



**Q3- 2014
Interim Report to Shareholders**

**As at and for the
three and nine month periods ended
September 30, 2014**



NXT ENERGY SOLUTIONS INC.

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

Q3 – 2014

**As at and for the
three and nine month periods
ended September 30, 2014**

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") was prepared by management based on information available as at November 21, 2014 and should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2013. This MD&A covers the unaudited 3 month ("Q3-14") and 9 month year-to-date ("2014 YTD") periods ended September 30, 2014, with comparative totals for the unaudited 3 month ("Q3-13") and 9 month year-to-date ("2014 YTD") periods ended September 30, 2013.

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

Forward-looking statements are used in this MD&A, and relate primarily to:

- estimates of the amount and expected timing of revenue and costs related to new SFD[®] survey contracts that are planned to be obtained, conducted and completed in future periods.
- potential future growth opportunities in new international markets.
- the potential future conversion of the outstanding preferred shares, which mature on December 31, 2015.
- the Company's ability to continue as a going concern.
- limitations in disclosure controls, procedures, and internal controls over financial reporting.

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

These forward-looking statements are based on current expectations and are subject to 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 unaudited interim 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, which does 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 this non-GAAP measure to improve its ability to assess liquidity at a point in time. Net working capital is defined as total current assets less total current liabilities, excluding amounts accumulated in work in progress, deferred revenue and the fair value of US\$ Warrants liability balance. 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 is a Calgary based publicly traded company that provides a unique aerial survey service to the oil and natural gas exploration and production ("E&P") industry. NXT's proprietary Stress Field Detection ("SFD[®]") survey technology is based on detecting subtle changes in earth's gravitational field from an airborne platform. SFD[®] data acquired is analyzed and can be used to find variations in sub-surface geological stress patterns - indicators of potential reservoir and trap formations. NXT's aerial SFD[®] surveys provide an effective and cost efficient method for clients to focus their decisions related to land commitments and the acquisition of traditional seismic data that is used to locate and delineate exploration prospects. Our goal is to aid our clients in reducing their overall time, cost, environmental impact, and especially risk in their exploration programs. Relative to traditional land based methods, the SFD[®] survey method is environmentally non-invasive and is unaffected by ground security issues or difficult terrain. Additionally, SFD[®] surveys can generally be conducted year round and are effective both onshore and offshore. SFD[®] and NXT in Canada and the United States are the registered trademarks of NXT Energy Solutions Inc.

NXT's technology is attractive for use as an early stage exploration tool in frontier and under-developed areas, and as such, we have been seeking to expand our presence in growing new international exploration markets such as South and Central America.

Overall Performance - Business Overview

NXT recognizes that its past revenue base has been sporadic in nature, as it is derived from a limited number of clients. Our primary goal is to expand our revenue base, which becomes easier by having each new client become a repeat customer, and on a larger scale.

Our strategy has been to gain wider market acceptance of SFD[®], especially with premiere clients which have high exploration activity - targets which include large National Oil Companies ("NOCs"). We seek to have each new client experience how NXT can enhance their existing geophysical tools and exploration programs, so that they become ongoing repeat customers, and ultimately generating a wider client base with recurring revenues to NXT.

The discussion in the MD&A focuses on the highlights of NXT's ongoing business development activities. 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.

As was discussed in our MD&A for the year ended December 31, 2013, NXT has invested extensive effort in building on our initial success in gaining Petrol os Mexicanos ("PEMEX", the NOC of Mexico) as a client in 2012. Since 2013, NXT has been working to create a long-term supplier relationship with PEMEX, which the Company expects can yield larger scale, recurring contract opportunities, as well as expand awareness and acceptance of our SFD[®] technology within the exploration industry.

In 2013, Mexico commenced a process of reforms to its constitution, which have had a significant effect on PEMEX, and its ongoing exploration activities. The highlight of the energy industry portion of the reforms is that Mexico will now allow foreign E&P partners into its formerly closed exploration market, by way of inviting open "bid rounds" on certain exploration blocks / concessions which will be released over time by Mexico. This process is intended to yield long-term benefits for all of Mexico, as it should attract significant new capital and expertise to accelerate and expand development of Mexico's oil and gas industry. Expanded exploration in Mexico, and especially in the deep water and salt domains of the Gulf of Mexico, is an area where SFD[®] can excel at rapidly providing PEMEX, and other new exploration players who enter this market, with independent high-impact prospect generation data.

In early 2014, PEMEX exploration staff had been addressing how to deal with the initial submissions to their regulators under their ongoing "Round Zero" process, and where to prioritize their short and long term exploration efforts. The Round Zero process was completed in Q3-14, and Mexico's regulators are currently finalizing the framework to be used in the initial "Round One" package of blocks that will be offered for bid by the international E&P industry in 2015. In addition, PEMEX has been undertaking a

comprehensive internal restructuring of its staff and business units, the finalization of which is occurring in November.

NXT is currently seeking to pursue meetings and discussions with PEMEX regarding advancing potential SFD[®] survey opportunities which may arise in 2015 and beyond. At the request of PEMEX, NXT recently met with the CNH (the National Hydrocarbon Commission of Mexico) to give a technical presentation on the benefits of using the SFD[®] technology in exploration activities in Mexico, and to assess how it might apply to spending commitments that CNH may potentially administer in future.

In late 2013, NXT gained another new client, Kerogen Exploration LLC ("Kerogen"), a private, US based entity with a focus on both traditional and non-traditional exploration concepts. An initial US \$1.1 million pilot test survey was flown for Kerogen in December 2013 over lands in both Florida and Texas, and delivery of our preliminary survey results quickly led to expansions of the contract scope, to a cumulative total of US \$3.7 million. Kerogen has recently stated their interest to continue using SFD[®] in their future exploration activities. Kerogen is backed by Riverstone Holdings LLC, one of North America's premier private-equity funders of exploration start-ups.

Near-term Outlook and Strategy for 2014 and beyond

NXT is continuing to expand awareness and use of the SFD[®] technology. Our market focus will be on the NOCs, small to mid-cap exploration and production ("E&P") companies, and when opportunities arise, the major E&P companies. A lucrative potential longer term new market may become the seismic companies that acquire and sell large scale "Multi-Client" survey programs (primarily off-shore). Geographically, NXT will continue to pursue prospects throughout South and Central America - primarily in Mexico, Colombia, Bolivia, Peru, Ecuador, and Brazil, as well as the Pakistan / South Asia region. Longer term prospects will also be pursued in the frontier areas of Africa, Asia, and in the Arctic and off-shore Atlantic regions (particularly where Canadian and American E&P companies are operating).

As NXT pursues various international markets, our strategy is to utilize high quality local sales representatives with the key knowledge of their area, the potential clients and the exploration sector of the oil and gas industry. This allows us to cover much larger areas and more clients with minimum fixed cost. NXT currently has in place sales representatives to pursue SFD[®] survey opportunities in such markets as Latin America (primarily Mexico and Bolivia), South Asia (Pakistan and India) and the middle-east region. All independent international sales representatives are required to adhere to NXT's code of conduct and business ethics.

Near term contract and revenue opportunities that continue to be advanced include prospective clients in Bolivia and Pakistan / South Asia, and most importantly, potential follow-on surveys for PEMEX in Mexico and with Kerogen in the USA. NXT has recently had extensive discussions with the NOC of Bolivia regarding a potential new survey project which NXT may be able to conduct in Bolivia by Q2 2015.

Our December 2012 SFD[®] survey project for Pakistan Petroleum Ltd. ("PPL"), one of the NOCs active in Pakistan, has gained NXT significant new exposure to numerous E&Ps active in the South Asia region, including NOCs such as OMV (Austria) and ENI (Italy). NXT is also in process of having the remote sensing SFD[®] technology recognized as a geophysical tool for use in meeting spending commitments in Pakistan, such as the commitments required on the sizeable exploration concession blocks recently awarded in frontier areas of Pakistan. Multiple client prospects are awaiting the results of the pending amendments (anticipated to occur by the end of 2014) to eligible spending commitments, and have expressed interest in conducting potential SFD[®] surveys in Pakistan.

