



ANNUAL REPORT

**As at and for the year ended
December 31, 2018**



Message from the President & CEO

April 1, 2019

As we enter a new phase for the Company, I wish to truly thank our clients, employees, advisors, Board of Directors and service providers for their ongoing support of NXT.

The coming days and months will be very exciting times for our Company as we work towards new contract opportunities. As recently announced, NXT has signed an US\$8.9 million dollar SFD[®] Survey and is making progress on several other fronts.

During 2018, we worked diligently to build a new foundation for NXT through a new financing and further technology developments. This new foundation has successfully led to our Nigerian SFD[®] Survey, which we signed in March 2019. On the financing front, we completed the private placement with Alberta Green Ventures (“AGV”) for \$9.5 million Canadian dollars in July 2018. Secondly, regarding technology, NXT received a second patent in the United States for the new SFD[®] sensor design we term the “Cascade” configuration. The Company’s Cascade sensors will provide enhanced ability for identifying trapped fluid bodies indicative of potential hydrocarbon accumulations along with improved reliability and flexibility during SFD[®] survey operations. On April 13, 2018 we also received a SFD[®] patent for China. We now have a total of 7 patents around the world. In addition, we believe that the European Patent, encompassing 38 European countries will be allowed in the next couple of months.

In business development progress, in October we signed an MOU with BGP Inc., a subsidiary of China National Petroleum Corporation, to further explore opportunities for NXT and BGP Inc. to work together. NXT’s forward strategy is to secure SFD[®] contracts with BGP and its affiliates utilizing the following corporate structures:

- a. *BGP Inc., China National Petroleum Corporation* or Affiliates hires NXT for a service fee;
- b. BGP-NXT jointly bid and provide services to clients;
- c. Using an SPV, BGP-NXT conduct multi-client surveys for clients; and
- d. Using an SPV, BGP Affiliates and NXT create a vertical entity to drill and develop prospects based on seismic/SFD[®].

Our goals in Malaysia have not changed. We are in continued discussions with Petronas regarding Gulf of Mexico data sales and other potential SFD[®] projects with two state oil companies in the country. With respect to the Aceh project, Generation Resource Discoveries (“GRD”) which is NXT’s regional representative, is arranging third party funding. However, at present, the MOU entered into between GRD and the Government of Aceh, Indonesia on February 22, 2018, GRD has expired.

As a result of recent political turmoil in the government of Sri Lanka, our contract negotiations have been put on hold. We continue to assess the situation as to when they can be renewed. We are hopeful that this political crisis will pass soon.

Latin America remains to be a very important market segment for NXT. We are working with AVG to re-establish our presence in Mexico. We are also actively seeking new SFD[®] projects in Colombia, Peru and Brazil.

Africa is one of the last major frontiers in oil and gas exploration. The opportunities are staggering. Ghana, Zambia, Mozambique and Senegal, like Nigeria, are seeking to improve the effectiveness of their onshore exploration activity. The Nigerian SFD[®] survey will provide the Nigerian National Petroleum Corporation with information on potential oil and gas traps that will open up new areas for oil and gas exploration and provide increased foreign investment. We are also currently working with other companies in the region to become an integral part of their future on-shore and off-shore exploration programs. My team and I will be traveling extensively once the Nigerian survey has begun to further develop our business prospects in Africa. As Nigeria is a new jurisdiction for us, we conducted significant due diligence to ensure we understand the business environment with special attention to compliance with NXT's *Anti-Bribery and Anti-Corruption Policy*. I want to thank our advisors, especially Norton Rose Fulbright, Kreller Group and our Board of Directors for providing guidance to ensure the integrity of these contracts.

In other developments, we announced in February that NXT has entered into a Co-operative Agreement with AGV, to propose up to three SFD[®] surveys within two years. This agreement will allow NXT to begin to build its vertical strategy in Canada, the USA and internationally. Furthermore, NXT shares in the success of SFD[®] recommendations as the Co-operative Agreement is based on a cost plus formula and a gross overriding royalty interest in oil and gas production arising on lands subject to the surveys. The first project must be completed by August 31, 2019.

Also, AGV and NXT have entered into a three year exclusive sales representative agreement in nine jurisdictions in the Middle East, Africa and Latin America. AGV, through its affiliates, has extensive experience in these regions and is optimistic about SFD[®] Survey prospects.

I want to thank AGV for its continued strategic partnership with NXT. Together we are able to expand the reach of SFD[®].

In conclusion, I am extremely pleased to be able to write to you about the start of a new contract. This Nigerian SFD[®] contract is the result of many months of hard work between NXT's employees and partners. NXT continues to pursue a number of other strategic contract opportunities and I am confident that our continued efforts will materialize into sustainable growth.

On behalf of our Board of Directors and the entire team at NXT, I want to thank all of our shareholders for their continued support. The Company's strategy is beginning to deliver results on several fronts and NXT is well positioned for an exciting year of growth in 2019 and beyond.

Thank you all again for your ongoing support of the NXT.

Best regards,



George Liszicasz
President & CEO
NXT Energy Solutions Inc.



NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

**For the year ended
December 31, 2018**



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors NXT Energy Solutions Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of NXT Energy Solutions Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's current and forecasted cash position is not expected to be sufficient to meet its obligations for the 12 months period beyond the date that these financial statements have been issued. 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. Management's plans in regard to these matters are also described in Note 1. These consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) (United States) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.



We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2006

Chartered Professional Accountants

KPMG LLP

Calgary, Canada
April 1, 2019