



NXT ENERGY SOLUTIONS INC
As at and for the year ended December 31, 2009



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of NXT Energy Solutions Inc. as at December 31, 2009 and 2008 and the consolidated statements of income (loss) and comprehensive income (loss), cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NXT Energy Solutions Inc. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in accordance with accounting principles generally accepted in the United States of America.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 29, 2010

NXT ENERGY SOLUTIONS INC
Consolidated Balance Sheets
(Expressed in Canadian dollars except share data)

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,174,145	\$ 146,065
Short term investments	-	6,748,105
Accounts receivable	1,142,380	20,569
Prepaid expenses and other	53,288	57,159
	5,369,813	6,971,898
Oil and natural gas properties	5,000	7,315
Other property and equipment [note 3]	630,827	621,396
	\$ 6,005,640	\$ 7,600,609
 Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 413,997	\$ 359,535
Other accrued liabilities [note 4]	295,739	256,624
Current portion of capital lease obligation	10,684	10,684
Current portion of asset retirement obligation [note 5]	19,357	20,000
	739,777	646,843
Long term liabilities:		
Capital lease obligation	16,834	24,811
Asset retirement obligation [note 5]	31,897	28,997
Derivative liability [note 6]	183,815	-
	972,323	700,651
Commitments and contingencies [note 14]		
Future operations [note 1]		
Shareholders' equity:		
Preferred shares: - authorized unlimited		
Issued: 10,000,000 [note 8]	3,489,000	3,489,000
Common shares: - authorized unlimited		
Issued: 30,701,796 shares as of December 31, 2009 (2008 - 30,676,796) [note 7]	51,934,360	51,884,121
Contributed capital	3,939,953	3,519,072
Deficit	(55,040,931)	(52,703,170)
Accumulated other comprehensive income	710,935	710,935
	5,033,317	6,899,958
	\$ 6,005,640	\$ 7,600,609

Signed "George Liszicasz"
Director

Signed "Charles Selby"
Director

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

NXT ENERGY SOLUTIONS INC
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian dollars except share data)

	For the year ended December 31,		
	2009	2008	2007
Revenue			
Survey revenue	\$ 3,683,326	\$ 2,944,470	\$ 5,608,432
Oil and natural gas revenue	997	10,592	33,260
	3,684,323	2,955,062	5,641,692
Expense			
Survey cost	1,587,120	211,237	814,343
Oil and natural gas operating expenses	8,348	3,959	3,753
Administrative	4,241,139	3,678,803	4,016,662
Depletion of oil and natural gas properties	2,315	4,372	87,291
Amortization and depreciation [note 3]	173,585	171,613	128,179
	6,012,507	4,069,984	5,050,228
	(2,328,184)	(1,114,922)	591,464
Other expense (income)			
Gain on sale of property	(1,037)	(20,325)	-
Interest income	(80,633)	(234,007)	(109,374)
Interest on convertible debentures [note 9]	-	-	100,980
Loss (gain) on foreign exchange	150,958	(20,242)	249,427
Other	-	90,000	-
Abandonment of oil and natural gas properties [note 5]	7,653	210,943	-
	76,941	26,369	241,033
Net income (loss) and comprehensive income (loss)	\$ (2,405,125)	\$ (1,141,291)	\$ 350,431
Net income (loss) per share [note 7]			
Basic	\$ (0.08)	\$ (0.04)	\$ 0.01
Diluted	\$ (0.08)	\$ (0.04)	\$ 0.01

The accompanying notes to these consolidated financial statements are an integral part of these consolidated statements of income (loss) and comprehensive income (loss).

NXT ENERGY SOLUTIONS INC
Consolidated Statements of Cash Flow
(Expressed in Canadian dollars)