A separate initiative we have underway is researching ways to monetize our existing "library" of proprietary SFD[®] data. The objective is to create a vertically integrated exploration entity (a "Vertical") which utilizes the right combination of external funding, an independent and experienced exploration management team, and a high-value data set of existing SFD[®] identified prospects. NXT has recently engaged a team of external advisors who are developing the Vertical business plan, with a goal of NXT receiving an equity and royalty interest in the Vertical, which would secure its initial seed funding in early

2015. Developing the vertical business with the appropriate structure is a long-term project to develop SFD[®] prospects and yield a return to NXT shareholders.

Some of our objectives to allow additional future revenue growth include expanding our SFD[®] equipment capacity, adding to our core group of interpretation staff and our ability to provide integration of SFD[®] with client geological and geophysical data. Also, in early 2014 we hired a new staff member with experience in developing algorithm software to research if such can be created and deployed to aid in enhancing the SFD[®] data interpretation process.

In October, 2014, we also added a senior sales and marketing advisor to our staff, to enhance our ability to conduct additional global marketing initiatives.

Initiatives to protect our Intellectual Property ("IP" - patenting and new research & development ("R&D") initiatives) are ongoing, which should also serve to allow us to expand on our disclosures in order to build industry awareness, understanding, and acceptance of SFD[®] technology. Squire Patton Boggs LLP, a United States ("US") based leader in IP protection, is advising on our IP strategy, including the prior filing of an initial US provisional patent application in May 2013. In November, 2014, NXT will be filing related new patent submissions in the US as well as in select strategic international markets.

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 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. In addition, the outstanding US\$ denominated common share purchase warrants (which were exercised or expired by the end of Q2-14) were classified as a "derivative financial instrument" on our balance sheet, which prior to Q2-14 gave rise to the recognition in earnings each quarter of the change in the estimated fair value (also a non-cash expense or income item) of these warrants.

	Q3-2014 Sept 30, 2014	Q2-2014 June 30, 2014	Q1-2014 Mar 31, 2014	Q4-2013 Dec 31, 2013
Survey revenue	\$ -	\$ -	\$ 3,913,367	\$ -
Net income (loss)	(1,330,167)	(1,286,461)	2,585,733	(1,633,189)
Income (loss) per share – basic	(0.03)	(0.03)	0.06	(0.04)
Income (loss) per share – diluted	(0.03)	(0.03)	0.05	(0.04)
	Q3-2013 Sept 30, 2013	Q2-2013 June 30, 2013	Q1-2013 Mar 31, 2013	Q4-2012 Dec 31, 2012
Survey revenue	\$ -	\$ -	\$ 2,684,095	\$ 5,727,392
Net income (loss)	(2,522,165)	(1,150,628)	(35,579)	3,087,323
Income (loss) per share – basic	(0.06)	(0.03)	(0.00)	0.07
Income (loss) per share – diluted	(0.06)	(0.03)	(0.00)	0.06

Q3-14 to Q2-14 comparison – NXT had survey revenue of \$nil (\$nil in Q2-14), survey costs (related to equipment test flights) of \$54,472 (\$10,637 in Q2-14), and SBCE of \$191,000 (\$150,000 in Q2-14).

Q2-14 to Q1-14 comparison – NXT had survey revenue of \$nil (\$3,913,367 in Q1-14), survey costs of \$10,637 (\$333,188 in Q1-14), SBCE of \$150,000 (\$131,000 in Q1-14), and an increase in the fair value of US\$ common share purchase Warrants (derivative financial instruments) expense of \$nil (\$42,800 expense in Q1-14).

Q1-14 to Q4-13 comparison – NXT had survey revenue of \$3,913,367 (\$nil in Q4-13), survey costs of \$333,188 (\$81,285 in Q4-13), SBCE of \$131,000 (\$183,000 in Q4-13), and an increase in the fair value of US\$ common share purchase Warrants (derivative financial instruments) expense of \$42,800 (\$268,500 expense in Q4-13). Two survey projects (in Florida in Texas) commenced for a USA based client in late December 2013, with the project completed and the related revenue and work-in-progress costs recognized in the Q1-14 period.

Q4-13 to Q3-13 comparison – NXT had survey revenue of \$nil (\$nil in Q3-13), survey costs of \$81,285 (\$8,626 in Q2-13), SBCE of \$183,000 (\$122,000 in Q3-13), and an increase in the fair value of US\$ common share purchase Warrants (derivative financial instruments) expense of \$268,500 (\$1,243,000 expense in Q3-13). Two survey projects commenced in Q4-13 and were completed in the Q1-14 period. The Q4-13 survey costs relate to non-revenue generating test flights.

Q3-13 to Q2-13 comparison – NXT had survey revenue of \$nil (\$nil in Q2-13), survey costs of \$8,626 (\$nil in Q2-13), SBCE of \$122,000 (\$87,000 in Q2-13), and a change in fair value of US\$ Warrants expense of \$1,243,000 (\$32,000 expense in Q2-13). No survey operations were conducted in the Q3-13 period.

Q2-13 to Q1-13 comparison – NXT had survey revenue of \$nil (\$2,684,095 in Q1-13), survey costs of \$nil (\$1,542,248 in Q1-13), SBCE of \$87,000 (\$100,000 in Q1-13), and a change in fair value of US\$ Warrants expense of \$32,000 (\$172,000 income in Q1-13). No survey operations were conducted in the Q2-13 period.

Q1-13 to Q4-12 comparison – Q1-13 reflects primarily the completion of the Pakistan survey project, whereas Q4-12 reflects completion of a larger contract which was performed in Mexico for PEMEX. NXT had survey revenue of \$2,684,095 (\$5,727,392 in Q4-12), SBCE of \$100,000 (\$59,000 in Q4-12) and survey costs of \$1,542,248 (\$1,277,768 in Q4-12). In addition, a non-cash income amount of \$172,000 (\$336,000 in Q4-12) was recognized in relation to adjusting the fair value of the US\$ Warrants, and income tax expense of \$399,546 (\$216,807 in Q4-12) was recognized related to foreign with-holding taxes incurred on the Pakistan survey project. Q1-13 reflects a small net loss of \$35,579, as compared to a net income of \$3,087,323 for Q4-12.

Q4-12 to Q3-12 comparison - NXT had survey revenue of \$5,727,392 (\$nil in Q3-12), SBCE of \$59,000 (\$78,000 in Q3-12) and survey costs of \$1,277,768 (\$24,170 net recovery in Q3-12). In addition, a non-cash income amount of \$336,000 (\$158,000 expense in Q3-12) was recognized in relation to adjusting the fair value of derivative instruments, and income taxes of \$216,807 (\$nil in Q3-12) were recognized. Due primarily to the completion of the large Mexico contract in Q4-12, a net profit of \$3,087,323 arose, as compared to a net loss of \$1,393,183 for Q3-12.

Summary of Operating Results

NXT had a net loss of \$1,286,461 for Q3-14 as compared to a net loss of \$1,150,628 for the Q3-13 period. The 2014 YTD operating results reflect the completion of two survey projects conducted in the USA in Q1-14, while the 2013 YTD period reflects the completion of the survey contract that was conducted in Pakistan in Q1-13.

