NXT ENERGY SOLUTIONS INC.

Management's Discussion and Analysis

As at and for the year ended
December 31, 2012

The following management's discussion and analysis ("MD&A") was prepared by management based on information available as at April 16, 2013 and should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2012. This MD&A is for the 3 month ("Q4-12") and 12 month year-to-date ("2012 YTD") periods ended December 31, 2012, with comparative 2011 totals for the 3 month ("Q4-11") and 12 month year-to-date ("2011 YTD") periods ended December 31, 2011.

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 unless specific reference is made to United States or US dollars ("US $").

Forward-Looking Statements

Certain statements in this document may constitute "forward-looking statements". These forward-looking statements can generally be identified as such because of the context of the statements including words such as "believes", "anticipates", "expects", "plans", "intends", "estimates", "scheduled" or words of a similar nature.

Forward-looking statements used in this MD&A relate primarily to:

- estimates of the amount and expected timing of revenue and costs related to new SFD® survey contracts that are planned to be obtained, conducted and completed in 2013 and beyond.
- potential future growth opportunities in new international markets.
- potential financing related activities, including the potential future exercise of outstanding warrants that were issued in March and May 2012, and their related potential effect on liquidity and capital resources.
- potential future conversion of the outstanding preferred shares
- the Company's ability to continue as a going concern.
- estimated future costs related to asset retirement obligations.
- limitations in disclosure controls, procedures, and internal controls over financial reporting.

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

These forward-looking statements are based on current expectations and are subject to 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, which does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other entities. Management of NXT uses this non-GAAP measure to improve its 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, deferred revenue and derivative instruments. Management excludes these amounts from the calculation as they do not represent future cash inflows or outflows to the Company.

Description of the Business

NXT is a Calgary based publicly traded company that provides a unique survey service to the oil and natural gas exploration industry. NXT's proprietary Stress Field Detection ("SFD®") survey technology is based on detecting subtle changes in earth's gravity field from an airborne platform. SFD® data gathered is analyzed and can be used to find variations in sub-surface geological stress patterns - indicators of potential reservoir and trap formations. NXT's aerial 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, 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 and Africa.

Overall Performance - Business Overview

In 2012 NXT made significant positive developments in such areas as:

- building industry awareness of the value of our proprietary SFD® technology, in order to continue to move beyond the early-stage technology phase towards wider spread industry acceptance
- expanding the number, magnitude, and profitability of our survey contracts
- shortening the time frame from initial client interest through subsequent SFD® survey execution and delivery
- enhancing our intellectual property ("IP") through new research & development ("R&D"), and at the same time building protection of the IP through patent process initiatives
- improving our working capital position, through cash generated from operations and by way of a US $3.2 million private placement equity financing which closed in early 2012
- and of course, generating significant growth in our revenue base, which yielded substantial net income and positive cash flow from operations in 2012, reversing the recent history of losses that was associated with re-focusing operations into new international markets.

As the exploration cycle, from initial survey activity to eventual drilling can be quite long, a challenge with client prospects has always been demonstrating the results seen on past SFD® surveys. With the passage of time, industry activity on prior SFD® surveys (such as in Colombia) is now starting to prove out, which generates useful data for presentation to new survey client prospects.

Our focus on South and Central America remains unchanged and our growing activity in Mexico will hopefully be the catalyst for new sales expansion in South and Central America. A key expansion objective for 2012 was for NXT to make new in-roads into the very large exploration markets in Mexico and Brazil, which we were able to execute. In Q4-12, we delivered our largest SFD survey contract to date, US $5.8 million for Petroleos Mexicanos ("PEMEX"), the National Oil Company of Mexico. Progress in marketing to new client prospects has also started in Brazil. NXT will also continue to pursue longer-term survey opportunities in vast frontier areas like the Arctic.

NXT plans to continue to broaden the profile of SFD® within our target markets through the generation and dissemination of SFD® case studies, which are an effective tool to showcase SFD® capabilities and to educate the industry about the value of our service. We are very proud that PEMEX has asked NXT to co-author a proposed technical paper for presentation at their annual Petroleum Congress in Mexico in early June 2013, which we see as an important third party validation of the benefits of the SFD® technology. This technical paper is expected to highlight the high degree of correlation of "blind tests" of SFD® data with PEMEX's existing geophysical and production data in areas, including offshore Gulf of Mexico, that were surveyed by NXT.

NXT's survey activity in 2012 reflects improvement in customer awareness of the SFD® technology, as we were active in six separate countries. Finalization of two contracts obtained in 2011 (Colombia and Argentina) did not occur until the second half of 2011 period, and final completion of the contracts occurred in Q1-12 (Colombia) and Q2-12 (Argentina). The 2011 fiscal year reflected only US $150,000 of revenues from a project that was conducted in the United States Q2-2011. A summary of NXT's 2012 and 2013 to date survey activity is as follows:

(amounts in US $ millions)	Contract completion	Contract value	Revenue recognized to December 31, 2012
Colombia - 4 contracts commenced in Q4-2011, completed in Q1-2012	Q1-2012	2.9	2.9
Argentina - survey operations commenced in February, 2012	Q2-2012	1.6	1.6
Guatemala - survey operations commenced in April, 2012	Q2-2012	0.7	0.7
Mexico - survey operations commenced in August, 2012	Q4-2012	5.8	5.8
		11.0	11.0
Belize - survey operations commenced in September, 2012	Q1-2013	0.1	-
Pakistan - survey operations commenced in December, 2012	Q1-2013	2.7	-
Colombia - last of the 6 blocks covered under a May 2011 Letter of Intent	unknown	1.0	-
		14.8	11.0

All revenue totals noted are before deducting any applicable foreign withholding taxes. Large value contracts normally have periodic progress billings occur at each of the mobilization, SFD data acquisition, and report delivery phases. Accounts receivable of $0.5 million at December 31, 2012 is primarily for the initial contract progress billing for the Pakistan project, which was collected in Q1-13. The final progress billing issued on contracts is generally due within 30 days after delivery of NXT's final report on SFD data interpretation and the related prospect recommendations to the client.

Additional information on these recent SFD® survey projects is as follows:

- **Colombia** - in early 2011, NXT announced a letter of intent ("LOI") with a major Canadian public exploration and production company to conduct a US $4.6 million SFD® survey on 6 separate exploration blocks in Colombia and Guatemala. This LOI represented a major validation of the SFD® technology, in the form of a significant repeat customer order. SFD® data acquisition operations were completed on 4 survey blocks in Colombia in Q4-2011, with final interpretation of the data, and delivery of the reports on findings and recommendations to the client, completed in mid January 2012. The related revenue of US $2.9 million was recognized in NXT's Q1-2012 period. Survey operations on the fifth block, in Guatemala, are discussed below. The LOI also contemplates the last of the six surveys being conducted on another Colombia block, but terms of this survey (expected value of US $1 million) have not yet been finalized. Execution of a survey on this sixth block are expected to be planned in conjunction with other new survey opportunities which may arise in the Colombia area in late 2013 or thereafter.
- **Argentina** - a US $1.65 million survey contract was executed in September 2011, and mobilization from Colombia occurred in mid December 2011. We were pleased to gain a foothold in Argentina, which has an attractive profile of large frontier exploration areas suited to conducting early stage SFD® exploration surveys. While the actual survey flying time was very efficient (9 days total), the overall project took much longer than expected to start and complete, due to numerous regulatory delays in the aircraft importation and permitting process. In addition, our survey aircraft required repairs following completion of the survey and prior to departure from Argentina, which again was subject to ongoing regulatory delays. Data acquisition was completed in March 2012, and the data interpretation and the related delivery of the SFD® report and recommendations to the client was completed in June 2012 (the Q2-12 period).
- **Guatemala** - this US $0.7 million survey was conducted in early April 2012, following the Argentina survey, and interpretation and recommendations on the SFD® data acquired was delivered to the client in June, 2012.

- **Mexico** - NXT made numerous technical presentations to PEMEX in early 2012 and in the Q3-12 period secured their intent to conduct a large scale, initial SFD survey. This contract, which had an initial value of US $4.8 million, covered a large area with diverse geological settings, including some offshore flight lines. Prior to the NXT survey crew departing from Mexico, PEMEX decided to expand the scope of the project by an additional US $1.0 million, for a total value of US $5.8 million.

  This contract was a significant milestone for NXT, as it represents our largest single SFD® survey project to date. Data acquisition operations were completed in September, and initial findings were able to be presented to the client on an ongoing basis. NXT delivered its final findings and recommendations report in Mexico in December, 2012, and was paid in full for the contract value by year-end. This project was a significant accomplishment, as it was a very large scale survey project delivered in approximately 4 months, which emphasizes one of the attractive benefits of SFD® as an exploration tool.

  In addition, our client designed the 2012 survey with numerous "blind test" flight line segments, whereby SFD® data was collected over areas where PEMEX already had existing geophysical (aero-magnetic, aero-gravity, and seismic) data, as well as over producing oil fields. In early 2013, PEMEX then commenced an internal evaluation of the SFD® data, to assess the extent of correlation with their internal data. PEMEX have proposed co-authoring with NXT a joint technical paper to be presented at their annual Petroleum Congress in Mexico in early June 2013, to discuss their results in using our technology. This is a very positive development for NXT, as this forum will lend external validation to the merits of SFD® surveys from a major international exploration and production company.

- **Belize** - prior to departing from Mexico, NXT also successfully negotiated and conducted a small survey for a private company with a prospect in Belize. The project has an initial cash payment of US $25,000 with additional consideration of up to US $425,000 (US $50,000 cash and US $375,000 in share consideration) receivable upon the clients' successful completion of certain future events, including financing. NXT's SFD recommendations report on this project was delivered in Q1-13.