	For the year ended December 31,		
	2009	2008	2007
Operating activities			
Net income (loss)	\$ (2,405,125)	\$ (1,141,291)	\$ 350,431
Amortization and depreciation	173,585	171,613	128,179
Depletion of oil and natural gas properties	2,315	4,372	87,291
Abandonment of oil and natural gas properties	7,653	210,943	-
Costs settled by issuance of common stock	-	-	274,977
Stock-based compensation expense	672,060	653,042	988,664
Non-cash interest expense convertible debenture	-	-	24,883
Non-cash expense note payable	-	-	13,371
Gain on sale of property	(1,037)	(20,325)	-
Asset retirement obligations paid	(5,396)	(161,946)	-
Changes in non-cash working capital			
Accounts receivable	(1,121,811)	818,968	(236,407)
Prepaid expenses and other	3,871	65,132	(57,904)
Unearned revenue	-	(2,232,470)	1,949,452
Trade payables	54,462	(156,697)	275,047
Other accrued liabilities	39,115	(27,491)	53,866
Net cash generated (used) in operating activities	(2,580,308)	(1,816,150)	3,851,850
Financing activities			
Repayment of note payable	-	-	(239,618)
Repayment of capital lease	(7,977)	(7,329)	(3,998)
Repayment of registration penalty	-	(178,540)	(343,824)
Issue of common shares, net of issuance costs	50,239	-	-
Exercise of options and warrants	-	1,499,853	2,319,433
Net cash generated in financing activities	42,262	1,313,984	1,731,993
Investing activities			
Invested in other property and equipment	(184,035)	(288,849)	(337,829)
Invested in oil and natural gas properties	-	(3,177)	(5,954)
Proceeds on the sale of property	2,056	47,400	35,000
Decrease (increase) in short term investments	6,748,105	(1,095,439)	(4,279,380)
Net cash generated (used) in investing activities	6,566,126	(1,340,065)	(4,588,163)
Net cash inflow (outflow)	4,028,080	(1,842,231)	995,680
Cash and cash equivalents, beginning of year	146,065	1,988,296	992,616
Cash and cash equivalents, end of year	\$ 4,174,145	\$ 146,065	\$ 1,988,296
Cash interest paid	\$ 2,707	\$ 3,354	\$ 15,606

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

NXT ENERGY SOLUTIONS INC
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars except share data)

	For the year ended December 31,		
	2009	2008	2007
Common Shares			
Balance at the beginning of year	\$ 51,884,121	\$ 49,789,695	\$ 45,770,651
Issued upon exercise of options and warrants	-	2,050,030	3,497,476
Issued through conversion of debentures	-	-	246,591
Issued through private placement; net of issue costs	50,239	-	-
Shares issued for services	-	44,396	274,977
Balance at end of year	<u>51,934,360</u>	<u>51,884,121</u>	<u>49,789,695</u>
Preferred Shares			
Balance at the beginning and end of year	<u>3,489,000</u>	<u>3,489,000</u>	<u>3,489,000</u>
Contributed Capital			
Balance at the beginning of year	3,519,072	3,416,207	3,605,585
Opening balance adjustment upon adoption of change in accounting policy [note 2]	(108,779)	-	-
Fair market value of options and warrants	529,660	653,042	988,664
Contributed capital transferred to shares pursuant to exercise of options and warrants	-	(550,177)	(1,178,042)
Balance at end of year	<u>3,939,953</u>	<u>3,519,072</u>	<u>3,416,207</u>
Deficit			
Balance at the beginning of year	(52,703,170)	(51,561,879)	(51,912,310)
Opening balance adjustment upon adoption of change in accounting policy [note 2]	67,364	-	-
Net income (loss) for year	(2,405,125)	(1,141,291)	350,431
Balance at end of year	<u>(55,040,931)</u>	<u>(52,703,170)</u>	<u>(51,561,879)</u>
Accumulated Other Comprehensive Income			
Balance at beginning and end of year	<u>710,935</u>	<u>710,935</u>	<u>710,935</u>
Total Shareholders' Equity	<u>\$ 5,033,317</u>	<u>\$ 6,899,958</u>	<u>\$ 5,843,958</u>

The accompanying notes to the consolidated financial statements are an integral part of the condensed consolidated statements of shareholders' equity (deficit).

NXT ENERGY SOLUTIONS INC
Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2009
(Expressed in Canadian dollars)

1. Organization and Ability to Continue Operations

NXT Energy Solutions Inc ("we", "company" or "NXT") was incorporated under the laws of the State of Nevada on September 27, 1994. NXT was continued from the State of Nevada to the Province of Alberta, Canada on October 24, 2003.

We own a proprietary technology called Stress Field Detection ("SFD[®]"). SFD[®] is a remote sensing airborne survey system that is designed to identify areas with oil and natural gas reserve potential. This technology was acquired from NXT's current CEO and President on December 31, 2005 following a ten year period wherein the company controlled the technology through a series of licensing agreements. For the ten year period prior to 2006 the company had engaged in extensive activities that were effective in developing the technology to a stage wherein SFD[®] was both technically ready and had the required industry validation to embark on the commercial phase of the company. These early activities included 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 approximately \$47.6 million of deficits in conducting these activities.