	Q3 2014	Q3 2013	2014 YTD	2013 YTD
Survey revenue	\$ -	\$ -	\$ 3,913,367	\$ 2,684,095
Expenses:				
Survey costs	54,472	8,626	398,297	1,550,874
General and administrative	1,098,218	1,097,817	3,093,685	3,029,904
Stock based compensation expense	191,000	122,000	472,000	309,000
Amortization of property and equipment	15,157	18,967	45,470	61,709
	1,358,847	1,247,410	4,009,452	4,951,487
Other expense (income):				
Interest expense (income), net	(19,195)	(7,965)	(35,235)	(18,005)
Foreign exchange (gain) loss	(26,580)	16,398	(123,182)	(133,399)
Increase (decrease) in fair value of US\$ Warrants	-	1,243,000	42,800	1,103,000
Other expense	17,095	23,322	50,427	89,838
	(28,680)	1,274,755	(65,190)	1,041,434
Loss before income taxes	(1,330,167)	(2,522,165)	(30,895)	(3,308,826)
Income tax expense	-	-	-	399,546
Net loss for the period	(1,330,167)	(2,522,165)	(30,895)	(3,708,372)

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. The 2014 YTD results reflect the completion (in Q1-14) of a total of US \$3.7 million of survey projects which were conducted in the USA, while 2013 YTD results reflect completion (in Q1-13) of a US \$2.7 million survey contract which was flown in Pakistan in December 2012.

The Q1-13 survey contract in Pakistan reflected some categories of costs which were higher than normal, resulting in a lower profit margin, as well as foreign income tax withholdings which were paid. Also, this project was originally negotiated in 2010, at a survey rate per km lower than the rates now in effect.

General and administrative ("G&A") expense - 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 expense are as follows:

	Q3-14	Q3-13	net change	% change
Salaries, benefits and consulting charges	\$ 609,964	530,577	79,387	15.0 %
Board, professional fees, & public company costs	151,883	211,601	(59,718)	- 28.2 %
Premises and administrative overhead	145,423	125,061	20,362	16.3 %
Business development	152,988	202,010	(49,022)	- 24.3%
Colombia office	37,960	28,568	9,392	32.9 %
Total G&A	1,098,218	1,097,817	401	0.0 %

	2014 YTD	2013 YTD	net change	% change
Salaries, benefits and consulting charges	\$ 1,748,816	1,488,313	260,503	17.5 %
Board, professional fees, & public company costs	541,591	636,392	(94,801)	- 14.9 %
Premises and administrative overhead	445,274	437,912	7,362	1.7 %
Business development	262,077	383,242	(121,165)	- 31.6 %
Colombia office	95,927	84,045	11,882	14.1 %
Total G&A	3,093,685	3,029,904	63,781	2.1 %

While total G&A for the Q3-14 and 2014 YTD periods are roughly similar to the comparable 2013 periods, the overall net changes in G&A expense within the five individual categories noted above reflect several factors:

- staff levels were slightly higher in 2014 as compared to 2013.
- Board, professional fees, & public company costs decreased in 2014 primarily due to lower investor relations related costs.
- a higher level of business development costs were incurred in 2013, including discretionary costs of attending international tradeshow and conferences.

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 were a lower average number of options outstanding in the period (total of 2,561,435 as at the end of Q3-14 as compared to 2,988,100 at the end of Q3-13). Total SBCE for the 2014 periods, however, is higher than the 2013 totals, as it includes additional expense recognized related to new "Rights" which were issued in January 2014 (see discussion which follows in the "convertible preferred shares" section herein) as follows:

	Q3 2014	Q3 2013	2014 YTD	2013 YTD
SBCE recognized related to:				
Stock options	\$ 129,000	\$ 122,000	\$ 298,000	\$ 309,000
Rights	62,000	-	174,000	-
	191,000	122,000	472,000	309,000

Interest income, net – includes interest income earned on short-term investments, which had a higher total for most of the 2014 YTD period.

Loss (gain) on foreign exchange - this total is caused by changes in the relative exchange values of the US\$, Cdn\$ and to a minor extent, the Colombian peso ("COP"). For example, when the Cdn\$ trades higher relative to the US\$ or COP, cash held in US\$ or COP 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 exercise of US\$ common share purchase Warrants, which

occurred from October 2013 through May 2014. The valuation is also affected by the relative strength of the US\$ at each period end, which rose as at the end of Q3-14 as compared to Q4-13 (1.1200 Cdn\$ / US\$ at September 30, 2014 as compared to 1.0636 Cdn\$ / US\$ as at December 31, 2013), resulting in both realized and unrealized net exchange gain movements on the net holdings of US\$ cash and other working capital items.

Other expense - this category includes primarily costs related to intellectual property filings and new R&D activity related to the SFD[®] technology, as well as minor net expenses related to prior oil & gas operations.

Change in fair value of US\$ Warrants - in spring 2012, NXT closed a \$3.2 million private placement financing of "units", which were priced at US \$0.75. Each unit included one warrant to purchase a NXT common share for a period of two years (the "Warrants"). As these Warrants were denominated in US\$ (exercise price of US \$1.20 per share) they are considered to be a "derivative financial instrument" for financial statement reporting purposes, and were required to be re-valued to their estimated fair value at each period end until their exercise and / or expiry in early 2014. The estimated fair value for the net outstanding US\$ Warrants was initially recorded at \$409,143 upon issue of the Warrants in early 2012, and this increased to \$1,238,000 as at December 31, 2013.

Of the total 4,502,821 US\$ Warrants which were issued in 2012, the majority had expiry dates in March 2014, and a portion in May 2014, and no Warrants are now outstanding.

A continuity of the US\$ Warrants, and the related exercise proceeds received in 2013 and 2014 is as follows:

	# of US\$ Warrants	exercise proceeds received (in Cdn\$)
Issued in 2012 private placement financings	4,502,821	-
Warrants exercised in 2013	(846,700)	\$ 1,064,222
Outstanding as at December 31, 2013	3,656,121	1,064,222
Activity in 2014:		
Warrants exercised	(2,057,852)	2,735,995
Warrants expired	(1,598,269)	-
Outstanding as at September 30, 2014	-	\$ 3,800,217

Income tax expense - NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions. Progress billings by NXT for services rendered to clients in such countries may be subject to foreign withholding taxes at the time of payment to NXT, and these amounts are only recoverable in certain circumstances. During Q1-13, NXT recorded \$399,546 in withholding taxes related to its revenues for the Pakistan project. Although such foreign taxes paid can potentially be utilized in Canada as a foreign tax credit against future taxable earnings from the foreign jurisdictions, a full valuation allowance has been provided against this benefit.

Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of Q3-14 was \$6.6 million. The total at each quarter end excludes any amounts classified on the Balance Sheet as restricted cash, which is required periodically as security related to performance of certain foreign survey contracts. Security issued by NXT is normally in the form of bank letters of credit (often for a term of 12 to 15 months), such as were issued to undertake a survey in Guatemala in 2012. The restricted cash balances were released to NXT when the related letters of credit expired in 2014.

Significant progress has been made in the recent past in securing new revenue contracts and expanding our working capital. NXT's ability to continue as a going concern, however, remains dependent upon our success in being able 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.

Private placement financings totaling \$3.2 million (\$2.9 million net of finders fees and share issue costs incurred) were conducted in early 2012 to enhance NXT's financial strength and fund its expansion plans. This financing also included the US\$ common share purchase Warrants (which had a term of two years, expiring in March and May 2014), for which exercise proceeds of US \$1.0 million were received in Q4-13 and US \$2.5 million in 2014.

Risks related to having sufficient ongoing working capital to execute survey project contracts are mitigated through our normal practice of obtaining progress payments from clients throughout the course of the projects, which often span 3 to 4 months.

