,958)
Cash and short-term investments	9,141,281	5,224,065	5,769,077
Total assets	39,079,903	6,049,103	6,839,993
Long term liabilities	300,462	50,000	64,560

⁽¹⁾ in periods with a loss, the Diluted total excluded the 8,000,000 outstanding convertible preferred shares, as their effect is anti-dilutive.

Summary of Quarterly Results (Unaudited)

A summary of operating results for each of the trailing 8 quarters (including a comparison of certain key categories to each respective prior quarter) follows. The extent of the profit or loss each quarter is mainly due to the timing and the number of SFD[®] survey contracts that have been completed or are underway, and variances in such non-cash items as stock based compensation expense ("SBCE"), which can occasionally be a significant expense in any given quarter. Also, in Q3-15, upon conversion of the outstanding preferred shares, NXT recorded a significant intellectual property asset, which is being amortized (a non-cash expense) over a 15-year period.

In addition, the US\$ denominated common share purchase warrants (which were exercised or expired by the end of Q2-14) were classified as a "derivative financial instrument" on our balance sheet, which prior to Q3-14 gave rise to the recognition in earnings each quarter of the change in the estimated fair value (also a non-cash expense or income item) of these warrants.

	Q4-2015 Dec 31, 2015	Q3-2015 Sept 30, 2015	Q2-2015 June 30, 2015	Q1-2015 Mar 31, 2015
Survey revenue	\$ 17,422,151	\$ -	\$ -	\$ -
Net income (loss)	15,523,601	(1,878,210)	(1,586,991)	(1,518,172)
Income (loss) per share – basic	0.29	(0.04)	(0.04)	(0.03)
Income (loss) per share – diluted	0.29	(0.04)	(0.04)	(0.03)

	Q4-2014 Dec 31, 2014	Q3-2014 Sept 30, 2014	Q2-2014 June 30, 2014	Q1-2014 Mar 31, 2014
Survey revenue	\$ -	\$ -	\$ -	\$ 3,913,367
Net income (loss)	(1,532,466)	(1,330,167)	(1,286,461)	2,585,733
Income (loss) per share – basic	(0.03)	(0.03)	(0.03)	0.06
Income (loss) per share – diluted	(0.03)	(0.03)	(0.03)	0.05

Q4-15 to Q3-15 comparison – NXT had survey revenue of \$17,422,151 (\$nil in Q3-15), survey costs of \$5,070,023 (\$nil in Q3-15), SBCE of \$490,000 (\$169,000 in Q3-15), amortization expense of \$523,760 (\$146,828 in Q3-15), and a total net income tax recovery of \$5,415,933 (income tax expense of \$485,788 in Q3-15).

Q3-15 to Q2-15 comparison – NXT had survey revenue of \$nil (\$nil in Q2-15), survey costs of \$nil (\$228 in Q2-15), SBCE of \$169,000 (\$228,000 in Q2-15), and total amortization expense of \$146,828 (\$18,830 in Q2-15).

Q2-15 to Q1-15 comparison – NXT had survey revenue of \$nil (\$nil in Q1-15), survey costs of \$228 (\$25,440 in Q1-15), and SBCE of \$228,000 (\$194,000 in Q1-15).

Q1-15 to Q4-14 comparison – NXT had survey revenue of \$nil (\$nil in Q4-14), survey costs (related to equipment test flights and aircraft maintenance costs) of \$25,440 (\$33,221 in Q4-14), and SBCE of \$194,000 (\$186,000 in Q4-14).

Q4-14 to Q3-14 comparison – NXT had survey revenue of \$nil (\$nil in Q3-14), survey costs (related to equipment test flights and aircraft maintenance costs) of \$33,221 (\$54,472 in Q3-14), and SBCE of \$186,000 (\$191,000 in Q3-14).

Q3-14 to Q2-14 comparison – NXT had survey revenue of \$nil (\$nil in Q2-14), survey costs (related to equipment test flights) of \$54,472 (\$10,637 in Q2-14), and SBCE of \$191,000 (\$150,000 in Q2-14).

Q2-14 to Q1-14 comparison – NXT had survey revenue of \$nil (\$3,913,367 in Q1-14), survey costs of \$10,637 (\$333,188 in Q1-14), SBCE of \$150,000 (\$131,000 in Q1-14), and an increase in the fair value of US\$ common share purchase Warrants (derivative financial instruments) expense of \$nil (\$42,800 expense in Q1-14).

Q1-14 to Q4-13 comparison – NXT had survey revenue of \$3,913,367 (\$nil in Q4-13), survey costs of \$333,188 (\$81,285 in Q4-13), SBCE of \$131,000 (\$183,000 in Q4-13), and an increase in the fair value of US\$ common share purchase Warrants (derivative financial instruments) expense of \$42,800 (\$268,500 expense in Q4-13).

Two survey projects (in Florida and Texas) commenced for a USA based client in late December 2013, with the project completed and the related revenue and work-in-progress costs recognized in the Q1-14 period.

Summary of Operating Results

NXT had a net income of \$15,523,601 for Q4-15 (net income of \$10,540,228 for 2015 YTD) as compared to a net loss of \$1,532,466 for the Q4-14 period (and a net loss of \$1,563,361 for 2014 YTD). The 2014 YTD period included revenues of \$3,913,367 from the completion in Q1-14 of two survey projects which were conducted in the USA for a new client, Kerogen Exploration LLC.

In 2015, NXT delivered results on two separate survey projects flown in Bolivia, for which the final findings and recommendations reports were delivered in October, 2015, resulting in completion of the projects. In addition, a separate project related to a scope expansion of the original project for YPFB was delivered in January 2016. Deferred revenues of \$706,722 and work-in-process costs of \$404,840 incurred on this project will be recognized in income in NXT's Q1-16 period.

	Q4 2015	Q4 2014	2015 YTD	2014 YTD	2013 YTD
Survey revenue	\$ 17,422,151	\$ -	\$ 17,422,151	\$ 3,913,367	\$ 2,684,095
Expenses:					
Survey costs	5,070,023	33,221	5,095,691	431,518	1,632,159
General and administrative	1,667,241	1,038,423	5,049,690	4,132,108	4,112,787
Stock based compensation expense	490,000	186,000	1,081,000	658,000	492,000
Amortization expense	523,760	21,692	704,943	67,162	85,484
	7,751,024	1,279,336	11,931,324	5,288,788	6,322,430
Other expense (income):					
Interest expense (income), net	606	(15,589)	(13,910)	(50,824)	(25,455)
Foreign exchange (gain) loss	(449,826)	(35,635)	(712,480)	(158,817)	(150,350)
Feasibility study and other expenses	12,679	304,354	529,081	354,781	107,985
Increase (decrease) in fair value of US\$ Warrants	-	-	-	42,800	1,371,500
	(436,541)	253,130	(197,309)	187,940	1,303,680
Income (loss) before income taxes	10,107,668	(1,532,466)	5,688,136	(1,563,361)	(4,942,015)
Income tax expense (recovery)					
Current	1,407,067	-	1,970,908	-	(399,546)
Deferred	(6,823,000)	-	(6,823,000)	-	-
	(5,415,933)	-	(4,852,092)	-	-
Net income (loss) for the period	15,523,601	(1,532,466)	10,540,228	(1,563,361)	(5,341,561)

SFD® survey operations - NXT applies the completed contract basis of revenue recognition, with survey revenue and expenses recognized in the quarterly period in which the final overall survey recommendations report is delivered to our client, resulting in the completion of our obligations under the survey contract. The 2014 YTD period reflected the completion in Q1-14 of a total of US \$3.7 million of survey projects which were conducted in the USA. In 2015, NXT completed Bolivia survey projects totaling US \$13.2 million. An additional expansion project that was flown for YPFB was delivered and completed in January, 2016, which will result in US \$1 million (for which one half was billed and received to December 31, 2015) of revenue recognition in the Q1-16 period. The second half of the contract billing for this expansion project was issued and received in Q1-16.

General and administrative expense ("G&A") - All salaries and overhead costs related to SFD® data interpretation staff are included in G&A, and not included with direct survey expenses. The categories of costs included in G&A are as follows:

	Q4-15	Q4-14	net change	% change
Salaries, benefits and consulting charges	\$ 719,371	\$ 634,572	\$ 84,799	13.4 %
Board, professional fees, & public company costs	257,573	71,256	186,317	261.5 %
Premises and administrative overhead	214,128	153,956	60,172	39.1 %
Business development	118,744	171,364	(52,620)	- 30.7 %
Colombia office	4,425	7,275	(2,850)	- 39.2 %
	1,314,241	1,038,423	275,818	26.6 %
Bonus expense	353,000	-	353,000	100.0 %
Total G&A	1,667,241	1,038,423	628,818	60.6 %

	2015 YTD	2014 YTD	net change	% change
Salaries, benefits and consulting charges	\$ 2,563,445	\$ 2,383,388	\$ 180,057	7.6 %
Board, professional fees, & public company costs	881,299	612,847	268,452	43.8 %
Premises and administrative overhead	862,052	599,230	262,822	43.9 %
Business development	369,087	433,441	(64,354)	- 14.8 %
Colombia office	20,807	103,202	(82,395)	- 79.8 %
	4,696,690	4,132,108	564,582	13.7 %
Bonus expense	353,000	-	353,000	100.0 %
Total G&A	5,049,690	4,132,108	917,582	22.2 %

The overall net changes in G&A within the individual expense categories noted above reflect several factors:

- staff levels were higher in 2015, leading to an increase in salaries and related benefits.
- in the Q4-14 period, public company costs were much lower than the normal rate for each quarter based on the timing of discretionary investor relations activities.
- board, professional fees, & public company costs were higher in 2015 primarily due to a higher level of spending on investor relations activities, and in 2014, a higher percentage of the total fees for NXT Board members were settled in the form of stock options granted, rather than paid in cash.
- premises and overhead costs rose in Q4-15, and for 2015 YTD, following the move to new, larger office premises in August, 2015. The increase included an overlap of office rent on two locations for one month in Q3-15, and the effect of amortizing the initial "rent-free" period at the new location to G&A expense over the 10 year term of the new lease (which resulted in a "deferred charge" being recorded in long-term liabilities).
- business development costs were slightly lower for 2015 YTD, although they are somewhat discretionary each quarter, as they are a function of the timing of activity in developing new client

opportunities. Costs incurred in 2015 related to opportunities being pursued in the Latin America, Africa and south Asia regions.