The company is in the early stage of commercializing its SFD[®] technology. Its ability to generate cash flow from operations will depend on its ability to service its existing clients and develop new clients for its SFD[®] services. Management recognizes that this early commercialization phase can last for several years. Consistent with this early stage of commercialization the company has a significant economic dependency on a few clients. While the company is in this early stage of commercialization, the company's financial position is materially impacted by the loss or gain of any one client. The company's ability to continue operations is dependent on attracting future customers through demonstrating the value that the company can bring to their exploration activities.

The company anticipates generating both net income and cash from operations in future years with its business model; however the occurrence and timing of this outcome cannot be predicted with certainty. The company has an extensive prior history of generating net losses. These consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities that may be necessary should we be unable to generate sufficient net income and cash from operations in future years to continue as a going concern.

2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements for the year ended December 31, 2009 have been prepared by management in accordance with generally accepted accounting principles of the United States of America in accordance with the same accounting policies and methods used in preparing the consolidated financial statements for the years ended December 31, 2008 and 2007 and as at December 31, 2008, except as disclosed below.

Change in Accounting Policies

In the year ended and as at December 31, 2007, the company's Canadian dollar functional currency financial statements were translated into United States dollars for reporting purposes. As of January 1, 2008 the company commenced reporting its financial statements in its Canadian dollar functional currency. The Canadian dollar was adopted for reporting purposes in 2008 as we are headquartered in Canada and all of our operations are directed from Canada.

For periods prior to 2007, when the functional currency of the company was the U.S. dollar, assets and liabilities were translated from the U.S. dollar functional currency to the Canadian dollar using period end exchange rates. The statements of operations and cash flows were translated at period average exchange rates. Any difference was recorded as an adjustment to accumulated other comprehensive income. At January 1, 2008, \$710,935 related to foreign currency translation was recorded in accumulated other comprehensive income.

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 include allowances for doubtful accounts, estimated useful lives of assets, provisions for contingent liabilities, measurement of stock-based compensation, valuation of future tax assets and valuation of preferred shares including the likelihood that the conversion feature of the preferred shares will be achieved. 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 original maturity less than 90 days at the date of acquisition.

Short Term Investments

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

Revenue Recognition

We recognize revenue on SFD[®] survey contracts on a completed contract basis, net of government sales tax. All money received or invoiced in advance of completion of the contract is reflected as unearned revenue and treated as a current liability on our balance sheet. All survey expenditures and obligations related to SFD[®] survey contracts are reflected as work-in-progress and treated 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. Sales commissions are included in survey costs. Survey cost does not include any amortization or depreciation of property and equipment.

Fair Value of Financial Instruments

Our financial instruments consist of cash equivalents, short term investments, accounts receivable, trade payables and accrued liabilities. The carrying value of these financial instruments approximates their fair values due to their short term to maturity. We are not exposed to significant interest or credit risks arising from these financial instruments. We are exposed to foreign exchange risk as a result of holding U.S. denominated financial instruments.

Derivative Liability

Under the FASB's 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 instrument recorded at fair value on a recurring basis are the vested contractor stock options. We have classified these derivative financial instruments as level II where the fair value is determined by using valuation techniques that refer to observable market data.

Oil and Natural Gas Properties

As at December 31, 2009 and 2008 the company's interests in oil and gas properties consist only of undeveloped land and royalty interests.

The carrying amounts of unproved oil and natural gas properties are recorded at cost and are assessed on a periodic basis to ascertain whether any impairment in value has occurred. Impairment is recorded if this assessment indicates the fair market value of unproven lands is less than carrying amounts.

Other Property and Equipment

We carry our other property and equipment at cost and depreciate or amortize them over their estimated service lives using the declining balance method, except for leasehold improvements where we use the straight line method, in accordance with the following annual rates:

- Computer hardware 30%
- Computer software 100%
- Furniture and other equipment 20%
- Leasehold improvements over the remaining term of lease

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

Research and Development Expenditures

We expense all research and development expenditures we incur to develop, improve and test our SFD[®] survey system and related components. Any intellectual property 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.

Foreign Currency Translation

The company's functional currency is the Canadian dollar. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the applicable period. Shareholders' equity accounts are translated into Canadian dollars using the exchange rates in effect at the time of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the applicable period. Exchange gains and losses resulting from these translations are included in the determination of net income.

