



NXT ENERGY SOLUTIONS INC.

Amended and Restated

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

Q4 – 2017

**As at and for the year
ended December 31, 2017**

Amended and Restated Management's Discussion and Analysis

The following amended and restated management's discussion and analysis ("MD&A") was prepared by management based on information available as at March 29, 2018 and should be reviewed in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2017. This MD&A covers the unaudited 3 month ("Q4-17") and 12 month year-to-date ("2017 YTD") periods ended December 31, 2017, with comparative totals for the 3 month ("Q4-16") and 12 month year-to-date ("2016 YTD") periods ended December 31, 2016.

This MD&A is dated March 29, 2018 and has been prepared with information available as of March 29, 2018. However, this MD&A has been amended and restated as of April 24, 2018 to provide more detail in the sections "Near-term Outlook for 2018" and the "Disclosure Controls and Procedures and Internal Controls over Financial Reporting".

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\$").

NXT and SFD[®] in Canada and the United States are the registered trademarks of NXT Energy Solutions Inc.

Forward-looking statements

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

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

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

These forward-looking statements are based on current expectations and are subject to a wide range of known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as required by law, NXT assumes no obligation to update forward-looking statements should circumstances or the Company's estimates or opinions change.

Non GAAP measures

NXT's accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). This MD&A includes references to terms such as net working capital and net working capital before the undernoted items, terms which do not have a standardized meaning prescribed by US GAAP and may not be comparable to similar measures presented by other entities. Management of NXT uses these non-GAAP measures to improve its ability to assess liquidity at a point in time. Net working capital before the undernoted items is defined as total current assets less total current liabilities, excluding amounts accumulated in work in progress and deferred revenue. Management excludes these amounts from the calculation as they do not represent future cash inflows or outflows to the Company.

Description of the Business

NXT provides an airborne, gravity-based geophysical survey to companies involved in oil & gas exploration and production ("E&P") globally.

NXT's proprietary and patented Stress Field Detection ("SFD[®]") survey method is used to identify trapped subsurface fluid accumulations by responding to the gravitational perturbations associated with density and stress distribution conditions that are indicative of the simultaneous existence of trap, reservoir and seal. This is a decisive piece of information within the exploration process currently identified only through the application of the SFD[®] technology and is crucial to the achievement of commercial success in exploration projects. Therefore the value proposition of the SFD[®] technology is to mitigate exploration risks associated with the drilling of exploration prospects, reduction in finding costs through an increased chance of geological success in drilling and resulting enhancement of upstream exploration program efficiency in terms of significantly reduced cycle time and capital expenditure.

SFD[®] surveys are conducted in an aircraft at an altitude of approximately 3,000 meters and are therefore non-invasive, environmentally friendly, unaffected by ground security concerns. Furthermore as SFD[®] responds to subsurface gravity perturbations it is equally effective in both offshore and onshore environments. The results of a SFD[®] survey enable a customer to focus their exploration efforts towards areas with higher potential for exploration success, thus minimizing the considerable and highly uneconomic expense of drilling non-commercial prospects.

NXT has established SFD[®] as an effective exploration tool and has developed a list of clients globally with a growing track record of recommended prospects drilled resulting in commercial discoveries. SFD[®] is particularly useful as an early stage reconnaissance tool in frontier and under-developed areas as it provides a cost-effective means for focusing more costly geophysical expenditures such as seismic data acquisition as well as exploration drilling. SFD[®] can also be used prior to drilling in areas that have significant seismic coverage to prioritize drilling of multiple identified prospects based on the identification of trapped fluid accumulations, thus significantly reducing exploration risk.

Business Development and Strategy

Since the commercialization of its SFD[®] technology NXT has been primarily pursuing a common base model for revenue generation of "Fee for Survey Projects". The Company recognizes past revenues under this approach have been sporadic as they have derived primarily from a combination of larger independent oil & gas companies ("IOC") and National Governments along with their state-governed and owned national oil & gas companies ("NOC"). The business processes of these clients are thorough, time

intensive and usually require multiple levels of approval and validation. Whilst this has been a laborious process, it has afforded the Company significant recognition at the larger NOC and IOC level. However, at the same time, NXT's business has been adversely impacted by the significant decline in global oil prices beginning in mid-2014 and continued depression in global oil & gas exploration activity as a result this price decline. During this time our primary goal has been to expand our potential revenue base by increasing the pipeline of opportunities with new and existing customers. This has been achieved through the pursuit of SFD[®] contracts globally aimed at identifying large potential reserves in under-developed, proven hydrocarbon basins providing considerable upside to oil & gas companies and countries alike.