- a decrease in costs in 2015 for the Colombia office following the lay off in summer 2014 of the office administrator.
- a corporate bonus pool of \$353,000 was expensed in Q4-15 based on financial results of the Bolivia survey project.

Expenses related to the office location opened in Bolivia in summer 2015, which was used to service the YPFB projects, are included with 2015 survey costs.

Stock Based Compensation Expense ("SBCE") - this expense varies in any given quarter or year, as it is a function of several factors, such as the number of stock options issued in the period, and the period of amortization (based on the term of the contract and / or number of years for full vesting of the options, which is normally 3 years) of the resultant expense. Also, SBCE is a function of periodic changes in the inputs used in the Black-Scholes option valuation model, such as volatility in the trailing market value of NXT's common share price.

There was a higher average number of options outstanding in the 2015 YTD period (total of 3,462,835 as at the end of Q4-15 as compared to 2,541,435 at the end of Q4-14).

SBCE also includes expense related to the "Rights" which were issued in January 2014 (see discussion which follows in the "convertible preferred shares" section herein) as follows:

	Q4-15	Q4-14	2015 YTD	2014 YTD
SBCE recognized related to:				
Rights – grant in 2014	\$ 62,000	\$ 52,000	\$ 244,000	\$ 226,000
Rights – extension of term in 2015	210,000	-	210,000	-
	272,000	52,000	454,000	226,000
Stock options	218,000	134,000	627,000	432,000
	490,000	186,000	1,081,000	658,000

Effective from December 31, 2015, the initial 2-year term of the Rights was extended by one additional year, which resulted in the recognition of an additional \$210,000 of SBCE in Q4-15. Even though these Rights are not an obligation of NXT, but solely of the Grantor, under US GAAP they are viewed as an additional form of incentive granted to certain of the holders, which results in the requirement for NXT itself to recognize this expense. Further, the holders' entitlements to exercise the Rights had become fully "vested" as at the December 31, 2015 extension date, which resulted in immediate recognition of the incremental SBCE in Q4-15 (rather than over the one year term of the extension).

Interest income, net – includes interest income earned on short-term investments, which had a lower total for the 2015 periods, and is net of interest incurred on a new capital lease obligation that was entered into in the Q3-15 period in connection with the construction of the new office space.

Loss (gain) on foreign exchange - this total is caused by changes in the relative exchange values of the US\$, Cdn\$ and to a minor extent, the Colombian peso ("COP"). For example, when the Cdn\$ trades higher relative to the US\$ or COP, cash held in US\$ or COP will decline in value, and this decline will be reflected as a foreign exchange loss in the period. NXT normally holds its cash and short-term investments in Cdn\$ to reduce the effect of market volatility; however, we periodically are contractually obligated to hold certain restricted cash funds in US\$ instruments to support performance bond commitments in certain foreign countries.

The value of net US\$ monetary assets can vary widely each period, based on such factors as the extent of US\$ revenue contracts in process, and the related level of US\$ cash and short-term investments which were held.

The valuation is also affected by the relative strength of the US\$ at each period end (which rose significantly in 2015 as compared to the end of 2014, as the rate was 1.384 Cdn\$ / US\$ at the end of Q4-15 as compared to 1.160 Cdn\$ / US\$ as at end of Q4-14), resulting in both realized and unrealized net exchange gain movements on the net holdings of US\$ cash and other working capital items.

Other expense - this category includes primarily costs related to intellectual property filings and R&D activity related to the SFD[®] technology, and the feasibility study for the Vertical concept.

Other expense related to	Q4-15	Q4-14	2015 YTD	2014 YTD
Intellectual property and R&D	\$ 16,585	\$ 103,881	\$ 121,348	\$ 148,975
Vertical model feasibility study	(4,983)	213,241	400,104	213,241
Other, net	1,077	(12,768)	7,629	(7,435)
	12,679	304,354	529,081	354,781

Intellectual property and related amortization expense - NXT finalized its acquisition of specific rights to utilize the proprietary SFD[®] technology from its inventor, NXT's President & CEO, on August 31, 2015 with the conversion of the remaining 8,000,000 preferred shares, on a 1 for 1 basis, into NXT common shares. NXT now has the exclusive ownership of and rights to utilize the SFD[®] intellectual property in global hydrocarbon exploration applications. After the Conversion, NXT's CEO continues to retain the rights to utilize SFD[®] in other potential field-of-use applications.

The technology had originally been held and utilized by NXT under a 10-year technology transfer agreement (the "TTA"), which was to mature on December 31, 2015 (the "Maturity Date"). The convertible preferred shares were issued under the TTA in the 2005 / 2006 period to NXT's President & CEO, were non-voting, and were subject to earlier partial conversions if certain cumulative revenue milestones were achieved by NXT.

The 8 million convertible preferred shares had been assigned only a nominal value of \$232,000 upon their original issuance in 2005, based on uncertainty as to whether the Company would successfully develop the technology in order to meet the cumulative revenue thresholds required to trigger full conversion over the 10-year term of the TTA. NXT had an option under the TTA to retain the ongoing rights to utilize the technology by converting the remaining preferred shares into common shares prior to the Maturity Date (the "Conversion"). The independent members of the Board of Directors of NXT determined that Conversion was in the best interests of all shareholders and exercised the option to convert in Q3-15.

The Conversion gave rise to the application of "fair-value" accounting in Q3-15, whereby the 8 million common shares issued were assigned an estimated fair-value of \$18.5 million. An intellectual property ("IP") asset related to the technology acquired was recognized at approximately \$25.3 million, which included a tax effect gross-up of \$6.8 million (as the IP has no corresponding deferred tax pool deduction for ongoing Canadian current income tax purposes).

The IP assets December 31, 2015 net book value of \$24.7 million will be amortized on a straight line basis over a 15-year period (future amortization expense of \$1,685,000 per year), and will also be subject to ongoing tests of potential impairment of the recorded net book value.

Amortization expense includes the following:

	Q4-15	Q4-14	2015 YTD	2014 YTD
Amortization of:				
Property and equipment	\$ 64,260	\$ 21,692	\$ 142,943	\$ 67,162
Intellectual property	459,500	-	562,000	-
	523,760	21,692	704,943	67,162

Change in fair value of US\$ Warrants - in spring 2012, NXT closed a \$3.2 million private placement financing of "units", which were priced at US \$0.75. Each unit included one warrant to purchase a NXT common share (exercise price of US \$1.20 per share) for a period of two years (the "US\$ Warrants"). As these US\$ Warrants

were denominated in US\$, they were considered to be a "derivative financial instrument" for financial statement reporting purposes, and were re-valued to their estimated fair value at each period end until their exercise and / or expiry in early 2014. This revaluation resulted in the recognition of an "increase in fair value of US\$ Warrants" expense of \$42,800 in Q1-14.

Of the total 4,502,821 US\$ Warrants which were issued in 2012, the majority had expiry dates in March 2014, and a portion in May 2014, and no US\$ Warrants were outstanding in 2015.

Income tax expense - NXT periodically earns revenues while operating outside of Canada in foreign jurisdictions. Payments made to NXT for services rendered to clients and subsidiary companies in certain countries may be subject to foreign income tax with-holdings. Such taxes incurred are only recoverable in certain limited circumstances, including potential utilization in Canada as a foreign tax credit against income taxes payable for Canadian income tax purposes.

In 2015, NXT expensed foreign income tax with-holdings of \$1,755,678 (2014 – \$nil) which were incurred on certain charges to a subsidiary company in connection with the Bolivia survey project. Total current income tax expense for 2015 also includes income taxes payable in Bolivia for NXT's local operating entity.

On the acquisition of the IP assets in 2015, an estimated deferred income tax liability of \$6.8 million arose. However, NXT has available a significant historic total of previously unrecorded deferred income tax assets (non-capital / operating losses and other tax pools available for Canadian income tax purposes of approximately \$29 million at December 31, 2015), and therefore a deferred tax recovery / benefit of \$6.8 million was recognized in 2015, which offset the balance sheet impact of this deferred tax liability. A total net income tax recovery was recognized in 2015 as follows:

	Q4-15	Q4-14	2015 YTD	2014 YTD
Foreign with-holding taxes incurred	1,191,837	-	1,755,678	-
Corporate income tax expense – foreign	215,230	-	215,230	-
	1,407,067	-	1,970,908	-
Deferred tax recovery	(6,823,000)	-	(6,823,000)	-
Net tax expense (recovery)	(5,514,933)	-	(4,852,092)	-

Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of Q4-15 was \$9.1 million.

Prior to Q2-15, NXT's financial statements reflected various disclosures related to the use of the "going concern" basis of presentation. Significant progress was made in 2015 in expanding the business, including securing, executing, and delivering the sizeable Bolivia survey contract, which resulted in a significant expansion of our liquidity and working capital.

NXT's longer term success remains dependent upon our ability to continue to attract new client projects and expand the revenue base to a level sufficient to far exceed G&A expenses, and generate excess net cash flow from operations. Equity financings have been used on a limited basis in recent years to supplement working capital as required.

Private placement financings totaling \$3.2 million (\$2.9 million net of finders fees and share issue costs incurred) were conducted in early 2012 to enhance NXT's financial strength and fund its expansion plans. This financing also included the US\$ common share purchase Warrants (which had a term of two years, expiring in March and May 2014), for which exercise proceeds of US \$1.0 million were received in Q4-13 and US \$2.5 million in 2014.

Risks related to having sufficient ongoing working capital to execute survey project contracts are mitigated through our normal practice of obtaining progress payments from clients throughout the course of the projects,

which often span 3 to 4 months. In addition, where possible, risk of default on client billings is mitigated through the use of export insurance programs offered via Export Development Canada ("EDC").

EDC can also be utilized by NXT for financial support in the form of guarantees of specific bank letters of credit required to be issued by NXT as performance guarantees on international projects, such as was utilized on our project for YPFB in Bolivia. This aids in reducing restrictions on working capital that is needed to initiate and undertake projects.

