



NXT ENERGY SOLUTIONS INC.

Management's Discussion and Analysis ("MD&A")

Q2 – 2017

**As at and for the
three and six month periods
ended June 30, 2017**

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared by management based on information available as at August 10, 2017 and should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2016 and the unaudited consolidated financial statements as at the 3 and 6 month periods ended June 30, 2017. This MD&A covers the unaudited 3 month ("Q2-17") and 6 month year-to-date ("2017 YTD") periods ended June 30, 2017, with comparative totals for the 3 month ("Q2-16") and 6 month year-to-date ("2016 YTD") periods ended June 30, 2016.

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

Forward-looking statements

This MD&A contains forward-looking statements, which include words such as "intends", "plans", "anticipates", "expects", "scheduled", and relate primarily to:

- Estimates of the amount and expected timing of revenue and costs related to new SFD[®] survey contracts that may be obtained, conducted and completed in future periods.
- The timing and extent of potential future growth opportunities in new international markets, including new business ventures.
- Estimates related to NXT's future financial position and liquidity.

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

These forward-looking statements are based on current expectations and are subject to a wide range of 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 and net working capital before the undernoted items, terms which do not have a standardized meaning prescribed by US GAAP and may not be comparable to similar measures presented by other entities. Management of NXT uses these non-GAAP measure to improve its ability to assess liquidity at a point in time. Net working capital before the undernoted items

is defined as total current assets less total current liabilities, excluding amounts accumulated in work in progress and deferred revenue. 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 provides an airborne, gravity-based geophysical survey to hydrocarbon Exploration and Production (“E&P”) companies globally.

NXT's proprietary patented Stress Field Detection (“SFD[®]”) survey method is used to identify subsurface trapped fluid accumulations by responding to the gravitational perturbations associated with density and stress distribution conditions that are indicative of the simultaneous existence of trap, reservoir and seal. This is a decisive piece of information within the exploration process, only identified by the use of SFD[®] technology and is crucial to the commercial success of exploration projects. This is the value proposition of the SFD[®] technology – it mitigates the exploration risks associated with prospect drilling, reduces finding costs and maximizes upstream program efficiencies in terms of time and success rates.

SFD[®] surveys are non-invasive, environmentally friendly, unaffected by ground security concerns and effective in both offshore and onshore environments. The results of the survey enable the customer to focus their exploration efforts towards areas with higher success potential, thus minimizing the huge expense of drilling non-commercial prospects.

SFD[®] is an established exploration tool with a number of clients globally and a growing list of recommended prospects drilled, that have resulted in significant discoveries. This technology is particularly useful as an early stage reconnaissance tool in frontier and under-developed areas; it provides a cost-effective means for focusing more costly geophysical expenditures such as seismic data acquisition. SFD[®] can also be used prior to drilling in areas that have significant seismic coverage to prioritize seismic prospects based on their reservoir potential, thus reducing exploration risk.

NXT recognizes that its past revenues have been sporadic, as they have derived from large E&P companies. The business processes of these clients are thorough, time intensive and usually require multiple levels of approval and validation. Whilst this has been a laborious process, it has afforded NXT significant recognition at the large NOC and IOC level. However, at the same time, the business has been adversely impacted by the continued depression in oil prices and the associated reduction in exploration activity. Our primary goal has been to expand our revenue base, by increasing the pipeline of opportunities with new and existing customers and we seek to achieve this goal by focusing on several key areas.

NXT increased its investment in business development when senior members of management undertook an extensive marketing initiative in Q2-2016, which resulted in building stronger relationships with governments and global NOC's in Africa, Asia Pacific, and the Middle East. Several of the potential clients in these regions are currently in various stages of discussions with NXT. The proposed project with Shine Quest FZC in Sri Lanka is an example of the success of this marketing initiative.

NOCs typically have a long-term strategic focus and our challenge is the time it takes to share essential information and develop relationships with multiple governmental layers and agencies. NXT is actively pursuing financing options and shorter-term contracts that will enable us to sustain the business while executing this strategy. As a result, while we continue to grow the major project pipeline, our strategy will also focus on independent E&P companies, including international oil and gas companies (“IOCs”) and major multinational integrated oil companies which have a more defined decision process than governments and a shorter horizon for decision making. The aim of this strategy is to integrate our

independent SFD® data into their standard exploration processes and we are gaining traction in this area, particularly in the creation of seismically integrated Multi-Client datasets. We believe this new approach to provide a higher value, integrated solution will allow us build a steady backlog of projects that will enable us to enhance and smooth our revenue flow.

Following the successful completion of the Bolivia Survey Projects in 2015 NXT has been effective in positioning the SFD® method as an established geophysical tool backed by technical papers, past project case studies, and a strong list of references and letters of recommendations. Please see the NXT Energy website for more information. (www.nxtenergy.com)

As NXT pursues various international markets, one of our strategies is to utilize high quality local sales representatives with key knowledge of their area, potential clients and the exploration sector of the oil and gas industry. This allows us to cover larger areas and more clients with minimum fixed cost.

NXT continues to have sales representatives who pursue SFD® opportunities in such markets as Latin America, the Middle-East and Southeast Asia (Sri Lanka, Malaysia and Pakistan).. All independent international sales representatives are required to certify that they adhere to NXT's code of conduct and business ethics.

It should be noted, however, that the process of expanding the client base has ongoing challenges, due to such factors as:

- The exploration cycle is long in nature, and generating results from SFD® recommendations made in past surveys takes time and patience to realize.
- Large NOCs tend to have a long decision making and approval process.
- The current, ongoing downturn in commodity prices in the oil and gas industry.