NXT has no secured debt, and had total "net working capital" of \$6.3 million as at Q3-14 as follows:

	September 30, 2014	December 31, 2013	net change 2014 YTD
Current assets (current liabilities):			
Cash and cash equivalents	\$ 847,876	\$ 3,319,627	\$ (2,471,751)
Short-term investments	5,755,809	2,449,450	3,306,359
	6,603,685	5,769,077	834,608
Restricted cash	-	53,921	(53,921)
Accounts receivable	214,873	295,879	(81,006)
Prepaid expenses and other	191,272	158,456	32,816
Accounts payable and accrued liabilities	(695,390)	(939,355)	243,965
Net working capital before the undernoted items	6,314,440	5,337,978	976,462
Additional asset (liability) amounts:			
Work-in-progress	-	299,842	(299,842)
Deferred revenue	-	(2,781,101)	2,781,101
Fair value of US\$ Warrants	-	(1,238,000)	1,238,000
	-	(3,719,259)	3,719,259
Net working capital	6,314,440	1,618,719	4,695,721

NXT utilizes the above noted sub-total line "net working capital before the undernoted items" to assess a more relevant measure of financial liquidity (excluding items classified as liabilities such as the fair value of US\$ Warrants and deferred revenue balances) as at the period end date.

The significant increase in net working capital in 2014 to a total of \$6.3 million at the end of Q3-14 is primarily due to:

- the receipt in 2014 of exercise proceeds of \$2.7 million upon exercise of 2,057,852 of the US\$ Warrants.
- receipt of final progress billings of \$1.2 million, and reversal of the Q4-13 \$2.7 million deferred revenue balance, following completion of the USA survey projects in Q1-14.
- the reversal (due to exercises and expiries in 2014) of the fair value of the remaining US\$ Warrants which were outstanding as at December 31, 2014.

As noted previously, the fair value of US\$ Warrants balance relates to the estimated fair value of the common share purchase Warrants (which had a US\$ 1.20 exercise price) which were issued in the private placement financings in early 2012. Prior to Q3-14, this balance was adjusted to its estimated "fair value" at each period end (until expiry of the Warrants in March and May, 2014), based on the number of Warrants outstanding. These derivative financial instruments are classified in the balance

sheet as a liability, but do not require any ongoing outlay of cash. These US\$ Warrants had a term of two years, and all of them were either exercised or expired by the end of Q2-14.

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. 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. The WIP balance at December 31, 2013 related to costs incurred on the USA survey projects which were completed in March, 2014.

Also, deferred revenue represents only the portion of progress billings that were issued to the quarter end on the uncompleted contracts. The total for Q4-13 relates to the two USA survey projects which were underway at year end.

The decreased total of accounts payable and accrued liabilities at Q3-14 as compared to Q4-13 is largely due to a reduced level of survey activity as at September 30, 2014.

The following summarizes NXT's net cash flows, and the total cash plus short-term investments:

Cash flows from (used in):	Q3-14	Q3-13	2014 YTD	2013 YTD
Operating activities	\$ (1,010,914)	\$ (1,097,150)	\$ (2,148,391)	\$ (2,327,744)
Financing activities	51,000	5,734	2,932,110	5,734
Investing activities	128,708	675,329	(3,255,470)	(2,455,506)
Net source (use) of cash	(831,206)	(416,087)	(2,471,751)	(4,777,516)
Cash and cash equivalents, start of period	1,679,082	691,165	3,319,627	5,052,594
Cash and cash equivalents, end of period	847,876	275,078	847,876	275,078
Cash and cash equivalents	847,876	275,078	847,876	275,078
Short-term investments	5,755,809	2,871,179	5,755,809	2,871,179
Total	6,603,685	3,146,257	6,603,685	3,146,257

As shown above, cash balances decreased in Q3-14 by \$831,206 to \$847,876 as at September 30, 2014. The overall net decreases in cash in the Q3-14 and 2014 YTD periods is a function of several factors including any inflows (outflows) due to changes in net working capital balances, proceeds from exercises of US\$ Warrants, less cash transferred into 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

	Q3-14	Q3-13	2014 YTD	2013 YTD
Net loss for the period	\$ (1,330,167)	\$ (2,522,165)	\$ (30,895)	\$ (3,708,372)
Total non-cash income and expense items	206,957	1,384,967	559,538	1,475,456
	(1,123,210)	(1,137,198)	528,643	(2,232,916)
Decrease in non-cash working capital balances	112,296	40,048	(2,677,034)	(94,828)
Cash used in operating activities	(1,010,914)	(1,097,150)	(2,148,391)	(2,327,744)

Financing Activities

- no equity financings occurred in 2014 or 2013. In 2014 NXT received a total of \$2,735,995 proceeds from exercise of US\$ common share purchase Warrants which were issued in 2012 and \$196,115 proceeds from exercise of stock options.

Investing Activities

- the overall net cash uses noted above for 2014 YTD and 2013 YTD are virtually all related to the movement from cash into short-term interest bearing investment balances. For the Q3-14 and Q3-13 periods, the net cash inflows from investing activities relates to a redemption of short-term investments and restricted cash balances.

Contractual Commitments

NXT has an operating lease commitment on its existing Calgary office space for a term through July 31, 2015 at a minimum monthly lease payment of \$28,571 (including estimated operating costs). NXT has also committed to an operating lease on new office premises for a 10 year term commencing in 2015 at an initial estimated minimum monthly lease payment of \$42,368 (including operating costs).

The total estimated future minimum annual commitment for these two leases is as follows:

<u>For the year ending December 31</u>	<u>Existing premises</u>	<u>New premises</u>	<u>Total</u>
2014	\$ 85,713	\$ -	\$ 85,713
2015	199,996	127,103	327,099
2016	-	508,410	508,410
2017	-	508,410	508,410
2018	-	508,410	508,410
<u>Thereafter, 2019 through 2025</u>	<u>-</u>	<u>3,488,258</u>	<u>3,488,258</u>
	<u>285,709</u>	<u>5,140,591</u>	<u>5,426,300</u>

NXT currently does not own any of the aircraft which are used in its' survey operations, but has an annual agreement to utilize a minimum annual volume of aircraft charter hours. The remaining aircraft charterhire commitment to be met for 2014 is \$306,450.

Additional Disclosures - Outstanding Securities

	<u>as at November 21, 2014</u>	<u>as at September 30, 2014</u>	<u>as at December 31, 2013</u>
Shares issued:			
Common shares	44,818,843	44,813,843	42,418,326
Convertible preferred shares	8,000,000	8,000,000	8,000,000
Common shares reserved for issue re:			
Stock options	2,706,435	2,561,435	2,888,100
US\$ common share purchase Warrants	-	-	3,656,121
	<u>55,525,278</u>	<u>55,375,278</u>	<u>56,962,547</u>

Convertible preferred shares

The convertible preferred shares are non-voting, are held by NXT's President & CEO, and were issued in the 2005 / 2006 period pursuant to NXT acquiring rights to use the SFD[®] technology for hydrocarbon exploration applications. The preferred shares are convertible on a 1 for 1 basis into NXT common

shares by December 31, 2015 (the "Maturity Date"), subject to earlier partial conversions if certain cumulative revenue milestones are achieved by NXT.

NXT has an option to elect by December 31, 2015 to convert the 8,000,000 preferred shares in order to maintain its rights to utilizing the SFD[®] technology. In the event that the conversion option is not exercised by December 31, 2015, the preferred shares would be redeemed for \$0.001 per share and NXT's rights to the SFD[®] technology would revert to the holder of the preferred shares.

The 8,000,000 preferred shares are subject to conditions related to potential future conversion. They may become convertible into common shares in four separate increments of 2,000,000 preferred shares each, should NXT achieve specified cumulative revenue thresholds of US \$50 million, US \$100 million, US \$250 million and US \$500 million prior to December 31, 2015. An additional bonus of 1,000,000 NXT common shares are issuable in the event that cumulative SFD[®] revenues exceed US \$500 million.