NXT has minimal secured debt, and had total "net working capital" of \$7.5 million as at Q4-15 as follows:

	December 31, 2015	December 31, 2014	net change in 2015
Current assets (current liabilities):			
Cash and cash equivalents	\$ 7,085,803	\$ 50,635	\$ 7,035,168
Short-term investments	2,055,478	5,173,430	(3,117,952)
	9,141,281	5,224,065	3,917,216
Restricted cash	75,000	-	75,000
Accounts receivable	810,400	248,930	561,470
Prepaid expenses and deposits	260,397	338,644	(78,247)
Accounts payable and accrued liabilities	(1,163,783)	(782,626)	(381,157)
Income taxes payable	(1,253,126)	-	(1,253,126)
Current portion of capital lease obligation	(34,159)	-	(34,159)
<u>Net working capital before the undernoted items</u>	<u>7,836,010</u>	<u>5,029,013</u>	<u>2,806,997</u>
Additional asset (liability) amounts:			
Work-in-progress	404,840	-	404,840
Deferred revenue	(706,722)	-	(706,722)
	(301,882)	-	(301,882)
<u>Net working capital</u>	<u>7,534,128</u>	<u>5,029,013</u>	<u>2,505,115</u>

The above noted \$2.5 million increase in net working capital at Q4-15 is primarily due to the \$4.1 million net income generated for 2015. The higher totals for individual components noted above for the total net working capital balance at December 31, 2015 compared to December 31, 2014 relates to:

- an increased level of operating activity in conducting the Bolivia survey project.
- a portion of the 2015 Bolivia survey projects were delivered to the client in January 2016, giving rise to the \$706,722 deferred revenue and \$404,840 work-in-process (or deferred costs) balances at December 31, 2015. There were no amounts recorded in WIP and deferred revenue at December 31, 2014.
- a new capital lease obligation of \$200,000 arose in 2015, used to finance a small portion of the leasehold improvement costs incurred.

NXT applies the "completed contract" method of revenue recognition - revenues and related project costs are deferred until the period in which the survey contract is completed. At each period end, if applicable, deferred revenue (a current liability) represents progress billing amounts that are to be recognized in revenue in future periods. Similarly, work-in-progress ("WIP", a current asset) relates to deferred survey costs which will be expensed in future periods upon completion of the related contracts. As these amounts will not result in additional future cash inflows or outflows to the Company, they are excluded (in periods in which applicable) from NXT's above noted table / analysis of net working capital.

This discussion includes references to terms such as "net working capital" and "net working capital before the undernoted items", which do not have a standardized meaning prescribed by US GAAP and may not be comparable to similar measures presented by other entities. NXT management uses this non-GAAP

measure to improve our ability to assess liquidity at a point in time. Net working capital is defined as total current assets less total current liabilities, excluding amounts accumulated in work in progress and deferred revenue. Management excludes these amounts from the calculation as they do not represent future cash inflows or outflows to the Company.

NXT utilizes the above noted sub-total line "net working capital before the undernoted items" to assess a more relevant measure of financial liquidity (excluding items classified as liabilities such as deferred revenue balances) as at the period end date.

The following summarizes NXT's net cash flows, and the total cash plus short-term investments held at the end of the period:

Cash flows from (used in):	Q4-15	Q4-14	2015 YTD	2014 YTD
Operating activities	\$ 4,637,938	\$ (1,432,795)	\$ 6,984,922	\$ (3,581,186)
Financing activities	(8,122)	91,951	327,824	3,024,061
Investing activities	(2,788,747)	543,603	(277,578)	(2,711,867)
Net source (use) of cash	1,841,069	(797,241)	7,035,168	(3,268,992)
Cash and cash equivalents, start of period	5,244,734	847,876	50,635	3,319,627
Cash and cash equivalents, end of period	7,085,803	50,635	7,085,803	50,635
Cash and cash equivalents	7,085,803	50,635	7,085,803	50,635
Short-term investments	2,055,478	5,173,430	2,055,478	5,173,430
Total	9,141,281	5,224,065	9,141,281	5,224,065

The overall net change in cash balances in each of the periods noted above is a function of several factors including any inflows (outflows) due to changes in net working capital balances, and net of any cash transferred into / out of short-term investments. Further information on the net changes in cash, by each of the Operating, Financing, and Investing activities, is as follows:

Operating Activities

	Q4-15	Q4-14	2015 YTD	2014 YTD
Net income (loss) for the period	\$ 15,523,601	\$ (1,532,466)	\$ 10,540,228	\$ (1,563,361)
Total non-cash expense items	(5,809,830)	193,864	(4,948,061)	753,402
	9,713,771	(1,338,602)	5,592,167	(809,959)
Change in non-cash working capital balances	(5,075,833)	(94,193)	1,392,755	(2,771,227)
Cash used in operating activities	4,637,938	(1,432,795)	6,984,922	(3,581,186)

The non-cash expense items (which primarily includes SBCE, amortization expense, and the deferred tax recovery) and the changes in non-cash working capital balances noted above are detailed in the Company's 2015 consolidated financial statements.

Financing Activities

- for 2015 YTD, the only financing activity was \$335,946 of proceeds from exercises of NXT stock options. No equity financings occurred in 2015 or 2014. For 2014 YTD, NXT received a total of \$2,735,995 proceeds from exercise of US\$ common share purchase Warrants which were issued in 2012 and \$288,066 proceeds from exercise of stock options.

- also for 2015 YTD, cash of \$8,122 was used for repayment of the new capital lease obligation balance.

Investing Activities

- the overall net cash source (use) noted above for 2015 and 2014 are as follows, and include the movement from cash out of and into short-term interest bearing investment balances:

	Q4-15	Q4-14	2015 YTD	2014 YTD
Purchase of property & equipment	\$ (2,803,884)	\$ (38,776)	\$ (3,380,717)	\$ (41,808)
Decrease (increase) in short-term investments	(510,558)	582,379	3,117,952	(2,723,980)
Decrease (increase) in restricted cash	26,000	-	(75,000)	53,921
Change in non-cash working capital balances	499,695	-	60,187	-
Cash from (used in) investing activities	(2,788,747)	543,603	(277,578)	(2,711,867)

- capital additions in 2015 relate primarily to \$2.7 million for a survey aircraft acquired in December, 2015 and \$0.6 million net cash paid for leasehold improvement costs incurred (\$0.8 million costs net of a tenant leasehold improvement allowance received, and less \$0.2 million of capital lease financing) for construction of the new office facility, which NXT moved to in August, 2015.
- restricted cash balances normally relate to bank security required for periodic project performance guarantees issued, and a minor total as security for corporate credit cards used.

Contractual Commitments

Office premises lease

NXT has an operating lease commitment on its Calgary office space for a 10 year term at an initial estimated minimum monthly lease payment of \$44,486 (including operating costs). The estimated future minimum annual commitment is as follows as at December 31, 2015:

<u>Fiscal year ending December 31</u>	
2016	\$ 533,826
2017	533,826
2018	533,826
2019	533,826
2020	536,792
	2,672,096
Thereafter, 2021 through 2025	2,592,018
	5,264,114

Bank Letters of Guarantee

In connection with the 2015 Bolivia survey project, NXT issued various bank letters of credit as standard performance guarantees for the contracts. As at December 31, 2015, bank letters of credit totaling US \$1,166,705 were outstanding, and expired on March 31, 2016.

Additional Disclosures - Outstanding Securities

	as at April 26, 2016	as at December 31 2015	as at December 31, 2014
Shares issued and outstanding:			
Common shares	53,308,009	53,306,109	44,958,843
Convertible preferred shares	-	-	8,000,000
Common shares reserved for issue re:			
Stock options	3,462,835	3,462,835	2,541,435
	<u>56,770,844</u>	<u>56,768,944</u>	<u>55,500,278</u>

Convertible preferred shares

As was noted previously, effective August 31, 2015, NXT exercised its option to convert the 8,000,000 outstanding preferred shares (which had been issued in 2005) in order to finalize its specific rights to continue to utilize the SFD[®] technology.

In the event that the conversion option had not been exercised, the preferred shares would have been redeemed for \$0.001 per share and NXT's rights to the SFD[®] technology would revert to the holder of the preferred shares.

Separately, in January 2014, NXT's CEO (the "Grantor") personally granted (to a total of 17 persons, including certain NXT employees and directors) "Rights" to acquire a total of 1,000,000 of the common shares which were expected to become issued to him in 2015 upon future conversion of the preferred shares by their Maturity Date. Each of the Rights were subject to certain vesting provisions and entitled the holder to acquire from the Grantor one common share of NXT at a fixed exercise price of \$1.77. The Rights originally had an expiry date of December 31, 2015, which, effective that date, was extended by the Grantor to December 31, 2016.

A total of 365,000 of these Rights were granted in 2014 to certain directors and officers of NXT, and a total of 430,000 Rights were granted to NXT's employees and advisors. These Rights are supplemental to existing incentives which have been granted under NXT's stock option plan.

Other Transactions With Related Parties

One of the members of NXT's Board of Directors is a partner in a law firm which provides legal advice to NXT. Legal fees incurred with this firm were as follows:

Q4 2015	Q4 2014	2015 YTD	2014 YTD
\$ 59,694	\$ 449	\$ 100,598	\$ 18,549

Accounts payable and accrued liabilities includes a total of \$62,048 (\$124 as at December 31, 2014) payable to this law firm. In addition, accounts payable and accrued liabilities includes \$34,881 (\$23,673 as at December 31, 2014) related to re-imbursement of expenses owing to persons who are Directors or Officers of NXT.

Accounts receivable includes short-term loans due from two employees totaling \$51,026. These loans mature on October 1, 2016, and bear interest at a variable rate, which is currently 1%.

Critical Accounting Estimates

The key elements and assumptions are substantially unchanged from those described in NXT's annual audited consolidated financial statements as at and for the year ended December 31, 2014. The following is also important to note:

Revenue Recognition

Revenue earned on SFD[®] survey contracts (net of any related foreign sales taxes charged) is recognized on a completed contract basis. This method of revenue recognition is currently deemed as appropriate given the complex nature of the end product that is delivered to the client - while the quantity of data acquisition can be measured based on actual line kilometers flown, the acquired SFD[®] data does not realize its full value until it is processed, interpreted in detail, and a recommendations report is generated and reviewed with the client's geological and geophysical staff.

