



NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

**For the 3 and 9 month periods ended
September 30th, 2017**

NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets (Unaudited - expressed in Canadian dollars)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 69,702	\$ 490,496
Short-term investments	60,000	1,453,091
Accounts receivable	61,181	205,952
Prepaid expenses and deposits	695,935	166,802
	886,818	2,316,341
Long term assets		
Property and equipment	811,664	3,348,557
Intellectual property	21,760,717	23,024,268
	\$ 23,459,199	\$ 28,689,166
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,145,047	\$ 575,964
Income taxes payable	-	98
Current portion of capital lease obligation	38,617	36,769
	1,183,664	612,831
Long-term liabilities		
Capital lease obligation	95,507	124,697
Other liabilities (Note 11)	556,494	-
Asset retirement obligation	59,740	55,240
Deferred charges	82,649	84,838
	794,390	264,775
	1,978,054	877,606
Commitments and contingencies (Note 8)		
Going concern (Note 1)		
Shareholders' equity		
Common shares (Note 3): - authorized unlimited		
Issued: 53,856,509 (2016 - 53,856,509) common shares	86,013,013	85,966,393
Contributed capital	8,110,724	7,613,719
Deficit	(73,353,527)	(66,479,488)
Accumulated other comprehensive income	710,935	710,935
	21,481,145	27,811,560
	\$ 23,459,199	\$ 28,689,166

Signed "George Liszicasz"
Director

Signed "Bruce G. Wilcox"
Director

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

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - expressed in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Revenue				
Survey revenue	\$ -	\$ -	\$ -	\$ 1,447,269
Expenses				
Survey costs, net	261,658	200,443	1,037,217	1,147,187
General and administrative expenses	1,013,148	1,128,847	3,712,780	4,217,782
Stock based compensation expense	162,724	218,000	497,005	503,000
Amortization expense	454,163	521,945	1,443,413	1,556,696
	<u>1,891,693</u>	<u>2,069,235</u>	<u>6,690,415</u>	<u>7,424,665</u>
Other expenses (income)				
Interest expense, net	199	(3,962)	4,925	(14,843)
Foreign exchange (gain) loss	9,507	(12,211)	26,788	273,064
Intellectual property and other expenses	33,957	23,065	79,323	195,795
	<u>43,663</u>	<u>6,892</u>	<u>111,036</u>	<u>454,016</u>
Loss before income taxes	(1,935,356)	(2,076,127)	(6,801,451)	(6,431,412)
Income tax (recovery) expense				
Current	-	66,707	72,587	311,302
	<u>-</u>	<u>66,707</u>	<u>72,587</u>	<u>311,302</u>
Net loss and comprehensive loss	<u>\$ (1,935,356)</u>	<u>\$ (2,142,834)</u>	<u>\$ (6,874,038)</u>	<u>\$ (6,742,714)</u>
Net loss per share (Note 4)				
Basic	\$ (0.04)	\$ (0.04)	\$ (0.13)	\$ (0.13)
Diluted	\$ (0.04)	\$ (0.04)	\$ (0.13)	\$ (0.13)

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NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Cash Flows (Unaudited - expressed in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities				
Comprehensive loss for the period	\$ (1,935,356)	\$ (2,142,834)	\$ (6,874,038)	\$ (6,742,714)
Items not affecting cash:				
Stock based compensation expense	162,724	218,000	497,005	503,000
Amortization expense	454,163	521,945	1,443,413	1,556,696
Non-cash changes to asset retirement obligation	1,500	-	4,500	-
Valuation allowance of Bolivian Tax Credits	-	-	207,682	-
Amortization of deferred gain on sale of aircraft (Note 11)	(38,825)	-	(64,709)	-
Other	(729)	1,501	(2,189)	1,042
Change in non-cash working capital balances (Note 7)	(292,569)	(600,194)	(162,160)	(1,463,571)
	286,264	141,252	1,923,542	597,167
Net cash used in operating activities	(1,649,092)	(2,001,582)	(4,950,496)	(6,145,547)
Financing activities				
Proceeds from exercise of stock options	-	265,757	30,420	411,201
Repayment of capital lease obligation	(9,252)	(8,588)	(27,341)	(25,409)
Net cash from (used in) financing activities	(9,252)	257,169	3,079	385,792
Investing activities				
Proceeds from sale / purchase of property and equipment, net	0	(9,006)	3,133,533	(86,564)
Decrease in short-term investments	1,440,000	269,837	1,393,090	(789,575)
Decrease (increase) in restricted cash	-	75,000	-	75,000
Change in non-cash working capital balances (Note 7)	-	-	-	(60,187)
Net cash from (used in) investing activities	1,440,000	335,831	4,526,623	(861,326)
Net decrease in cash and cash equivalents	(218,344)	(1,408,582)	(420,794)	(6,621,081)
Cash and cash equivalents, beginning of the period	288,046	1,873,304	490,496	7,085,803
Cash and cash equivalents, end of the period	\$ 69,702	\$ 464,722	\$ 69,702	\$ 464,722
Supplemental information				
Cash interest (received)	(1,778)	(1,325)	(6,504)	4,348
Cash taxes paid	\$ -	\$ 499,694	\$ 72,587	\$ 1,633,152