- **Pakistan / South Asia** - in early 2011, NXT finalized a US $2.7 million SFD® survey contract to be conducted in Pakistan (previously referred to as "South Asia" for security purposes). This project unfortunately encountered ongoing flight permitting delays in 2011, as multiple government agencies had a role in the permitting process. NXT, in conjunction with our local agent, continued to champion the SFD® survey project in 2011, and the client and key government decision makers provided their ongoing support. The permitting process was pending approval of the flight areas by one of the government agencies, following which a "No Objections Certificate" was issued by the relevant parties in June, 2012.

  NXT mobilized to this project in December 2012, and was extremely pleased to be flying the survey the day after arrival. The in-country SFD® data acquisition was rapidly completed within a month, and the SFD® data interpretation and report recommendations phases of the project were completed in March, 2013. Following delivery of the project report to the client in late March, NXT commenced follow-up visits with numerous explorers who had previously expressed interest in conducting SFD® surveys in the region, and who were waiting to see the results of this initial survey in Pakistan.

  NXT intends to actively market the opportunity to conduct new surveys in the region in late 2013 and beyond.

Near-term Outlook for 2013 and beyond

NXT plans to continue to increase SFD® brand awareness, become more active in publishing technical papers, and increase recognition of SFD® at international trade shows and seminars. Our focus will be on National Oil Companies ("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 is 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 Mexico, Colombia, Brazil, Peru, Ecuador, and Bolivia. Longer term prospects will also be pursued in the frontier areas of Africa, Asia, and in the Arctic and off-shore Atlantic regions (particularly where Canadian and American E&P companies are operating).

As NXT pursues these markets, our strategy is to identify and retain high quality local sales representatives with the key knowledge of the area, the clients and the exploration sector of the oil & gas industry. This allows us to cover much larger areas and more clients with minimum fixed cost. NXT has in place sales representatives to pursue SFD® survey opportunities in Mexico, Bolivia, Colombia, Brazil, India, Kuwait, Costa Rica, Panama, China as well as the Israel / Cyprus / Greece Mediterranean region. All independent international sales representatives are required to adhere to NXT's code of conduct and business ethics.

Near term contract and revenue opportunities for 2013 include prospective clients in South Asia, Brazil, Latin America, and most importantly, follow-on surveys for PEMEX in Mexico. Throughout Q1-13, NXT has been actively working with senior PEMEX exploration staff to integrate the 2012 SFD® survey results with their extensive, existing geophysical data. We are optimistic that PEMEX is currently assessing its inventory of prospects for new SFD® survey opportunities, which may culminate in a new contract that would commence in 2013.

Some of our objectives to allow additional growth include expanding our SFD® equipment capacity, adding to our core group of Interpretation staff and our ability to provide integration of SFD® with geology & geophysics. NXT is pleased to note that in April 2013, we were able to attract and hire a veteran geophysicist, who has experience in international markets and in providing consulting advice to exploration clients.

Initiatives to protect our Intellectual Property ("IP" - patenting and new R&D initiatives) are in process, which should also serve to allow us to expand on industry awareness and acceptance of SFD® technology. In early 2012, NXT engaged Patton Boggs LLP, a leader in IP protection headquartered in the United States, to assist with designing and implementing NXT's IP strategy. This process resulted in filing the first of a number of expected applicable patent applications in Q1-12, and additional US patent filings are in process of being drafted and are expected to be finalized before the end of May, 2013.

Selected Annual Financial Information

	2012	2011	2010
Survey revenue	10,937,575	144,650	443,011
Net income (loss)	2,062,728	(3,584,601)	(4,452,428)
Net income (loss) per share - basic	0.05	(0.10)	(0.14)
Net income (loss) per share - diluted	0.04	(0.10)	(0.14)
Net cash flow from (used in) operating activities	792,992	(1,756,515)	(2,692,776)
Cash and short-term investments	5,107,594	1,518,946	1,370,234
Total assets	7,458,222	3,274,928	2,046,906
Long term liabilities	61,813	57,953	62,597

Results of Operations

The nature of NXT's business is such that operating results are not readily comparable on a quarter to quarter, or year over year basis. This is because revenues are derived from periodic large value survey projects, which can be conducted in a relatively short time frame, but can have a large effect on any single period in which they occur.

Also, NXT applies the completed contract method of revenue recognition, such that revenue and costs are deferred and recognized in the quarter in which the survey project is formally completed. Survey activity for any project will thus often span two fiscal quarters.

Summary of Quarterly Results (Unaudited)

A summary of operating results for each of the trailing 8 quarters (including a comparison 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 survey contracts that 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. In addition, in Q2-12, NXT commenced to recognize in net income the change (also a non cash item) in the fair value of US$ denominated warrants to purchase NXT common shares, which are classified as a "derivative instrument" on our balance sheet.

	Q4-12 Dec 31, 2012	Q3-12 Sep 30, 2012	Q2-12 June 30, 2012	Q1-12 Mar 31, 2012
Survey revenue	$ 5,727,392	$ -	$ 2,394,863	$ 2,815,320
Net income (loss)	3,087,323	(1,393,183)	30,660	337,928
Income (loss) per share - basic	0.07	(0.03)	-	0.01
Income (loss) per share - diluted	0.06	(0.03)	-	0.01

	Q4-11 Dec 31, 2011	Q3-11 Sep 30, 2011	Q2-11 Jun 30, 2011	Q1-11 Mar 31, 2011
Survey revenue	$ -	$ -	$ 144,650	$ -
Net loss	(1,072,560)	(1,026,814)	(692,510)	(792,717)
Income (loss) per share - basic and diluted	(0.03)	(0.03)	(0.02)	(0.02)

Q4-12 to Q3-12 comparison - NXT had survey revenue of $5,727,392 ($nil in Q3-12), SBCE of $59,000 ($78,000 in Q3-12) and survey costs of $1,277,768 ($24,170 net recovery in Q3-12). In addition, a non-cash income amount of $336,000 ($158,000 expense in Q3-12) was recognized in relation to adjusting the fair value of derivative instruments, and income taxes of $216,807 ($nil in Q3-12) were recognized. Due primarily to the completion of the large Mexico contract in Q4-12, a net profit of $3,087,323 arose, as compared to a net loss of $1,393,183 for Q3-12.

Q3-12 to Q2-12 comparison - NXT had survey revenue of $nil ($2,394,863 in Q2-12), SBCE of $78,000 ($61,000 in Q2-12) and a survey cost recovery of $24,170 (expense of $1,205,654 in Q2-12). In addition, a non-cash expense of $158,000 was recognized in relation to adjusting the fair value of derivative instruments. As no contract revenue was recognized in the Q3-12 period, a net loss of $1,393,183 arose, as compared to a profit of $30,660 for Q2-12.

Q2-12 to Q1-12 comparison - NXT had survey revenue of $2,394,863 ($2,815,320 in Q1-12), SBCE of $61,000 ($67,000 in Q1-12) and survey costs of $1,205,654 ($1,174,393 in Q1-12). With the completion of the Argentina and Guatemala surveys in Q2-12, NXT recognized a profit of $30,660 as compared to a net profit of $337,928 for Q1-12, which reflected the completion of the Colombia survey.

Q1-12 to Q4-11 comparison - NXT had survey revenue of $2,815,320 ($nil in Q4-11), SBCE of $67,000 ($50,015 in Q4-11) and survey costs of $1,174,393 ($nil in Q4-11). Due to the completion of the large Colombia survey in Q1-12, NXT recognized a net profit of $337,928 for Q1-12 as compared to a loss of $1,072,560 for Q4-11.

Q4-11 to Q3-11 comparison - NXT had survey revenue of $nil ($nil in Q3-11), SBCE of $50,015 ($246,000 in Q3-11) and $nil survey costs ($nil in Q3-11).

Q3-11 to Q2-11 comparison - NXT had survey revenue of $nil ($144,650 in Q2-11), SBCE of $246,000 ($18,843 in Q2-11) and $nil survey costs ($43,990 in Q2-11). The high total SBCE recorded in Q3-11 was due to the large number of stock options granted in Q3-11, and the fact that 42% of such had immediate vesting (as compared to the standard of 3 years).

Q2-11 to Q1-11 comparison - NXT had survey revenue of $144,650 ($nil in Q1-11), SBCE of $18,843 ($29,942 in Q1-11) and survey costs of $43,990 ($nil in Q1-11).

Q1-11 to Q4-10 comparison - NXT recognized $nil survey revenue ($nil in Q4-10) and SBCE of $29,942 ($404,053 in Q4-10). The $374,111 decrease in SBCE from Q4-10 is attributed to nearly all stock options held by contractors becoming fully vested in Q1-11 and the large expense that was recognized in Q4-10 upon re-pricing of all outstanding stock options to $0.63 per share.

Summary of Operating Results

Overall, NXT incurred a net income of $3,087,323 for Q4-12 as compared to a loss of $1,072,560 for Q4-11. For 2012 YTD, NXT generated net income of $2,062,728 as compared to a loss of $3,584,601 for 2011 YTD. The net income for 2012 YTD is due to a greatly expanded level of survey operations, a large portion of which occurred in the Q4-12 period. With the increased activity in 2012, G&A expense also increased significantly, as further detailed below.

