



# **NXT ENERGY SOLUTIONS INC.**

**Unaudited Condensed Consolidated Interim Financial Statements**

**For the three and six months ended  
June 30, 2021**

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Balance Sheets (Unaudited-expressed in Canadian dollars)

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,508,991	\$ 2,690,146
Short-term investments	269,623	341,261
Accounts receivable	1,871,921	965,548
Prepaid expenses and deposits	334,469	77,532
	5,985,004	4,074,487
Long term assets		
Deposits	327,182	526,561
Property and equipment	666,045	707,326
Right of Use Assets	2,123,883	2,415,430
Intellectual property (Note 3)	15,722,230	16,285,333
	\$ 24,824,344	\$ 24,009,137
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities (Notes 4, 15)	\$ 585,510	\$ 440,538
Contract obligations	-	127,507
Current portion of long-term debt (Note 5)	9,259	-
Current portion of lease obligations (Note 6)	752,235	773,465
	1,347,004	1,341,510
Long-term liabilities		
Long-term debt (Note 5)	990,741	-
Long-term lease obligation (Note 6)	1,540,311	1,896,277
Asset retirement obligation	23,776	22,741
	2,554,828	1,919,018
	3,901,832	3,260,528
Shareholders' equity		
Common shares (Note 8): - authorized unlimited		
Issued: 64,556,305 (2020 - 64,437,790) common shares	95,392,821	95,327,123
Contributed capital	9,574,266	9,355,716
Deficit	(84,044,575)	(83,934,230)
	20,922,512	20,748,609
	\$ 24,824,344	\$ 24,009,137
Going concern (Note 1)		
Commitments (Note 7)		

Signed "George Lisziczasz"  
Director

Signed "Bruce G. Wilcox"  
Director

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

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited-expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
<b>Revenue</b>				
Survey revenue (Note 13)	\$ 3,144,373	\$ 136,566	\$ 3,144,373	\$ 136,566
<b>Expenses</b>				
Survey costs, net	383,211	231,885	648,694	533,846
General and administrative expenses (Notes 10, 14)	682,851	810,172	1,583,160	1,806,171
Amortization	444,171	442,180	885,995	890,561
	1,510,233	1,484,237	3,117,849	3,230,578
<b>Other expenses (income)</b>				
Interest (income) expense, net (Note 5)	9,036	(4,362)	15,151	(17,009)
Foreign exchange loss (gain)	84,719	135,990	104,929	(273,527)
Intellectual property and other	7,179	410	16,789	8,534
	100,934	132,038	136,869	(282,002)
<b>Income (loss) before income taxes</b>	1,533,206	(1,479,709)	(110,345)	(2,812,010)
<b>Income tax expense</b>	-	-	-	-
<b>Net income (loss) and comprehensive income (loss)</b>	\$ 1,533,206	\$ (1,479,709)	\$ (110,345)	\$ (2,812,010)
Net income (loss) per share (Note 9)				
Basic	\$ 0.02	\$ (0.02)	\$ 0.00	\$ (0.04)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.00	\$ (0.04)