All funds received or invoiced in advance of completion of the contract are reflected as deferred revenue and classified as a current liability on our balance sheet. All survey expenditures and obligations related to uncompleted SFD[®] survey contracts (including directly related sales commissions) are reflected as work-in-progress and classified as a current asset on our balance sheet. Upon completion of the related contract, unearned revenue and the work-in-progress is moved as appropriate to the statement of earnings (loss) as either revenue or survey cost. Survey costs do not include any salaries and overhead related to SFD[®] data interpretation staff (which is included in G&A expense) or amortization of property and equipment expense.

Changes in Accounting Policies Including Initial Adoption

The factors are substantially unchanged; refer to NXT's annual MD&A as at and for the fiscal year ended December 31, 2014.

Future Accounting Policy Changes – Revenue recognition

In May 2014, the US Financial Accounting Standards Board ("FASB") issued new guidance on accounting for "Revenue from Contracts with Customers", which supersedes the current revenue recognition requirements and most industry-specific guidance. This new guidance will require that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. This new guidance will be effective from January 1, 2018, and early application is not permitted.

There will be two methods in which the amendment can be applied: (1) retrospectively to each prior reporting period (which will include NXT's fiscal years 2015 to 2017) presented, or (2) retrospectively with the cumulative effect recognized at the date of initial application. NXT is evaluating the effect of the future adoption of this new guidance, and has not yet determined the effect on its consolidated financial statements, which currently reflect the completed contract method of revenue recognition.

Risk Factors

NXT is exposed to numerous business related risks, some of which are unique to the nature of its operations. Many of these risks can not be readily controlled.

Future Operations

NXT continues to advance towards wide-spread commercialization of its SFD[®] technology. Its ability to generate cash flow from operations will depend on its ability to service its existing clients and develop new clients for its SFD[®] services. Management recognizes that the commercialization phase can last for several

years, and that it can have significant economic dependence on a small number of clients, which can have a material effect on the Company's operating results and financial position.

NXT anticipates that it has sufficient working capital on hand to fund operations, and that it will be able to generate both net income and cash from operations in future years based on its current business model; however this outcome cannot be predicted with certainty. The Company previously had a history of periodically generating net losses and having limited availability of working capital.

International operations

NXT conducts the majority of its operations in foreign countries, some of which it has not operated in before. This exposes NXT to various risks related to stability of political regimes, knowledge of the local customs, duties and other taxes, foreign currency and funds repatriation, the ability to access the relevant local services, and potential delays in commencing the projects.

Management and staff

NXT's success is currently largely dependent on the performance of a limited group of senior management and staff. The loss of the services of any of these persons could have an adverse effect on our business and prospects. There is no assurance that NXT can maintain the services of our complement of management, Directors, staff and other qualified personnel that are required to operate and expand our business.

Reliance on specialized equipment, and the protection of intellectual property

NXT currently has a limited number of SFD[®] survey sensors which are used in survey data acquisition operations. In addition, there is potential risk that the equipment could become damaged or destroyed during operations, become obsolete, or that a third party might claim an interest in our proprietary intellectual property. The costs of legal defence of our rights to the SFD[®] technology could be material.

Related party transactions

NXT may periodically enter into related party transactions with its Officers and Directors. The most significant related party transaction was the historical "Technology Transfer Agreement" executed on December 31, 2006 between NXT and its CEO, President and Director whereby NXT issued 10,000,000 convertible preferred shares in exchange for the rights to utilize the SFD[®] technology. The final total of 8,000,000 outstanding preferred shares were converted by NXT on August 31, 2015.

As was noted previously, in January 2014, Rights were personally granted by the CEO to certain individuals to acquire up to 1,000,000 of the common shares which later became issued to him in August, 2015 upon final conversion of the preferred shares.

All related party transactions have the potential to create conflicts of interest that may undermine the Board of Director's fiduciary responsibility to NXT shareholders. NXT manages this risk of conflict of interest through maintenance of a strong independent Board of Directors. Six of the seven current Directors are independent. All significant transactions between Officers and or Directors of the Company are negotiated on behalf of NXT and voted upon by the disinterested Directors to protect the best interests of all shareholders.

Volatility in oil and natural gas commodity prices may affect demand for our services

NXT's customer base is in the oil and natural gas exploration industry, which is exposed to risks of volatility in oil and natural gas commodity prices. As such, demand for our services, and prospective revenues, may become adversely impacted by ongoing declines in oil and natural gas prices. The impact of price changes on our ability to enter into SFD[®] survey contracts cannot be readily determined. However, in general, if commodity prices decline significantly, our opportunity to obtain and execute SFD[®] survey contracts will also likely decline, at least in the short term.

Foreign currency fluctuations

NXT currently bills its revenues in US\$ and occasionally local currencies (such as in Bolivia, which has a rate fixed to the US\$). We frequently hold cash in Cdn\$ as well as in US\$ and other foreign currencies (such as in Bolivia and Colombia) and are thus exposed to foreign exchange risk due to foreign currency fluctuations. Additionally, most of our operating expenses are incurred in Cdn\$. We do not currently engage in currency hedging activities which can be used to mitigate this risk.

As NXT continues to expand into foreign markets, it may become exposed to additional foreign currency fluctuation risks, and currency hedging strategies are being assessed to be utilized where appropriate.

Interest rate fluctuations

NXT periodically invests excess cash in short-term investments which generally yield fixed interest rates. Accordingly, NXT faces some risk related to volatility in interest rates, as interest income may be adversely affected by any material changes in interest rates.

Disclosure Controls and Procedures ("DCP") and Internal Controls over Financial Reporting ("ICFR")

NXT's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (together, the "Responsible Officers") are responsible for establishing and maintaining DCP, or causing them to be designed under their supervision, for NXT to provide reasonable assurance that material information relating to the Company is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end consolidated financial statements and MD&A are being prepared.

DCP and other procedures are designed to ensure that information required to be disclosed in reports that are filed or submitted is recorded, processed, summarized and reported within the time periods specified by the relevant security authority in either Canada or the United States of America. DCP include controls and procedures designed to ensure that information required to be disclosed in our reports is accumulated and communicated to management, including our Responsible Officers, to allow timely decisions regarding required disclosure.

As of December 31, 2015 an evaluation was carried out under the supervision of, and with the participation of management, including the CEO and the CFO, of the effectiveness of the Company's DCP as defined under the rules adopted by the Canadian securities regulatory authorities and by the US SEC. In making this assessment, they used the criteria established in Internal Control – Integrated Framework 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Through this evaluation the CEO and the CFO concluded that there are material weaknesses in the Company's internal controls over financial reporting that have a direct impact on the Company's DCP:

- Due to the limited number of staff, it is not feasible to achieve adequate segregation of incompatible duties. NXT mitigates this deficiency by adding management and Audit Committee review procedures over the areas where inadequate segregation of duties are of the greatest concern, and
- NXT does not have a sufficient level of staff with specialized expertise to adequately conduct separate preparation and a subsequent independent review of certain complex or highly judgmental accounting issues. These complex areas have included accounting for income taxes, stock based compensation expense, and prior to 2015, valuation of US\$ Warrants. NXT mitigates this deficiency by preparing financial statements with their best judgments and estimates of the complex accounting matters and relies on reviews by management, external consultants and the Audit Committee for quality assurance.

As NXT continues to expand our operations, we seek to reduce these risks by adding additional staff resources and the use of out-sourced consultants as financial resources permit.

Notwithstanding NXT's efforts to mitigate the risks associated with the above mentioned deficiencies, the CEO and CFO concluded that the Company's ICFR are not effective and as a result its DCP are not effective as at December 31, 2015. NXT reached this conclusion based upon their assessment that there is more than a remote likelihood that its ICFR will not prevent or detect material misstatements if they should exist in our consolidated financial statements.

There are inherent limitations on the ability of the Responsible Officers to design and implement DCP and ICFR on a cost effective basis, which may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

During the year ended December 31, 2015, there was no change in the Company's ICFR that has materially affected or is reasonably likely to materially affect our ICFR.

Additional Information

For additional information on NXT Energy Solutions Inc. please consult our website at www.nxtenergy.com, or the SEDAR website at <http://www.sedar.com>.



NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

**For the year ended
December 31, 2015**



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INDEPENDENT AUDITOR'S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of NXT Energy Solutions Inc.

We have audited the accompanying consolidated financial statements of NXT Energy Solutions Inc., which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with US generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NXT Energy Solutions Inc. as at December 31, 2015 and 2014, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with US generally accepted accounting principles.

Chartered Professional Accountants

April 26, 2016
Calgary, Canada

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NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets

(expressed in Canadian dollars)

	December 31,	
	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 7,085,803	\$ 50,635
Short-term investments	2,055,478	5,173,430
Restricted cash (note 3)	75,000	-
Accounts receivable	810,400	248,930
Work-in-progress	404,840	-
Prepaid expenses and deposits	260,397	338,644
	<u>10,691,918</u>	<u>5,811,639</u>
Long term assets		
Property and equipment (note 4)	3,678,985	237,464
Intellectual property (note 5)	24,709,000	-
	<u>\$ 39,079,903</u>	<u>\$ 6,049,103</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 1,163,783	\$ 782,626
Income taxes payable (note 14)	1,253,126	-
Deferred revenue (note 15)	706,722	-
Current portion of capital lease obligation (note 7)	34,159	-
	<u>3,157,790</u>	<u>782,626</u>
Long term liabilities		
Capital lease obligation (note 7)	161,466	-
Asset retirement obligation (note 8)	51,240	50,000
Deferred charges (note 18(i))	87,756	-
	<u>300,462</u>	<u>50,000</u>
	<u>3,458,252</u>	<u>832,626</u>
Commitments and contingencies (note 18)		
Shareholders' equity		
Common shares (note 9): - authorized unlimited		
Issued: 53,306,109 (2014 - 44,958,843) common	85,051,553	65,792,307
Preferred shares (note 10): - authorized unlimited		
Issued: nil (2014 - 8,000,000) Preferred shares	-	232,600
Contributed capital	7,239,089	6,400,789
Deficit	(57,379,926)	(67,920,154)
Accumulated other comprehensive income	710,935	710,935
	<u>35,621,651</u>	<u>5,216,477</u>
	<u>\$ 39,079,903</u>	<u>\$ 6,049,103</u>