Cumulative revenue is defined as the sum of total revenue earned plus proceeds from the sale of assets accumulated since January 1, 2007, all denominated in US\$, and calculated in accordance with US GAAP. As at September 30, 2014, the Company had generated cumulative revenue of approximately US \$29.5 million (December 31, 2013 - US \$25.8 million) that is eligible to be applied to the above noted conversion thresholds.

NXT intends to continue to develop the SFD[®] technology, and retain it by exercising NXT's option to convert the preferred shares. We are assessing the merits of a possible conversion (subject to regulatory considerations) prior to the December 31, 2015 maturity date.

In January 2014, NXT's CEO (the "Grantor") personally granted (to a total of 17 persons, including NXT employees, directors, officers, advisors and others) "Rights" to acquire a total of 1,000,000 of the common shares which are expected to become issued to him upon future conversion of the preferred shares by their Maturity Date. Each of the Rights are subject to certain vesting provisions and will entitle the holder to acquire from the Grantor one common share of NXT at a fixed exercise price of \$1.77 and will expire on December 31, 2015. A total of 365,000 of these Rights were granted to certain directors and officers of NXT, and a total of 430,000 Rights were granted to NXT's employees and advisors. These Rights are supplemental to existing incentives which have been granted under NXT's stock option plan.

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 incurred with this firm were as follows:

Q3 2014	Q3 2013	2014 YTD	2013 YTD
\$ 2,767	\$ 7,583	\$ 18,100	\$ 17,083

Accounts payable and accrued liabilities includes a total of \$2,906 (\$29,274 as at December 31, 2013) payable to this law firm. In addition, accounts payable and accrued liabilities includes \$39,027 (\$31,045 as at December 31, 2013) related to re-imbusement of expenses owing to persons who are Officers of NXT.

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, 2013. 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 as 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

The factors are substantially unchanged; refer to NXT's annual MD&A as at and for the year ended December 31, 2013.

Future Accounting Policy Changes

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, 2017, 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 2015 and 2016) 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 has not yet determined the effect on its consolidated financial statements, which currently reflect the completed contract method of revenue recognition.

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 can not 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 an extensive prior 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 net income and cash flow from operations in future years in order to continue as a going concern.

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, the ability to access the relevant local services, and potential delays in commencing the projects.

Availability of charter aircraft

NXT does not currently own any aircraft, and relies upon the availability of aircraft which are operated under charter-hire arrangements. Charter operators provide the aircraft used in SFD[®] survey operations on an as required basis in exchange for an hourly charter fee (plus fuel and other direct operating costs). NXT is not required to make a capital investment in chartered aircraft, but in order to guarantee aircraft availability and rate certainty, it currently commits to a one year contract, with a minimum number of charter hours. NXT is thus exposed to a potential financial penalty of up to \$306,450 in the event that it fails to fulfill or renegotiate the remaining minimum annual charter hours commitment for 2014.

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 destroyed during operations, become obsolete, or that a third party might claim an interest in our proprietary intellectual property. The costs of legal defence of our rights to the SFD[®] technology could be very expensive.

Related party transactions

NXT may periodically enter into related party transactions with its Officers and Directors. The most significant related party transaction was a "Technology Transfer Agreement" executed on December 31, 2006 between NXT and its CEO, President and Director whereby NXT issued 10,000,000 convertible preferred shares in exchange for the rights to utilize the SFD[®] technology.

As was noted previously, in January 2014, Rights were personally granted by the CEO to certain individuals to acquire up to 1,000,000 of the common shares are expected to become issued to him by December 31, 2015 upon future conversion of the 8,000,000 preferred shares.

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. Five of the six 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 as such frequently holds cash in both Cdn\$ as well as in US\$, and is thus exposed to foreign exchange fluctuations on its US\$ funds. 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.

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")

As a TSX Venture Exchange listed issuer, NXT is not required to certify the design and evaluation of its DCP and ICFR and has not completed such an evaluation as at September 30, 2014. Further, the inherent limitations on the ability of the Company's Responsible Officers (being the Chief Executive Officer and the Chief Financial Officer) to design and implement on a cost effective basis DCP and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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

**As at and for the three and nine month
periods ended September 30, 2014**

NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets

(Unaudited - Expressed in Canadian dollars)

	September 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 847,876	\$ 3,319,627
Short-term investments	5,755,809	2,449,450
Restricted cash [note 3]	-	53,921
Accounts receivable	214,873	295,879
Work-in-progress	-	299,842
Prepaid expenses and deposits	191,272	158,456
	7,009,830	6,577,175
Long term assets		
Property and equipment [note 4]	220,380	262,818
	\$ 7,230,210	\$ 6,839,993
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities [note 5]	\$ 695,390	\$ 939,355
Deferred revenue	-	2,781,101
Fair value of US\$ Warrants [note 12]	-	1,238,000
	695,390	4,958,456
Long term liabilities		
Asset retirement obligation [note 6]	63,828	64,560
	759,218	5,023,016
Future operations [note 1]		
Commitments and contingencies [note 15]		
Shareholders' equity		
Common shares [note 7]: - authorized unlimited		
Issued: 44,813,843 (2013 - 42,418,326) common shares	65,660,350	61,340,321
Preferred shares [note 8]: - authorized unlimited		
Issued: 8,000,000 (2013 - 8,000,000) Preferred shares	232,600	232,600
Contributed capital	6,254,795	5,889,914
Deficit	(66,387,688)	(66,356,793)
Accumulated other comprehensive income	710,935	710,935
	6,470,992	1,816,977
	\$ 7,230,210	\$ 6,839,993

Signed "George Liszicasz"
Director

Signed "John Agee"
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,	
	2014	2013	2014	2013
Revenue				
Survey revenue [note 16]	\$ -	\$ -	\$ 3,913,367	\$ 2,684,095
Expense				
Survey costs	54,472	8,626	398,297	1,550,874
General and administrative	1,098,218	1,097,817	3,093,685	3,029,904
Stock based compensation expense [note 10]	191,000	122,000	472,000	309,000
Amortization of property and equipment	15,157	18,967	45,470	61,709
	1,358,847	1,247,410	4,009,452	4,951,487
Other expense (income)				
Interest (income), net	(19,195)	(7,965)	(35,235)	(18,005)
Foreign exchange (gain) loss	(26,580)	16,398	(123,182)	(133,399)
Increase in fair value of US\$ Warrants [note 12]	-	1,243,000	42,800	1,103,000
Other expense	17,095	23,322	50,427	89,838
	(28,680)	1,274,755	(65,190)	1,041,434
Loss before income taxes	(1,330,167)	(2,522,165)	(30,895)	(3,308,826)
Income tax expense [note 13]	-	-	-	399,546
Loss and comprehensive loss	\$ (1,330,167)	\$ (2,522,165)	\$ (30,895)	\$ (3,708,372)
Loss per share [note 9]				
Basic	\$ (0.03)	\$ (0.06)	\$ (0.00)	\$ (0.09)
Diluted	\$ (0.03)	\$ (0.06)	\$ (0.00)	\$ (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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities				
Comprehensive loss for the period	\$ (1,330,167)	\$ (2,522,165)	\$ (30,895)	\$ (3,708,372)
Items not affecting cash:				
Stock-based compensation expense	191,000	122,000	472,000	309,000
Amortization of property and equipment	15,157	18,967	45,470	61,709
Increase in fair value of US\$ Warrants	-	1,243,000	42,800	1,103,000
Accretion of asset retirement obligation	800	1,000	800	2,960
Asset retirement obligations paid	-	-	(1,532)	(1,213)
	206,957	1,384,967	559,538	1,475,456
Change in non-cash working capital balances [note 14]	(1,123,210)	(1,137,198)	528,643	(2,232,916)
Net cash (used in) operating activities	(1,010,914)	(1,097,150)	(2,148,391)	(2,327,744)
Financing activities				
Proceeds from exercise of US\$ Warrants	-	-	2,735,995	-
Proceeds from exercise of stock options	51,000	5,734	196,115	5,734
Net cash generated by financing activities	51,000	5,734	2,932,110	5,734
Investing activities				
Purchase of property and equipment	-	-	(3,032)	(20,463)
Decrease (increase) in short-term investments	74,614	393,829	(3,306,359)	(2,816,179)
Decrease in restricted cash	54,094	281,500	53,921	381,136
Net cash generated by (used in) investing activities	128,708	675,329	(3,255,470)	(2,455,506)
Net cash (outflow)	(831,206)	(416,087)	(2,471,751)	(4,777,516)
Cash and cash equivalents, beginning of the period	1,679,082	691,165	3,319,627	5,052,594
Cash and cash equivalents, end of the period	\$ 847,876	\$ 275,078	\$ 847,876	\$ 275,078
Supplemental information				
Cash interest paid (received), net	(22,010)	(5,183)	(40,559)	(8,083)
Cash taxes paid	\$ -	\$ -	\$ -	\$ 399,546