The discussion in the MD&A focuses on the highlights of NXT's ongoing business development activities, and any significant changes arising prior to the filing of our MD&A for the quarter ended June30, 2017.

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 \$1.1 million at June 30, 2017. The Company's current 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 is pursuing debt and equity financing options in order to meet its future obligations. 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.

Estimates of the timing and securing of future contract opportunities are forward-looking expectations which are dependent upon regional political and other factors that are beyond NXT's control.

Near-term Outlook for 2017

There are a number of short-term and longer-term prospects that are being pursued in South and Central America, the frontier areas of Africa, Asia, and offshore Atlantic regions (particularly where Canadian and American E&P companies are operating).

NXT has been working with a number of clients towards finalizing survey contracts. However, the process within the NOC's and related Government departments in these regions are complex and time consuming.

As announced on September 19th, 2016 NXT is pleased to partner with SHINE Quests FZC in a project where the SFD[®] survey method is the lead technology in the proposed "Project SHINE", currently under consideration by the Sri Lankan government. The SFD[®] survey data is intended to provide information on trap integrity (the simultaneous presence of trap, reservoir and seal). The purpose of the project is to build a new multi-client data set for Sri Lanka. This will involve the integration of the SFD[®] survey data with all existing Geological & Geophysical data, (which includes regional seismic data), that is available for the Mannar Basin.

The revenue from the "Project SHINE" to NXT is estimated to be approximately US\$29 million, of which US\$21 million relates directly to SFD[®] services. The timing of the project is uncertain as it is dependent on a number of factors including government approval and execution of final sales agreements.

NXT completed the data acquisition and interpretation for the first ever SFD[®] Multi-Client survey in the Gulf of Mexico in June 2017. The airborne survey was conducted over the area that was identified by Comision Nacional de Hidrocarburos ("CNH") for the shallow water bid round 2.1 covering the Tampico-Misantla, Veracruz and Cuencas del Sureste exploration areas.

The survey covered an area of approximately 8,900 square kilometers and was completed ahead of time and budget.

The interpreted data that resulted from the survey is now available for license to the successful bidders of the blocks and the Company is in discussions with a number of interested parties to license the data and provide other Geological and Geophysical services.

The exposure that has resulted from the marketing effort of this multi-client survey has provided insight into other areas in the region where there is interest for SFD[®] datasets. The Company is therefore considering performing further SFD[®] multi-client surveys in addition to sole-source projects in the near future.

NXT has also been working diligently on making gains with several other prospects globally and are in discussions with their respective NOC's. Further, NXT has also been working with E&P companies who have assets in Africa and have indicated their interest in using the SFD[®] method to help evaluate their prospects. We believe these organizations view SFD[®] as an essential tool to achieve cost and time efficiencies.

Intellectual Property (“IP”) and Research & Development (“R&D”)

We have made significant progress in the development of algorithms to model the SFD[®] signal. We believe that this will enable NXT to create software to enhance and accelerate SFD[®] data interpretation as well as assisting clients in the understanding of SFD[®] recommendations. The end goal will be for the client to independently interpret SFD data.

We have completed the testing of the upgraded SFD[®] Data Acquisition System. This system was successfully used on the recent Gulf of Mexico SFD[®] survey project. It is more reliable, compact, and expandable to acquire larger SFD[®] datasets. It also eliminates the dependency on custom operating systems.

Initiatives to expand and protect our IP (including patenting and new R&D initiatives) continue in 2017. Squire Patton Boggs LLP, a United States (“US”) based leader in IP protection, has been advising on our IP strategy, including the prior filing of an initial US provisional patent application in May 2012. In November 2014, NXT filed a related patent amendment submission in the US and since that time has undertaken new patent applications in select strategic international markets. In January 2017 NXT was awarded the first international patent from Russia and during Q-2 and early Q-3 we were issued a Notice of Allowance by each of the US, Canadian, Mexican and Japanese Patent Offices. We expect that the final patents from each of these countries will be issued in the near future. In addition, we submitted a new US CIP patent application on August 4th, 2017.

Summary of Quarterly Results (Unaudited)

A summary of operating results for each of the trailing 8 quarters (including a comparison of certain key categories 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 SFD[®] survey contracts that have been completed or 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. Also in Q3-15, upon conversion of the outstanding preferred shares, NXT recorded a significant intellectual property asset, which is being amortized (a non-cash expense) over a 15 year period.

	Q2-2017 June 30, 2017	Q1-2017 Mar 31, 2017	Q4-2016 Dec 31, 2016	Q3-2016 Sept 30, 2016
Survey revenue	\$ -	\$ -	\$-	\$ -
Net income (loss)	(2,723,956)	(2,214,726)	(2,356,848)	(2,142,834)
Income (loss) per share – basic	(0.05)	(0.04)	(0.04)	(0.04)
Income (loss) per share – diluted	(0.05)	(0.04)	(0.04)	(0.04)

	Q2-2016 June 30, 2016	Q1-2016 Mar 31, 2016	Q4-2015 Dec 31, 2015	Q3-2015 Sept 30, 2015
Survey revenue	\$ -	\$ 1,447,269	\$ 17,422,151	\$ -
Net income (loss)	(2,643,938)	(1,955,942)	15,523,601	(1,878,210)
Income (loss) per share – basic	(0.05)	(0.04)	0.29	(0.04)
Income (loss) per share – diluted	(0.05)	(0.04)	0.29	(0.04)

Q2-17 to Q1-17 comparison – NXT had survey revenue of \$nil (\$nil in Q1-17), survey costs (related to the Gulf of Mexico Multi-Client survey, and aircraft lease and maintenance costs) of \$612,342 (\$163,217 in Q1-17), and SBCE of \$169,033 (\$165,248 in Q1-17).