We also continue to utilize high quality local sales representatives with key knowledge of their respective areas, potential clients and the exploration potential of a region allowing us to cover larger areas and more clients with minimum fixed cost. Our sales representatives continue to pursue SFD[®] opportunities in numerous regions including Latin America, the Middle-East and Southeast Asia (Sri Lanka, Indonesia, Malaysia and Pakistan). Furthermore, to ensure our sales representatives follow industry best practices, each representative is required to annually certify they adhere to NXT's code of conduct and business ethics.

In support of these sales efforts, NXT has also been effective in positioning the SFD[®] method as an established geophysical tool for oil & gas exploration following the successful completion of projects in Latin America (Bolivia and Mexico) with the publication of technical papers, creation of project case studies and the development of a strong list of references and recommendation letters. In addition, NXT has now been granted patents or received patent allowance in 48 separate countries (see section on "Intellectual Property and Research & Development").

As a result of a combination of these activities, the Company is currently actively engaged in pursuing opportunities mainly at State and NOC levels in several regions and countries including the Gulf of Mexico, Sri Lanka, Asia Pacific, Africa, and Brazil and has made progress on advancing contracts in each over the past 12 months.

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

- The exploration cycle is long in nature, and generating results from SFD[®] recommendations made in past surveys takes time and patience to realize.
- National Governments and their NOCs tend to have long and complex decision making and approval processes increasing the time it takes to share essential information and develop relationships across multiple governmental layers and agencies.
- The ongoing downturn in commodity prices and resulting decline in global exploration activity in the oil and gas industry.

As we continue to progress and grow our project pipeline on a Fee for Survey Project basis, we remain optimistic given our progress during the year coupled with the steadily improving oil & gas environment. Notwithstanding, NXT has concurrently sought the development of an alternative business line through the sale of "Multi-Client Datasets" focused on IOCs and the development of their global exploration strategies. The purpose of this strategy has been to integrate our SFD[®] technology into the standard exploration process of such organizations. We believe this approach will be instrumental in helping us to

build an independent and steady backlog of smaller scale data sales enabling us to enhance and smooth our revenue flow while we continue to execute on larger Fee for Survey Projects.

The active development of these business initiatives also required NXT to pursue multiple financing strategies over the course of the year which we have been successful in completing and are discussed further herein.

The discussion in the MD&A focuses on the highlights of NXT's ongoing business development activities, and any significant changes arising prior to the filing of our MD&A for the fiscal year ended December 31, 2017.

The consolidated financial statements for the year ended December 31, 2017 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. Various steps were taken in 2017 and the first quarter of 2018 to reduce corporate costs and execute on financing options, which have resulted in a significant strengthening of the Company's liquidity and working capital position.

In the preparation of its financial statements management determined that there are no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern for the foreseeable future. However, NXT's future financial results and its longer term success remain dependent upon the closing of the private placement financing, discussed further herein, and the ability to continue to attract and execute client projects to build its revenue base.

During 2017 NXT began by securing of a \$2,700,000 sale and leaseback arrangement of its airplane (see note 19 in the financial statements). Following this transaction, NXT took steps to reduce corporate costs; the most significant included the deferral of a portion of the employees' cash compensation, deferral of all of the Board and Advisory Board members' cash compensation and a reduction in non-essential staff. In addition, the Company completed a Rights Offering to its existing shareholders on November 3rd, 2017 for aggregate gross proceeds of \$2,093,645. Finally on February 16, 2018 the Company entered into an agreement to complete a three-tranche Private Placement under which the Subscriber has committed to purchase 10,905,212 Units at a price of \$0.924 per Unit for total gross proceeds of approximately \$10,076,416 (see section on "Liquidity and Capital Resources").

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

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

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

Near-term Outlook for 2018

There are a number of short-term and longer-term prospects that are being pursued in South and Central America, Africa, Asia, and offshore Atlantic regions.