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,	
	2014	2013
Common Shares		
Balance at beginning of the period	61,340,321	56,623,686
Issued upon exercise of US\$ Warrants [note 11]	2,735,995	-
Issued upon exercise of stock options	196,115	5,734
Transfer from contributed capital upon exercise of stock options	107,119	-
Transfer from fair value of US\$ Warrants upon exercise of Warrants [note 12]	1,280,800	-
Issued on conversion of preferred shares [notes 7 and 8]	-	3,256,400
Balance at end of the period	65,660,350	59,885,820
Preferred Shares		
Balance at beginning of the period	232,600	3,489,000
Conversion of preferred shares to common shares [notes 7 and 8]	-	(3,256,400)
Balance at end of the period	232,600	232,600
Contributed Capital		
Balance at beginning of the period	5,889,914	5,406,193
Recognition of stock based compensation expense	472,000	309,000
Contributed capital transferred to common shares pursuant to exercise of stock options	(107,119)	-
Balance at end of the period	6,254,795	5,715,193
Deficit		
Balance at beginning of the period	(66,356,793)	(61,015,232)
Net loss and comprehensive loss for the period	(30,895)	(3,708,372)
Balance at end of the period	(66,387,688)	(64,723,604)
Accumulated Other Comprehensive Income		
Balance at beginning and end of the period	710,935	710,935
Total Shareholders' Equity at end of the period	\$ 6,470,992	\$ 1,820,944

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

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the three and nine month periods ended September 30, 2014

(Unaudited - expressed in Canadian dollars unless otherwise stated)

1. History and Future Operations

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 industry to help aid in identifying areas with hydrocarbon reservoir potential. Specific rights to this technology were acquired from NXT's current Chief Executive Officer and President (the "CEO") under a technology transfer agreement (the "TTA") which has a term to December 31, 2015. The TTA requires the completion of various conditions, including conversion by NXT of an original total of 10,000,000 convertible preferred shares which were issued (see note 8), in order to retain the SFD® technology at the end of the term.

Prior to 2006 the Company had engaged in extensive activities to develop, validate and obtain industry acceptance of SFD®, including conducting SFD® surveys for oil and gas industry partners on a cost recovery basis and participating as a joint venture partner in SFD® identified exploration wells. By December 31, 2005 the Company had accumulated a deficit of approximately \$47.6 million in conducting these activities.

In 2006 SFD® survey services began to be offered to clients engaged in oil and gas exploration activities with an initial focus on companies operating in the western Canadian sedimentary basin. Subsequently, in 2008, NXT commenced to focus its sales activities towards international and frontier exploration markets.

The generation of positive cash flow from operations will depend largely on NXT's ability to demonstrate the value of the SFD® survey system to a much wider client base. NXT recognizes that its' financial position is currently dependent upon a limited number of client projects, on obtaining additional financing when needed, and attracting future clients.

These consolidated financial statements have been prepared on a "going concern" basis in accordance with generally accepted accounting principles of the United States of America ("US GAAP"). 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. There is substantial doubt about the appropriateness of the use of the going concern assumption, primarily due to current uncertainty about the timing and magnitude of future SFD® survey revenues. NXT recognizes that it has limited ability to support operations for the foreseeable future beyond the next 12 months without generating sufficient new revenue sources or securing additional financing if required.

NXT has realized significant revenue growth and improvement in its financial position since 2011, and continues to work to expand operations in order to generate positive net income and cash flow from operations in future years with its existing business model. However, the occurrence and timing of this outcome cannot be predicted with certainty. NXT's ability to continue as a going concern will also depend on its ability to further develop, and ultimately retain the SFD® technology that was acquired under the TTA.

These consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities or reported expenses that would be necessary should NXT be unable to raise additional capital or generate sufficient net income and cash flow from operations as required in future years in order to continue as a going concern.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the three and nine month periods ended September 30, 2014

(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 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, 2013.

These interim financial statements should be read in conjunction with the 2013 annual audited consolidated financial statements as certain disclosure normally required for annual financial statements has been condensed or omitted herein.

Future Accounting Policy Changes

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, 2017, 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 2015 and 2016) 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 has not yet determined the effect on its consolidated financial statements, which currently reflect the completed contract method of revenue recognition.

3. Restricted cash

Restricted cash consists of US dollar money market securities which have been deposited by NXT with financial institutions as security in order for these institutions to issue bank letters of credit for the benefit of NXT's clients. These letters of credit are related to contractual performance requirements on certain SFD® survey contracts.

4. Property and equipment

	September 30, 2014	December 31, 2013
Survey equipment	\$ 626,286	\$ 626,286
Furniture and other equipment	528,420	528,420
Computers and software	1,100,593	1,097,560
Leasehold improvements	382,157	382,157
	2,637,456	2,634,423
Accumulated amortization and impairment	(2,417,076)	(2,371,605)
	220,380	262,818

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

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As at and for the three and nine month periods ended September 30, 2014

(Unaudited - expressed in Canadian dollars unless otherwise stated)

5. Accounts payable and accrued liabilities

	September 30, 2014	December 31, 2013
Accrued liabilities related to:		
Consultants and professional fees	\$ 134,000	\$ 105,000
Board of Directors' fees	47,500	-
Wages and bonuses payable	8,250	9,331
Vacation pay	103,382	106,500
	<u>293,132</u>	<u>220,831</u>
Trade payables, payroll withholdings and other	402,258	718,524
	<u>695,390</u>	<u>939,355</u>

6. Asset retirement obligation

Asset retirement obligations ("ARO") relate to oil and natural gas wells in which NXT has outstanding abandonment and reclamation obligations in accordance with government regulations. The Company's obligation relates to its interests in 8 gross (1.1 net) wells that were drilled in the years 2000 through 2004. ARO have an estimated future liability of approximately \$66,000 and is based on estimates of the future timing and costs to remediate, reclaim and abandon the wells within the next three years. The net present value of the ARO is as noted below, and has been calculated using an inflation rate of 3.4% and discounted using a credit-adjusted risk-free interest rate of 10%.