Q1-17 to Q4-16 comparison – NXT had survey revenue of \$nil (\$nil in Q4-16), survey costs (related to equipment test flights and aircraft maintenance costs) of \$163,217 (\$9,998 in Q4-16), and SBCE of \$165,248 (\$287,500 in Q4-16).

Q4-16 to Q3-16 comparison – NXT had survey revenue of \$nil (\$nil in Q3-16), survey costs (related to equipment test flights and aircraft maintenance costs) of \$9,998 (\$200,443 in Q3-16), and SBCE of \$287,500 (\$218,000 in Q3-16).

Q3-16 to Q2-16 comparison – NXT had survey revenue of \$nil (\$nil in Q2-16), survey costs (related to equipment test flights and aircraft maintenance costs) of \$200,443 (\$157,365 in Q2-16), and SBCE of \$218,000 (\$135,000 in Q2-16).

Q2-16 to Q1-16 comparison – NXT had survey revenue of \$nil (\$1,447,269 in Q1-16), survey costs (related to equipment test flights and aircraft maintenance costs) of \$157,365 (\$789,379 in Q1-16), and SBCE of \$135,000 (\$150,000 in Q1-16).

Q1-16 to Q4-15 comparison – NXT had survey revenue of \$1,454,988 (\$17,422,151 in Q4-15), survey costs, net of \$789,379 (\$5,070,023 in Q4-15), and SBCE of \$150,000 (\$490,000 in Q4-15), amortization expense of \$514,258 (\$523,760 in Q4-15), and a total net income tax expense of \$275,997 (a net income tax recovery of \$5,415,933 in Q4-15).

Q4-15 to Q3-15 comparison – NXT had survey revenue of \$17,422,151 (\$nil in Q3-15), survey costs of \$5,070,023 (\$nil in Q3-15), SBCE of \$490,000 (\$169,000 in Q3-15), amortization expense of \$523,760 (\$146,828 in Q3-15), and a total net income tax recovery of \$5,415,933 (income tax expense of \$485,788 in Q3-15).

Q3-15 to Q2-15 comparison – NXT had survey revenue of \$nil (\$nil in Q2-15), survey costs of \$nil (\$228 in Q2-15), SBCE of \$169,000 (\$228,000 in Q2-15), and total amortization expense of \$146,828 (\$18,830 in Q2-15).

Summary of Operating Results

NXT had a net loss of \$2,723,956 for Q2-17 as compared to a net loss of \$2,643,938 for the Q2-16 period.

	Q2-17	Q2-16	2017 YTD	2016 YTD
Survey revenue	\$ -	\$ -	\$ -	\$ 1,447,269
Expenses:				
Survey costs	612,342	157,365	775,559	946,744
General and administrative	1,337,051	1,833,326	2,699,632	3,088,935
Stock based compensation expense	169,033	135,000	334,281	285,000
Amortization of property and equipment	474,558	520,493	989,250	1,034,751
	2,592,984	2,646,184	4,798,722	5,355,430
Other expense (income):				
Interest expense (income), net	(389)	(3,510)	4,726	(10,881)
Foreign exchange (gain) loss	11,306	13,601	17,281	285,275
Other expense (recovery)	38,785	19,065	45,366	172,730
	49,702	29,156	67,373	447,124
Loss before income taxes	(2,642,686)	(2,675,340)	(4,866,095)	(4,355,285)
Income tax expense	(81,270)	31,402	(72,587)	(244,595)
Net loss for the period	(2,723,956)	(2,643,938)	(4,938,682)	(4,599,880)

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 and the obligation under the contract is fulfilled.

Three month period ended June 30th	Q2-17	Q2-16	2017 YTD	2016 YTD
Aircraft Lease Costs	107,052	-	107,052	-
Amortization of deferred gain	(25,883)	-	(25,883)	-
Aircraft Operations	161,645	105,121	324,219	267,310
Survey projects	369,528	52,244	370,171	679,434
Survey expenses, net	612,342	157,365	775,559	946,744

During Q2 2017, NXT completed an SFD® survey in the Gulf of Mexico. As at the date of reporting there are no firm sales for the SFD® data that was recorded and therefore the direct costs of the survey have been expensed during the quarter. Survey costs only represent the direct costs that were incurred during operations of this survey and exclude any indirect costs associated with the use of the technology.

In 2015, NXT completed Bolivia survey projects totaling US \$13.2 million. An additional expansion project that was flown for Yacimientos Petroliferos Fiscales Bolivianos (YPFB) the National Oil Company of Bolivia, was delivered and completed in January, 2016, which resulted in US \$1 million (for which one half had been billed and received to December 31, 2015) of revenue recognition in the Q1-16 period. The second half of the contract billing for this expansion project was issued and received in Q1-16.

During Q2-17, the Company entered into a sale and leaseback transaction of its aircraft. Accordingly, subsequent to entering into the transaction in April 2017, survey expenses include the net costs related to this operating lease. The monthly lease payments are net of the deferred gain on sale that was realized upon completion of the transaction.

Also included in Survey expenses are the net costs related to maintaining the survey aircraft. The aircraft is available for charter to third parties through our aircraft manager when it is not being used by NXT. All associated revenues and costs of such charter activity are retained by NXT.