Foreign currency translation adjustments resulting from these translations are included in net income.

Income Taxes

We follow the asset and liability method of accounting for income taxes. This method recognizes 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 tax purposes. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income when enacted. Valuation allowances are provided when necessary to reduce future tax assets to an amount that is more likely than not to be realized.

Share-Based Payments

The company follows the fair value method of accounting for stock options. 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 amount previously recorded in contributed surplus, is recorded as an increase to the share capital of the company.

Stock-based compensation for non-employees is periodically re-measured until the non-employees' performance is complete, or the amortization 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 option.

Recent Accounting Pronouncements

Effective for the company's year end commencing January 1, 2009, the FASB issued new standards relating to business combinations and non-controlling interest. The requirements of these standards will be applied to business combinations subsequent to December 31, 2008.

The FASB issued new guidance on accounting for derivative instruments and hedging activities which requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The required disclosures under this new guidance include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the company's strategies and objectives for using derivative instruments. This standard is effective prospectively for periods beginning on or after November 15, 2008. The only impact of adopting this new standard is with respect to the company's contractor options as discussed below.

In June 2008, the FASB issued new guidance in assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for purposes of determining whether the instrument falls outside the scope of the FASB's standard for accounting for derivative instruments. This EITF became effective for all fiscal year ends beginning after December 15, 2008 and required the cumulative effect resulting from the change in the accounting principle to be recognized as an adjustment to the opening balance of retained earnings.

The adoption of this policy resulted in the company reducing contributed capital by \$108,779, representing the historical value attributed to certain options and then recording these options as a derivative liability at their fair market value of \$41,415. The cumulative effect of this change in accounting principle of \$67,364 was recognized as a reduction to the opening balance of Accumulated Loss for the year ended December 31, 2009. These options will be revalued to market at each reporting period and the change in the liability value will be charged or credited to the Statement of Income (Loss).

In May 2009, the FASB issued a new standard, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This new standard became effective for the company's interim reporting at June 30, 2009 and did not have a material impact on the company's disclosures.

In June 2009, the FASB issued a revised hierarchy of generally accepted accounting principles which became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities effective for the company's interim reporting period ending September 30, 2009. The adoption of this standard had no material impact on disclosures or amounts recorded in the company's financial statements.

Consolidation

We have consolidated the accounts of our wholly owned subsidiaries in the course of preparing these consolidated financial statements. All significant inter-company balances and transactions amongst NXT and its subsidiaries have been eliminated and are therefore not reflected in these consolidated financial statements. On December 22, 2008 the company's fully owned Canadian subsidiaries, NXT Energy Canada Inc. and NXT Aero Canada Inc., were dissolved and all assets and liabilities were wound up into the company. As of December 31, 2009 the company consisted of NXT Energy Solutions Inc. and two inactive subsidiaries in the United States.

3. Other Property and Equipment

	As at December 31,	
	2009	2008
Survey equipment	\$ 569,929	\$ 454,595
Furniture and other equipment	526,105	520,364
Computers and software	999,153	936,641
Vehicles	-	22,631
Leasehold improvements	67,213	69,986
	2,162,400	2,004,217
Less accumulated depreciation, amortization and impairment	(1,531,573)	(1,382,821)
Net other property and equipment	\$ 630,827	\$ 621,396

Included in other property and equipment are assets acquired under capital lease arrangements with future minimum lease payments of \$8,874 over each of the next four years. Amortization of these assets is included in amortization and depreciation on the statement of income. At December 31, 2009 the capitalized cost of the leased assets is \$18,837 (2008 - \$27,518) and related accumulated amortization is \$26,914 (2008 - \$22,381).

4. Other Accrued Liabilities

	As at December 31,	
	2009	2008
Legal and accounting	\$ 162,752	\$ 198,570
Commission on sales	30,958	-
Consultant fees	25,000	37,500
Other	-	20,554
Survey costs	77,029	-
	<u>\$ 295,739</u>	<u>\$ 256,624</u>

5. Asset Retirement Obligation

Asset retirement obligations relate to wells where the company has outstanding abandonment and reclamation obligations in accordance with government regulations. The company's obligation relates to 8 gross (1.1 net) wells drilled in the years 2000 through 2004 that still require abandonment. Management has determined the asset retirement obligation based upon estimates of the costs to remediate, reclaim and abandon the wells and the estimated timing of the costs to be incurred. These obligations are estimated to have a future liability of approximately \$61,000 to be settled in four years. The present value of this asset retirement obligation has been calculated using an inflation rate of 3.4% and discounted using a credit-adjusted risk-free interest rate of 10.0%.