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

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Shareholders' Equity

(Unaudited - expressed in Canadian dollars)

	For the nine months ended September 30	
	2017	2016
Common Shares		
Balance at beginning of the period (Note 3)	\$ 85,966,393	\$ 85,051,553
Issued upon exercise of stock options (Note 3)	30,420	411,201
Transfer from contributed capital upon exercise of stock options	0	342,889
Equity-based transaction with non-employee	16,200	-
Balance at end of the period	86,013,013	85,805,643
Contributed Capital		
Balance at beginning of the period	7,613,719	7,239,089
Recognition of stock based compensation expense	497,005	503,000
Contributed capital transferred to common shares upon exercise of stock options	-	(342,889)
Balance at end of the period	8,110,724	7,399,200
Deficit		
Balance at beginning of the period	(66,479,488)	(57,379,926)
Net loss and comprehensive loss for the period	(6,874,038)	(6,742,713)
Balance at end of the period	(73,353,527)	(64,122,639)
Accumulated Other Comprehensive Income		
Balance at beginning and end of the period	710,935	710,935
Total Shareholders' Equity at end of the period	\$ 21,481,145	\$ 29,793,139

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 three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

1. The Company and Going Concern

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

NXT's proprietary Stress Field Detection ("SFD®") technology is an airborne survey system that is used in the oil and natural gas exploration industry to identify areas with hydrocarbon reservoir potential.

These consolidated financial statements have been prepared on a going concern basis. 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.

The events described in the following paragraphs highlight that there is substantial doubt about NXT's ability to continue as a going concern within one year after the date that these financial statements have been issued.

As a result of the extended duration between revenue contracts, NXT's working capital has reduced from approximately \$7.8 million at December 31, 2015 to negative \$296,846 at September 30, 2017. The Company's current and forecasted working capital position is not expected to be sufficient to meet its obligations for the 12 month period beyond the date that these financial statements have been issued.

While near term survey prospects are expected to provide positive contribution to the liquidity position, there are no certainties that these prospects will convert into executed contracts. The Company has taken steps to reduce costs; the most significant include the deferral of a portion of the employees' cash compensation, deferral of all of the Board and Advisory Board members' cash compensation and a reduction in non-essential staff. In addition, the Company has undertaken a Rights Offering (the "Offering") to existing shareholders in order to raise sufficient working capital to sustain it until a contract is completed. If required, further financing options that may be available to the Company include issuance of new equity, debentures or bank credit facilities. The need for any of these options will be dependent on the timing of securing new contracts and obtaining financing terms that are acceptable to both the Company and the financier.

NXT continues to develop its pipeline of opportunities to secure new revenue contracts. However, the Company's longer-term success remains dependent upon its ability convert these opportunities into successful contracts and to continue to attract new client projects and expand the revenue base to a level sufficient to exceed fixed operating costs and generate positive cash flow from operations. The occurrence and timing of these events cannot be predicted with certainty.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then significant adjustments would be necessary in the classification and carrying value of assets and liabilities and the reported revenues and expenses.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

2. Significant Accounting Policies

Basis of presentation

These interim unaudited consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles of the United States of America ("US GAAP") and by applying the same accounting policies and methods as used in preparing the consolidated financial statements for the fiscal year ended December 31, 2016.

Certain comparative figures have been reclassified to conform to the presentation adopted for these financial statements

Future Accounting Policy Changes

Revenue recognition:

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

This new guidance will be effective from January 1, 2018, and early application is not permitted. There will be two methods in which the amendment can be applied: (1) retrospectively to each prior reporting period (which will include NXT's fiscal years 2016 and 2017) presented, or (2) retrospectively with the cumulative effect recognized at the date of initial application. NXT is evaluating the impact of the adoption of this new guidance and although the review is not yet complete, indications are that there will be no material impact on the financial statements.