	September 30, 2014	December 31, 2013
Asset retirement obligation, beginning of the period	\$ 64,560	\$ 61,813
Accretion expense	800	3,860
Costs incurred	(1,532)	(1,213)
Asset retirement obligation, end of the period	<u>63,828</u>	<u>64,560</u>

7. Common shares

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

	For the nine month periods ended			
	September 30, 2014		September 30, 2013	
	# of shares	\$ amount	# of shares	\$ amount
As at beginning of the period	42,418,326	\$ 61,340,321	39,554,959	\$ 56,623,686
Shares issued during the period:				
Exercise of stock options	337,665	196,115	-	-
Exercise of US\$ Warrants (note 11)	2,057,852	2,735,995	-	-
Conversion of preferred shares (i)	-	-	2,000,000	3,256,400
Transfer from contributed surplus upon exercise of stock options	-	107,119	6,667	5,734
Transfer from fair value of US\$ Warrants upon exercise (note 12)	-	1,280,800	-	-
As at the end of the period	<u>44,813,843</u>	<u>65,660,350</u>	<u>41,561,626</u>	<u>59,885,820</u>

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- (i) NXT also has outstanding a total of 8,000,000 preferred shares (see note 8) which are convertible on a 1 for 1 basis into an additional maximum of 8,000,000 common shares by December 31, 2015. An initial total of 2,000,000 of these preferred shares were converted into 2,000,000 common shares of the Company effective May 22, 2013.

8. Preferred shares

The Company is authorized to issue an unlimited number of preferred shares, issuable in series.

In 2005, the Company issued 10,000,000 series 1 preferred shares (the "Preferred Shares") to its CEO pursuant to the execution of the Technology Transfer Agreement (see note 1) in exchange for the rights to utilize the SFD® technology for hydrocarbon exploration.

The Preferred Shares do not participate in any dividends, and are not transferable except with the consent of the Board of Directors of NXT.

The number of preferred shares outstanding is as follows:

	For the nine month periods ended			
	September 30, 2014		September 30, 2013	
	# of shares	\$ amount	# of shares	\$ amount
As at beginning of the period	8,000,000	\$ 232,600	10,000,000	\$ 3,489,000
Conversion of preferred shares in 2013	-	-	(2,000,000)	(3,256,400)
As at end of the period	8,000,000	232,600	8,000,000	232,600

These Preferred Shares are non-voting, and are convertible into up to 8,000,000 NXT common shares (on a 1 for 1 basis) under the following terms:

- 2,000,000 of the Preferred Shares became convertible into common shares upon issue. Effective May 22, 2013, these 2,000,000 Preferred Shares were converted into 2,000,000 common shares.
- the remaining 8,000,000 Preferred Shares are subject to conditions related to potential future conversion. They may become convertible into common shares in four separate increments of 2,000,000 Preferred Shares each, should NXT achieve specified cumulative revenue thresholds of US \$50 million, US \$100 million, US \$250 million and US \$500 million prior to December 31, 2015 (the "Maturity Date").
- an additional bonus of 1,000,000 common shares are issuable in the event that cumulative revenues exceed US \$500 million.
- cumulative revenue is defined as the sum of total revenue earned plus proceeds from the sale of assets accumulated since January 1, 2007, all denominated in US dollars, and calculated in accordance with generally accepted accounting principles.
- in the event that the final cumulative revenue threshold of US \$500 million is not achieved by the December 31, 2015 Maturity Date, NXT has the option to either redeem any remaining unconverted Preferred Shares for a price of \$0.001 per share and forfeit its rights to the SFD® technology, or elect to retain the ownership of the SFD® technology by converting all of the remaining Preferred Shares into common shares.

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- In the event of a change of control or other transaction involving a re-arrangement of the business of NXT prior to the Maturity Date, the number of outstanding Preferred Shares which can be converted will be dependent on the transaction value payable ("TVP") per outstanding NXT common share as follows:

20% if TVP is less than \$5 per common share
60% if TVP is between \$5 and \$10 per common share
100% if TVP exceeds \$10 per common share

As at September 30, 2014, the Company had generated cumulative revenue of approximately US \$29.5 million (December 31, 2013 - US \$25.8 million) that is eligible to be applied to the above noted conversion thresholds.

The Preferred Shares were originally recorded at their estimated fair value as at December 31, 2005, with the total substantially assigned to the 2,000,000 Preferred Shares portion which was immediately convertible. The remaining Preferred Shares were assigned a nominal value in 2005, reflecting the uncertainty that the required revenue objectives would be achieved to allow conversion into common shares, as follows:

	# of Preferred Shares	\$ value
convertible upon issue effective December 31, 2005	2,000,000	\$ 3,256,400
conditionally convertible on or before December 31, 2015	8,000,000	232,600
	10,000,000	3,489,000

In January 2014, NXT's CEO (the "Grantor") personally granted (to a total of 17 persons, including NXT employees, directors, officers, advisors and others) "Rights" to acquire a total of 1,000,000 of the common shares which are expected to become issued to him upon future conversion of the Preferred shares by their Maturity Date. Each of the Rights are subject to certain vesting provisions and will entitle the holder to acquire from the Grantor one common share of NXT at a fixed exercise price of \$1.77 and will expire on December 31, 2015.

A total of 795,000 of these Rights were granted to certain of NXT's current directors, officers, employees and advisors, and are supplemental to existing incentives which have been granted under NXT's stock option plan (see note 10). The grant date fair value of these Rights was estimated as \$483,000 (which will be recognized over the remaining term to expiry of the Rights) calculated using the Black-Scholes valuation model, based on the following assumptions:

Expected dividends paid per common share	Nil
Expected life in years	1.9
Expected volatility in the price of common shares	62 %
Risk free interest rate	1.0 %
Weighted average fair value per Right at grant date	\$ 0.60

In connection with the Rights, NXT recognized \$174,000 as a component of stock based compensation expense for the nine month period ended September 30, 2014 (see note 10).

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9. Income (loss) per share

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Comprehensive loss for the period	\$ (1,330,167)	\$ (2,522,165)	\$ (30,895)	\$ (3,708,372)
Weighted average number of shares outstanding:				
Common shares issued	44,791,887	41,556,336	44,214,444	40,515,130
Convertible Preferred shares (i)	-	-	-	1,040,293
Basic	44,791,887	41,556,336	44,214,444	41,555,423
Additional shares related to assumed exercise of stock options and US\$ Warrants under the treasury stock method (ii)	-	-	-	-
Convertible preferred shares (ii)	-	-	-	-
Diluted	44,791,887	41,556,336	44,214,444	41,555,423
Net loss per share – Basic	\$ (0.03)	\$ (0.06)	\$ (0.00)	\$ (0.09)
Net loss per share – Diluted	\$ (0.03)	\$ (0.06)	\$ (0.00)	\$ (0.09)

(i) A total of 2,000,000 of the Preferred Shares (see note 8) are included in the above noted basic income (loss) per share calculation for the nine month period ended September 30, 2013, as the criteria for them to convert to common shares had been met up to their formal conversion in May 2013. The remaining 8,000,000 Preferred Shares are contingently issuable, and are included in the diluted number of shares outstanding if applicable.

(ii) In periods in which a loss results, all outstanding stock options, common share purchase Warrants and the 8,000,000 Preferred Shares are excluded from the diluted loss per share calculations as their effect is anti-dilutive.