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

As announced on September 19th, 2016 NXT has submitted a proposal to SHINE Quests FZC ("SQ") for a project where the SFD[®] survey method is the lead technology in the proposed "Project SHINE", currently under consideration by the Sri Lankan government. NXT has agreed the terms of contract with SQ for the provision of SFD[®] survey services and this agreement will be signed and work on the SFD[®] survey will begin once SQ and the Sri Lankan government have finalized a separate contract for a larger scale infrastructure and resource development within the Mannar Basin which will include a commitment to use SFD[®]. There are political and practical considerations governing SQ's contract with the Sri Lankan government and no assurance can be given that the contract will be finalized in the near future, or at all. SQ is partially owned by Generation Resource Discoveries FZC ("GRD") a private company. SQ and GRD are both companies that are registered with the Sharjah Airport International Free Zone Authority in Sharjah, United Arab Emirates ("UAE"). The head office for GRD is P.O. Box 317919, Doha Qatar. GRD is an appointed representative of NXT to solicit prospective clients and SFD survey projects in exchange for a floating scale commission (which is 12.0% based upon delivery and execution of a currently expected net SFD[®] contract value of approximately \$19.9 million with no retainer). No other consideration has been exchanged, or is intended to be exchanged between NXT and GRD. Mr. Sajid Sayeed, Director of Business Development at NXT, is the brother of Mr. Mohammed Salman Sayeed, who is the Chairman of SQ. Mr. Salman Sayeed is also the principal shareholder and Chief Executive Officer of GRD and an indirect shareholder of SQ (through his shareholdings in GRD). Mr. Sajid Sayeed is also cousin of Mr. Syed Saahil Saif who is a Managing Director and also a shareholder of SQ.

Once finally approved by the agencies of the Government of Sri Lanka the performance of the contract and the payment for the achievement of milestones by SQ to NXT shall be governed by the following schedule:

- 40% within 15 days from agreement of Contractual Terms and prior to project commencement and mobilization of the aircraft;
- 15% on completion of all flight surveys;
- 15% on delivery of Final SFD[®] results to the Customer (estimated 6 months from Contractual Terms execution); and
- 30% on completion and submission of technical reports.

The SFD[®] survey data is intended to provide information on trap integrity (the simultaneous presence of trap, reservoir and seal). The purpose of the project is to build a new multi-client data set for Sri Lanka. This will involve the integration of the SFD[®] survey data with all existing Geological & Geophysical data, (which includes regional seismic data), that is available for the Mannar Basin.

The revenue from the "Project SHINE" to NXT is estimated to be approximately US\$28.7 million, of which an estimated US\$19.9 million relates directly to SFD[®] services. The SFD[®] survey work includes the data acquisition, data interpretation and data integration with seismic data. All these services will be provided utilizing the SFD[®] technology and NXT personnel. The remaining revenue estimated to be approximately US\$8.8 million relates to the additional work that may be undertaken, for example, a geological

engineering study, the purchase and reprocessing of existing seismic data, seismic data integration and correlations studies, all of which will be outsourced by NXT to other local and international companies respectively.

The timing of the project is uncertain as it is dependent on a number of factors including government approval and execution of final sales agreements. Dealing with government organizations is a slow and patient process. During our engagement with this project, the Sri Lankan Government made certain changes that slowed down the process. These changes to critical staff engaged with our project have been the primary reason for the delays.

NXT completed the data acquisition and interpretation of 37,596 line km for the first ever SFD® Multi-Client survey in the Gulf of Mexico in June 2017. The airborne survey was conducted over the area that was identified by Comision Nacional de Hidrocarburos (“CNH”) for the shallow water Bid Round 2.1 covering the Tampico-Misantla, Veracruz and Cuencas del Sureste exploration areas. The survey data provides 100% grid coverage over the offshore blocks offered in Bid Round 2.1 an area of approximately 8,900 square kilometers and was completed ahead of time and budget. In addition, NXT acquired incidental data over many of the 35 blocks offered in the recently concluded Bid Round 3.1. Based on the Five-Year Tender Program for the Exploration and Extraction of Hydrocarbons 2015 - 2019 by the Mexican Secretary of Energy, much of the remaining data will also be applicable to future bid rounds. NXT is currently working with CNH to make it available to bid round participants.

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

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

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

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

Initiatives to expand and protect our IP (including patenting and new R&D initiatives) were very successful in 2017. Squire Patton Boggs LLP, a United States (“US”) based leader in IP protection, has been advising NXT on our IP strategy, including the prior filing of an initial US provisional patent application in May 2012. In November 2014, NXT filed a related patent amendment submission in the US and since that time has undertaken new patent applications in select strategic international markets.