	For the year ended December 31,	
	2009	2008
The following table reconciles the asset retirement obligations:		
Asset retirement obligation, beginning of year	\$ 48,997	\$ -
Additions in the year	4,753	208,307
Accretion	2,900	2,636
Costs incurred	(5,396)	(161,946)
Asset retirement obligation, end of year	<u>\$ 51,254</u>	<u>\$ 48,997</u>

6. Derivative Liability

Under the FASB's 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 instrument recorded at fair value on a recurring basis are the U.S. dollar denominated vested contractor stock options. We have classified these derivative financial instruments as level II where the fair value is determined by using valuation techniques that refer to observable market data. During the year ended December 31, 2009, we recorded an expense of \$142,400 in regards to the contractor options that were vested at the end of the year. These expenses are included in the line item 'Administrative' on the company's consolidated statement of loss.

The fair market value of these vested contractor options was calculated during 2009 using the Black Scholes options valuation model.

	For the year ended December 31, 2009	
The following table outlines the change in the derivative liability value in the year:		
Balance as at December 31, 2008	\$	-
Adjustment to opening balance upon adoption of change in accounting policy [note 2]		41,415
Increase in value		142,400
Balance as at December 31, 2009	<u>\$</u>	<u>183,815</u>

7. Common Shares

The company has an unlimited number of shares authorized.

The following table provides a continuity of common shares and value since January 1, 2007.

	Common Shares	
	Shares	Amount
As at January 1, 2007	27,177,908	\$ 45,987,597
Transactions during the year ended December 31, 2007		
Issued through the conversion of convertible debentures and accrued interest	192,401	210,618
Issued on exercise of options	263,000	369,068
Issued in exchange for services provided	90,807	269,416
Issued on exercise of warrants	1,989,265	2,952,996
As at December 31, 2007	29,713,381	\$ 49,789,695
Transactions during the year ended December 31, 2008		
Issued to discharge accrued liabilities	9,205	44,396
Issued on exercise of options	276,667	182,099
Issued on exercise of warrants	677,543	1,867,931
As at December 31, 2008	30,676,796	\$ 51,884,121
Transactions during the year ended December 31, 2009		
Issued for cash	25,000	\$ 50,239
As at December 31, 2009	30,701,796	\$ 51,934,360

In the second quarter of 2009 a private placement for 25,000 common shares was issued to the spouse of an officer of the company.

No shares were issued to officers and directors on the exercise of options and warrants in 2009 (170,000 - 2008).

Reconciliation of Earnings per Share Calculations

For the year ended December 31, 2009

	Net Loss	Weighted Average Shares Outstanding	Per Unit
Basic and diluted	\$ (2,405,125)	30,690,426	\$ (0.08)

For the year ended December 31, 2008

	Net Loss	Weighted Average Shares Outstanding	Per Unit
Basic and diluted	\$ (1,141,291)	30,369,586	\$ (0.04)

For the year ended December 31, 2007

	Net Income	Weighted Average Shares Outstanding	Per Unit
Basic	\$ 350,431	27,838,893	\$ 0.01
Options assumed exercised		2,048,371	
Warrants assumed exercised		2,776,560	
Preferred shares assumed converted		2,000,000	
Shares assumed purchased		(2,786,045)	
Diluted	\$ 350,431	31,877,779	\$ 0.01

All options, warrants and preferred shares were excluded from the diluted earnings per share calculation for the years ended December 31, 2009 and 2008 as they were antidilutive.

8. Preferred Shares

The company committed to the issue of 10,000,000 series 1 preferred shares to its chief executive officer, president and director on December 31, 2005 pursuant to a 10 year license agreement for the SFD[®] technology. This 2005 license agreement was superseded on December 31, 2006 by the execution of the Technical Transfer Agreement ("2006 TTA") wherein the company issued the 10,000,000 series 1 preferred shares and purchased outright the SFD[®] technology. The company is authorized to issue an unlimited number of preferred shares and has authorized the issuance of 10,000,000 series 1 preferred shares.