General and administrative expense ("G&A") - All salaries and overhead costs related to SFD® data interpretation staff are included in G&A, and not included with direct survey expenses. The categories of costs included in G&A are as follows:

	Q2-17	Q2-16	net change	% change
Salaries, benefits and consulting charges	\$699,449	\$ 998,601	\$ (299,152)	-30.0 %
Board, professional fees, & public company costs	219,532	320,883	(101,351)	-31.6 %
Premises and administrative overhead	199,363	217,824	(18,461)	-8.5 %
Business development	64,201	316,367	(252,166)	-79.7 %
Bolivian Overhead	154,506	-	154,506	100.0%
Other	-	(20,348)	20,348	100.0 %
Total G&A	1,337,051	1,833,327	(496,276)	-27.1 %

	2017 YTD	2016 YTD	net change	% change
Salaries, benefits and consulting charges	\$1,484,096	\$ 1,725,258	\$ (241,162)	-14.0 %
Board, professional fees, & public company costs	437,102	498,446	(61,344)	-12.3 %
Premises and administrative overhead	457,990	415,978	42,012	10.1 %
Business development	132,082	442,183	(310,101)	-70.1 %
Bolivian Overhead	188,316	-	188,316	-100.0%
Other	46	7,070	(7,024)	-99.3 %
Total G&A	2,699,632	3,088,935	(389,304)	-12.6 %

The overall net changes in G&A within the five individual expense categories noted above reflect several factors:

- Q2-17 salaries, benefits and consulting charges are lower than Q2-16 levels due to lower staffing levels.
- “Board, professional fees & public company costs,” were higher in Q2-16 due to additional legal and regulatory charges arising from moving onto the TSX from the TSX-V.
- Business development costs were higher in Q2-16 due to an extensive marketing trip that was conducted by senior management.
- Q2-16, Bolivian overhead costs of \$168,254 (year to date \$414,259) were classified as consolidated survey costs as the sole purpose of the office opening was to administer the YPFB survey. At the beginning of Q1-17, Bolivian overhead costs were presented as G&A to reflect the fact the office has been maintained to facilitate periodic operating activities in Bolivia that are anticipated from time to time. In Q-2 2017 a previously held “fiscal tax credit” of \$127,798 was expensed as the recoverability of this receivable was no longer considered certain. The credit related to the Bolivian equivalent of input sales tax and is usually offset against output sales tax. It is not refundable if input tax exceeds output tax.

Stock Based Compensation Expense (“SBCE”) - this expense varies 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, which is normally 3 years) of the resultant expense. Also, SBCE is a function of periodic changes in the inputs used in the Black-Scholes option valuation model, such as volatility in NXT's trailing share price.

There was a lower average number of options outstanding in the Q2-17 period (total of 3,321,001 as at the end of Q2-17 as compared to 3,329,501 at the end of Q2-16).

Interest income (expense), net – includes interest income earned on short-term investments & interest expense from capital lease obligations. Interest expense as at the end of Q2-17 was \$4,726 as compared to interest income of \$10,881 at the end of Q2-16.

Loss (gain) on foreign exchange - this total is caused by changes in the relative exchange values of the US\$ and Cdn\$. For example, when the Cdn\$ trades higher relative to the US\$, cash held in US\$ 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 Cdn\$ to reduce the effect of market volatility; however, we periodically are contractually obligated to hold certain restricted cash funds in US\$ instruments to support performance bond commitments in certain foreign countries.

The value of net US\$ monetary assets can vary widely each period, based on such factors as the extent of US\$ revenue contracts in process, and the level of US\$ cash and short-term investments on hand.

The valuation is also affected by the relative strength of the US\$ at each period end (which has decreased in Q2-17 as compared to the end of 2016 (1.298 Cdn\$ / US\$ at the end of Q2-17 as compared to 1.343 Cdn\$ / US\$ as at Q4-16), resulting in both realized and unrealized net exchange movements on the net holdings of US\$ cash and other working capital items. The foreign exchange loss for the period was primarily caused by the translation of assets and liabilities in both the Bolivian branch and the Canadian corporation which were held in US\$.

Intellectual Property and other expenses - this category includes primarily costs related to intellectual property filings and R&D activity related to the SFD® technology, and costs for certain non-recurring, “project” activities

Other expense related to	Q2-17	Q2-16	2017 YTD	2016 YTD
Intellectual property and R&D	30,594	\$ 15,483	\$ 41,027	\$ 23,828
TSX Listing Project and Other net	8,191	3,582	4,339	148,902
	38,785	19,065	45,366	172,730

In Q1-16, other expense included exchange listing fees and related professional fees incurred to allow NXT to apply to upgrade its stock exchange listing from the TSX-Venture Exchange, to the TSX. NXT’s new listing on the TSX, Canada’s premier exchange, was approved effective March 22, 2016.

Intellectual property and related amortization expense - NXT finalized its acquisition of specific rights to utilize the proprietary SFD® technology from its inventor, NXT’s President & CEO, on August 31, 2015 with the conversion of his 8,000,000 preferred shares, on a 1 for 1 basis, into NXT common shares. NXT now has the exclusive ownership of and rights to utilize the SFD® intellectual property in global hydrocarbon exploration applications. After the conversion, NXT’s CEO continues to retain the rights to utilize SFD® in other potential field-of-use applications.

NXT’s intellectual property (“IP”) assets acquired in 2015 had a cost base of \$25.3 million. The IP assets are being amortized on a straight-line basis over a 15-year period (future amortization expense of \$1,685,000 per year), and will also be subject to ongoing tests of potential impairment of the recorded net book value.