	Q4 2012	Q4 2011	2012 YTD	2011 YTD	2010 YTD
Survey revenue	$ 5,727,392	$ -	$ 10,937,575	$ 144,650	$ 443,011
Expenses					
Survey costs	1,277,768	877	3,633,645	46,713	466,428
General and administrative ("G&A")	1,356,617	983,863	4,508,506	3,218,143	3,678,806
Stock based compensation expense ("SBCE")	59,000	50,015	265,000	344,800	577,815
Amortization of property and equipment	41,749	45,882	125,015	160,478	164,065
	2,735,134	1,080,637	8,532,166	3,770,134	4,887,114
Other expense (income)					
Interest expense (income), net	535	(8,008)	2,744	(16,353)	(9,923)
Loss (gain) on foreign exchange	(3,525)	(4,992)	14,686	(28,209)	16,509
Oil and natural gas operations	3,928	4,923	15,273	3,679	665
Other expense	23,190	-	51,700	-	1,074
Change in fair value of derivative instruments	(336,000)	-	(168,143)	-	-
	(311,872)	(8,077)	(83,740)	(40,883)	8,325
Income (loss) before income taxes	3,304,130	(1,072,560)	2,489,149	(3,584,601)	(4,452,428)
Income tax expense	216,807	-	426,421	-	-
Net income (loss) for the period	3,087,323	(1,072,560)	2,062,728	(3,584,601)	(4,452,428)

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 overall survey recommendations report is delivered to our client. The Q4-12 period reflects completion of the Mexico project, which commenced in August 2012. The 2012 YTD total includes survey operations for three other survey contracts - the Colombia survey project (on four exploration blocks) which was completed in Q1-12, and for the Argentina and Guatemala projects which were completed in Q2-12.

The Pakistan (South Asia) survey contract commenced in December 2012, and all progress billings to December 31, 2012 and the associated survey costs incurred are deferred to and will be recognized in Q1-2013, as the project was completed in March, 2013.

G&A expense - even in periods of high survey activity, G&A is a major component of NXT's total expenses. The categories included in G&A expense are as follows:

	Q4 2012	Q4 2011	2012 YTD	2011 YTD	2012 YTD net change
Salaries, benefits and consulting charges	$ 834,448	$ 563,259	$ 2,397,859	$ 1,725,237	$ 672,622
Board, professional fees, and public company costs	215,566	193,984	779,346	560,416	218,930
Premises and administrative overhead	132,531	121,192	632,058	520,689	111,369
Business development	110,016	91,675	464,262	274,454	189,808
Colombia office	64,056	72,085	234,981	195,679	39,302
Other	-	(58,332)	-	(58,332)	58,332
Total G&A	1,356,617	983,863	4,508,506	3,218,143	1,290,363

The $1,290,363 or 40% increase in G&A expenses for 2012 YTD as compared to 2011 YTD is a combination of several factors, including:

- due to low revenue activity in 2010, cost cutting measures in 2010 included a 15% roll-back (which was in place until the end of 2011) on salaries and NXT Board of Director fees. Also, NXT had an increased number of staff and consultants in 2012 due to expanded operating activity.
- there was a $218,930 or 39% net increase in public company costs in 2012 which was primarily due to a significant expansion of investor relations ("IR") activities. This increase in IR activities was partially offset by a $119,000 net decrease in Board member fees payable, as part of the Company's continuing efforts to reduce costs.
- premises and overhead costs increased by $111,369 or 21% in 2012 primarily due to the expanded staff levels, and new staff recruiting efforts.

- business development expenses (including international conferences and seminars) increased by $189,808 or 69% for 2012, following a significant increase in activity at the end of 2011 in an effort to increase market awareness of and acceptance of the SFD survey technology, and direct marketing to new international client survey prospects.
- Colombia office costs increased in 2012 due to the survey activity which was underway there in late 2011, and the removal of the 15% wage roll-back which was in place until December 2011.
- the Other G&A recovery in Q4-11 relates to a reversal of a pre 2012 allowance that had been recorded in 2010 with respect to Colombia office sales taxes recoverable.

For the Q4-12 period, G&A increased by $372,754 or 38% to $1,356,617 as compared to $983,863 for the Q4-11 period. The reasons for the increase are essentially the same as for the 2012 YTD period (such as expanded activity and staff levels, and removal of the 15% salary roll-back in late 2011). In addition, Q4-12 compensation costs includes an accrual of a bonus pool payable to staff and management based on the significant growth and successes that were realized in 2012.

SBCE - this expense can vary widely 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) of the resultant expense. Also, SBCE is a function of periodic changes in the inputs used in the Black-Scholes valuation model, such as NXT's stock price and trailing share price volatility. In 2011, a large grant of options which occurred in July had immediate vesting, while virtually all of the options issued in 2012 are being amortized over a three year period.

Interest income, net - interest income earned on short-term investments is offset by any interest expense incurred (such as on a prior capital lease obligation for office equipment). Although market interest rates are low, with higher levels of cash resources available starting in late 2012, NXT is assessing opportunities for secure short-term investments of excess cash.

Loss (gain) on foreign exchange - this total is caused by changes in the relative exchange values of the US$, Canadian $ and Colombian peso ("COP"). For example, when the Canadian $ 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 Canadian $ to reduce the effect of market volatility; however, we currently are contractually obligated to hold certain restricted cash funds in US$ instruments to support performance bond commitments in certain foreign countries. Also, in Q4-12 the value of net US$ monetary assets was slightly lower than for Cdn$ totals, resulting in an unrealized exchange loss on net US$ cash and other working capital items.

Oil and natural gas operations - this includes some ongoing operating costs related to our minor net working interest in oil and gas wells (in which NXT had a historical participation prior to 2005), including the non-cash accretion expense related to the annual increase in the associated asset retirement obligations ("ARO") due to the passage of time. The ARO recorded on NXT's balance sheet reflects the estimated net present value of NXT's net working interest in 8 gross (1.1 net) oil and gas wells. The ARO is based upon estimates of the future costs (to be settled in approximately 3 years) to abandon, remediate and ultimately reclaim the well sites.

Other expense - for 2012, this category includes primarily costs related to intellectual property filings and new R&D activity related to the SFD technology.

Change in fair value of derivative instruments - this new line item in 2012 relates to changes in the estimated fair value of the outstanding US$ denominated warrants to purchase NXT common shares (which were issued in Q1-12 and Q2-12), which will be revalued at each quarter end until their exercise and / or expiry in early 2014. The balance was initially recorded at $409,143 and to the end of 2012, the estimated fair value was reduced by $168,143 to a revised fair value of $241,000. The net decrease to the derivative instruments balance to December 31, 2012 was based on such inputs as NXT's share price at the Q4-12 quarter end, and NXT trailing share price volatility and liquidity.

Income tax expense - NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions. Payments made to NXT for services rendered to clients in such countries may be subject to foreign withholding taxes, which are only recoverable in certain circumstances. During 2012, NXT incurred withholding taxes on a portion of its revenues which were generated in Central and South America. Although such foreign taxes paid can potentially be utilized in Canada as a foreign tax credit against future taxable earnings from the foreign jurisdictions, a full valuation allowance has been provided against this benefit.

Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of Q4-12 was $5,107,594. This excludes a total of $433,369 which is classified on the Balance Sheet as restricted cash, which is required primarily as security for contract performance bonds. The net increase in restricted cash in 2012 is related to security which was required to be posted for letters of credit (often for a term of 12 to 15 months) that were issued to undertake the Guatemala survey in Q2-12, and to undertake the survey in Pakistan, which commenced in Q4-12. All of these funds are scheduled to be released back to NXT when the related letters of credit expire in 2013.

Significant progress was made by NXT in 2011 and 2012 in securing new revenue contracts and expanding our working capital. NXT's ability to continue as a going concern, however, remains dependent upon our success in being able 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 the Company has changed its strategy to focus its efforts on the international oil and gas exploration markets. Private placement financings totaling US $3.2 million (US $3.0 million net of finders fees incurred) were conducted in early 2012 (as further detailed below) to enhance NXT's financial strength and fund its expansion plans. 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.

We are encouraged that acceptance of NXT's technology in the oil & gas exploration industry is expanding - customer success in using SFD® to reduce their exploration time, cost, and risk is growing, and starting to yield repeat business. In 2011 NXT secured two significant new contracts to conduct SFD® survey projects in Colombia and Guatemala (total of US $4.6 million, of which US $2.9 million was completed in Q1-12 and US $0.7 million was completed in Q2-12) and in Argentina (US $1.65 million, completed in Q2-12). In Q3-12, NXT commenced its largest project ever, a US $5.8 million survey project in Mexico, which was completed and delivered to PEMEX in only 4 months.

In addition, in December 2012 NXT commenced a US $2.7 million (contract value prior to 15% in-country with-holding taxes) survey project in Pakistan for a major National Oil Company. This contract was originally awarded in late 2010, and took an extensive period of time to obtain all necessary government approvals and flight permits. Data acquisition for the project was efficiently completed by mid January 2013, and the SFD survey recommendations report was then delivered to our client in March 2013.

In order to enhance financial resources, and give flexibility to expand and conduct new contracts, in Q1-12 NXT commenced a non-brokered private placement financing (the "Financing") of Units (at $0.75 per Unit), which consisted of one common share plus one common share purchase warrant.

A total of US $3.2 million (US $3.0 million net of finders fees) was raised through four separate closings which occurred from March 7 through May 4, 2012. This resulted in the issue of 4,258,005 common shares and a total of 4,502,821 warrants (which have an exercise price of US $1.20 and a two year term to expiry in 2014) to purchase NXT common shares.