The 10,000,000 series 1 preferred shares have the following attributes:

- Series 1 preferred shares are conditionally convertible into common shares.
- 2,000,000 of the series 1 preferred shares became convertible into common shares upon issue.
- The remaining 8,000,000 series 1 preferred shares may become convertible into common shares in four 2,000,000 share increments should the company achieve specified cumulative revenue thresholds prior to December 31, 2015. These cumulative revenue thresholds are at U.S. \$50 million, U.S. \$100 million, U.S. \$250 million and U.S. \$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 U.S. \$500 million is not achieved prior to December 31, 2015, the company has the option to either redeem any unconverted preferred shares for a price of \$0.01 per share and forfeit the SFD technology, or retain the ownership of the SFD[®] technology by making all remain series 1 preferred shares convertible into common shares.
- Series 1 preferred shares shall not be transferable except with the consent of the board of directors.
- Series 1 preferred shares do not participate in dividends.

The preferred shares as reflected in these financial statements were evaluated at fair market value at December 31, 2005. This value did not change following the execution of the 2006 TTA. The preferred shares issued were valued at December 31, 2005 using an option-pricing model and this value was expensed in the year ended December 31, 2005.

9. Convertible Debentures

During 2005 we closed United States dollar denominated private placement bridge-financing contracts. Pursuant to these contracts the company issued financial instruments that converted automatically into U.S. \$1,955,342 of debentures and 1,989,265 warrants in exchange for cash proceeds of U.S. \$1,649,764 (net of commission paid of U.S. \$24,928) and the conversion of note payable and accrued interest of U.S. \$280,650 for aggregate net proceeds of U.S. \$1,930,414. The debentures were all converted into common shares in 2006 and 2007.

Each debenture had a stated term that defined a termination of the debentures beginning on March 7, 2007 through to June 7, 2007. The debentures earned interest at ten percent per annum. Additionally, debenture holders were entitled to a two percent registration penalty as the underlying shares to the debenture were not made available for resale within 90 days of the original closing date of the debenture financing.

The fair value of the conversion options was an embedded derivative instrument that required fair market valuation at inception and at the end of each reporting period. This option was valued using an option-pricing model that assumed that the maximum price was the forced conversion feature price inherent in the convertible debenture. The value at inception was \$503,564, at December 31, 2005 the value was \$1,421,384, \$68,994 at December 31, 2006, nil at December 31, 2007 and nil at December 31, 2008. Change in the value of the conversion feature was expensed in the period when it occurred.

During 2007 penalties of \$343,824 were paid out and the payment of the remaining \$178,540 in penalties was made in the first quarter of 2008.

10. Employee, Directors and Contractor Options

Summarized below are all outstanding options under the Plans as of December 31, 2009:

Range of exercise prices in U.S. dollars	Outstanding options	Weighted average exercise price of outstanding options	Options exercisable	Weighted average exercise price of exercisable options
Under \$0.50	150,000	\$ 0.40	-	\$ -
\$0.50 - \$0.99	441,741	\$ 0.74	341,741	\$ 0.73
\$1.00 - \$1.99	1,788,463	\$ 1.44	1,012,630	\$ 1.48
\$2.00 - \$3.99	77,000	\$ 2.64	39,667	\$ 2.45
\$4.00 - \$4.90	300,000	\$ 4.90	200,000	\$ 4.90
Total sum of outstanding	2,757,204	\$ 1.68	1,594,038	\$ 1.77

Range of exercise prices in U.S. dollars	Weighted average remaining contractual life (years)
under \$0.50	4.0
\$0.50 - \$0.99	1.7
\$1.00 - \$1.99	2.7
\$2.00 - \$3.99	1.4
\$4.00 - \$4.90	3.0
Total sum of outstanding	2.6

Continuity of options for the years ended December 31, 2009, 2008 and 2007:

Exercise prices in U.S. dollars	For the year ended December 31, 2009		For the year ended December 31, 2008	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Outstanding as at beginning of year	2,270,204	\$ 1.90	2,348,371	\$ 1.72
Granted	730,000	\$ 1.05	403,500	\$ 2.05
Expired or forfeited	(243,000)	\$ 1.82	(205,000)	\$ 2.13
Exercised	-	\$ -	(276,667)	\$ 0.44
Options outstanding as at end of year	2,757,204	\$ 1.90	2,270,204	\$ 1.90
Exercisable as at end of year	1,594,038	\$ 1.77	1,176,370	\$ 1.56