Amortization expense includes the following:

	Q2-17	Q2-16	2017 YTD	2016 YTD
Amortization of:				
Property and equipment	\$ 53,374	\$ 99,311	\$ 146,883	\$ 192,569
Intellectual property	421,184	421,182	842,367	842,182
	474,558	520,493	989,250	1,034,751

Income tax expense - NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions, and services rendered to clients in such countries may be subject to foreign withholding taxes, which are only recoverable in certain limited circumstances. Income tax expense for 2016 reflects such withholding taxes which were incurred on charges related to the Bolivia survey project. There was no income tax expense in Canada during Q2-17. An income tax expense was

recognized in the Bolivian entity which reversed previously held income tax credits of \$63,904. Recovery of the income tax credit was no longer considered certain.

Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of Q2-17 was \$ 1,788,046.

Significant progress has been made in the recent past in developing our pipeline of opportunities to secure new revenue contracts. NXT's longer-term success remains dependent upon our ability 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 required.

Risks related to having sufficient ongoing working capital to execute survey project contracts are mitigated through our normal practice of obtaining progress payments from prospective clients throughout the course of the projects, which often span 3 to 4 months. In addition, where possible, risk of default on client billings is mitigated through the use of export insurance programs offered via Export Development Canada ("EDC").

EDC can also be utilized by NXT for financial support in the form of guarantees of specific bank letters of credit required to be issued by NXT as performance guarantees on international projects such as on the Bolivia project. This aids in reducing restrictions on working capital that is needed to initiate and undertake projects.

In order to enhance the short-term cash flow of the business, NXT completed a sale and leaseback agreement with a Calgary based international aircraft services organization on April 28th, 2017. The terms of the agreement involve 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 back for a minimum period 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.

NXT has no secured debt, and had total "net working capital" of \$1.1 million as at Q2-17 as follows:

	June 30, 2017	December 31, 2016	net change as at Q2-17
Current assets (current liabilities):			
Cash and cash equivalents	\$ 288,046	\$ 490,496	\$ (202,450)
Short-term investments	1,500,000	1,453,091	46,909
Accounts receivable	33,196	205,952	(172,756)
Prepaid expenses and deposits	672,371	166,802	505,569
Accounts payable and accrued liabilities	(1,402,250)	(575,964)	(826,286)
Income taxes payable	(17)	(98)	81
Current portion of capital lease obligation	(38,137)	(36,769)	(1,368)
Net working capital before the undernoted items	1,053,209	1,703,510	(650,301)
Net working capital	1,053,209	1,703,510	(650,301)

The increase in prepaid expenses and deposits is primarily due to the deposit paid to the aircraft lessor at the commencement of the lease, which totaled \$463,825. This amount is refundable at the end of the lease.

The \$650,301 year to date decrease in net working capital is primarily due to the net outflow of cash, the reduction in payables and the increase accounts payable and accrued liabilities that arose as a result of the deferred gain on sale of the aircraft.

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. At each period end, if applicable, 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. As these amounts do not represent future cash inflows or outflows to the Company, they are excluded (in periods in which applicable) from NXT's analysis of net working capital. There were no amounts recorded in WIP and deferred revenue at June 30th, 2017, or as at December 31, 2016.

The following summarizes NXT's net cash flows, and the total cash plus short-term investments held at the end of the period:

Cash flows from (used in):	Q2-17	Q2-16	2017 YTD	2016 YTD
Operating activities	\$ (1,878,718)	\$ (2,574,283)	\$ (3,301,404)	\$ (4,143,965)
Financing activities	(8,976)	136,976	12,330	128,623
Investing activities	1,940,996	(1,089,471)	3,086,624	(1,197,157)
Net source (use) of cash	53,302	(3,526,778)	(202,450)	(5,212,499)
Cash and cash equivalents, start of period	234,744	5,400,082	490,496	7,085,803
Cash and cash equivalents, end of period	288,046	1,873,304	288,046	1,873,304
Cash and cash equivalents	288,046	1,873,304	288,046	1,873,304
Short-term investments	1,500,000	3,114,890	1,500,000	3,114,890
Total	1,788,046	4,988,194	1,788,046	4,988,194

The overall net changes in cash balances in each of the periods noted above is a function of several factors including any inflows (outflows) due to changes in net working capital balances, and net of any cash transferred into / out of short-term investments. Further information on the net changes in cash, by each of the Operating, Financing, and Investing activities, is as follows:

Operating Activities

	<u>Q2-17</u>	<u>Q2-16</u>	<u>2017 YTD</u>	<u>2016 YTD</u>
Net income (loss) for the period	\$ (2,723,956)	\$ (2,643,938)	\$ (4,938,682)	\$ (4,599,880)
Total non-cash expense items	826,159	655,264	1,506,869	1,319,292
	(1,897,797)	(1,988,674)	(3,431,813)	(3,280,588)
Change in non-cash working capital balances	19,079	(585,609)	130,409	(863,377)
Cash used in operating activities	(1,878,718)	(2,574,283)	(3,301,404)	(4,143,965)

Financing Activities

Q2-17 recognized a cash outflow of \$8,976 that was attributed to the repayment of the capital lease obligation. Q2-16 reflected \$8,468 cash use for repayments of the capital lease obligation and \$145,444 proceeds from the exercise of NXT stock options.