NXT has no secured debt, and following the private placement financing and completion of several survey revenue contracts in 2012, net working capital increased significantly in 2012 as follows:

	Total as at December 31, 2012	Total as at December 31, 2011	net change in 2012
Current assets (current liabilities):			
Cash and short term investments	$ 5,107,594	$ 1,518,946	$ 3,588,648
Restricted cash	433,369	-	433,369
Accounts receivable	472,308	122,231	350,077
Prepaid expenses and other	140,649	43,105	97,544
Accounts payable and accrued liabilities	(1,623,724)	(1,347,925)	(275,799)
Current portion of capital lease obligation	-	(8,591)	8,591
Net working capital before the undernoted items	4,530,196	327,766	4,202,430
Additional asset (liability) amounts:			
Work-in-progress	976,463	1,112,210	(135,747)
Deferred revenue	(317,103)	(1,776,496)	1,459,393
Fair value of derivative instruments	(241,000)	-	(241,000)
	418,360	(664,286)	1,082,646
Net	4,948,556	(336,520)	5,285,076

The derivative instruments relate to the estimated fair value of the common share purchase warrants (which have a US$ exercise price) which were issued in the private placement financings in March and May 2012. This balance is adjusted to its estimated fair value at each period end (until expiry of the warrants in March and May, 2014), based on the number of warrants outstanding. These derivative instruments are classified as a liability, but do not require any ongoing outlay of cash.

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. 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. The WIP balance at December 31, 2012 relates to the Pakistan survey which commenced in December, and was completed in March, 2013.

Also, deferred revenue represents only the portion of progress billings that were issued to the quarter end for the uncompleted contracts. At December 31, 2012, the deferred revenue balance relates almost entirely to the Pakistan project.

The comparative totals for WIP and deferred revenue balances as at December , 2011 were related primarily to the four block Colombia survey project, which commenced in late 2011, and was completed in January 2012.

The increased total of accounts payable and accrued liabilities at Q4-12 as compared to Q4-11 is largely due to the timing of survey projects, and the related timing of payment of the related costs incurred. Most of the costs related to the Mexico survey were paid by December 31, 2012, whereas most costs related to the Pakistan survey were paid in Q1-13. The total at Q4-12 also includes a slightly higher total for accrued bonuses, wages and director fees payable as compared to Q4-11.

The following summarizes NXT's net cash flows:

Cash flows from (used in):	Q4-12	Q4-11	2012 YTD	2011 YTD
Operating activities	$ 3,591,799	$ 422,532	$ 792,992	$ (1,756,515)
Financing activities	-	423,835	3,203,443	1,916,481
Investing activities	(23,352)	(51,945)	(452,787)	884,397
Net source (use) of cash	3,568,447	794,422	3,543,648	1,044,363
Cash, start of the period	1,484,147	714,524	1,508,946	464,583
Cash, end of the period	5,052,594	1,508,946	5,052,594	1,508,946

As shown above, cash balances increased in Q4-12 by $3,568,447 (and increased by $3,543,648 for 2012 YTD) to $5,052,594 at December 31, 2012. Further information on the net changes in cash, by Operating, Financing, and Investing activities, is as follows:

Operating Activities	Q4-12	Q4-11	2012 YTD	2011 YTD
Net income (loss) for the period	3,087,323	(1,072,560)	2,062,728	(3,584,601)
Add back non-cash items	(234,286)	96,774	225,732	508,787
	2,853,037	(975,786)	2,288,460	(3,075,814)
Decrease (increase) in non-cash working capital balances	738,762	1,398,318	(1,495,468)	1,319,299
Net cash from (used in) operating activities	3,591,799	422,532	792,992	(1,756,515)

Financing Activities

- overall net cash source of $3,203,443 for 2012 YTD and $nil for Q4-12.
- a private placement financing of units (US $3.2 million gross proceeds) which had closings in March and May resulted in net proceeds to NXT of $2,886,024.

- $278,760 was realized in 2012 (all in Q1-12) from proceeds on exercise of common share purchase warrants that were issued in February 2011.
- stock option exercise proceeds were $47,250 (all in Q1-12).
- repayment of a capital lease obligation totaled $8,591 ($nil for Q4-12)

Investing Activities

- overall net cash use of $452,787 ($23,352 for Q4-12)
- net use of $45,000 ($262,121 inflow in Q4-12) in 2012 to purchase short-term investments.
- a net cash outflow of $359,234 ($267,217 net outflow for Q4-12) arose from a net increase in restricted cash balances which have been issued as security for performance guarantees on international survey contracts.
- $48,553 ($18,256 for Q4-12) was used for purchases of office and other equipment.

Financing Transactions in 2012

- In March and May 2012, NXT conducted private placement financings (the "2012 Financings") which consisted of issued at a price of US $0.75 (the "Units"). Each Unit consisted of one NXT common share and one warrant (the "Warrants") allowing the holder to purchase an additional NXT common share at a price of US $ 1.20. The Warrants have a term of two years from the date of issue, and the expiry can be accelerated (the "Acceleration") at the option of NXT in the event that it issues a press release advising that its common shares have traded on the US OTCBB Exchange at a price exceeding US $1.50 for 20 consecutive trading days. Any Warrants subject to such Acceleration shall expire 30 days after notice.

  In connection with the 2012 Financings, NXT paid finder's fees totaling US $183,612 and issued a total of 244,816 finder's warrants (which have the same terms as the Warrants noted above). The 2012 Financing was priced in US $ as it was expected that the majority of investor interest would be with US subscribers.

- The 2012 Financings are summarized as follows:

	March, 2012	May 4, 2012	Total
Proceeds (in US $)	$ 2,216,005	$ 977,500	$ 3,193,505
Proceeds, net of finders fees (in US $)	2,094,193	915,700	3,009,893
Number of common shares issued	2,954,672	1,303,333	4,258,005
Number of Warrants issued	2,954,672	1,303,333	4,258,005
Number of finder's warrants issued	162,416	82,400	244,816
	3,117,088	1,385,733	4,502,821

The Warrants, if they were to be exercised in full before their expiries in 2014 (March 7 through May 4), would yield additional proceeds to NXT of US $5,403,385.

Contractual Commitments

NXT has an operating lease commitment on its Calgary office space for a term through April 30, 2015 at a minimum monthly lease payment of $26,138 (including estimated operating costs). As at December 31, 2012, the estimated remaining minimum annual lease commitment is as follows:

for the year ending December 31	total minimum lease payments
2013	$ 304,382
2014	304,382
2015	101,461
	710,225

NXT currently does not own any aircraft used in its' survey operations, but has in place an agreement which expires in January 2013), to utilize a minimum annual volume of aircraft charter hours. The contract has a minimum commitment of $317,000 for 2013.

Transactions with Related Parties

Officers of the Company subscribed for a total of $40,000 of the February 2011 private placement financing and a total of US $40,000 of the 2012 Financings.

NXT retains as legal counsel a law firm of which one of its Directors is a partner. In 2012, NXT incurred legal fees and share issuance costs totaling $80,550 (2011 - $52,234, 2010 - $15,219) with this firm, for which a total of $11,112 is included in accounts payable as at December 31, 2012 (December 31, 2011 - $8,719).

Accounts payable and accrued liabilities includes a total of $63,820 (2011 - $4,681) related to re-imbursement of expenses owing to persons who are Directors and Officers of NXT.

In 2011, NXT conducted a US $150,000 SFD® survey contract with a client which has a board member who also serves on the NXT Board of Directors.

In 2012 and to date in 2013, NXT issued the following stock options (which have a 5 year term to expiry, and vest 1/3 at the end of each annual anniversary date) to Directors and Officers of the Company:

issued to	month issued	exercise price	# of options
NXT Officer	January 2012	$ 0.89	150,000
NXT Directors and Officers (i)	July 2012	$ 0.86	830,000
NXT Directors	December 2012	$ 0.76	90,000
total 2012			1,070,000
NXT Director	January 2013	$ 0.76	150,000
NXT Officer	April 2013	$ 0.66	150,000
total to date in 2013			300,000

(i) in addition, in July 2012, two Directors of NXT surrendered for cancellation a total of 140,000 stock options, which had an exercise price of $0.63 per share, and an expiry date of December 12, 2012.

Additional Disclosures - Outstanding Securities

	exercise price	as at April 16, 2013	as at December 31, 2012	as at December 31, 2011
Shares issued:				
Common shares		39,554,959	39,554,959	34,757,396
Preferred shares		10,000,000	10,000,000	10,000,000
Common shares reserved for issue re:				
Stock options		3,190,600	2,890,600	2,473,100
Common share purchase warrants (expiry March 7 to May 4, 2014)	US $1.20	4,502,821	4,502,821	-
Common share purchase warrants (expiry February 16, 2012)	$ 0.60	-	-	2,645,920
Total, fully diluted		57,248,380	56,948,380	49,876,416

The US $1.20 common share purchase warrants expire in 2014 as follows:

March 7, 2014	2,096,175
March 19, 2014	415,000
March 30, 2014	605,913
May 4, 2014	1,385,733
	4,502,821

The 10,000,000 Preferred shares are non-voting, are held by NXT's President & CEO, and were issued in the 2005 / 2006 period pursuant to NXT acquiring rights to use the SFD® technology for hydrocarbon exploration applications. The Preferred shares are convertible on a 1 for 1 basis into NXT common shares by December 31, 2015, subject to earlier partial conversions if certain cumulative revenue milestones are achieved by NXT (with an additional bonus of 1,000,000 Preferred shares issuable if cumulative SFD® revenues exceed US $500 million) .

At present, 2,000,000 of the Preferred shares are convertible, and in April, 2013 the holder gave formal notice to NXT to convert (effective April 30, 2013) these into 2,000,000 common shares.

NXT has an option to elect by December 31, 2015 to convert the remaining 8,000,000 Preferred shares in order to maintain its rights to utilizing the SFD® technology. In the event that the conversion option is not exercised by December 31, 2015, the Preferred shares would be redeemed for $0.001 per share and NXT's rights to the SFD® technology would revert to the holder of the Preferred shares.