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

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Statements of Cash Flows

(Unaudited-expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
<b>Cash from (used in):</b>				
<b>Operating activities</b>				
Net income (loss)	\$ 1,533,206	\$ (1,479,709)	\$ (110,345)	\$ (2,812,010)
Items not affecting cash:				
Stock based compensation expense	20,713	7,525	40,723	29,190
Amortization	444,171	442,180	885,995	890,561
Non-cash changes to asset retirement obligation	517	517	1,035	1,035
Non-cash lease and interest	(42,825)	(42,825)	(85,649)	(85,650)
Unrealized foreign exchange (gain) loss	122,413	272,399	147,942	(69,850)
Change in non-cash working capital balances (Note 12)	(1,348,631)	(296,869)	(1,033,457)	350,752
ARO liabilities settled	-	(809)	-	(809)
	<u>(803,642)</u>	<u>382,118</u>	<u>(43,411)</u>	<u>1,115,229</u>
Net cash from (used in) operating activities	<u>729,564</u>	<u>(1,097,591)</u>	<u>(153,756)</u>	<u>(1,696,781)</u>
<b>Financing activities</b>				
Proceeds from the Employee Share Purchase Plan (Note 10)	16,590	-	36,225	-
Proceeds from long-term debt (Note 5)	1,000,000	-	1,000,000	-
Repayment of lease obligation	-	(31,357)	-	(42,515)
Net cash from (used in) financing activities	<u>1,016,590</u>	<u>(31,357)</u>	<u>1,036,225</u>	<u>(42,515)</u>
<b>Investing activities</b>				
Acquisition of intellectual property (Note 3)	(50,310)	-	(50,310)	-
Proceeds from (used in) short-term investments	(126,307)	834,302	64,954	863,726
Net cash from (used in) investing activities	<u>(176,617)</u>	<u>834,302</u>	<u>14,644</u>	<u>863,726</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(63,769)</u>	<u>(159,499)</u>	<u>(78,268)</u>	<u>(37,313)</u>
Net increase (decrease) in cash and cash equivalents	1,505,768	(454,145)	818,845	(912,883)
Cash and cash equivalents, beginning of the period	<u>2,003,223</u>	<u>2,399,507</u>	<u>2,690,146</u>	<u>2,858,245</u>
Cash and cash equivalents, end of the period	<u>\$ 3,508,991</u>	<u>\$ 1,945,362</u>	<u>\$ 3,508,991</u>	<u>\$ 1,945,362</u>
<b>Supplemental information</b>				
Cash interest (received)	10,944	(14,287)	14,808	(22,441)
Cash taxes paid	-	-	-	-

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

# NXT ENERGY SOLUTIONS INC.

## Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited-expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
<b>Common Shares (Note 8)</b>				
Balance at beginning of the period	\$ 95,363,018	\$ 95,313,064	\$ 95,327,123	\$ 95,313,064
Issuance of common stock on the Employee Purchase Plan	29,803	-	65,698	-
Balance at end of the period	<u>95,392,821</u>	<u>95,313,064</u>	<u>95,392,821</u>	<u>95,313,064</u>
<b>Contributed Capital (Note 10)</b>				
Balance at beginning of the period	9,359,466	9,328,158	9,355,716	9,306,493
Issuance of equity for intellectual property (Note 3)	207,300	-	207,300	-
Recognition of stock based compensation expense	7,500	7,525	11,250	29,190
Balance at end of the period	<u>9,574,266</u>	<u>9,335,683</u>	<u>9,574,266</u>	<u>9,335,683</u>
<b>Deficit</b>				
Balance at beginning of the period	(85,577,781)	(79,266,856)	(83,934,230)	(77,934,555)
Net income (loss)	1,533,206	(1,479,709)	(110,345)	(2,812,010)
Balance at end of the period	<u>(84,044,575)</u>	<u>(80,746,565)</u>	<u>(84,044,575)</u>	<u>(80,746,565)</u>
<b>Total Shareholders' Equity at end of the period</b>	<u>\$ 20,922,512</u>	<u>\$ 23,902,182</u>	<u>\$ 20,922,512</u>	<u>\$ 23,902,182</u>

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

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(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, Alberta Canada.

NXT's proprietary Stress Field Detection ("SFD®") technology is an airborne survey system that utilizes quantum-scale sensors to detect gravity field perturbations in an airborne survey method which can be used both onshore and offshore to remotely identify traps and reservoirs with exploration potential in both the hydrocarbon and geothermal industries.

These condensed consolidated interim financial statements of NXT have been prepared by management in accordance with generally accepted accounting principles of the United States of America ("US GAAP"). The accounting policies applied are consistent with those outlined in NXT's annual audited consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements reflect adjustments, all of which are normal recurring adjustments that are, in the opinion of management, necessary to reflect fairly the financial position and results of operations for the respective periods. These condensed consolidated financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2020 audited consolidated financial statements.