NXT’s patent applications have been filed in nine (9) jurisdictions. Thus far five (5) patents have been granted: U.S.A., Canada, Japan, Russia, and Mexico; one (1) allowance was received in China (the examination has been completed, and the Letters Patent document will be issued shortly); three (3) are pending: European Patent Office (38 countries), Brazil, and India. In total NXT has been granted patents or received patent allowance for SFD® in 48 separate countries. SFD® patents granted in the U.S.A. and many other countries serve an important purpose beyond protection of our proprietary SFD® technology.

They also provide multiple independent third-party recognitions of the technological invention in terms of the practical applicability, conceptual novelty, and knowledge advancement.

Summary of Quarterly Results

A summary of operating results for each of the trailing eight 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 SFD® surveys that have been completed or are underway, and variances in such non-cash items as stock based compensation expense ("SBCE"), which can occasionally be a significant expense in any given quarter.

	Q4-2017 Dec 31, 2017	Q3-2017 Sept 30, 2017	Q2-2017 Jun 30, 2017	Q1-2017 Mar 31, 2017
Survey revenue	\$ -	\$ -	\$ -	\$ -
Net income (loss)	(2,096,360)	(1,935,356)	(2,723,956)	(2,214,726)
Income (loss) per share - basic	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.04)
Income (loss) per share - diluted	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.04)

	Q4-2016 Dec 31, 2016	Q3-2016 Sept 30, 2016	Q2-2016 Jun 30, 2016	Q1-2016 Mar 31, 2016
Survey revenue	\$ -	\$ -	\$ -	\$ 1,447,269
Net income (loss)	(2,356,848)	\$ (2,142,834)	\$ (2,643,938)	(1,955,942)
Income (loss) per share - basic	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.04)
Income (loss) per share - diluted	\$ (0.04)	\$ (0.04)	\$ (0.05)	\$ (0.04)

Q4-17 to Q3-17 comparison – NXT had survey revenue of \$nil (\$nil in Q3-17), survey costs of \$252,212 (\$261,658 in Q3-17) related to aircraft maintenance costs and SBCE of \$84,351 (\$162,724 in Q3-17).

Q3-17 to Q2-17 comparison - NXT had survey revenue of \$nil (\$nil in Q2-17), survey costs of \$261,658 (\$612,342 in Q2-17) related to aircraft lease and maintenance costs, and SBCE of \$162,724 (\$169,033 in Q2-17).

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

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

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

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

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

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

Summary of Operating Results

	Q4-17	Q4-16	2017	2016	2015
Survey Revenue	\$ -	\$ -	\$ -	\$ 1,447,269	\$ 17,422,151
Expenses:					
Survey costs	252,212	9,998	1,289,429	1,157,185	5,095,691
General and administrative	1,248,181	1,427,677	4,960,961	5,645,459	5,049,690
Stock based compensation expense	84,351	287,500	581,356	790,500	1,081,000
Amortization of property and equipment	454,163	548,168	1,897,576	2,104,864	704,943
	2,038,907	2,273,343	8,729,322	9,698,008	11,931,324
Other Expenses (income):					
Interest Expense (income), net	(440)	(2,411)	4,485	(17,254)	(13,910)
Foreign exchange (gain) loss	42,888	(351)	69,676	272,713	(712,480)
Other expense (recovery)	12,047	23,058	91,370	218,853	529,081
	54,495	20,296	165,531	474,312	(197,309)
Gain (loss) before income taxes	(2,093,402)	(2,293,639)	(8,894,853)	(8,725,051)	5,688,136
Income tax expense (Recovery):					
Current	2,958	63,209	75,545	374,511	1,970,908
Deferred	-	-	-	-	(6,823,000)
Income tax expense (Recovery)	2,958	63,209	75,545	374,511	(4,852,092)
Net Income (loss) for the period	(2,096,360)	(2,356,848)	(8,970,398)	(9,099,562)	10,540,228
Net Income (loss) per share - basic	\$ (0.04)	\$ (0.04)	\$ (0.16)	\$ (0.17)	\$ 0.22
Net Income (loss) per share - diluted	\$ (0.04)	\$ (0.04)	\$ (0.16)	\$ (0.17)	\$ 0.21

SPD[®] survey operations - NXT applies the completed contract basis of revenue recognition, with survey revenue and expenses recognized in the quarterly period in which the overall survey recommendations report is delivered to our client and the obligation under the contract is fulfilled.