Signed "George Liszicasz"

Director

Signed "Mickey Abougoush"

Director

The accompanying notes are an integral part of these consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(expressed in Canadian dollars)

	Year ended December 31		
	2015	2014	2013
Revenue			
Survey revenue (notes 15 and 16)	\$ 17,422,151	\$ 3,913,367	\$ 2,684,095
Expenses			
Survey costs	5,095,691	431,518	1,632,159
General and administrative (note 15)	5,049,690	4,132,108	4,112,787
Stock based compensation expense (note 12 (ii))	1,081,000	658,000	492,000
Amortization expense	704,943	67,162	85,484
	<u>11,931,324</u>	<u>5,288,788</u>	<u>6,322,430</u>
Other expenses (income)			
Interest income, net	(13,910)	(50,824)	(25,455)
Foreign exchange gain	(712,480)	(158,817)	(150,350)
Feasibility study and other expenses	529,081	354,781	107,985
Increase in fair value of US\$ Warrants (note 13 (ii))	-	42,800	1,371,500
	<u>(197,309)</u>	<u>187,940</u>	<u>1,303,680</u>
Income (loss) before income taxes	<u>5,688,136</u>	<u>(1,563,361)</u>	<u>(4,942,015)</u>
Income tax expense (recovery) (note 14)			
Current	1,970,908	-	399,546
Deferred	(6,823,000)	-	-
	<u>(4,852,092)</u>	<u>-</u>	<u>399,546</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 10,540,228</u>	<u>\$ (1,563,361)</u>	<u>\$ (5,341,561)</u>
Income (loss) per share (note 11)			
Basic	\$ 0.22	\$ (0.04)	\$ (0.13)
Diluted	\$ 0.21	\$ (0.04)	\$ (0.13)

The accompanying notes are an integral part of these consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

	Year ended December 31		
	2015	2014	2013
Cash provided by (used in):			
Operating activities			
Comprehensive income (loss) for the year	\$ 10,540,228	\$ (1,563,361)	\$ (5,341,561)
Items not affecting cash:			
Deferred income tax recovery	(6,823,000)	-	-
Stock based compensation expense	1,081,000	658,000	492,000
Amortization expense	704,943	67,162	85,484
Increase in fair value of US\$ Warrants	-	42,800	1,371,500
Non-cash changes to asset retirement obligation	1,800	(12,449)	3,960
Asset retirement obligations paid	(560)	(2,111)	(1,213)
Deferred charges	87,756	-	-
	(4,948,061)	753,402	1,951,731
	5,592,167	(809,959)	(3,389,830)
Change in non-cash working capital balances (note 17)	1,392,755	(2,771,227)	2,614,872
Net cash from (used in) operating activities	6,984,922	(3,581,186)	(774,958)
Financing activities			
Proceeds from exercise of stock options	335,946	288,066	13,234
Proceeds from exercise of US\$ Warrants (note 9 (i))	-	2,735,995	1,064,222
Repayment of capital lease obligation	(8,122)	-	-
Net cash generated by financing activities	327,824	3,024,061	1,077,456
Investing activities			
Purchase of property and equipment	(3,380,717)	(41,808)	(20,463)
Decrease (increase) in short-term investments	3,117,952	(2,723,980)	(2,394,450)
Decrease (increase) in restricted cash	(75,000)	53,921	379,448
Change in non-cash working capital balances (note 17)	60,187	-	-
Net cash used in investing activities	(277,578)	(2,711,867)	(2,035,465)
Net increase (decrease) in cash and cash equivalents	7,035,168	(3,268,992)	(1,732,967)
Cash and cash equivalents, beginning of the year	50,635	3,319,627	5,052,594
Cash and cash equivalents, end of the year	\$ 7,085,803	\$ 50,635	\$ 3,319,627
Supplemental information			
Cash interest (received)	(15,134)	(56,401)	(14,518)
Cash taxes paid	\$ 717,782	\$ -	\$ 399,546

The accompanying notes are an integral part of these consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Shareholders' Equity

(expressed in Canadian dollars)

	Year ended December 31		
	2015	2014	2013
Common Shares			
Balance at beginning of the year	\$ 65,792,307	\$ 61,340,321	\$ 56,623,686
Conversion of preferred shares and acquisition of intellectual property (note 10 (ii))	18,680,600	-	3,256,400
Issued upon exercise of stock options	335,946	288,066	13,234
Transfer from contributed capital upon exercise of stock options	242,700	147,125	8,279
Issued upon exercise of US\$ Warrants (note 9 (i))	-	2,735,995	1,064,222
Transfer from fair value of US\$ Warrants upon exercise of US\$ Warrants (note 13 (ii))	-	1,280,800	374,500
Balance at end of the year	<u>85,051,553</u>	<u>65,792,307</u>	<u>61,340,321</u>
Preferred Shares			
Balance at beginning of the year	232,600	232,600	3,489,000
Conversion of preferred shares to common shares (note 10 (i))	(232,600)	-	(3,256,400)
Balance at end of the year	<u>-</u>	<u>232,600</u>	<u>232,600</u>
Contributed Capital			
Balance at beginning of the year	6,400,789	5,889,914	5,406,193
Recognition of stock based compensation expense	1,081,000	658,000	492,000
Contributed capital transferred to common shares upon exercise of stock options	(242,700)	(147,125)	(8,279)
Balance at end of the year	<u>7,239,089</u>	<u>6,400,789</u>	<u>5,889,914</u>
Deficit			
Balance at beginning of the year	(67,920,154)	(66,356,793)	(61,015,232)
Net income (loss) and comprehensive income (loss) for the year	10,540,228	(1,563,361)	(5,341,561)
Balance at end of the year	<u>(57,379,926)</u>	<u>(67,920,154)</u>	<u>(66,356,793)</u>
Accumulated Other Comprehensive Income			
Balance at beginning and end of the year	<u>710,935</u>	<u>710,935</u>	<u>710,935</u>
Total Shareholders' Equity at end of the year	<u>\$ 35,621,651</u>	<u>\$ 5,216,477</u>	<u>\$ 1,816,977</u>

The accompanying notes are an integral part of these consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2015

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(Expressed in Canadian dollars unless otherwise stated)

1. Company Background

NXT Energy Solutions Inc. (the "Company" or "NXT") is a publicly traded company based in Calgary, Canada.

NXT's proprietary Stress Field Detection ("SFD®") technology is an airborne survey system that is used in the oil and natural gas exploration industry to help aid in identifying areas with hydrocarbon reservoir potential. Since 2008, NXT's sales activities are focused on international and frontier exploration markets.

Specific rights to utilize this technology were initially obtained by NXT in 2005 and the rights were formally acquired by NXT in 2015 (see note 10(i)).

Prior to 2015, NXT's financial statements reflected disclosure related to the use of the "going concern" basis of presentation. Significant progress was made in 2015 in expanding the business, including securing, executing, and delivering the sizeable Bolivia survey contract (see note 15), which resulted in a significant expansion of the Company's liquidity and working capital in 2015.

Management determined in preparing these financial statements that, as at December 31, 2015, there is no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern for the foreseeable future. However, NXT's financial results are currently dependent on a limited number of client projects (see note 16), and its longer term success remains dependent upon the ability to continue to attract new client projects and expand its revenue base.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements as at and for the year ended December 31, 2015 have been prepared by management in accordance with generally accepted accounting principles of the United States of America ("US GAAP") and by applying the same accounting policies and methods as used in preparing the consolidated financial statements as at and for the years ended December 31, 2014 and 2013.

Consolidation

These consolidated financial statements reflect the accounts of the Company and its wholly owned subsidiaries (all of which are inactive, other than its operation in Bolivia). All significant inter-company balances and transactions among NXT and its subsidiaries have been eliminated and are therefore not reflected in these consolidated financial statements.

Estimates and Assumptions

The preparation of these consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, including the disclosure of contingent assets and liabilities, at the date of these consolidated financial statements as well as revenues and expenses recorded during the reporting periods.

Estimates made relate primarily to the estimated useful lives of intellectual property and property and equipment, the measurement of stock-based compensation expense, work-in-process and deferred revenue balances, the valuation of the US\$ Warrants, valuation of deferred income tax assets, and estimates for asset retirement obligations. The estimates and assumptions used are based upon management's best estimate. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period when determined. Actual results may differ from those estimates.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2015
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Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short term securities with an original maturity less than 90 days from the date of acquisition.

Short Term Investments

Short term investments are recorded at fair value, and include short term securities, held by a major Canadian chartered bank, with original maturity dates greater than 90 days but less than one year.

Revenue Recognition

Revenues from SFD® survey contracts performed by NXT (net of any related foreign sales tax) are recognized using the completed contract method of revenue recognition. Substantial completion of the contract culminates with NXT's delivery to its clients of a final interpretation and recommendations report for the survey project. This method is viewed as appropriate as prior to that point, the raw SFD® survey data obtained by NXT cannot be interpreted or utilized in an independent, meaningful way by the client.

Amounts received or invoiced in advance of completion of the contract are reflected as deferred revenue and classified as a current liability. At the end of each applicable quarterly fiscal period, all related survey expenditures and obligations (including sales commissions incurred) related to uncompleted contracts are reflected as work-in-progress and classified as current assets.

Upon completion of the contract deliverables, unearned revenue and the related work-in-progress are reflected in the statement of income (loss) as either revenue or survey cost. Survey costs do not include staff and related overhead costs (which are included in general and administrative expense) or any amortization of property and equipment.

Fair Value of Derivative Instruments

Derivative instruments are recognized on the balance sheet at fair value with any realized and unrealized gains (losses) recognized included in the determination of net income (loss) for the period. NXT does not apply hedge accounting to any of its derivatives. Any outstanding derivatives are classified into one of three categories based on a three level fair value hierarchy as noted below. As at December 31, 2015 and 2014, NXT had no outstanding derivative instruments.

In Level I, the fair value of assets and liabilities is determined by reference to quoted prices in active markets for identical assets and liabilities that the Company has the ability to assess at the measurement date.