10. Stock options

The following is a summary of stock options which are outstanding as at September 30, 2014:

Exercise price per share	# of options outstanding	# of options exercisable	average remaining contractual life (in years)
\$ 0.45	74,600	74,600	1.0
\$ 0.63	220,000	220,000	0.2
\$ 0.75	360,000	239,998	2.8
\$ 0.76	303,335	101,111	3.3
\$ 0.86	707,500	454,162	2.9
\$ 1.16	411,000	411,000	1.8
\$ 1.20	300,000	300,000	2.9
\$ 1.39	55,000	55,000	4.8
\$ 1.55	40,000	-	4.4
\$ 1.61	25,000	-	4.4
\$ 1.83	65,000	65,000	4.2
\$ 0.94	2,561,435	1,920,871	2.6

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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, 2013 is as follows:

	For the nine months ended September 30, 2014		For the year ended December 31, 2013	
	# of stock options	weighted average exercise price	# of stock options	weighted average exercise price
Options outstanding, beginning of the period	2,888,100	\$ 0.88	2,890,600	\$ 0.86
Granted	120,000	\$ 1.49	542,500	\$ 0.91
Exercised	(337,665)	\$ 0.58	(16,667)	\$ 0.79
Forfeited	(59,000)	\$ 1.31	(423,333)	\$ 0.79
Expired	(50,000)	\$ 0.63	(105,000)	\$ 0.75
Options outstanding, end of the period	2,561,435	\$ 0.94	2,888,100	\$ 0.88
Options exercisable, end of the period	1,920,871	\$ 0.96	1,733,930	\$ 0.90

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:

	For the nine months ended September 30,	
	2014	2013
Expected dividends paid per common share	Nil	Nil
Expected life in years	5.0	5.0
Expected volatility in the price of common shares	116 %	75 %
Risk free interest rate	1.6 %	1.0 %
Weighted average fair market value per share at grant date	\$ 1.21	\$ 0.46
Intrinsic (or "in-the-money") value per share of options exercised	\$ 0.96	\$ 0.46

SBCE consists of the following amounts:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
SBCE recognized related to:				
Stock options	\$ 129,000	\$ 122,000	\$ 298,000	\$ 309,000
Rights (see note 8)	62,000	-	174,000	-
Total SBCE	191,000	122,000	472,000	309,000

As of September 30, 2014 there was \$280,000 (\$475,000 as at December 31, 2013) of unamortized SBCE related to non-vested stock options. This amount will be recognized in future expense over the remaining vesting periods of the underlying stock options.

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11. Warrants to purchase common shares

The following is a continuity of the previously outstanding common share purchase warrants which had an exercise price of US \$1.20 per share, and expiry dates ranging from March 7 to May 4, 2014:

	# of US\$ Warrants	exercise proceeds received
Issued in 2012 private placement financings (see (i))	4,502,821	-
Warrants exercised in 2013	(846,700)	\$ 1,064,222
Outstanding as at December 31, 2013	3,656,121	1,064,222
Activity in 2014:		
Warrants exercised	(2,057,852)	2,735,995
Warrants expired	(1,598,269)	-
Outstanding as at September 30, 2014	-	\$ 3,800,217

(i) In 2012, NXT conducted private placement financings (the "2012 Financings", for proceeds of \$3,183,132) which consisted of units issued at a price of US \$0.75 (the "Units"). Each Unit consisted of one NXT common share and one warrant (the "Warrants") to purchase an additional NXT common share at a price of US \$1.20 for a term of two years from the date of issue. Including 244,816 finder's warrants issued, a total of 4,502,821 Warrants were issued in the 2012 Financings.

(ii) The estimated fair value of the US\$ Warrants that were issued in the 2012 Financings was \$409,143 (see also note 12(2)).

12. Financial instruments

1) Non-derivative financial instruments:

The Company's non-derivative financial instruments consist of cash and cash equivalents, short term investments, restricted cash, accounts receivable, 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 holding US and Colombian denominated financial instruments.

2) Derivative financial instruments:

As at September 30, 2014, no US\$ Warrants remain outstanding. As the exercise price of the US\$ Warrants that were issued in 2012 (see note 11) was in US dollars, which is a currency other than the functional currency of NXT, the Warrants were considered to have an embedded derivative and were required to be recorded at fair value each reporting period. The amount recorded for this instrument, which was included with current liabilities, was adjusted to fair value at each period end over the life of the Warrants, with the changes in fair value reflected in earnings.

Financial instruments that are recorded at fair value on a recurring basis are required to be classified into one of three categories based upon a fair value hierarchy. The Company's only financial instruments recorded at fair value on a recurring basis was the US\$ Warrants. NXT classified these derivative financial instruments as level III where the fair value is determined by using valuation techniques that refer to both observable and unobservable market data. The valuation model was based on the Black-

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Scholes inputs noted below, as well as a discount to reflect the potential dilution impact upon exercise of the Warrants and NXT's low stock market liquidity.

A continuity of the fair value of the US\$ Warrants that were issued in the 2012 Financings is as follows:

	Nine months ended September 30, 2014	Year ended December 31, 2013
Fair value of US\$ Warrants, beginning of the period	\$ 1,238,000	\$ 241,000
Transfer to common shares upon exercise of US\$ Warrants	(1,280,800)	(374,500)
Increase in fair value during the period	42,800	1,371,500
Fair value of US\$ Warrants, end of the period	-	1,238,000

The outstanding US\$ Warrants were re-valued at each period end using the Black-Scholes valuation model utilizing the following weighted average assumptions:

	As at the nine month period ended September 30	
	2014	2013
Expected dividends paid per common share	n/a	Nil
Expected life in years	n/a	0.5
Expected volatility in the price of common shares	n/a	59 %
Risk free interest rate	n/a	1.0 %

13. Income tax expense

NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions. Payments made to NXT for services rendered to clients in such countries may be subject to foreign withholding taxes, which are only recoverable in certain circumstances. For the three and nine month periods ended September 30, 2014, NXT recorded foreign withholding taxes of \$nil (2013 - \$nil and \$399,546 respectively) on a portion of its revenues that were generated on international projects. Although such foreign taxes incurred can potentially be utilized in Canada as a foreign tax credit against future taxable earnings from the foreign jurisdictions, a full valuation allowance has been provided against this benefit.

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14. Change in non-cash working capital

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Accounts receivable	(15,347)	(29,097)	81,006	187,012
Work-in-progress	-	-	299,842	976,463
Prepaid expenses	47,490	68,383	(32,816)	24,821
Accounts payable and accrued liabilities	80,153	762	(243,965)	(966,021)
Deferred revenue	-	-	(2,781,101)	(317,103)
	112,296	40,048	(2,677,034)	(94,828)
Portion attributable to:				
Operating activities	112,296	40,048	(2,677,034)	(94,828)
Financing activities	-	-	-	-
Investing activities	-	-	-	-
	112,296	40,048	(2,677,034)	(94,828)

15. Commitments and contingencies

NXT has an operating lease commitment on its existing Calgary office space for a term through July 31, 2015 at a minimum monthly lease payment of \$28,571 (including estimated operating costs). NXT has also committed to an operating lease on new office premises for a 10 year term commencing in 2015 at an initial estimated minimum monthly lease payment of \$42,368 (including operating costs).

The total estimated future minimum annual commitment for these two leases is as follows:

For the year ending December 31	Existing premises	New premises	Total
2014	\$ 85,713	\$ -	\$ 85,713
2015	199,996	127,103	327,099
2016	-	508,410	508,410
2017	-	508,410	508,410
2018	-	508,410	508,410
Thereafter, 2019 through 2025	-	3,488,258	3,488,258
	285,709	5,140,591	5,426,300

NXT currently does not own any of the aircraft which are used in its' survey operations, but has an annual agreement to utilize a minimum annual volume of aircraft charter hours. The remaining aircraft charterhire commitment to be met for 2014 is \$306,450.

16. Geographic information

NXT conducts all of its survey operations from its head office in Canada, and has a one person administrative office in Colombia. NXT has no long term assets outside of Canada. Revenues were derived by geographic area as follows:

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	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
North America (United States)	-	-	\$ 3,913,367	\$ -
Asia (Pakistan)	-	-	-	2,659,292
Central America (Belize)	-	-	-	24,803
	-	-	3,913,367	2,684,095

The Company's revenues were derived almost entirely from a single client in each of the above noted periods.

17. 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 incurred with this firm were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	\$ 2,767	\$ 7,583	\$ 18,100	\$ 17,083

Accounts payable and accrued liabilities includes a total of \$2,906 (\$29,274 as at December 31, 2013) payable to this law firm. In addition, accounts payable and accrued liabilities includes \$39,027 (\$31,045 as at December 31, 2013) related to re-imbusement of expenses owing to persons who are Officers of NXT.