Investing Activities

The overall net cash source (use) noted above for 2017 and 2016 are as follows, and include the movement from cash out of and into short-term interest-bearing investment balances, as follows:

	<u>Q2-17</u>	<u>Q2-16</u>	<u>2017 YTD</u>	<u>2016 YTD</u>
Sale/(Purchase) of property and equipment	\$3,137,905	\$ (34,148)	\$3,133,533	\$ (77,558)
Decrease (increase) in short-term investments	(1,196,909)	(1,055,323)	(46,909)	(1,059,412)
Change in non-cash working Capital balances	-	-	-	(60,187)
Cash from (used in) investing activities	1,940,996	(1,089,471)	3,086,624	(1,197,157)

- On April 28th, 2017 NXT sold completed a sale and leaseback transaction on its' Cessna Citation aircraft for \$3,142,260 (US \$2,300,000). The aircraft was originally purchased for \$2,734,610 (US\$2,000,000) in December 2015 and at the date of sale accumulated amortization of \$368,854. The sale resulted in a gain of \$776,504. NXT has recognized the gain on sale as a "Lease Payable." Which will be amortized over the term of the lease (5 years), in accordance with US GAAP.
- The purchase of property and equipment in Q2-17 relates entirely to SFD® Equipment and computer software.

- The \$34k purchase of property and equipment in Q2-16 is broken down as follows;
 - \$31k of computer equipment.
 - \$3k of computer software.

Contractual Commitments

Aircraft and office premises lease

NXT has an operating lease commitment on its Calgary office space for a 10-year term at an initial estimated minimum monthly lease payment of \$44,624 (including operating costs). The estimated future minimum annual commitment is as follows as at June 30, 2017:

<u>For the period ended June 30</u>	<u>Office Premises</u>	<u>Aircraft</u>
2017	535,485	615,110
2018	535,485	615,110
2019	535,485	615,110
2020	544,408	615,110
	2,150,863	2,460,440
Thereafter, 2021 through 2025	2,326,374	512,592
	4,477,237	2,973,032

Additional Disclosures - Outstanding Securities

	<u>as at Aug 10, 2017</u>	<u>as at June 30, 2017</u>	<u>as at December 31, 2016</u>
Shares issued and outstanding:			
Common shares	53,856,509	53,856,509	53,856,509
Common shares reserved for issue re:			
Stock options	2,496,001	3,321,001	3,321,001
	56,352,510	57,177,510	57,177,510

During the month of July 2017, a total of 825,000 stock options expired without being exercised.

Other Transactions With Related Parties

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 June 30		For the six months ended June 30	
2017	2016	2017	2016
\$8,884	\$40,650	\$ 22,478	\$ 42,593

Accounts payable and accrued liabilities includes a total of \$9,328 (\$10,443 as at December 31, 2016) payable to this law firm.

Critical Accounting Estimates

The key elements and assumptions are substantially unchanged from those described in NXT's annual audited consolidated financial statements as at and for the year ended December 31, 2016. The following is also important to note:

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 currently deemed 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 is processed, interpreted in detail, and a recommendations report is generated and reviewed with the client's geological and geophysical staff.

All funds received or invoiced in advance of completion of the contract are 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 costs do not include any salaries and overhead related to SFD[®] data interpretation staff (which is included in G&A expense) or amortization of property and equipment expense.

Changes in Accounting Policies Including Initial Adoption

No new accounting policies were adopted in 2017.

Future Accounting Policy Changes – Revenue recognition + Leases

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 effect of the future 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.

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.

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 cannot be readily controlled.

Future Operations

NXT is still in the early stages of realizing 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 for its SFD[®] services. Management recognizes that the 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. The Company has a history of generating net losses and periodic shortages 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 revenues, net income and cash flow from operations in future years in order to continue as a going concern.

Steps to mitigate the risk of insufficient cash flow have been taken, please see the "Liquidity and Capital Resources" section above.

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, foreign currency and funds repatriation, the ability to access the relevant local services, and potential delays in commencing the projects.

Management and staff

NXT's success is currently largely dependent on the performance of a limited group of senior management 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 and expand 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 damaged or destroyed during operations, become obsolete, or that a third party might claim an interest in our proprietary intellectual property. The costs of legal defense of our rights to the SFD[®] technology could be very significant.

Related party transactions

NXT may periodically enter into related party transactions with its Officers and Directors.

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. Four of the five 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.

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, at least in the short term.

Foreign currency fluctuations

NXT currently bills its revenues in US\$ and occasionally local currencies (such as in Bolivia). We frequently hold cash in Cdn\$ as well as in US\$ and other foreign currencies (such as Bolivia) and are thus exposed to foreign exchange risk due to foreign currency fluctuations. Additionally, most of our operating expenses are incurred in Cdn\$. 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, and currency hedging strategies will be utilized where appropriate.

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.

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 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 is recorded, 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 communicated to management, including our Responsible Officers, to allow timely decisions regarding required disclosure.

The Company has established and maintains ICFR using the criteria that were set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). The control framework was designed or caused to be designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. During the periods ended June 30, 2017, there was no change in the Company's ICFR that has materially affected or is reasonably likely to materially affect our ICFR.

However, in an evaluation 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, the Company's Responsible Officers concluded that there are material weaknesses in the Company's ICFR 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. NXT mitigates this deficiency by adding management and Audit Committee review procedures over the areas where inadequate segregation of duties are of the greatest concern, and
- NXT does not have a sufficient level of staff with specialized expertise to adequately conduct separate preparation and a subsequent independent review of certain complex or highly judgmental accounting issues. These complex areas have included accounting for income taxes and equity related transactions. 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.

We seek to reduce these risks by adding additional staff resources and the use of out-sourced consultants as financial resources permit.

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 June 30, 2017. 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.

It should be noted that a control system, including the Company's DCP and ICFR procedures, no matter how well conceived, can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the DCP and ICFR will prevent all errors or fraud.