These condensed consolidated interim 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 condensed consolidated interim financial statements have been issued. The Company's current cash position is not expected to be sufficient to meet the Company's obligations and planned operations for a year beyond the date that these condensed consolidated interim financial statements have been issued.

The Company is taking further steps to reduce operating costs including payroll and other general and administrative costs and is evaluating alternatives to reduce other costs. If required, further financing options that may or may not 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 SFD® survey contracts and obtaining financing on 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 to convert these opportunities into successful contracts, to continue to attract new client projects, ultimately to expand the revenue base to a level sufficient to exceed fixed operating costs and generate consistent positive cash flow from operations. The occurrence and timing of these events cannot be predicted with sufficient certainty.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

The condensed consolidated interim 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 condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used. These adjustments could be material.

## **Covid-19 Pandemic**

As of the date of these condensed consolidated interim financial statements the Covid-19 pandemic continues to be a risk to the operations of the Company. The Company has made provisions so employees can work safely in the office or if necessary from home, followed all Alberta Health Services and Health Canada recommendations, and implemented hygiene and physical distancing policies. Demand for our services and prospective revenues may become adversely impacted the longer the Covid-19 pandemic continues. The impact of the continuation of the Covid-19 pandemic may hamper our ability to deliver SFD® surveys contracts in the following ways. If restrictions on international travel continue, our aircraft and personal may not be able to perform project surveys. An outbreak of the virus among our staff or our customers' personnel could delay any survey in progress. Business development may be delayed when in-person meetings and technical presentations may be a superior delivery method to tele-conferences or on-line video conferencing.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect to the Company is not known at this time. Estimates and judgments made by management in the preparation of these condensed consolidated interim financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

## **Use of Estimates and Judgements**

In preparing these condensed consolidated interim financial statements, NXT is required to make estimates and assumptions that affect both the amount and timing of recording assets, liabilities, revenues and expenses since the determination of these items may be dependent on future events. The Company uses the most current information available and exercises careful judgment in making these estimates and assumptions. In the opinion of management, these condensed consolidated interim financial statements have been properly prepared within reasonable limits of materiality and within the framework of the Company's significant accounting policies included in the annual audited consolidated financial statements for the year ended December 31, 2020.

## **2. Significant Accounting Policies and Changes**

### **Basis of Presentation**

These condensed consolidated interim financial statements for the period ended June 30, 2021 have been prepared by management in accordance with US GAAP. Certain items have been presented in order to conform to the current year presentation.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 3. Intellectual property

### Acquisition of SFD® Geothermal Right

The Company acquired the SFD® technology rights for geothermal resources (“Geothermal Right”) from Mr. George Liszicasz, President and CEO of NXT (“CEO”) on April 18, 2021. The consideration deliverable by the Company in connection with the acquisition of the Geothermal Right is set forth below:

1. US\$40,000 (CAD\$50,310) signature payment, which became due immediately and was paid on April 22, 2021;
2. 300,000 common shares, which became due on April 18, 2021 and will be issued upon receipt of Toronto Stock Exchange (“TSX”) approval;
3. CAD\$15,000 signature milestone payment which will be paid in August 2021;
4. US\$200,000 milestone payment which will become due in the event that the Company's cash balance exceeds CAD\$5,000,000 due to receipt of specifically defined funds from operations; and
5. US\$250,000 milestone payment which will become due in the event that the Company executes and completes and receives full payment for an SFD® contract valued at US\$10,000,000 or greater, provided such contract is entered into and completed and payment of at least US\$5,000,000 is received by April 18, 2023.

As of June 30, 2021 the Company has recognized \$281,610 for the acquisition Geothermal Right, which is the combination of the US\$40,000 (CAD\$50,310) and CAD\$15,000 signature payments, the estimated value of the 300,000 common shares, and the estimated legal and TSX costs to acquire the Geothermal Right. As of the date of these unaudited condensed consolidated interim financial statements the 300,000 common shares have not been issued by the Company. Upon TSX approval the amount recognized (\$207,300) will be reclassified to common shares. TSX approval is expected in the third quarter of 2021. The cost of the remaining two milestones will be recognized when it is deemed probable that these two milestones will be achieved.