The remaining 8,000,000 Preferred Shares are subject to conditions related to potential future conversion. They may become convertible into common shares in four separate increments of 2,000,000 Preferred Shares each, should NXT achieve specified cumulative revenue thresholds of US $50 million, US $100 million, US $250 million and US $500 million prior to December 31, 2015. An additional bonus of 1,000,000 Preferred Shares are issuable in the event that cumulative revenues exceed US $500 million.

Cumulative revenue is defined as the sum of total revenue earned plus proceeds from the sale of assets accumulated since January 1, 2007, all denominated in United States dollars, and calculated in accordance with generally accepted accounting principles. As at December 31, 2012, the Company had generated cumulative revenue of approximately US $23.1 million (December 31, 2011 - US $12.1 million) that is eligible to be applied to the above noted conversion thresholds.

Critical Accounting Estimates

The preparation of NXT's consolidated financial statements is in accordance with accounting principles generally accepted in the United States of America and 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 the consolidated financial statements as well as the amount of revenues and expenses recorded during the reporting periods. Estimates made related to allowances for doubtful accounts, estimated useful lives of assets, provisions for contingent liabilities, measurement of stock-based compensation expense, valuation of derivative instruments, valuation of future tax assets, estimates for asset retirement obligations, and the valuation of preferred shares (which may include estimates of the likelihood that the conversion feature of the preferred shares will be achieved in future). The estimates and assumptions used are based on 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.

Changes in the accounting estimates or assumptions could have a significant impact on the Company's reported Consolidated Statement of Income (Loss).

Apart from the financial instruments section discussed below, the key elements and assumptions that we have made under these principles and their impact on the amounts reported in the Consolidated Financial Statements remain substantially unchanged from those described in NXT's 2011 audited consolidated financial statements.

Revenue Recognition

Revenue earned on SFD® survey contracts (net of any related foreign sales taxes) is recognized on a completed contract basis. This method of revenue recognition is 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 becomes processed, interpreted in detail, and a recommendations report is generated and reviewed with the client's geological & geophysical staff.

All funds received or invoiced in advance of completion of the contract is reflected as unearned 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 cost does not include any amortization or depreciation of property and equipment.

Income taxes

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

Stock-based compensation expense

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

Stock-based compensation expense related to any non-employees is periodically re-measured until their performance period is complete. 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 grant.

Financial Instruments

In Q1 and Q2 2012, NXT conducted a private placement financing, which included the issuance of common share purchase warrants which have a US$ exercise price. As these warrants are denominated in a currency other than the Company's Canadian $ functional currency, they are classified as "derivative instruments" under US GAAP. These derivative instruments are considered to be a Financial Instrument, and will be recorded on a fair value basis (a total of $241,000 as at December 31, 2012) at each period end. NXT has no other outstanding Financial Instruments, such as foreign currency hedges.

The warrant valuation has been classified as level III in the fair value hierarchy as it has been determined using valuation based on both observable and unobservable market data. The warrants were valued using a Black-Scholes model, as well as a discount for potential dilution impact upon exercise of the warrants and NXT's low stock market liquidity.

The Company has no other Financial Instruments that are recorded at fair value.

Changes in Accounting Policies Including Initial Adoption

There were no changes in accounting policies that affected NXT in any of its last two fiscal years ended December 31, 2011 and 2012.

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 is still in the early stages of 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 to utilize it SFD® survey services. Management recognizes that this early 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 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. Prior to 2012, NXT had an extensive prior history of generating net losses and a shortage of working capital. The Company's consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities that might be necessary should NXT be unable to generate sufficient net income and cash from operations in future years in order to continue as a going concern.

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, the ability to access the relevant local services, and potential delays in commencing the projects.

Availability of charter aircraft

NXT does not currently own any aircraft, and relies upon the availability of aircraft which are operated under charter hire arrangements. Charter operators provide the aircraft used in SFD® survey operations on an as required basis in exchange for an hourly charter fee (plus fuel and other direct operating costs). NXT is not required to make a capital investment in chartered aircraft, but in order to guarantee aircraft availability and rate certainty, it currently commits to a one year contract, with a minimum number of charter hours. NXT is thus exposed to a potential financial penalty of up to $317,000 in the event that it fails to fulfill the minimum annual charter hours commitment for 2013.

Management and staff

NXT's success is currently largely dependent on the performance of a limited group of senior management, Directors, 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 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 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 very expensive.

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.

Foreign currency fluctuations

NXT generally bills its revenues in US $, and as such frequently holds cash in both Canadian as well as in US $, and is thus exposed to foreign exchange fluctuations on its US $ funds. Additionally, most of our operating expenses are incurred in Canadian dollars. 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.

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.

Related party transactions

NXT may periodically enter into related party transactions with its Officers and Directors. The most significant related party transaction was a "Technical 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 acquisition of the SFD® technology.

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. Five of the six 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.

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 disclosure controls and procedures ("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, 2012 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. 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. The Company mitigates this deficiency by adding management and Audit Committee review procedures over the areas where inadequate segregation of duties are of the greatest concern;

- NXT does not retain staff with the specialized expertise required to prepare, nor does NXT employ sufficient staff, to adequately review some complex or highly judgmental accounting issues. These complex areas include accounting for income taxes, stock based compensation expense, and other complex matters. 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; and

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, 2012. 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, 2012, 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 web page at www.nxtenergy.com, or the SEDAR webpage at http://www.sedar.com.

NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

As at and for the year ended

December 31, 2012

KPMG LLP
205-5th Avenue SW
Suite 2700, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

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. ("the Company"), which comprise the consolidated balance sheets as at December 31, 2012 and 2011 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, 2012, 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, 2012 and 2011, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with US generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that NXT Energy Solutions Inc. has uncertainty about the timing and magnitude of future revenues. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that casts substantial doubt about the Company's ability to continue as a going concern.

KPMG LLP

Chartered Accountants

April 16, 2013
Calgary, Canada

NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets

(Expressed in Canadian dollars)

	As at December 31	
	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 5,052,594	$ 1,508,946
Short term investments	55,000	10,000
Restricted cash [note 3]	433,369	-
Accounts receivable	472,308	122,231
Work-in-progress	976,463	1,112,210
Prepaid expenses and other	140,649	43,105
	7,130,383	2,796,492
Long term assets		
Restricted cash [note 3]	-	74,135
Property and equipment [note 4]	327,839	404,301
	$ 7,458,222	$ 3,274,928
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities [note 5]	$ 1,623,724	$ 1,347,925
Deferred revenue	317,103	1,776,496
Capital lease obligation	-	8,591
Fair value of derivative instruments [note 12]	241,000	-
	2,181,827	3,133,012
Long term liabilities		
Asset retirement obligation [note 6]	61,813	57,953
	2,243,640	3,190,965
Future operations [note 1]		
Commitments and contingencies [note 15]		
Subsequent events [note 18]		
Shareholders' equity		
Preferred shares [note 8]: - authorized unlimited		
Issued: 10,000,000 Preferred shares	3,489,000	3,489,000
Common shares [note 7]: - authorized unlimited		
Issued: 39,554,959 common shares (2011 - 34,757,396)	56,623,686	53,756,687
Contributed capital	5,406,193	5,205,301
Deficit	(61,015,232)	(63,077,960)
Accumulated other comprehensive income	710,935	710,935
	5,214,582	83,963
	$ 7,458,222	$ 3,274,928

Signed "George Liszicasz"
Director

Signed "John Agee"
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)

	For the year ended December 31		
	2012	2011	2010
Revenue			
Survey revenue [note 16]	$10,937,575	$ 144,650	$ 443,011
Expense			
Survey costs	3,633,645	46,713	466,428
General and administrative	4,508,506	3,218,143	3,678,806
Stock based compensation expense [note 10]	265,000	344,800	577,815
Amortization of property and equipment	125,015	160,478	164,065
	8,532,166	3,770,134	4,887,114
	2,405,409	(3,625,484)	(4,444,103)
Other expense (income)			
Interest expense (income), net	2,744	(16,353)	(9,923)
Loss (gain) on foreign exchange	14,686	(28,209)	16,509
Oil and natural gas operations	15,273	3,679	665
Other expense	51,700	-	1,074
Change in fair value of derivative instruments [note 12]	(168,143)	-	-
	(83,740)	(40,883)	8,325
Income (loss) before income taxes	2,489,149	(3,584,601)	(4,452,428)
Income tax expense [note 13]	426,421	-	-
Income (loss) and comprehensive income (loss)	$ 2,062,728	$ (3,584,601)	$ (4,452,428)
Income (loss) per share [note 9]			
Basic	$ 0.05	$ (0.10)	$ (0.14)
Diluted	$ 0.04	$ (0.10)	$ (0.14)

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)