In Level II, determination of the fair value of assets and liabilities is based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly. Such inputs include published exchange rates, interest rates, yield curves, and stock quotes from external data service providers. Transfers between Level I and Level II would occur when there is a change in market circumstances.

In Level III, the fair value of assets and liabilities measured on a recurring basis is determined using a market approach based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities measured at fair value can fluctuate between Level II and Level III depending on the proportion of the value of the contract that extends beyond the time frame for which inputs are considered to be observable. As contracts near maturity and observable market data becomes available, the contracts are transferred out of Level III and into Level II.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2015
(Expressed in Canadian dollars unless otherwise stated)

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Property and Equipment

Property and equipment is recorded at cost, less accumulated amortization, which is recorded over the estimated service lives of the assets using the following annual rates and methods:

Computer hardware (including survey equipment)	30% declining balance
Computer software	100% declining balance
Aircraft	10% declining balance
Furniture and other equipment	20% declining balance
Leasehold improvements	over the remaining term of the lease

Management periodically reviews the carrying values of property and equipment to ensure that any impairment in value is recognized and reflected in results of operations.

Intellectual Property and Research and Development Expenditures

Intellectual property acquired is recorded at cost, less accumulated amortization, which is recorded over the estimated minimum useful life of the assets. Intellectual property is also subject to ongoing tests of potential impairment of the recorded net book value.

Research and development ("R&D") expenditures incurred to develop, improve and test the SFD® survey system and related components are expensed as incurred. Any intellectual property that is acquired for the purpose of enhancing research and development projects, if there is no alternative use for the intellectual property, is expensed in the period acquired. No significant external R&D was incurred in the years ended 2013, 2014 and 2015.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the applicable period. Shareholders' equity accounts are translated into Canadian dollars using the exchange rates in effect at the time of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the applicable period. Non-monetary assets and liabilities (including work-in-progress and deferred revenue balances) are recorded at the relevant exchange rates for the period in which the balances arose. Any related foreign exchange gains and losses resulting from these translations are included in the determination of net income (loss) for the period.

Prior to 2010, NXT had active US subsidiaries which had the US dollar as their functional currency. Historic foreign currency translation adjustments related to the consolidation of these now inactive subsidiaries is the only component of accumulated other comprehensive income, which is a component of shareholders' equity.

Income Taxes

NXT follows the asset and liability method of accounting for income taxes. This method recognizes deferred income tax assets and liabilities based on temporary differences in reported amounts for financial statement and income tax purposes, at the income tax rates expected to apply in the future periods when the temporary differences are expected to be reversed or realized. The effect of a change in income tax rates on deferred income tax assets and deferred income tax liabilities is recognized in income in the period when the tax rate change is enacted. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the year ended December 31, 2015

(Expressed in Canadian dollars unless otherwise stated)

Stock based compensation expense

NXT follows the fair value method of accounting for stock options that are granted to acquire common shares under NXT's stock option plan. Under this method, an estimate of the fair value of the cost of stock options that are granted to employees, directors and consultants is calculated using the Black-Scholes option pricing model and charged to income over the future vesting period of the stock options, with a corresponding increase recorded in contributed capital. Upon exercise of the stock options, the consideration received by NXT, and the related amount which was previously recorded in contributed capital, is recognized as an increase in the recorded value of the common shares of the Company.

Stock based compensation expense related to stock options granted to non-employees is periodically re-measured until the earlier of the completion of their service period or when the vesting period is completed. Changes to the re-measured compensation are recognized in the period of change and amortized over the remaining life of the vesting period in the same manner as the original stock option.

Income (loss) per share

Basic income (loss) per share amounts are calculated by dividing net income (loss) by the weighted average number of common shares that are outstanding for the fiscal period. Shares issued during the period are weighted for the portion of the period that the shares were outstanding. Diluted income (loss) per share are computed using the treasury stock method, whereby the weighted average number of shares outstanding is increased to include any additional shares that would be issued from the assumed exercise of stock options and common share purchase warrants. The incremental number of shares added under the treasury stock method assumes that outstanding stock options and warrants that are exercisable at exercise prices below the Company's average market price (i.e. they were "in-the-money") for the applicable fiscal period are exercised and then that number of incremental shares is reduced by the number of shares that could have been repurchased by the Company from the issuance proceeds, using the average market price of the Company's shares for the applicable fiscal period.

No addition to the basic number of shares is made when calculating the diluted number of shares if the diluted per share amounts become anti-dilutive (such as occurs in the case where there is a net loss for the period).

Future Accounting Policy Changes

Revenue recognition:

In May 2014, the US Financial Accounting Standards Board ("FASB") issued new guidance on accounting for "Revenue from Contracts with Customers", which supersedes the current revenue recognition requirements and most industry-specific guidance. This new guidance will require that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

This new guidance will be effective from January 1, 2018, and early application is not permitted. There will be two methods in which the amendment can be applied: (1) retrospectively to each prior reporting period (which will include NXT's fiscal years 2015 and 2016) presented, or (2) retrospectively with the cumulative effect recognized at the date of initial application. NXT is evaluating the impact of the adoption of this new guidance and has not yet determined the effect on its consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the year ended December 31, 2015

(Expressed in Canadian dollars unless otherwise stated)

3. Restricted cash

Restricted cash consists of funds which are deposited by NXT as security with financial institutions, including for the issuance of credit cards. Also, bank letters of credit are periodically issued for the benefit of NXT's clients related to contractual performance requirements on certain SFD® survey contracts (see note 18 (ii)).

4. Property and equipment

Year ended December 31, 2015	Cost Base	Accumulated amortization	Net book value
Survey equipment	\$ 656,237	\$ 571,595	\$ 84,642
Aircraft	2,734,611	15,351	2,719,260
Computers and software	1,180,873	1,098,876	81,997
Furniture and other equipment	528,420	481,297	47,123
Leasehold improvements	1,160,553	414,590	745,963
	6,260,694	2,581,709	3,678,985

Year ended December 31, 2014	Cost Base	Accumulated amortization	Net book value
Survey equipment	\$ 643,319	\$ 535,283	\$ 108,036
Computers and software	1,100,593	1,051,810	48,783
Furniture and other equipment	528,420	469,516	58,904
Leasehold improvements	403,898	382,157	21,741
	2,676,230	2,438,766	237,464

5. Intellectual property

The intellectual property asset recorded in 2015, including a related deferred tax effect of \$6,823,000, represents NXT's acquisition of the SFD® technology upon the conversion in 2015 of 8,000,000 preferred shares at an assigned fair value of \$18,448,000 (see note 10 (ii)).

Intellectual property is being amortized on a straight line basis over its estimated minimum useful life of 15 years. It is estimated that for each of the 5 future years ending December 31, 2016 to 2020, amortization expense of \$1,685,000 per year (and an aggregate 5 year total of \$8,425,000) will be recorded by NXT.

	2015	2014
Intellectual property acquired	\$ 25,271,000	-
Accumulated amortization and impairment	(562,000)	-
	24,709,000	-

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2015
(Expressed in Canadian dollars unless otherwise stated)

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6. Accounts payable and accrued liabilities

	2015	2014
Accrued liabilities related to:		
Consultants and professional fees	\$ 100,000	\$ 122,500
Board of Directors' fees	30,000	40,000
Survey and other projects	10,394	14,308
Payroll (vacation pay and wages payable)	210,816	121,632
	351,210	298,440
Trade payables and other	812,571	484,186
	1,163,783	782,626

7. Capital lease obligation

	2015	2014
Capital lease obligation	\$ 195,625	\$ -
Less current portion	(34,159)	-
	161,466	-

The capital lease obligation is secured by specific leasehold improvements included in property and equipment, bears interest at a rate of 7.4%, and is repayable as follows:

Year ended December 31:	
2016	\$ 34,159
2017	36,769
2018	39,579
2019	42,603
2020	45,859
	195,625

8. Asset retirement obligation

Asset retirement obligations ("ARO") relate to minor interests in oil and natural gas wells in which NXT has outstanding abandonment and reclamation obligations in accordance with government regulations. The Company's obligation relates to its interests in 6 gross (1.2 net) wells. ARO have an estimated future liability of approximately \$59,000 which is based on estimates of the future timing and costs to abandon, remediate and reclaim the well sites within the next five years. The net present value of the ARO is as noted below, and has been calculated using an inflation rate of 3.4% and discounted using a credit-adjusted risk-free interest rate of 10%.

	2015	2014	2013
ARO balance, beginning of the year	\$ 50,000	\$ 64,560	\$ 61,813
Accretion expense	1,800	800	3,960
Costs incurred	(560)	(2,111)	(1,213)
Change in ARO estimates	-	(13,249)	-
ARO balance, end of the year	51,240	50,000	64,560

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the year ended December 31, 2015

(Expressed in Canadian dollars unless otherwise stated)

9. Common shares

The Company is authorized to issue an unlimited number of common shares, of which the following are issued and outstanding:

	# of shares	\$ value
As at December 31, 2012	39,554,959	\$ 56,623,686
Transactions during the year ended December 31, 2013:		
Conversion of Preferred Shares (note 10 (i))	2,000,000	3,256,400
Issued on exercise of stock options	16,667	13,234
Issued on exercise of US\$ Warrants (see (i))	846,700	1,064,222
Transfer from contributed capital upon exercise of stock options	-	8,279
Transfer from fair value of US\$ Warrants upon exercise (note 13 (ii))	-	374,500
As at December 31, 2013	42,418,326	61,340,321
Transactions during the year ended December 31, 2014:		
Issued on exercise of stock options	482,665	288,066
Issued on exercise of US\$ Warrants (see (i))	2,057,852	2,735,995
Transfer from contributed capital upon exercise of stock options	-	147,125
Transfer from fair value of US\$ Warrants upon exercise (note 13)	-	1,280,800
As at December 31, 2014	44,958,843	65,792,307
Transactions during the year ended December 31, 2015:		
Issued on exercise of stock options	347,266	335,946
Conversion of preferred shares (note 10 (ii))	8,000,000	232,600
Value assigned to acquisition of intellectual property (note 10 (ii))	-	18,448,000
Transfer from contributed capital upon exercise of stock options	-	242,700
As at December 31, 2015	53,306,109	85,051,553

(i) US\$ Warrants to purchase common shares

In 2012, NXT conducted private placement financings (the "2012 Financings", for proceeds of \$3,183,132) which consisted of units issued at a price of US \$0.75 (the "Units"). Each Unit consisted of one NXT common share and one warrant (the "US\$ Warrants") to purchase an additional NXT common share at a price of US \$1.20 for a term of two years from the date of issue. Including 244,816 finder's warrants issued, a total of 4,502,821 US\$ Warrants were issued in the 2012 Financings.