The current book value of the Geothermal Right is being amortized on a straight line basis over its estimated useful life of 20 years. The annual amortization expense expected to be recognized is approximately \$14,081 per year for a 5 year aggregate total of \$70,402.

### SFD® Hydrocarbon Right

During 2015, NXT acquired the rights to the SFD® technology for use in the exploration of hydrocarbons (“Hydrocarbon Right”) from the CEO, and recorded the acquisition as an intellectual property asset on the balance sheet. The asset was recorded at the fair value of the consideration transferred, including the related tax effect of approximately \$25.3 million.

The Hydrocarbon Right is being amortized on a straight line basis over its estimated useful life of 15 years. The annual amortization expense expected to be recognized is approximately \$1.7 million per year for a 5 year aggregate total of \$8.5 million.



# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

			<b>June 30, 2021</b>
	<b>Cost Base</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
SFD® Hydrocarbon Right acquired	\$ 25,271,000	\$9,828,034	\$15,442,966
SFD® Geothermal Right acquired	281,610	2,346	279,264
	25,552,610	9,830,380	15,722,230

			<b>December 31, 2020</b>
	<b>Cost Base</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
SFD® Hydrocarbon Right acquired	\$ 25,271,000	\$8,985,667	\$16,285,333
SFD® Geothermal Right acquired	-	-	-
	25,271,000	8,985,667	16,285,333

#### 4. Accounts payable and accrued liabilities

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Accrued liabilities related to:		
Consultants and professional fees	\$176,524	\$183,920
Payable for the acquisition of the Geothermal Right (Note 3)	15,497	-
Payroll	156,665	120,318
Vacation Accrued	106,445	71,699
	455,131	375,937
Trade payables and other	130,379	64,601
	585,510	440,538

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 5. Long-term debt

On May 26, 2021 the Company received \$1,000,000 from the Business Development Bank of Canada's ("BDC") Highly Affected Sectors Credit Availability Program ("HASCAP Loan"). The HASCAP Loan is a \$1,000,000 non-revolving ten year term credit facility with an interest rate of 4%. Repayment terms are interest only until May 26, 2022, and monthly principal plus interest payments for the remaining nine years. The HASCAP Loan is secured by a general security agreement and is guaranteed by BDC.

<b>Maturity of long-term debt:</b>	
2021	\$ 20,000
2022	104,167
2023	146,481
2024	142,037
2025	137,593
2026 to 2031	668,055
Total principal and interest payments	1,218,333
Less interest	(218,333)
Total principal remaining	1,000,000
Current portion of long-term debt	9,259
Non-current portion of long-term debt	990,741

## 6. Lease obligation

	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Aircraft	\$ 972,096	\$1,220,425
Office Building	1,313,537	1,440,085
Printer	6,913	9,232
	2,292,546	2,669,742
Current Portion of lease obligations	(752,235)	(773,465)
Long-term lease obligations	1,540,311	1,896,277

<b>Maturity of lease liabilities:</b>	
2021	\$ 509,395
2022	1,122,540
2023	367,185
2024	367,185
2025	275,389
Total lease payments	2,641,694
Less imputed interest	(349,148)
Total discounted lease payments	2,292,546
Current portion of lease obligations	752,235
Non-current portion of lease obligations	1,540,311

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 7. Commitments

The table below is the non-lease operating cost components associated with the costs of the building lease.

<b>For the fiscal period ending December 31,</b>	<b>Office Premises</b>
2021	\$ 114,046
2022	228,091
2023	228,091
2024	228,091
2025	171,069
	969,388

In April 2017, NXT completed a sale and leaseback agreement of its aircraft with a Calgary based international aircraft services organization. The terms of the agreement resulted in NXT selling its Cessna Citation aircraft that was purchased in 2015 for US\$2.0 million, for the sum of US\$2.3 million. 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 \$2.7 million, 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.