	For the year ended December 31		
	2012	2011	2010
Operating activities			
Net income (loss) for the year	$ 2,062,728	$ (3,584,601)	$ (4,452,428)
Items not affecting cash:			
Amortization and depreciation	125,015	160,478	164,065
Stock-based compensation expense	265,000	344,800	577,815
Accretion of asset retirement obligation	3,860	3,509	4,092
Change in fair value of derivative instruments [note 12]	(168,143)	-	-
Asset retirement obligations paid	-	-	(902)
Loss on sale of property	-	-	1,074
	225,732	508,787	746,144
	2,288,460	(3,075,814)	(3,706,284)
Changes in non-cash working capital balances [note 14]	(1,495,468)	1,319,299	1,013,508
Net cash generated by (used in) operating activities	792,992	(1,756,515)	(2,692,776)
Financing activities			
Repayment of capital lease obligation	(8,591)	(10,246)	(8,681)
Issue of common shares and warrants, net of issue costs	2,886,024	1,487,827	-
Exercise of stock options and warrants	326,010	438,900	54,518
Net cash generated by financing activities	3,203,443	1,916,481	45,837
Investing activities			
Purchase of property and equipment	(48,553)	(38,975)	(55,516)
Decrease (increase) in restricted cash	(359,234)	27,721	(101,856)
Decrease (increase) in short term investments	(45,000)	895,651	(905,651)
Proceeds from sale of property and equipment	-	-	400
Net cash generated by (used in) investing activities	(452,787)	884,397	(1,062,623)
Net cash inflow (outflow)	3,543,648	1,044,363	(3,709,562)
Cash and cash equivalents, beginning of the year	1,508,946	464,583	4,174,145
Cash and cash equivalents, end of the year	$ 5,052,594	$ 1,508,946	$ 464,583
Supplemental information			
Cash interest paid (received), net	2,744	(16,353)	(9,923)
Cash taxes paid	$ 426,421	$ -	$ -

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)

	For the year ended December 31		
	2012	2011	2010
Common Shares			
Balance at beginning of the year	$53,756,687	$52,031,435	$51,934,360
Issued upon exercise of warrants	278,760	420,000	-
Issued upon exercise of stock options	47,250	18,900	54,518
Issued through private placement, net of issue costs [note 7]	2,886,024	1,487,827	-
Value attributed to derivative instruments related to warrants issued in private placement financings [note 8 and 12]	(409,143)	-	-
Value attributed to warrants issued in private placement financing [note 7]	-	(329,386)	-
Transfer from contributed capital upon exercise of stock options and warrants	64,108	127,911	42,557
Balance at end of the year	56,623,686	53,756,687	52,031,435
Preferred Shares			
Balance at beginning and end of the year	3,489,000	3,489,000	3,489,000
Contributed Capital			
Balance at beginning of the year	5,205,301	4,659,026	3,939,953
Recognition of stock based compensation expense	265,000	344,800	761,630
Contributed capital transferred to common shares pursuant to exercise of options and warrants	(64,108)	(127,911)	(42,557)
Value attributed to warrants issued in private placement financing	-	329,386	-
Balance at end of the year	5,406,193	5,205,301	4,659,026
Deficit			
Balance at beginning of the year	(63,077,960)	(59,493,359)	(55,040,931)
Net income (loss) and comprehensive income (loss) for the year	2,062,728	(3,584,601)	(4,452,428)
Balance at end of the year	(61,015,232)	(63,077,960)	(59,493,359)
Accumulated Other Comprehensive Income			
Balance at beginning and end of the year	710,935	710,935	710,935
Total Shareholders' Equity at end of the year	$ 5,214,582	$ 83,963	$ 1,397,037

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, 2012

(Expressed in Canadian dollars unless otherwise stated)

1. History and Future Operations

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

NXT owns a proprietary technology called Stress Field Detection ("SFD®"), an airborne survey system that is used in the oil and natural gas industry to help aid in identifying areas with hydrocarbon reservoir potential. This technology was acquired from NXT's current Chief Executive Officer and President (the "CEO") under a technology transfer agreement (the "TTA") which has a term to December 31, 2015. The TTA also involved the issuance by NXT of convertible Preferred Shares (see note 8).

Prior to 2006 the Company had engaged in extensive activities to develop, validate and obtain industry acceptance of SFD®, including conducting SFD® surveys for oil and gas industry partners on a cost recovery basis and participating as a joint venture partner in SFD® identified exploration wells. By December 31, 2005 the Company had accumulated a deficit of approximately $47.6 million in conducting these activities.

This early period was effective in developing the SFD® technology to the point that the Company could commence the "commercialization" phase in 2006. SFD® survey services began to be offered to potential clients engaged in oil and gas exploration activities with an initial focus on companies operating in the western Canadian sedimentary basin. Subsequently, in 2008, NXT commenced to focus its sales activities towards international and frontier exploration markets.

NXT is still in the early stages of commercializing its SFD® technology, and the continued generation of positive cash flow from operations will depend largely on its ability to demonstrate the value of the SFD® survey system to a much wider client base. NXT recognizes that this early commercialization phase can last for several years and that its' financial position is currently dependent upon a limited number of client projects, on obtaining additional financing when needed, and attracting future clients.

These consolidated financial statements have been prepared on a "going concern" basis in accordance with generally accepted accounting principles of the United States of America ("US GAAP"). The going concern basis of presentation assumes that NXT will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is substantial doubt about the appropriateness of the use of the going concern assumption, primarily due to current uncertainty about the timing and magnitude of future SFD® survey revenues. NXT recognizes that it has limited ability to support operations significantly beyond 2013 without generating sufficient new revenue sources or securing additional financing if required.

NXT realized significant growth and improvement in its financial position in 2012, and is working to expand operations in order to generate ongoing positive net income and cash flow from operations in future years with its existing business model. However, the occurrence and timing of this outcome cannot be predicted with certainty. NXT's ability to continue as a going concern will also depend on its ability to further develop, and ultimately retain the SFD® technology that was acquired under the TTA.

These consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities or reported expenses that would be necessary should NXT be unable to raise additional capital or generate sufficient net income and cash flow from operations as required in future years in order to continue as a going concern.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements as at and for the year ended December 31, 2012 have been prepared by management in accordance with US GAAP and by applying the same accounting policies and methods as used in preparing the consolidated financial statements for the years ended December 31, 2011 and 2010.

Consolidation

These consolidated financial statements reflect the accounts of the Company and its wholly owned subsidiaries. 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 to allowances for doubtful accounts, estimated useful lives of assets, provisions for contingent liabilities, measurement of stock-based compensation expense, valuation of deferred tax assets, estimates for asset retirement obligations, the valuation of derivative and equity instruments and the preferred shares (which may include estimates of the likelihood that the conversion feature of the preferred shares will be achieved in future). 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.

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

Revenue from SFD® survey contracts (net of any related foreign sales tax) is recognized on a completed contract basis. Amounts received or invoiced in advance of completion of the contract is reflected as deferred revenue and classified as a current liability. All related survey expenditures and obligations related to uncompleted contracts are reflected as work-in-progress and classified as current assets. Upon completion of the related contract, unearned revenue and the related work-in-progress are reflected in the statement of income (loss) as either revenue or survey cost. Sales commissions incurred on the contracts are included in survey costs. Survey cost does not include any amortization or depreciation of property and equipment.

Derivative Instruments

Derivative instruments are recognized on the balance sheet at fair value with realized and unrealized gains (losses) recognized in the Consolidated Statement of income (loss). Any outstanding derivatives are required to be included into one of three categories based on a fair value hierarchy (which in 2012 was Level III - based on valuation techniques that refer to both observable and unobservable market data). NXT does not apply hedge accounting to any of its derivatives.

Property and Equipment

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

Computer hardware	30% declining balance
Computer software	100% 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.

Research and Development Expenditures

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 R&D was incurred in the years ended 2010, 2011 and 2012.

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 affect 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 year.

Prior to 2010, NXT had active subsidiaries which had the US dollar as their functional currency. Foreign currency translation adjustments related to the consolidation of these subsidiaries is the only component of accumulated other comprehensive income, which is included in 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.

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 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 common shares of the Company.

Stock-based compensation related to 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 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 (or "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 of a net loss for the period).

3. Restricted cash

Restricted cash consists of US dollar money market securities (plus accrued interest) which have been deposited by NXT with financial institutions as security in order for these institutions to issue bank letters of credit for the benefit of third party clients. These letters of credit include contractual performance bonds related to conducting certain SFD® surveys.

	2012	2011
Total restricted cash	$ 433,369	$ 74,135
Less current portion, amounts scheduled to be released to NXT within 12 months	(433,369)	-
	$ -	$ 74,135

4. Property and equipment

	2012	2011
Survey equipment	$ 623,081	$ 610,230
Furniture and other equipment	528,420	526,105
Computers and software	1,080,302	1,046,915
Leasehold improvements	382,157	382,157
	2,613,960	2,565,407
Less accumulated depreciation, amortization and impairment	(2,286,121)	(2,161,106)
	$ 327,839	$ 404,301

Included in furniture and other equipment are assets held under capital lease agreements which have a net book value as follows:

	2012	2011
Cost	$ -	$ 35,000
Accumulated amortization	-	(22,028)
	$ -	$ 12,972

5. Accounts payable and accrued liabilities

	2012	2011
Accrued liabilities related to:		
Consultants and professional fees	$ 114,640	$ 167,500
Commissions payable on survey contracts	-	122,400
Survey expenses	29,686	18,508
Board of Directors' fees	60,000	98,612
Wages and bonuses payable	351,780	183,198
Vacation pay	51,078	81,042
	607,184	671,260
Trade payables, payroll withholdings and other	1,016,540	676,665
	$ 1,623,724	$ 1,347,925

6. Asset retirement obligation

Asset retirement obligations ("ARO") relate to 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 8 gross (1.1 net) wells that were drilled in the years 2000 through 2004. ARO have an estimated future liability of approximately $62,000 and is based on estimates of the future timing and costs to remediate, reclaim and abandon the wells within the next three 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%.