The following is a continuity of the US\$ Warrants that were issued in the 2012 Financings and which had expiry dates in March and May 2014:

	# of US\$ warrants	exercise proceeds received
Outstanding as at January 1, 2012	-	-
Issued in the 2012 Financings	4,502,821	-
US\$ Warrants exercised in 2013	(846,700)	\$ 1,064,222
Outstanding as at December 31, 2013	3,656,121	1,064,222
Activity in 2014:		
US\$ Warrants exercised in 2014	(2,057,852)	2,735,995
US\$ Warrants expired in 2014	(1,598,269)	-
Outstanding as at December 31, 2014	-	\$3,800,217

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10. Preferred shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series.

(i) History of Preferred Shares issued

Specific rights to utilize the SFD® technology for hydrocarbon exploration were licensed in 2005 from NXT's current Chief Executive Officer and President (the "CEO") pursuant to the execution of a Technology Transfer Agreement (the "TTA") which had a 10 year term. The TTA required the completion of various conditions related to 10,000,000 series 1, convertible preferred shares (the "Preferred Shares") that were issued in 2005 in exchange for the rights obtained under the TTA.

These Preferred Shares had a maturity date of December 31, 2015 (the "Maturity Date", which corresponded with the term of the TTA), were non-voting, did not participate in any dividends, and were convertible into 10,000,000 NXT common shares (on a 1 for 1 basis) under the following terms:

- 2,000,000 of the Preferred Shares became convertible into common shares upon issue. Effective May 22, 2013, these 2,000,000 Preferred Shares were converted into 2,000,000 common shares.
- the remaining 8,000,000 Preferred Shares were convertible into common shares if the Company achieved certain pre-defined revenue milestones on or before the Maturity Date.

These shares were originally recorded at their estimated fair value as at December 31, 2005, with the total substantially assigned to the 2,000,000 Preferred Shares portion which was immediately convertible. The remaining 8,000,000 Preferred Shares were assigned a nominal value in 2005 as noted below, reflecting the uncertainty that all of the required revenue milestones would be achieved over the 10 year term of the TTA, which would result in eventual conversion into common shares:

<u>Fair values assigned in 2005</u>	<u># of Preferred Shares</u>	<u>\$ value</u>
convertible upon issue effective December 31, 2005 (shares subsequently converted in 2013)	2,000,000	\$ 3,256,400
<u>conditionally convertible on or before December 31, 2015</u>	<u>8,000,000</u>	<u>232,600</u>
	10,000,000	3,489,000

A continuity of the Preferred Shares that were originally issued in 2005 is as follows:

	<u># of shares outstanding</u>	<u>historic \$ value</u>
As at December 31, 2012	10,000,000	\$ 3,489,000
<u>Conversion of Preferred Shares in May 2013</u>	<u>(2,000,000)</u>	<u>(3,256,400)</u>
As at December 31, 2014	8,000,000	232,600
<u>Conversion of Preferred Shares in August 2015 (see (ii))</u>	<u>(8,000,000)</u>	<u>(232,600)</u>
<u>As at December 31, 2015</u>	<u>-</u>	<u>-</u>

(ii) Conversion of Preferred Shares in 2015

Although the pre-defined revenue thresholds were not going to be met, under the TTA the Company was required to convert the remaining 8,000,000 Preferred Shares into common shares in order to retain its

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specific rights to utilize the SFD® technology. The conversion was approved by the independent members of NXT's Board of Directors on August 31, 2015 (the "Conversion"). After the Conversion, NXT's CEO continues to retain the rights to utilize SFD® in other potential field-of-use applications.

The Conversion gave rise to the application of fair-value accounting, whereby the 8,000,000 common shares issued in 2015 were assigned an estimated fair-value (based on the NXT common share price at the time of Conversion) of \$18,448,000 (see also note 5).

The historic value of \$232,600 which was attributed to the 8,000,000 Preferred Shares at the time of their original issuance in 2005 was transferred to the common shares balance upon Conversion in 2015.

(iii) Rights related to Preferred Shares

In January 2014, NXT's CEO (the "Grantor") personally granted (to a total of 17 persons, including NXT employees, directors, officers, advisors and others) "Rights" to acquire a total of 1,000,000 of the common shares which later became issued to him in August 2015 upon the conversion of the remaining 8,000,000 Preferred Shares. Each of the Rights were subject to certain vesting provisions and entitle the holder to acquire from the Grantor one common share of NXT at a fixed exercise price of \$1.77. The Rights originally had an expiry date of December 31, 2015, which, effective that date, was extended to December 31, 2016 (the "Extension").

A total of 795,000 of these Rights were granted to certain of NXT's directors, officers, employees and advisors, and are considered as supplemental incentives, in addition to those which have been granted under NXT's stock option plan (see note 12).

Accordingly, this gives rise to the recognition of additional compensation expense by NXT, based on the estimated fair value of certain of these Rights as at their grant date in 2014, and the Extension in December 2015. The fair value was calculated using the Black-Scholes valuation model, and recognized over the remaining vesting term of the Rights, based on the following assumptions:

	2015	2014
Expected dividends paid per common share	Nil	Nil
Expected life in years	0.8	1.9
Expected volatility in the price of common shares	42 %	62 %
Risk free interest rate	1.0 %	1.0 %
Weighted average fair value per Right at grant date	\$ 0.26	\$ 0.60

In connection with the Rights, NXT recognized the following as a component of stock based compensation expense (see note 12 (ii)):

	2015	2014
Expense recognized related to:		
Grant of Rights in 2014	\$ 244,000	\$ 226,000
Extension of term of Rights in 2015	210,000	-
	454,000	226,000

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11. Income (loss) per share

	2015	2014	2013
Comprehensive income (loss) for the year	\$ 10,540,228	\$ (1,563,361)	\$ (5,341,561)
Weighted average number of shares outstanding:			
Common shares issued	47,782,647	44,375,540	40,882,108
Convertible Preferred Shares (see (i))	-	-	778,082
Basic	47,782,647	44,375,540	41,660,190
Additional shares related to assumed exercise of stock options and US\$ Warrants under the treasury stock method (see (ii))	1,258,736	-	-
Contingently issuable Preferred Shares (see (ii))	-	-	-
Fully diluted	49,041,383	44,375,540	41,660,190
Net income (loss) per share – Basic	\$ 0.22	\$ (0.04)	\$ (0.13)
Net income (loss) per share – Fully diluted	\$ 0.21	\$ (0.04)	\$ (0.13)

(i) A total of 2,000,000 of the Preferred Shares (see note 10 (i)) are included in the above noted basic income (loss) per share calculation for the year ended December 31, 2013, as the criteria for them to convert to common shares had been met up to their formal conversion in May 2013. The remaining 8,000,000 Preferred Shares are included in the weighted average number of shares outstanding from their conversion on August 31, 2015. Prior to that date, they were considered to be contingently issuable, and were only included in the diluted number of shares outstanding if there was a net income applicable for the period.

(ii) In periods in which a loss results, all outstanding stock options, US\$ common share purchase Warrants and the 8,000,000 Preferred Shares are excluded from the fully diluted loss per share calculations as their effect is anti-dilutive.

12. Stock options

(i) Stock options outstanding

A continuity of the number of stock options outstanding at December 31, 2015 and 2014 is as follows:

	For the year ended December 31, 2015		For the year ended December 31, 2014	
	# of stock options	weighted average exercise price	# of stock options	weighted average exercise price
Options outstanding, start of the year	2,541,435	\$ 1.02	2,888,100	\$ 0.88
Granted	1,268,666	\$ 1.66	325,000	\$ 1.55
Exercised	(347,266)	\$ 0.97	(482,665)	\$ 0.60
Forfeited	-	-	(35,000)	\$ 1.42
Expired	-	-	(154,000)	\$ 0.71
Options outstanding, end of the year	3,462,835	\$ 1.26	2,541,435	\$ 1.02
Options exercisable, end of the year	2,004,268	\$ 1.01	1,782,537	\$ 1.01

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Stock options granted generally expire, if unexercised, five years from the date granted and entitlement to exercise them generally vests at a rate of one-third at the end of each of the first three years following the date of grant.

The following stock options are outstanding as at December 31, 2015:

Exercise price per share	# of options outstanding	# of options exercisable	average remaining contractual life (in years)
\$ 0.75	345,000	345,000	1.5
\$ 0.76	260,669	184,002	2.1
\$ 0.86	662,500	650,000	1.6
\$ 1.16	291,000	291,000	0.6
\$ 1.20	300,000	300,000	1.6
\$ 1.35	593,566	37,500	4.0
\$ 1.39	37,500	37,500	3.5
\$ 1.55	40,000	13,333	3.2
\$ 1.57	45,000	-	4.1
\$ 1.61	25,000	8,333	3.1
\$ 1.67	150,000	50,000	3.9
\$ 1.73	107,600	42,600	4.9
\$ 1.82	260,000	-	4.8
\$ 1.83	45,000	45,000	3.0
\$ 2.10	300,000	-	4.7
\$ 1.26	3,462,835	2,004,268	2.8

(ii) Stock based compensation expense ("SBCE")

SBCE is calculated based on the fair value attributed to grants of stock options using the Black-Scholes valuation model and utilizing the following weighted average assumptions:

	2015	2014	2013
Expected dividends paid per common share	Nil	Nil	Nil
Expected life in years	4.9	5.0	5.0
Expected volatility in the price of common shares	105 %	113 %	74 %
Risk free interest rate	1.0 %	1.5 %	1.0 %
Weighted average fair market value per share at grant date	\$ 1.28	\$ 1.24	\$ 0.55
Intrinsic (or "in-the-money") value per share of options exercised	\$ 1.40	\$ 0.85	\$ 0.76

SBCE consists of the following amounts:

	2015	2014	2013
SBCE recognized related to:			
Stock options	\$ 627,000	\$ 432,000	\$ 492,000
Preferred Share Rights (see note 10 (iii))	454,000	226,000	-
Total SBCE	1,081,000	658,000	492,000

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The unamortized portion of SBCE related to the non-vested portion of stock options and the Preferred Share Rights, all of which will be recognized in future expense (2016 to 2018) over the related remaining vesting periods, is as follows:

As at December 31	2015	2014	2013
Unamortized SBCE related to:			
Stock options	\$ 1,154,000	\$ 367,000	\$ 475,000
Preferred Share Rights (see note 10(iii))	-	234,000	-
	<u>1,154,000</u>	<u>601,000</u>	<u>475,000</u>

13. Financial instruments

(i) Non-derivative financial instruments

The Company's non-derivative financial instruments consist of cash and cash equivalents, short-term investments, restricted cash, accounts receivable, accounts payables and accrued liabilities, income taxes payable, and capital lease obligations. The carrying value of these financial instruments approximates their fair values due to their short terms to maturity. NXT is not exposed to significant interest or credit risks arising from these financial instruments. NXT is exposed to foreign exchange risk as a result of holding US, Bolivian, and Colombian denominated financial instruments.