Leases:

In February 2016, the FASB issued new guidance on leases. The new guidance requires lessees to recognize most leases, including operating leases, on the balance sheet as lease assets and lease liabilities. In addition, lessees may be required to reassess assumptions associated with existing leases as well as to provide expanded qualitative and quantitative disclosures. The new guidance is effective January 1, 2019. NXT is evaluating the impact of the adoption of this new guidance and has not yet determined the effect on its consolidated financial statements.

3. Common shares

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

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

	For the nine month periods ended			
	September 30, 2017		September 30, 2016	
	# of Shares	\$ amount	# of shares	\$ amount
As at the beginning of the period	53,856,509	\$ 85,966,393	53,306,109	\$ 85,051,553
Shares issued during the period:	-	-	-	-
Cash Received from 2016 exercise of stock options (i)		30,420		
Conversion of preferred shares	-	-	392,900	411,202
Equity-based transaction with non-employee (ii)	-	16,200	-	-
Transfer from contributed capital upon exercise of stock options	-	-	-	342,889
	53,856,509	86,013,013	53,699,009	85,805,644

- (i) Stock options exercised at the end of 2016 resulted in a receivable in the amount of \$30,420. Cash was received in January 2017.
- (ii) Shares that were purchased in December 2016, in respect of a payment for consultancy services were transferred to the consultant in 2017. The cost of the shares was \$16,200.

These amounts do not reflect the common shares issued as a result of the Rights Offering that completed in October 2017 (note 12 "Rights Offering").

4. Earnings (loss) per share

	for the three months ended September 30		for the nine months ended September 30	
	2017	2016	2017	2016
Comprehensive loss for the period	\$ (1,935,356)	\$ (2,142,834)	\$ (6,874,038)	\$ (6,742,714)
Weighted average number of shares outstanding for the periods:				
Basic	53,856,509	53,660,944	53,856,509	53,446,849
Diluted	53,856,509	53,660,944	53,856,509	53,446,849
Earnings (loss) per share - Basic	\$ (0.04)	\$ (0.04)	\$ (0.13)	\$ (0.13)
Earnings (loss) per share - Diluted	\$ (0.04)	\$ (0.04)	\$ (0.13)	\$ (0.13)

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

5. Stock options

The following is a summary of stock options which are outstanding and exercisable as at September 30, 2017:

Grant Price Low	Grant Price High	Awards Outstanding			Awards Exercisable		
		Quantity	Remaining Contractual Life	Exercise Price	Quantity	Remaining Contractual Life	Exercise Price
\$ 0.76	1.37	658,401	1.96	\$ 1.25	500,268	1.86	1.22
\$ 1.38	1.50	347,500	3.69	\$ 1.48	197,500	3.61	1.47
\$ 1.51	1.70	395,000	2.73	\$ 1.59	235,000	2.34	1.60
\$ 1.71	1.97	300,100	2.96	\$ 1.79	143,433	2.82	1.78
\$ 1.98	2.10	300,000	2.96	\$ 2.10	200,000	2.96	2.10
		2,001,001	2.71	\$ 1.57	1,276,201	2.50	\$ 1.53

A continuity of the number of stock options which are outstanding at the end of the current period and as at the prior fiscal year ended December 31, 2016 is as follows:

	For the 9 months ended		For the year ended	
	September 30th, 2017		December 31, 2016	
	# of stock options	Weighted average exercise price	# of stock options	Weighted average exercise price
Options outstanding, start of the period	3,221,001	\$ 1.33	3,462,835	\$ 1.26
Granted	-	-	475,000	\$ 1.50
Exercised	-	-	(565,722)	\$ -
Forfeited	(75,000)	1.42	(151,112)	\$ 1.50
Expired	(1,145,000)	0.92	-	\$ -
Options outstanding, end of the period	2,001,001	\$ 1.57	3,221,001	\$ 1.33
Options exercisable, end of the period	1,276,201	\$ 1.53	2,036,401	\$ 1.17

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

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

The Q3-17 unamortized SBCE of \$451,052 (2016 - \$883,843) will be recognized in future expense over the related remaining (2017 to 2019) vesting periods.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

6. Financial instruments

1) Non-derivative financial instruments:

The Company's non-derivative financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, income taxes payable 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 periodically holding foreign denominated financial instruments. Any unrealized foreign exchange gains and losses arising on such holdings are reflected in earnings at the end of each period.