	2012	2011	2010
Asset retirement obligation, beginning of the year	$ 57,953	$ 54,444	$ 51,254
Accretion expense	3,860	3,509	4,092
Costs incurred	-	-	(902)
Asset retirement obligation, end of the year	$ 61,813	$ 57,953	$ 54,444

7. Common shares

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

	# of Shares	$ Amount
As at December 31, 2009	30,726,796	$ 51,934,360
Transactions during the year ended December 31, 2010		
Issued on exercise of stock options	100,000	54,518
Transfer from contributed surplus upon exercise of stock options	-	42,557
As at December 31, 2010	30,826,796	52,031,435
Transactions during the year ended December 31, 2011		
Issued through private placement, net of issue costs (i)	3,200,600	1,487,827
Value attributed to warrants issued in the private placement financing (i)	-	(329,826)
Issued on exercise of stock options	30,000	18,900
Issued on exercise of warrants	700,000	420,000
Transfer from contributed surplus upon exercise of stock options and warrants	-	127,911
As at December 31, 2011	34,757,396	53,756,247
Transactions during the year ended December 31, 2012		
Issued through private placement financings, net of issue costs (ii)	4,258,005	2,886,024
Value attributed to warrants issued in the private placement financings (ii)	-	(409,143)
Issued on exercise of stock options	75,000	47,250
Issued on exercise of warrants	464,558	278,760
Transfer from contributed surplus upon exercise of stock options and warrants	-	64,108
As at December 31, 2012	39,554,959	$ 56,623,246

(i) On February 16, 2011 NXT closed a non-brokered private placement (the "2011 Placement") for aggregate proceeds of $1,600,300 ($1,487,827 net of costs incurred of $112,473) including $40,000 subscribed for by two Officers of the Company. NXT issued a total of 3,200,600 units at a price of $0.50 per unit, with each unit consisting of one NXT common share and one warrant, with each warrant entitling the holder to acquire an additional common share at a price of $0.60 per share on or before the expiry date of February 16, 2012 (see also note 11). In connection with closing of the 2011 Placement, NXT paid finder's fees which included $72,600 cash and 145,320 warrants, which had the same terms as the other warrants that were issued.

The common shares were recorded at a value equal to the net proceeds received of $1,488,267 and reduced by $329,386 which was the estimated fair value attributed to the 3,345,920 warrants that were issued in the 2011 Placement.

(ii) In March and May 2012, NXT conducted private placement financings (the "2012 Financings") 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 "Warrants") to purchase an additional NXT common share at a price of US $1.20. The Warrants have a term of two years from the date of issue, and the expiry can be accelerated at the option of NXT in the event that it issues a press release advising that its common shares have traded on the US OTCBB Exchange at a price exceeding US $1.50 for 20 consecutive trading days. Any Warrants subject to acceleration shall expire 30 days after such notice.

In connection with the 2012 Financings, NXT paid finder's fees totalling US $183,612 and issued a total of 244,816 finder's warrants (which have the same terms as the Warrants noted above). The 2012 Financings had three separate closings in March, 2012 and one on May 4, 2012, which are summarized as follows:

	March, 2012	May 4, 2012	total
Proceeds (in US dollars)	$ 2,216,005	$ 977,500	$ 3,193,505
Number of common shares issued	2,954,672	1,303,333	4,258,005
Number of Warrants issued	2,954,672	1,303,333	4,258,005
Number of finder's warrants issued	162,416	82,400	244,816
	3,117,088	1,385,733	4,502,821

Two Officers of the Company subscribed for a total of US $40,000 of the 2012 Financings.

The common shares that were issued under the 2012 Financings were recorded at a value equal to the proceeds received of $3,183,132 ($2,886,024, net of related issue costs totalling $297,108), and reduced by $409,143 which was the estimated fair value attributed to the 4,502,821 Warrants that were issued (see also note 11).

8. Preferred shares

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

In 2005, the Company issued 10,000,000 series 1 preferred shares (the "Preferred Shares") to its CEO pursuant to the execution of the Technical Transfer Agreement (see note 1) in exchange for the rights to utilize the SFD® technology for hydrocarbon exploration.

These Preferred Shares are non-voting, and are conditionally convertible into NXT common shares under the following terms:

- 2,000,000 of the Preferred Shares became convertible into common shares upon issue. In April 2013, the holder gave notice to NXT to formally convert (effective April 30, 2013) these 2,000,000 Preferred Shares into 2,000,000 common shares.
- The remaining 8,000,000 Preferred Shares are subject to conditions related to potential future conversion. They may become convertible into common shares in four separate increments of 2,000,000 Preferred Shares each, should NXT achieve specified cumulative revenue thresholds of US $50 million, US $100 million, US $250 million and US $500 million prior to December 31, 2015.
- An additional bonus of 1,000,000 Preferred Shares are issuable in the event that cumulative revenues exceed US $500 million.
- Cumulative revenue is defined as the sum of total revenue earned plus proceeds from the sale of assets accumulated since January 1, 2007, all denominated in United States dollars, and calculated in accordance with generally accepted accounting principles.
- In the event that the final cumulative revenue threshold of US $500 million is not achieved by December 31, 2015, NXT has the option to either redeem any remaining unconverted Preferred Shares for a price of $0.001 per share and forfeit its rights to the SFD® technology, or elect to retain the ownership of the SFD® technology by converting all of the remaining Preferred Shares into common shares.

The Preferred Shares do not participate in any dividends, and are not transferable except with the consent of the Board of Directors of NXT.

As at December 31, 2012, the Company had generated cumulative revenue of approximately US $23.1 million (December 31, 2011 - US $12.2 million) that is eligible to be applied to the above noted conversion thresholds.

The Preferred Shares were originally recorded at their estimated fair value as at December 31, 2005, with the total substantially assigned to the portion which was immediately convertible. The remaining Preferred Shares were assigned a nominal value, reflecting the uncertainty that the required revenue objectives would be achieved to allow conversion into common shares, as follows:

	# of Preferred Shares		recorded value
convertible upon issue effective December 31, 2005	2,000,000	$	3,256,400
conditionally convertible on or before December 31, 2015	8,000,000		232,600
	10,000,000		3,489,000

9. Income (loss) per share

		2012		2011		2010
Net income (loss) for the year	$	2,062,728	$	(3,584,601)	$	(4,452,428)
Weighted average number of common shares outstanding						
Basic		40,453,392		35,696,620		32,774,974
Additional shares related to assumed exercise of stock options under treasury stock method		337,070		-		
Contingently issuable preferred shares		8,000,000		-		
Diluted		48,790,462		35,696,620		32,774,974
Income (loss) per share - Basic	$	0.05	$	(0.10)	$	(0.14)
Income (loss) per share - Diluted	$	0.04	$	(0.10)	$	(0.14)

A total of 2,000,000 of the Preferred Shares (see note 8) are included in the above noted basic income (loss) per share calculations, as the criteria for them to convert to common shares have been met for each period. The remaining 8,000,000 Preferred Shares are contingently issuable, and are included in the diluted number of shares outstanding .

In periods in which a loss results, all outstanding stock options, common share purchase warrants and certain of the Preferred Shares are excluded from the diluted loss per share calculations as they are anti-dilutive.

10. Stock options

The following is a summary of stock options which are outstanding as at December 31, 2012:

exercise price	# of stock options outstanding	# of stock options exercisable	average remaining contractual life (years)
$ 0.45	105,600	105,600	2.8
$ 0.53	150,000	100,000	1.0
$ 0.63	450,000	450,000	1.6
$ 0.75	395,000	-	4.5
$ 0.76	90,000	-	5.0
$ 0.86	815,000	-	4.6
$ 0.89	150,000	-	4.1
$ 1.16	435,000	255,000	3.6
$ 1.20	300,000	60,000	4.6
	2,890,600	970,600	3.7

A continuity of the number of stock options outstanding at the end of each of the last three years ended December 31 is as follows:

	2012		2011	
	# of stock options	weighted average exercise price	# of stock options	weighted average exercise price
Outstanding at beginning of the year	2,473,100	$ 1.02	2,134,804	$ 0.62
Granted	1,900,000	$ 0.89	1,054,800	$ 1.58
Forfeited	(390,268)	$ 1.72	(398,300)	$ 0.65
Expired unexercised	(877,232)	$ 1.05	(288,204)	$ 0.63
Cancelled	(140,000)	$ 0.63	-	-
Exercised	(75,000)	$ 0.63	(30,000)	$ 0.63
Options outstanding as at end of the year	2,890,600	$ 0.86	2,473,100	$ 1.02
Options exercisable as at end of the year	970,600	$ 0.78	1,538,100	$ 0.68

	2010	
	# of stock options	weighted average exercise price
Outstanding at beginning of the year	2,757,204	$ 1.76
Granted	248,900	$ 0.62
Forfeited	(431,300)	$ 1.48
Expired unexercised	(340,000)	$ 0.66
Cancelled	(2,113,204)	$ 1.94
Granted on re-pricing in 2010	2,113,204	$ 0.63
Exercised	(100,000)	$ 0.55
Options outstanding as at end of the year	2,134,804	$ 0.62
Options exercisable as at end of the year	1,737,637	$ 0.61

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

- A total of 300,000 stock options were granted in August, 2012, with an average exercise price of $1.20, expiring August 2017, and with 20% of the options vesting after each 3 month period.
- In July 2012 a total of 830,000 stock options with an exercise price of $0.86 were granted to Directors and Officers of NXT. In addition, two Directors of NXT surrendered for cancellation a total of 140,000 vested stock options, which had an exercise price of $0.63 per share, and an expiry date of December 12, 2012.
- A total of 400,000 stock options were granted in December, 2011, at an average exercise price of $2.50, expiring June 1, 2013, and with 25% of the options vesting after each 3 month period. In 2012, a total of 200,000 of these options were forfeited and the remaining 200,000 expired.
- A total of 214,800 of the 504,800 stock options which were granted in July, 2011 at an exercise price of $1.16 per share had immediate vesting.
- In January, 2011 an Officer of the Company was granted 150,000 options at an excise price of $0.53 per share, and with one third of the options vesting at the date of grant and one-third vesting at the end of each of the following two years. These options will expire three years from the date of grant.