Additional Information

For additional information on NXT Energy Solutions Inc. please consult our website at www.nxtenergy.com, or the SEDAR website at <http://www.sedar.com>.



NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

**For the 3 and 6 month periods ended
June 30th, 2017**

NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets (Unaudited - expressed in Canadian dollars)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 288,046	\$ 490,496
Short-term investments	1,500,000	1,453,091
Accounts receivable	33,196	205,952
Prepaid expenses and deposits	672,371	166,802
	2,493,613	2,316,341
Long term assets		
Property and equipment	844,644	3,348,557
Intellectual property	22,181,900	23,024,268
	\$ 25,520,157	\$ 28,689,166
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,402,250	\$ 575,964
Income taxes payable	17	98
Current portion of capital lease obligation	38,137	36,769
	1,440,404	612,831
Long-term liabilities		
Capital lease obligation	105,238	124,697
Other liabilities (Note 11)	595,320	-
Asset retirement obligation	58,240	55,240
Deferred charges	83,378	84,838
	842,176	264,775
	2,282,580	877,606
Commitments and contingencies		
Shareholders' equity		
Common shares (Note 3): - authorized unlimited		
Issued: 53,856,509 (2016 - 53,856,509) common shares	85,996,813	85,966,393
Contributed capital	7,948,000	7,613,719
Deficit	(71,418,171)	(66,479,488)
Accumulated other comprehensive income	710,935	710,935
	23,237,577	27,811,560
	\$ 25,520,157	\$ 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 June 30		For the six months ended June 30	
	2017	2016	2017	2016
Revenue				
Survey revenue	\$ -	\$ -	\$ -	\$ 1,447,269
Expenses				
Survey costs, net	612,342	157,365	775,559	946,744
General and administrative expenses	1,337,051	1,833,326	2,699,632	3,088,935
Stock based compensation expense	169,033	135,000	334,281	285,000
Amortization expense	474,558	520,493	989,250	1,034,751
	<u>2,592,984</u>	<u>2,646,184</u>	<u>4,798,722</u>	<u>5,355,430</u>
Other expenses (income)				
Interest income, net	(389)	(3,510)	4,726	(10,881)
Foreign exchange (gain) loss	11,306	13,601	17,281	285,275
Intellectual property and other expenses	38,785	19,065	45,366	172,730
	<u>49,702</u>	<u>29,156</u>	<u>67,373</u>	<u>447,124</u>
Loss before income taxes	(2,642,686)	(2,675,340)	(4,866,095)	(4,355,285)
Income tax (recovery) expense				
Current	81,270	(31,402)	72,587	244,595
	<u>81,270</u>	<u>(31,402)</u>	<u>72,587</u>	<u>244,595</u>
Net loss and comprehensive loss	<u>\$ (2,723,956)</u>	<u>\$ (2,643,938)</u>	<u>\$ (4,938,682)</u>	<u>\$ (4,599,880)</u>
Net loss per share (Note 4)				
Basic	\$ (0.05)	\$ (0.05)	\$ (0.09)	\$ (0.09)
Diluted	\$ (0.05)	\$ (0.05)	\$ (0.09)	\$ (0.09)

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

NXT ENERGY SOLUTIONS INC.

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities				
Comprehensive loss for the period	\$ (2,723,956)	\$ (2,643,938)	\$ (4,938,682)	\$ (4,599,880)
Items not affecting cash:				
Stock based compensation expense	169,033	135,000	334,281	285,000
Amortization expense	474,558	520,493	989,250	1,034,751
Non-cash changes to asset retirement obligation	1,500	-	3,000	-
Valuation allowance of Bolivian Tax Credits	207,682	-	207,682	-
Amortization of deferred gain on sale of aircraft	(25,884)	-	(25,884)	-
Other	(730)	(229)	(1,460)	(459)
Change in non-cash working capital balances (Note 7)	19,079	(585,609)	130,409	(863,377)
	845,238	69,655	1,637,278	455,915
Net cash used in operating activities	(1,878,718)	(2,574,283)	(3,301,404)	(4,143,965)
Financing activities				
Proceeds from exercise of stock options	136	145,444	30,420	145,444
Repayment of capital lease obligation	(9,112)	(8,468)	(18,090)	(16,821)
Net cash from (used in) financing activities	(8,976)	136,976	12,330	128,623
Investing activities				
Proceeds from sale / purchase of property and equipment, net	3,137,905	(34,148)	3,133,533	(77,558)
Increase in short-term investments	(1,196,909)	(1,055,323)	(46,909)	(1,059,412)
Change in non-cash working capital balances (Note 7)	-	-	-	(60,187)
Net cash from (used in) investing activities	1,940,996	(1,089,471)	3,086,624	(1,197,157)
Net decrease in cash and cash equivalents	53,302	(3,526,778)	(202,450)	(5,212,499)
Cash and cash equivalents, beginning of the period	234,744	5,400,082	490,496	7,085,803
Cash and cash equivalents, end of the period	\$ 288,046	\$ 1,873,304	\$ 288,046	\$ 1,873,304
Supplemental information				
Cash interest (received)	1,175	(35,531)	(1,148)	-
Cash taxes paid	\$ -	\$ 387,516	\$ 65,989	\$ 1,133,458