Exercise prices in U.S. dollars	For the year ended December 31, 2007	
	# of options	Weighted average exercise price
Outstanding as at beginning of year	1,588,205	\$ 1.15
Granted	1,220,500	\$ 2.32
Expired or forfeited	(197,334)	\$ 1.57
Exercised	(263,000)	\$ 1.14
Options outstanding as at end of year	2,348,371	\$ 1.72
Exercisable as at end of year	1,014,538	\$ 1.14

In 2009 and 2008 the company's officers and directors had the following options granted, forfeited or exercised:

Average exercise prices in U.S. dollars	For the year ended December 31, 2009		For the year ended December 31, 2008	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Granted	570,000	\$ 0.98	-	\$ -
Expired or forfeited	120,000	\$ 1.92	-	\$ -
Exercised	-	\$ -	110,000	\$ 0.35

The 2006 Stock Option Plan was approved on September 30, 2006 by company shareholders at the Annual General Meeting. The 2006 Stock Option Plan set forth terms and conditions whereby options to purchase common shares of the company can be issued to directors, officers and employees of the company and to consultants retained by the company. The aggregate number of common shares reserved for issuance under this Plan, or any other prior Plan of the company shall not, at time of the stock option grant, exceed ten percent of the total number of issued and outstanding common shares (calculated on a non-diluted basis) unless the company receives permission of the stock exchange or exchanges on which the shares are then listed to exceed such threshold.

Issuance of options to any one participant shall not exceed five percent of the total number of issued and outstanding common shares in any 12 month period with consultants retained for investor relations duties further restricted to two percent in any 12 month period without permission of the stock exchange or exchanges on which the common shares of the company are listed. Furthermore, shareholder approval is required for grants of options to insiders of options that exceed ten percent of the issued common shares within any 12 month period. No options shall be granted for a term exceeding five years without permission of the stock exchange or exchanges on which the shares of the company are listed. All options issued under Plans are issued from treasury.

Unvested options outstanding as of December 31, 2009 and 2008 vest over the three year period starting from the date of grant dependant on the continued provision of services. The options vest one-third at the end of each of the first three years following the grant date. Options generally expire, if unexercised, five years from the date of vesting.

We received nil, \$1,499,853 and \$2,319,433 cash from the exercise of stock options and warrants during the year ended December 31, 2009, 2008 and 2007 respectively.

Compensation Expense Associated with Grant of Options

In the year ended December 31, 2009 the company recorded stock-based compensation expense of \$672,060 (2008 - \$653,042 and 2007 - \$505,914).

The grant date fair value is calculated in U.S. dollars using the Black Scholes option valuation model utilizing the following weighted average assumptions:

	For the year ended December 31,		
	2009	2008	2007
Expected dividends paid per common share	Nil	Nil	Nil
Expected life (years)	3	3	3
Expected volatility in the price of common shares (%)	103%	88%	65%
Risk free interest rate (%)	1.5%	4%	4%
Weighted average grant date fair market value per share in U.S. dollars	\$ 0.67	\$ 1.19	\$ 1.96
Intrinsic value of options exercised in U.S. dollars	\$ -	\$ 2.18	\$ 2.87

As of December 31, 2009 and 2008 there were \$865,242 and \$985,473 respectively of total unrecognized compensation cost related to non-vested share-based compensation awards granted under the stock option plans. This cost will be recognized over the remaining vesting period.

11. Warrants

Continuity of warrants for the years end December 31, 2009 and 2008:

	As at December 31, 2009		As at December 31, 2008	
	# of warrants	Weighted average exercise price	# of warrants	Weighted average exercise price
Outstanding as at beginning of the year	150,000	\$ 2.20 Cdn	2,776,560	\$ 1.96 U.S.
Issued for services	-	-	-	-
Exercised	-	-	(702,543)	\$ 2.00 U.S.
Expired	(150,000)	\$ 2.20 Cdn	(1,924,017)	-
Outstanding as at end of the year	-	\$ -	150,000	\$ 2.20 Cdn

On June 30, 2007 NXT entered into agreements with a member dealer of the TSX Venture Exchange ("TSX-V") to act as sponsoring dealer for NXT's listing application to the TSX-V. Pursuant to the agreement, NXT issued 150,000 common share warrants to the dealer upon becoming listed on the TSX-V on December 3, 2007. The fair market value of these warrants was estimated at \$482,750. The warrants had an exercise price of \$2.20 and expired on December 3, 2009.

