Message from the President & CEO

April 13, 2020

First, I want to convey my sincere hope that everyone is well and continues to stay healthy at this difficult time.

2019 was a successful year for NXT. Our financial results included $4.1 million of operating cash flow and net income of $3.77 million or 6 cents per share derived primarily from the successful completion of the US$8.9 million Nigerian SFD® survey of which 94% has been paid. The survey was both a financial and a technical success defined by successful drilling results on SFD® recommendations in multiple locations, the recent endorsement of the SFD® technology by respected agencies in Nigeria, and completion of additional R&D milestones.

NXT completed the Nigerian 5,000 line km SFD® survey in record time and we were able to recommend eight primary anomalies in April 2019. Soon after, drilling commenced at a location where a recommended SFD® anomaly coincided with one of the top seismic prospects and a well was successfully completed in late 2019. Preliminary results demonstrate that when two independent tools (seismic and SFD®), operating on different physical principles, recommend the same areas as prospective, the chance of success increases considerably. As a result of this, the Department of Petroleum Resources ("DPR"), a department under the Federal Republic of Nigeria’s Ministry of Petroleum Resources responsible for the sustainable development of Nigeria’s oil and gas resources, provided a written recommendation of NXT’s SFD® technology, noting specifically; "in line with Federal Government aspiration to increase its Oil and Gas reserves base at a considerable reduced cost, risk and optimize exploration cycle, the Stress Field Detection SFD® technology is hereby adopted and recommended to be deployed as an independent data exploration tool for hydrocarbon exploration to identify and rank prospect-level leads to focus exploration efforts in the Nigerian Oil and Gas industry". The DPR recommendation of our SFD® survey method is a significant milestone for NXT reflecting the superior value delivered in Nigeria by NXT and its partner, PE Energy, at a low cost and on an expedited time line. We expect that the recommendation from the Federal Republic of Nigeria, a regional leader in technological innovation, to resonate broadly throughout the African oil and gas industry. The adaptation of SFD® in the Nigerian exploration programs will expose the technology to multiple international oil companies which can be a game-changer for NXT.

With respect to our 2017 SFD® Gulf of Mexico survey over the 2.1 bid-round offshore blocks, one of the areas indicated by SFD® as prospective has now been drilled by third parties. A commercial discovery resulted with early estimates of in place reserves greater than 200 million barrels of oil equivalent (MMBOE). Additionally, and perhaps just as important, from a capital expenditure allocation perspective, another seismic prospect, considered non-prospective by NXT, was drilled as part of the same campaign and was declared unsuccessful. Both positive and negative recommendations for prospects are important elements of the SFD methodology. The announcements concerning these drilling activities were reported by internationally recognized upstream data providers starting late 2019. The SFD® data for the 2.1 bid-round offshore blocks was submitted to, and has been available from, the National Hydrocarbon Commission of Mexico since mid-2018. These results highlight the value of adding SFD® to an upstream work program and evidences the efficacy of our geophysical method in recommending prospects with
potential for hydrocarbon traps in conjunction with best available accumulated data. Under NXT’s Business Plan, effective integration of data and interpretive analysis will be important aspects of NXT’s value equation. Drilling activities over SFD® recommendations are ongoing in numerous countries and NXT shall provide further updates as warranted.

On the R&D front, NXT received confirmation of a patent granted from the European Patent Office. This brings the total number of countries granting the patent to 44. A final step is for validation of the SFD® technology patent in select European countries. In addition, the Company is designing and building a new fleet of sensor systems for improved efficiency, better resolution and increased capacity.

In the first quarter of 2020, NXT finalized the first phase of its survey over the Queen Charlotte Fault (“QCF”) located offshore British Columbia. The purpose of the continuing QCF study is to identify seismically active areas and to differentiate subsurface stress states in deep water settings. The Company is in the process of evaluating the acquired SFD® data.

In the month before travel restrictions were brought on by the novel coronavirus (2019-nCoV/COVID-19), my team and I completed a broad scale international market business development effort which included a signed memorandum of understanding with an independent oil company with interests in East-Central Africa. Though currently there are several challenges facing our world and industry, NXT is focused on minimizing risks and continues to advance discussions for SFD® survey opportunities within Nigeria, East-Central Africa, Mexico, and selected Asian countries primarily via video conferences. Our clients are still working and there are continuous discussions regarding the projects.

I also want to explain where the Company is positioned in the oil and gas sector today and what impact the current upstream value crisis is having on our business development. NXT has focused most of its business development on National Oil Companies (“NOCs”) given their longer strategic planning time horizon, large fiscal resources, general stability, available land base and their relative insulation from the day to day happenings of the hydrocarbon markets. Our contract history to date, while slow and measured, has demonstrated the success of this effort. In many countries, the NOCs contribute significantly to the nation’s economic well-being over the long term which means they have multiple reasons to continue with their exploration and production activities. Given the current fiscal state of the industry, they have to find ways to explore and produce more effectively and at lower costs. NXT provides the NOCs with a proven and patented upstream geophysical method that can be rapidly deployed at a highly competitive cost with the potential of significantly enhancing success while fitting effectively within the established exploration cycle.

In conclusion, notwithstanding COVID-19 and the unstable state of the hydrocarbon sector, we are advancing our initiatives in Africa, Asia and Latin America to secure SFD® surveys. We will continue delivering results and growth for our shareholders.

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 in these trying times. We wish the best of health to you and your families.

Best regards,

George Liszicasz
President & CEO
NXT Energy Solutions Inc.