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 six months ended June 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	145,444
Transfer from contributed capital upon exercise of stock options	-	102,351
Balance at end of the period	85,996,813	85,299,348
Contributed Capital		
Balance at beginning of the period	7,613,719	7,239,089
Recognition of stock based compensation expense	334,281	285,000
Contributed capital transferred to common shares upon exercise of stock options	-	(102,351)
Balance at end of the period	7,948,000	7,421,738
Deficit		
Balance at beginning of the period	(66,479,488)	(57,379,926)
Net loss and comprehensive loss for the period	(4,938,683)	(4,599,880)
Balance at end of the period	(71,418,171)	(61,979,806)
Accumulated Other Comprehensive Income		
Balance at beginning and end of the period	710,935	710,935
Total Shareholders' Equity at end of the period	\$ 23,237,577	\$ 31,452,215

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 six month periods ended June 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 \$1.1 million at June 30, 2017. Notwithstanding that during 2017 the Company received a binding promissory note of up to \$650,000 from its CEO and obtained a commitment of up to US \$250,000 from an existing shareholder towards an equity financing should the Company need to pursue such a course of action 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 is pursuing debt and equity financing options in order to meet its future obligations. 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 six month periods ended June 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 six month periods ended June 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

	For the six month periods ended			
	June 30, 2017		June 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:				
Exercise of stock options (see (i))	-	30,420	167,222	145,444
Return to Treasury of exercised stock options			(15,322)	
Transfer from contributed capital on the exercise of stock options	-	-	-	102,351
As at the end of the period	53,856,509	85,996,813	53,458,009	85,299,348

(i) Stock options exercised at the end of 2016 resulted in a receivable in the amount of \$30,284. Cash was received in January 2017.

4. Earnings (loss) per share

	for the three months ended June 30		for the six months ended June 30	
	2017	2016	2017	2016
Comprehensive loss for the period	\$(2,723,956)	\$(2,643,938)	\$(4,938,682)	\$(4,599,880)
Weighted average number of shares outstanding for the period:				
Basic	53,856,509	53,371,138	53,856,509	53,338,624
Diluted	53,856,509	53,371,138	53,856,509	53,338,624
Earnings (loss) per share – Basic	\$ (0.05)	\$ (0.05)	\$ (0.09)	\$ (0.09)
Earnings (loss) per share – Diluted	\$ (0.05)	\$ (0.05)	\$ (0.09)	\$ (0.09)

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and six month periods ended June 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 June 30, 2017:

Exercise price per share	# of options outstanding	# of options exercisable	Average remaining contractual life (in years)
\$ 0.75	345,000	345,000	0.1
\$ 0.76	104,001	104,001	0.6
\$ 0.86	530,000	530,000	0.1
\$ 1.20	300,000	300,000	0.1
\$ 1.35	554,400	396,269	2.5
\$ 1.39	30,000	30,000	2.0
\$ 1.45	37,500	37,500	4.5
\$ 1.48	37,500	37,500	4.0
\$ 1.49	150,000	49,995	3.9
\$ 1.50	50,000	50,000	4.0
\$ 1.50	50,000	-	4.3
\$ 1.51	150,000	-	4.2
\$ 1.55	40,000	40,000	1.7
\$ 1.57	30,000	20,000	2.6
\$ 1.61	25,000	25,000	1.6
\$ 1.67	150,000	100,000	2.4
\$ 1.73	92,600	59,267	3.4
\$ 1.82	215,000	71,667	3.3
\$ 1.83	30,000	30,000	1.5
\$ 2.10	300,000	100,000	3.2
\$ 1.33	3,221,001	2,326,199	1.92

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 six months ended June 30, 2017		For the year ended 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	-	-	(151,112)	\$1.50
Options outstanding, end of the period	3,221,001	\$ 1.33	3,221,001	\$ 1.33
Options exercisable, end of the period	2,326,199	\$ 1.20	2,036,401	\$ 1.17

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and six month periods ended June 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

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 Q2-17 unamortized SBCE of \$611,303 (2016 - \$883,843) will be recognized in future expense over the related remaining (2017 to 2019) vesting periods.

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 June 30, 2017, there were no outstanding derivative financial instruments.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and six month periods ended June 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

7. Change in non-cash working capital

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

	For the three months ended June 30		For the six months ended June 30	
	2017	2016	2017	2016
Accounts receivable	\$ 209,836	\$ 97,308	\$ 172,755	\$ 659,334
Work-in-progress	-	-	-	404,840
Prepaid expenses and deposits	(473,640)	(9,905)	(505,568)	(27,404)
Accounts payable and accrued liabilities	282,892	(254,094)	463,303	(364,749)
Income Taxes Payable	(9)	(418,918)	(81)	(888,863)
Deferred revenue	-	-	-	(706,722)
	19,079	(585,609)	130,409	(923,564)
Portion attributable to:				
Operating activities	19,079	(585,609)	130,409	(863,377)
Financing activities	-	-	-	-
Investing activities	-	-	-	(60,187)
	19,079	(585,609)	130,409	(923,564)

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:

<u>For the period ended June 30</u>	<u>Office Premises</u>	<u>Aircraft</u>
2017	535,485	615,110
2018	535,485	615,110
2019	535,485	615,110
2020	544,408	615,110
	2,150,863	2,460,440
<u>Thereafter, 2021 through 2025</u>	<u>2,326,374</u>	<u>512,592</u>
	<u>4,477,237</u>	<u>2,973,032</u>

Deferred charges of \$83,378 as at June 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.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the three and six month periods ended June 30, 2017

(Unaudited - expressed in Canadian dollars unless otherwise stated)

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 June 30		For the six months ended June 30	
2017	2016	2017	2016
\$8,884	\$40,650	\$ 22,478	\$ 42,593

Accounts payable and accrued liabilities includes a total of \$9,328 (\$10,443 as at December 31, 2016) payable to this law firm.

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.