## 8. Common shares

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

	<b>June 30, 2021</b>		<b>For the six months ended June 30, 2020</b>	
	<b># of shares</b>	<b>\$ amount</b>	<b># of shares</b>	<b>\$ amount</b>
As at the beginning of the period	64,437,790	\$95,327,123	64,406,891	\$95,313,064
Issuance for Employee Stock Purchase Plan ("ESP Plan")	118,515	65,698	-	-
As at the end of the period	64,556,305	95,392,821	64,406,891	95,313,064

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 9. Earnings (Loss) per share

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Comprehensive income (loss) for the period	\$ 1,533,206	\$(1,479,709)	\$ (110,345)	\$(2,812,010)
Weighted average number of shares outstanding for the period:				
Basic	64,526,430	64,406,891	64,499,475	64,406,891
Diluted	66,007,218	64,406,891	64,499,475	64,406,891
Net Income (loss) per share – Basic	\$0.02	\$(0.02)	\$0.00	\$(0.04)
Net Income (loss) per share – Diluted	\$0.02	\$(0.02)	\$0.00	\$(0.04)

In periods in which a loss results, all outstanding restricted stock units, deferred share units, employee share purchase plan bonus shares, and in-the-money stock options, are excluded from the diluted loss per share calculations as their effect is anti-dilutive.

## 10. Share based compensation

The Company has an equity compensation program in place for its executives, employees and directors. Executives and employees are given equity compensation grants that vest based on a recipient's continued employment. The Company's stock-based compensation awards outstanding as at June 30, 2021, include stock options, restricted share units ("RSUs"), deferred share units ("DSUs") and the ESP Plan. The following tables provide information about stock option, RSU, DSU, and ESP Plan activity.

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Stock options	\$ 7,500	\$ 3,775	\$ 11,250	\$ 21,690
Deferred share units	-	3,750	-	7,500
Restricted share units	19,595	-	19,546	-
Employee share purchase plan	25,562	-	48,357	-
Total stock based compensation expense	52,657	7,525	79,153	29,190

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## Stock Options:

The following is a summary of stock options which are outstanding as at June 30, 2021.

<b>Exercise price per share</b>	<b># of options outstanding</b>	<b>#of options exercisable</b>	<b>Average remaining contractual life (in years)</b>
\$0.44	21,360	21,360	5.0
\$0.49	8,500	8,500	4.7
\$0.51	16,000	16,000	4.3
\$0.52	100,000	100,000	3.1
\$0.55	30,000	30,000	3.6
\$0.59	150,000	150,000	2.3
\$1.45	37,500	37,500	0.5
\$1.48	37,500	37,500	0.0
\$1.50	50,000	50,000	0.0
	<b>450,860</b>	<b>450,860</b>	<b>2.2</b>

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, 2020 is as follows:

	<b>For the six months ended, June 30, 2021</b>		<b>For the year ended, December 31, 2020</b>	
	<b># of stock Options</b>	<b>weighted average exercise price</b>	<b># of stock Options</b>	<b>weighted average exercise price</b>
Options outstanding, start of the period	421,000	\$0.83	1,169,500	\$1.48
Granted	29,860	\$0.45	46,000	\$0.54
Expired	-	-	(794,500)	\$(1.77)
Forfeited	-	-	-	-
Options outstanding, end of the period	450,860	\$0.81	421,000	\$0.83
Options exercisable, end of the period	450,860	\$0.81	421,000	\$0.83

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.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

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:

<b>For the period ended</b>	<b>2021</b>	<b>2020</b>
Expected dividends paid per common share	Nil	Nil
Expected life in years	5.0	5.0
Weighted average expected volatility in the price of common shares	125%	138%
Weighted average risk free interest rate	0.21%	1.12%
Weighted average fair market value per share at grant date	\$0.45	\$0.54

## Deferred Share Units ("DSUs"):

A continuity of the number of DSUs which are outstanding at the end of the current period and as at the prior fiscal year ended December 31, 2020 is as follows:

<b>Opening balance</b>	<b>For the six months ended June 30, 2021</b>	<b>For the year ended December 31, 2020</b>
Opening balance	37,354	-
Granted	-	37,354
Closing balance	37,354	37,354

The DSUs plan is a long-term incentive plan that permits the grant of DSUs to qualified directors. DSUs granted under the DSUs plan are to be settled at the retirement, resignation or death of the Board member holding the DSUs.