(ii) Derivative financial instruments

As at December 31, 2015 and 2014, there were no US\$ Warrants outstanding. As the exercise price of the US\$ Warrants that were issued in 2012 (see note 9 (i)) was in US dollars, which is a currency other than the functional currency of NXT, the US\$ Warrants were considered to have an embedded derivative and were required to be recorded at fair value each reporting period. The amount recorded for this instrument, which was included with current liabilities, was adjusted to fair value at each period end over the life of the US\$ Warrants, with the changes in fair value reflected in earnings.

Financial instruments that are recorded at fair value on a recurring basis are required to be classified into one of three categories based upon a fair value hierarchy. The Company's only financial instruments recorded at fair value on a recurring basis were the US\$ Warrants. NXT classified these derivative financial instruments as level III where the fair value is determined by using valuation techniques that refer to both observable and unobservable market data. The valuation model was based on the Black-Scholes inputs noted below, as well as a discount to reflect the potential dilution impact upon exercise of the US\$ Warrants and NXT's low stock market liquidity.

A continuity of the fair value of the US\$ Warrants that were issued in the 2012 Financings is as follows:

Year ended December 31	2015	2014	2013
Fair value of US\$ Warrants			
Balance at beginning of the year	n/a	\$ 1,238,000	\$ 241,000
Transfer to common shares upon exercise of US\$ warrants in the year	n/a	(1,280,800)	(374,500)
Increase in fair value during the year	n/a	<u>42,800</u>	<u>1,371,500</u>
Fair value of US\$ Warrants, end of the year	n/a	-	<u>1,238,000</u>

The outstanding US\$ Warrants were re-valued at each period end using the Black-Scholes valuation model utilizing the following weighted average assumptions:

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As at December 31	2015	2014	2013
Expected dividends paid per common share	n/a	n/a	Nil
Expected life in years	n/a	n/a	0.3
Expected volatility in the price of common shares	n/a	n/a	65 %
Risk free interest rate	n/a	n/a	1.0 %
Weighted average fair market value per US\$ Warrant issued during the year	n/a	n/a	n/a

14. Income tax expense

NXT periodically earns revenues while operating outside of Canada in foreign jurisdictions. Payments made to NXT for services rendered to clients and subsidiary companies in certain countries may be subject to foreign with-holding taxes. Such taxes incurred are only recoverable in certain limited circumstances, including potential utilization in Canada as a foreign tax credit, or against future taxable earnings from the foreign jurisdictions.

For the year ended December 31, 2015, NXT recorded foreign withholding taxes of \$1,755,678 (2014 - \$nil and 2013 - \$399,546) on a portion of its revenues generated on international projects, including with-holding taxes incurred on certain charges to a foreign subsidiary.

Income tax expense is different from the expected amount that would be computed by applying the statutory Canadian federal and provincial income tax rates to NXT's income (loss) before income taxes as follows:

	2015	2014	2013
Net income (loss) before income taxes	\$ 5,688,136	\$ (1,563,361)	\$ (4,942,015)
Canadian statutory income tax rate	26.0 %	25.0 %	25.0 %
Income tax (recovery) at statutory income tax rate	1,478,915	(390,840)	(1,235,504)
Effect of non- deductible expenses and other items:			
Stock-based compensation and other expenses	407,593	176,719	157,993
Revaluation of US\$ Warrants	-	10,700	342,875
Change in statutory tax rates	(511,508)	-	-
Foreign exchange adjustments	(489,665)	(185,093)	(131,771)
Foreign tax credit benefit	(1,755,678)	-	-
Other	(318,664)	1,474	(4,428)
	(1,189,007)	(387,040)	(870,835)
Change in valuation allowance	(5,633,993)	387,040	870,835
	(6,823,000)	-	-
Income taxes in foreign jurisdictions	1,970,908	-	399,546
Income tax expense (recovery)	(4,852,092)	-	399,546

The Company has available for future Canadian income tax deduction purposes significant unrecorded deferred income tax assets, which include the following at December 31, 2015:

Non-capital / operating losses carried forward (expiration dates 2030 to 2035)	\$ 18,892,000
Canadian resource pool deductions	5,627,000
Capital cost allowance and financing costs deductible	4,845,000
	<u>29,364,000</u>

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A valuation allowance has been provided for the potential financial statement value of these assets and the Company's other deferred income tax assets, due to uncertainty regarding the amount and timing of their potential future utilization, as follows:

	2015	2014	2013
Net operating losses carried forward:			
Canada (expiration dates 2030 to 2035)	\$ 5,100,905	\$ 4,236,318	\$ 4,005,683
USA (expiration dates 2020 to 2026)	2,654,605	2,225,150	2,040,056
Timing differences on property & equipment and financing costs	1,850,228	2,106,780	2,135,468
	9,605,738	8,568,247	8,181,207
Intellectual property	(6,671,544)	-	-
	2,934,194	8,568,247	8,181,207
Less valuation allowance	(2,934,194)	(8,568,247)	(8,181,207)
	-	-	-

15. Bolivia Survey Project

In May 2015, NXT executed a contract to conduct a US \$13.4 million (US \$12.9 million net of applicable local sales taxes owing) survey project with a new client in Bolivia (the "Bolivia Project"). This contract was completed and recognized in revenue in NXT's Q4-2015 period.

A contract amendment for an additional survey project valued at US \$1.0 million (net of taxes) was finalized in October, 2015. The results for this project were delivered to the client in January, 2016, and will be recognized as revenue in the Q1-2016 period. Accordingly, deferred revenue includes US \$0.5 million (net of taxes) which had been invoiced as a progress billing to December 31, 2015 for this project.

General and administrative expense for 2015 includes a total of \$353,000 related to the payment of a corporate bonus pool based on financial results of the Bolivia Project.

16. Geographic information

NXT conducts all of its survey operations from its head office in Canada, and occasionally maintains administrative offices in foreign locations such as Colombia (to mid-2014) and currently Bolivia. NXT has no long term assets outside of Canada.

Revenues were derived by geographic area as follows:

	2015	2014	2013
South and Central America (Bolivia, Belize)	\$17,422,151	\$ -	\$ 24,803
North America (United States)	-	3,913,367	-
Asia (Pakistan)	-	-	2,659,292
	17,422,151	3,913,367	2,684,095

Revenues were derived almost entirely from a single client in each of the years noted above.

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17. Change in non-cash working capital

The changes in non-cash working capital balances are comprised of:

	2015	2014	2013
Accounts receivable	\$ (561,470)	\$ 46,949	\$ 176,429
Work-in-progress	(404,840)	299,842	676,621
Prepaid expenses and deposits	78,247	(180,188)	(17,807)
Accounts payable and accrued liabilities	381,157	(156,729)	(684,369)
Income taxes payable	1,253,126	-	-
Deferred revenue	706,722	(2,781,101)	2,463,998
	<u>1,452,942</u>	<u>(2,771,227)</u>	<u>2,614,872</u>
Portion attributable to:			
Operating activities	1,392,755	(2,771,227)	2,614,872
Financing activities	-	-	-
Investing activities	60,187	-	-
	<u>1,452,942</u>	<u>(2,771,227)</u>	<u>2,614,872</u>

18. Commitments and contingencies

(i) Office premises lease

NXT has an operating lease commitment on its Calgary office space for a 10 year term at an initial estimated minimum monthly lease payment of \$44,486 (including operating costs). The estimated future minimum annual commitment is as follows as at December 31, 2015:

Fiscal year ending December 31	
2016	\$ 533,826
2017	533,826
2018	533,826
2019	533,826
2020	536,792
	<u>2,672,096</u>
Thereafter, 2021 through 2025	2,592,018
	<u>5,264,114</u>

Deferred charges of \$87,756 as at December 31, 2015 relates to the valuation of an initial free-rent period received on this lease in 2015. This balance will be amortized as a reduction of general and administrative expense over the 10 year term of the lease commitment.

(ii) Bank letters of credit

On the Bolivia Project, NXT issued various bank letters of credit as standard performance guarantees for the contracts. As at December 31, 2015, bank letters of credit totaling US \$1,166,705 are outstanding, and expire on March 31, 2016.

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19. Other related party transactions

NXT periodically enters into transactions with related parties, in addition to those described in note 10 concerning the preferred shares.

One of the members of NXT's Board of Directors is a partner in a law firm which provides legal advice to NXT. Legal fees incurred with this law firm were as follows:

	2015	2014	2013
	\$ 100,598	\$ 18,549	\$ 39,966

Accounts payable and accrued liabilities includes a total of \$62,048 (\$124 as at December 31, 2014) payable to this law firm.

In addition, accounts payable and accrued liabilities includes \$34,881 (\$23,673 as at December 31, 2014) related to re-imbursement of expenses owing to persons who are Directors or Officers of NXT.

Accounts receivable includes short-term loans due from two employees totaling \$51,026. These loans mature on October 1, 2016, and bear interest at a variable rate, which is currently 1%.