12. Income Taxes

Our income tax for accounting purposes is different from the amount computed by applying the statutory Canadian federal and provincial income tax rate to income or loss before taxes.

	For the year ended December 31,	
	2009	2008
Canadian statutory income tax rate	29.0%	29.5%
Income tax expense (recovery) at statutory rate	\$ (697,486)	\$ (336,681)
Impact of non deductible expenses on income tax		
Stocked-based compensation	194,898	192,648
Forfeited in year	111,038	108,133
Exchange adjustment	339,527	(449,071)
Rate reduction	87,072	(85,122)
Other	(70,771)	(3,203)
Valuation allowance	35,722	573,296
	\$ -	\$ -
	As at December 31,	
	2009	2008
Deferred income tax assets		
Net operating loss carry forward USA (expiration dates: 2010-2028)	\$ 2,073,212	2,412,739
Net operating loss carry forward Canada (expiration dates: 2010-2029)	3,095,143	2,749,895
Property and equipment	2,341,417	2,311,416
Valuation reserve	(7,509,772)	(7,474,050)
	\$ -	\$ -

We have not provided for any amount of current or deferred U.S. or Canadian federal, state or provincial income taxes for the years ended December 31, 2009, 2008 and 2007. We have provided a full valuation allowance on the deferred tax asset, consisting primarily of net operating loss carry forwards and timing differences on property and equipment, because of uncertainty regarding their realization. The increase in the valuation allowance on the deferred tax asset during the year ended December 31, 2009 was \$35,722 compared with an increase of \$573,296 for the year ended December 31, 2008. The 2009 increase is largely due to the impact on tax assets resulting from the loss for tax purposes incurred in the year, reductions in Canadian income tax rates, forfeitures of loss carry forwards in Canada and exchange fluctuations affecting U.S. net operating losses. All income and losses for tax purposes during these three years is reflected in Canadian net operating loss carry forward balances.

Prior to 2009, the company and its subsidiaries had incurred losses since their incorporation and have not been assessed by tax authorities. Accordingly, all taxation years remain subject to review by tax authorities.

13. Related Party Transactions

Summarized below is information concerning related party transactions and balances not disclosed elsewhere in these consolidated financial statements for the years ended December 31, 2009, 2008, and 2007:

	For the year ended December 31,		
	2009	2008	2007
Interest expense recognized or paid to related parties and officers	\$ -	\$ -	13,371

In 2007 the company repaid a loan to one of its officers. Prior to payout the company incurred \$13,371 in interest.

In the year ended December 31, 2009, 25,000 shares were issued to the spouse of an officer of the company pursuant to a private placement at a strike price of U.S. \$2.00.

For the years ended December 31, 2009 and 2007, the company's board of directors authorized and issued respectively to directors and officers 885,000 and 570,000 options. The options were issued at an average exercise price of U.S. \$0.98 in 2009 and U.S. \$2.62 in 2007 based on the closing trading price of the company's common shares on the OTCBB for the date of issue.

110,000 shares were issued to officers and directors pursuant to the exercise of options at a strike price of U.S. \$0.14 - \$0.43 in the year ended December 31, 2008.

A Director of NXT is also an officer for one of our SFD[®] survey clients. We recorded revenue from this client for the year ended December 31, 2008 of \$1,200,000 (2009 and 2007 - nil).

14. Commitments and Contingencies

On March 18, 2003 we were served a Statement of Claim naming NXT and others as defendants. The plaintiffs allege that the defendants were negligent and in breach of a ferry flight contract under which an aircraft was to be delivered to Greece. The aircraft crashed enroute. The Plaintiffs are seeking, among other things, damages in the amount of Cdn. \$450,000 or loss and damages to the aircraft and cargo, and damages in respect to search and rescue expenses, salvage, storage, transportation expenses and pollution and contamination expenses. NXT was not party to the Ferry Flight Contract. The outcome of the claim is not determinable. Management believes the claim is without merit and we intend to defend ourselves against the claim.

In May 2008 we entered into a revised lease agreement for expanded office space in our current location. The original lease was for a six year term beginning November 1, 2006 and ending October 31, 2012. The amended lease is effective June 1, 2008 and ends October 31, 2012. The monthly lease payments are \$31,871.

15. Comparative Figures

Certain amounts in the consolidated financial statements have been reclassified in the comparative periods to conform to the current year's presentation. All comparative periods have been converted from the company's prior reporting currency, the U.S. dollar, to the current reporting and functional currency the Canadian dollar.