## Restricted Share Units ("RSUs"):

The Company's first grant of RSUs began in 2020. RSUs entitle the holder to receive, at the option of the Company, either the underlying number of shares of the Company's Common Stock upon vesting of such units or a cash payment equal to the value of the underlying shares. The RSUs vest at a rate of one-third at the end of each of the first three years following the date of grant. The Company intends to settle the RSUs in shares and cash. In the year ended December 31, 2020, the Company granted 1,200,000 RSUs to employees and officers.

A continuity of the number of RSUs, including fair value ("FV") which are outstanding at the end of the current period and as the end of the prior fiscal year ended December 31, 2020 is as follows:

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

	For the six months ended, June 30, 2021		For the year ended, December 31, 2020	
	# of RSUs	FV/Unit	# of RSUs	FV/Unit
RSUs outstanding, start of the period	1,200,000	\$0.79	-	-
Granted	-	-	1,200,000	\$0.45
Forfeited	(155,000)	(\$0.79)	-	-
RSUs outstanding, end of the period	1,045,000	\$0.44	1,200,000	\$0.79

## Employee Share Purchase Plan (“ESP Plan”):

The ESP Plan allows employees and other individuals determined by the Board to be eligible to contribute a minimum of 1% and a maximum of 10% of their earnings to the plan for the purchase of common shares in the capital of the Company, of which the Company will make an equal contribution. Common shares contributed by the Company may be issued from treasury or acquired through the facilities of the TSX. During 2020 and 2021 the Company has elected to issue common shares from treasury.

A continuity of the number of common shares under the ESP Plan which are outstanding at the end of the current period and as at the prior fiscal year ended December 31, 2020 is as follows:

	For the six months ended, June 30, 2021		For the year ended, December 31, 2020	
	# of shares	\$ amount	# of shares	\$ amount
Purchased by employees	65,465	\$ 36,225	16,686	\$ 7,592
Matched by the Company	53,050	29,473	14,213	6,467
Total Common Shares issued	118,515	65,698	30,899	14,059

If the employee does not withdraw common shares from the ESP Plan in the first year of their participation, the Company will match an additional 100% of the employee contributions, up to \$15,000 per employee (the “Bonus Match”). As at June 30, 2021 the Company has accrued \$20,549 for the Bonus Match (\$1,666 as at December 31, 2020).

Effective for the year ended December 31, 2020, the Company began presenting stock based compensation expense within general and administrative expenses and has recorded an immaterial correction to classify the stock based compensation expense to be presented within general and administrative expenses. For the three month periods ended June 30, 2021 and 2020 the amounts were \$52,657 and \$7,525, respectively. For the six month periods ended June 30, 2021 and 2020 the amounts were \$79,153 and \$29,190, respectively. While ASC 718 does not identify a specific line item in the income statement for presentation of the expense related to share based compensation arrangements, the SEC has released guidance under SAB Topic 14.F that the expense related to share-based payment arrangements should be presented in the same line or lines as cash compensation paid to the same employees. The Company’s presentation conforms to this guidance.

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 11. 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, deposits, accounts payables and accrued liabilities and lease obligations. The carrying value of these financial instruments, excluding leases, approximates their fair values due to their short terms to maturity.

#### Credit Risk

Credit risk arises from the potential that the Company may incur a loss if counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. The carrying value of cash and cash equivalents, short-term investments, and accounts receivable reflects management's assessment of credit risk. At June 30, 2021, cash and cash equivalents and short-term investments included balances in bank accounts, term deposits and guaranteed investment certificates, placed with financial institutions with investment grade credit ratings. The majority of the Company's accounts receivable relate to sales to one customer in the African region and is exposed to foreign country credit risks. The Company manages this credit risk by requiring advance payments before entering into certain contract milestones and when possible accounts receivable insurance.