2) Derivative financial instruments:

As at September 30, 2017, there were no outstanding derivative financial instruments.

7. Change in non-cash working capital

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

	ended September 30		ended September 30	
	2017	2016	2017	2016
Accounts Receivable	\$ (27,985)	\$ (54,347)	\$ 144,771	\$ 604,987
Work-in-progress	-	-	-	404,840
Prepaid expenses and deposits	(23,564)	53,798	(529,133)	26,394
Accounts payable and accrued liabilities	(241,003)	(235,413)	222,300	(600,162)
Income tax payable	(17)	(364,232)	(98)	(1,253,095)
Deferred revenue	-	-	-	(706,722)
	(292,569)	(600,194)	(162,160)	(1,523,758)
Portion attributable to:				
Operating activities	(292,569)	(600,194)	(162,160)	(1,463,571)
Financing activities	-	-	-	-
Investing activities	-	-	-	(60,187.00)
	(292,569)	(600,194)	(162,160)	(1,523,758)

8. Commitments and contingencies

Aircraft and office premises leases

The Company has a 10 year operating lease for its Calgary office space and entered into a new 5 year operating lease in April 2017 for the use of an aircraft (see note 11). The minimum annual lease payments are as follows:

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

For the period ended Sept 30	Office Premises	Aircraft
2017	535,485	591,552
2018	535,485	591,552
2019	535,485	591,552
2020	544,408	591,552
	2,150,863	2,366,208
Thereafter, 2021 through 2025	2,326,374	492,960
	4,477,237	2,859,168

The office premises lease payments include estimated operating costs which have been increased during 2017 as a result of increased property taxes and other building costs.

Deferred charges of \$82,649 as at September 30, 2017 relates to the valuation of an initial free-rent period received on the Company's office lease in 2015. This balance will be amortized as a reduction of general and administrative expense over the 10 year term of the lease commitment.

Other

As a result of employee terminations subsequent to the end of the quarter, the Company has triggered contractual commitments relating to termination benefits of approximately \$100,000

9. Geographic information

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

Revenues by geographic area were generated solely in Bolivia in 2016, entirely from a single client.

10. Other related party transactions

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
	\$ 11,796	9,456	\$ 83,263	\$ 48,755

Accounts payable and accrued liabilities includes a total of \$55,701 (\$10,443 as at December 31, 2016) payable to this law firm.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and nine month periods ended September 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

11. Aircraft Financing

In April, 2017, NXT completed a sale and leaseback agreement of its aircraft with a Calgary based international aircraft services organization (“the lessor”). The terms of the agreement resulted in NXT selling its’ Cessna Citation aircraft that was purchased in 2015 for US\$2,000,000 for the sum of US\$2,300,000. NXT has leased the aircraft over an initial term of 60 months and retains all existing operating rights and obligations. Net proceeds to NXT from the sale were approximately CAD \$2,700,000, after payment of all commissions and fees. The net book value of the asset of \$2.4 million was derecognized and the resulting gain on disposition of \$776,504 was deferred (\$621,203 included in long term liabilities and \$155,301 included in accounts payable and accrued liabilities). The gain will be recognized as a reduction to the Company’s lease expense over the 60 month term of the lease. The resulting leaseback transaction is an operating lease. NXT is required to make monthly payments to the lessor of approximately US \$40,000. NXT has the option to extend the term of the lease by an additional two years. Should NXT want to repurchase the aircraft at the end of the initial lease term, the purchase price is US \$1.45 million.

12. Rights Offering

On October 31st 2017, NXT closed the Rights Offering that had been announced to existing shareholders on September 26th 2017. The Company issued 4,187,290 common shares a price of \$0.50 per common share, for aggregate gross proceeds of \$2,093,645.

Approximately 53% of the Offering, being 2,237,607 shares were issued in the basic subscription, of which 680,856 shares were issued to insiders of the Company and 1,556,751 shares were issued to others. A total of 1,949,683 shares were applied for under the additional subscription provision, all of which were issued to non-insiders representing 47% of the Offering.

As a result of the completion of the Offering, a total of 58,043,799 common shares of NXT Energy are now issued and outstanding.