On December 8, 2010, following approval by the Company's shareholders, a total of 2,113,204 stock options (which had an average original exercise price of U.S. $2.04) were re-priced to an exercise price of Cdn. $0.63 per share. All of these re-priced options retained the rest of their original terms, and were treated for accounting purposes as a modification of the previously issued options. The re-pricing included a total of 1,615,000 options held by Directors and Officers of the Company which had an average exercise price of U.S. $2.35 per share.

Stock based compensation expense 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:

	2012	2011	2010
Stock based compensation expense for the period	$ 265,000	$ 344,800	$ 577,815
Expected dividends paid per common share	Nil	Nil	Nil
Expected life in years	4.0	2.8	1.8
Expected volatility in the price of common shares	79%	111%	92%
Risk free interest rate	1.0%	1.5%	1.5%
Weighted average fair market value per share at grant date	$ 0.52	$ 0.57	$ 0.27
Intrinsic (or "in-the-money") value per share of options exercised	$ 0.13	$ 0.22	$ 0.53

As of December 31, 2012 there was $967,000 (December 31, 2011 - $338,000) of unamortized stock based compensation expense related to non-vested stock options. This amount will be recognized in future expense over the remaining vesting periods of the underlying stock options.

11. Warrants to purchase common shares

The following is a summary of outstanding warrants to purchase common shares:

		Exercise price	# of warrants	Exercise proceeds received
Outstanding as at January 1, 2009 and 2010			-	$ -
Issued on February, 2011 private placement (i)		$ 0.60	3,345,920	-
Exercised in 2011			(700,000)	420,000
Outstanding as at December 31, 2011			2,645,920	420,000
Exercised in 2012			(464,558)	278,760
Expired on February 16, 2012			(2,181,362)	-
			-	698,760
Issued on March and May, 2012 private placement financings (ii)		US $ 1.20	4,502,821	
Outstanding as at December 31, 2012			4,502,821	
These warrants expire in 2014 as follows:	March 7, 2014		2,096,175	
	March 19, 2014		415,000	
	March 30, 2014		605,913	
	May 4, 2014		1,385,733	
			4,502,821	

(i) In February, 2011 NXT closed a private placement financing of Units (see note 7(i)) which included a total of 3,345,920 warrants which had an exercise price of $0.60 and an expiry date of February 16, 2012. The estimated fair value attributed to the warrants that were issued in 2011 was $329,386 (see note 12(2)).

(ii) The estimated fair value attributed to the 4,502,821 total US$ Warrants that were issued in the 2012 Financing (see note 7(ii)) was $409,143, determined using the weighted average assumptions listed in note 12(2).

12. Financial instruments

1) Non-derivative financial instruments

The Company's non-derivative financial instruments consist of cash and cash equivalents, short term investments, restricted cash, accounts receivable, and accounts payables and accrued liabilities. 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 U.S. and Colombian denominated financial instruments.

2) Derivative financial instruments

As the exercise price of the Warrants issued in 2012 (see note 7) is in US dollars, which is a currency other than the functional currency of NXT, the fair value of this derivative financial instrument, is required to be reflected as a derivative on the balance sheet. The amount recorded for this instrument, which is included with current liabilities, will be adjusted to fair value at each period end over the life of the Warrants, with the changes in fair value reflected in earnings.

Under US GAAP fair value measurement standards, 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 are the US dollar denominated warrants. NXT has 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 warrants and NXT's low stock market liquidity.

A continuity of the fair value of derivative instruments balance is as follows:

	2012	2011
Balance, start of the year	$ -	$ -
Value attributed to US$ common share purchase warrants issued in 2012 Financings (see note 7(ii))	409,143	-
Change in fair value during the year	(168,143)	-
	$ 241,000	$ -

The value attributed to warrants that have been issued by NXT was calculated at issuance using the Black-Scholes valuation model utilizing the following weighted average assumptions:

	2012	2011
Expected dividends paid per common share	Nil	Nil
Expected life in years	1	0.8
Expected volatility in the price of common shares	66%	94%
Risk free interest rate	1.0%	1.5%
Weighted average fair market value per warrant issued	US $0.05	$ 0.14

13. Income tax expense

NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions. Payments made to NXT for services rendered to clients in such countries may be subject to withholding taxes, which are only recoverable in certain circumstances. During 2012, NXT incurred a foreign withholding taxes on a portion of its revenues that were generated in Latin America. Although such foreign taxes paid can potentially be utilized in Canada as a foreign tax credit against future taxable earnings from the foreign jurisdictions, a full valuation allowance has been provided against this benefit.

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:

	2012	2011	2010
Net income (loss) before income taxes	$ 2,489,149	$ (3,584,601)	$ (4,452,428)
Canadian statutory income tax rate	25.0%	26.5%	28.0%
Income tax (recovery) at statutory income tax rate	622,287	(949,919)	(1,246,680)
Effect of non- deductible expenses and other items:			
Stock-based compensation and other expenses	12,149	100,736	161,788
Non-capital losses expiring in the year	-	373,240	205,156
Foreign exchange adjustment	42,389	(42,965)	103,007
Tax rate reduction	-	48,066	842,818
Other	(2,148)	(2,715)	12,226
	674,677	(473,557)	78,315
Change in valuation allowance	(674,677)	473,557	(78,315)
Income taxes paid in foreign jurisdictions	426,421	-	-
Current income tax expense	$ 426,421	$ -	$ -

The Company has significant unrecorded deferred income tax assets for which a full valuation allowance has been provided due to uncertainty regarding their potential utilization, as follows:

	2012	2011	2010
Net operating losses carried forward:			
USA (expiration dates 2020 to 2026)	$ 1,908,285	$ 2,014,577	$ 1,970,205
Canada (expiration dates 2014 to 2031)	3,269,542	3,805,274	3,410,240
Timing differences on property and equipment and financing costs	2,132,545	2,177,153	2,051,012
	7,310,372	7,997,004	7,431,457
Less valuation allowance	(7,310,372)	(7,997,004)	(7,431,457)
	-	-	-

Certain income taxation years remain subject to review and assessment by the relevant tax authorities in Canada and the United States. NXT has no unrecorded tax benefits and no amounts are included in these consolidated financial statements for amounts related to interest and penalties on income tax balances.

14. Changes in non-cash working capital

The change in non-cash working capital is comprised of:

	2012	2011	2010
Accounts receivable	(350,077)	(119,160)	1,139,309
Work-in-progress	135,747	(1,112,210)	-
Prepaid expenses	(97,544)	2,836	7,347
Accounts payable and accrued liabilities	275,799	771,337	(133,148)
Deferred revenue	(1,459,393)	1,776,496	-
	(1,495,468)	1,319,299	1,013,508
Portion attributable to:			
Operating activities	(1,495,468)	1,319,299	1,013,508
Financing activities	-	-	-
Investing activities	-	-	-
	(1,495,468)	1,319,299	1,013,508

15. Commitments and contingencies

NXT has an operating lease commitment on its Calgary office space for a term through April 30, 2015 at a minimum monthly lease payment of $26,138 (including estimated operating costs). As at December 31, 2012, the estimated remaining minimum annual lease commitment is as follows:

for the year ending December 31		total minimum lease payments
2013	$	304,382
2014		304,382
2015		101,461
		710,225

Payments for this premises lease were $353,379 for the year ended December 31, 2012 (2011 - $347,130, 2010 - $358,642).

NXT currently does not own any of the aircraft which are used in its' survey operations, but has an annual agreement (which expires in January, 2014) to utilize a minimum annual volume of aircraft charter hours. The contract has a minimum commitment of $317,000 for 2013.

In 2003 NXT was named as one of several defendants in a statement of claim related to an aircraft crash. The plaintiffs alleged that all defendants were in breach of an aircraft ferry flight contract and were seeking damages of $450,000, but did not pursue their claim against NXT for over six years. NXT was not a party to the contract and its position was that the claim was without merit. The claim against NXT was discontinued in October 2012.

16. Geographic information

NXT conducts all of its survey operations from its head office in Canada, and has a one person administrative office in Colombia. NXT has no long term assets outside of Canada. Revenues were derived by geographic area as follows:

		2012		2011		2010
Colombia	$	2,858,221	$	-	$	443,011
Argentina		1,675,820		-		-
Mexico		5,727,392		-		-
Guatemala		676,142		-		-
United States of America		-		144,650		-
		10,937,575		144,650		443,011

The Company's 2012 revenues were derived from a total of four clients, of which the two largest represented 78% of 2012 revenues (100% from one client in each of 2011 and 2010).

17. Other related party transactions

NXT retains as legal counsel a law firm of which one of its Directors is a partner. In 2012, NXT incurred legal fees and share issuance costs totalling $80,550 (2011 - $52,234, 2010 - $15,219) with this firm, for which a total of $11,112 is included in accounts payable as at December 31, 2012 (December 31, 2011 - $8,719).

Accounts payable and accrued liabilities includes a total of $63,820 (2011 - $4,681) related to re-imbursement of expenses owing to persons who are Directors and Officers of NXT.

In 2011, NXT conducted a US $150,000 SFD® survey contract with a client which has a board member who is a Director of NXT.

18. Subsequent events

Subsequent to December 31, 2012, NXT issued the following stock options (with a term of 5 years and 3 year vesting) to certain of its Directors & Officers:

	date issued	exercise price	# of stock options
NXT Director	January 25, 2013	$ 0.76	150,000
NXT Officer	April 1, 2013	$ 0.66	150,000
			300,000