#### Foreign Exchange Risk

The Company is exposed to foreign exchange risk in relation to its holding of significant US\$ balances in cash and cash equivalents, short-term investments, accounts receivable, deposits, accounts payables and accrued liabilities and entering into United States dollar revenue contracts. The Company does not currently enter into hedging contracts, but to mitigate exposure to fluctuations in foreign exchange the Company uses strategies to reduce the volatility of United States Dollar assets including converting excess United States dollars to Canadian dollars. As at June 30, 2021, the Company held net U.S dollar assets totaling US\$4,124,900. Accordingly, a hypothetical 10% change in the value of one United States dollar expressed in Canadian dollars as at June 30, 2021 would have had an approximately \$511,331 effect on the unrealized foreign exchange gain or loss for the period.

### 2) Derivative financial instruments

As at June 30, 2021 and December 31, 2020, the Company held no derivative financial instruments.



# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 12. 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 month period ended June 30,	
	2021	2020	2021	2020
Accounts receivable	\$(1,211,836)	\$(62,185)	\$(956,003)	\$567,683
Note receivable	-	295,779	-	295,779
Prepaid expenses and deposits	(57,212)	(104,628)	(70,995)	(118,796)
Accounts payable and accrued liabilities	47,924	(294,449)	121,048	(262,528)
Contractual obligations	(127,507)	(131,386)	(127,507)	(131,386)
	(1,348,631)	(296,869)	(1,033,457)	350,752
Portion attributable to:				
Operating activities	(1,348,631)	(296,869)	(1,033,457)	350,752
Financing activities	-	-	-	-
Investing activities	-	-	-	-
	(1,348,631)	(296,869)	(1,033,457)	350,752

## 13. Geographic information

The Company generates revenue from its SFD<sup>®</sup> survey system that enables the clients to focus their exploration decisions concerning land commitments, data acquisition expenditures and prospect prioritization on areas with the greatest potential. NXT conducts all of its survey operations from its head office in Canada, and occasionally maintains administrative offices in foreign locations if and when needed. Revenue fluctuations are a normal part of SFD<sup>®</sup> survey system sales and can vary significantly year-over-year.

Revenues for the six month period ended June 30, 2021 were generated solely from a single client and the Hydrocarbon Right. There were no revenues from the Geothermal Right. Revenues in the for the six month period ended June 30, 2020 were the result of the forfeiture of a non-refundable deposit.

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Africa	\$ 3,144,373	\$ -	\$ 3,144,373	\$ -
Other	-	136,566	-	136,566
	3,144,373	136,566	3,144,373	136,566

# NXT ENERGY SOLUTIONS INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As at and for the period ended June 30, 2021

(Expressed in Canadian dollars unless otherwise stated)

## 14. Government Grants

During the three and six month periods ended June 30, 2021 and 2020, the Company received government grants through the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”). The CEWS and CERS were recognized as a reduction to general and administrative expenses.

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
CEWS	\$ 149,028	\$ 105,875	\$ 149,028	\$ 105,875
CERS	118,801	-	118,801	-
Government grants recognized	267,829	105,875	267,829	105,875

## 15. Other related party transactions

	For three months ended June 30,		For the six-month period ended June 30	
	2021	2020	2021	2020
Legal Fees	\$ 33,231	\$ 80,204	\$ 50,611	\$ 147,717
Design Services	-	-	4,013	-

One of the members of NXT’s Board of Directors is a partner in a law firm which provides legal advice to NXT. Accounts payable and accrued liabilities includes a total of \$18,503 (\$1,570 as at December 31, 2020) payable to this law firm.

A company owned by a family member of an executive officer was contracted to provide presentation design services to the Company.

The Geothermal Right was acquired from the Company’s CEO on April 18, 2021. Accounts payable and accrued liabilities at June 30, 2021 include \$15,497 (\$NIL at December 31, 2020) payable to the Company’s CEO for the Geothermal Right. Refer to Notes 3 and 4.