	Q4-17	Q4-16	2017	2016
Aircraft Lease Costs	\$ 148,097	\$ -	\$ 407,944	\$ -
Amortization of deferred gain	(38,825)	-	(103,534)	-
Aircraft Operations	142,608	213,694	613,450	620,854
Survey projects	332	(203,696)	371,569	536,331
Survey expenses, net	252,212	9,998	1,289,429	1,157,185

During Q4 2017, the survey costs related entirely to the aircraft lease and maintenance costs, net of charter hire revenue.

During Q2 2017, NXT completed its first ever SFD® Multi-Client survey in the Gulf of Mexico. There have been no sales for the SFD® data that was recorded and therefore the direct costs of the survey have been expensed during the quarter. Survey costs only represent the direct costs that were incurred during operations of this survey and exclude any indirect costs associated with the use of the technology.

In 2015, NXT completed SFD® survey projects in Bolivia totaling US\$13.2 million. An additional expansion project that was flown for Yacimientos Petroliferos Fiscales Bolivianos (YPFB) the National Oil Company of Bolivia, was delivered and completed in January, 2016. It resulted in US\$1million of revenue.

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

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

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

	Q4-17	Q4-16	net change	% change
Salaries, benefits and consulting charges	\$ 676,516	\$ 851,892	\$ (175,376)	(21%)
Board, professional fees, & public company costs	254,962	218,584	36,378	17%
Indirect financing costs	-	-	-	0%
Premises and administrative overhead	192,664	276,283	(83,619)	(30%)
Business development	89,466	63,228	26,238	41%
Bolivian Overhead	34,573	-	34,573	0%
Other	-	17,690	(17,690)	100%
Total G&A	1,248,181	1,427,677	(179,496)	(13%)

	2017	2016	net change	% change
Salaries, benefits and consulting charges	\$ 2,709,194	\$ 3,192,304	\$ (483,110)	(15%)
Board, professional fees, & public company costs	873,864	908,086	(34,222)	(4%)
Indirect financing costs	35,865	-	35,865	100%
Premises and administrative overhead	842,994	886,795	(43,801)	(5%)
Business development	257,465	589,300	(331,835)	(56%)
Bolivian Overhead	241,532	-	241,532	(100%)
Other	46	68,974	(68,928)	(100%)
Total G&A	4,960,961	5,645,459	(684,498)	(12%)

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

- Q4 2017 and full year 2017 salaries, benefits and consulting charges are lower than Q4 2016 and 2016 levels due to lower staffing levels.
- Board, professional fees & public company costs, were slightly higher in Q4 2017 due to increased legal fees. For the full year costs were slightly down due to 2 less board members and other cost controls.
- Indirect financing costs in 2017 were higher due to work focused on obtaining new financing and negotiating the aircraft leaseback.
- Premises and administrative overhead were lower in Q4 2017 and full year 2017 versus the 2016 due to cost reduction and deferred spending efforts.
- Business development costs were higher in Q4 2017 due to higher marketing activity, but lower for the year as marketing costs were reduced.
- Q4 2017, Bolivian overhead costs of \$34,573 (year to date \$241,532) were classified as consolidated survey costs as the sole purpose of the office opening was to administer the YPFB survey. At the beginning of Q1 2017, Bolivian overhead costs were presented as G&A to reflect the fact the office has been maintained to facilitate periodic operating activities in Bolivia that are anticipated from time to time. In Q2 2017 a previously held "fiscal tax credit" of \$127,798 was expensed as the recoverability of this receivable was no longer considered certain. The credit related to the Bolivian equivalent of input sales tax and is usually offset against output sales tax. It is not refundable if input tax exceeds output tax.
- Other costs related to the Colombian branch which was closed in 2016.

Stock Based Compensation Expense ("SBCE") - this expense varies in any given quarter or year, as it is a function of several factors, such as the number of stock options issued in the period, and the period of amortization (based on the term of the contract and / or number of years for full vesting of the options, which is normally 3 years) of the resultant expense. Also, SBCE is a function of periodic changes in the inputs used in the Black-Scholes option valuation model, such as volatility in NXT's trailing share price.

There was a lower average number of options outstanding in the Q4 2017 period (total of 1,648,667 as at the end of Q4 2017 as compared to 3,321,001 at the end of Q3 2016).

Interest income (expense), net – includes interest income earned on short-term investments & interest expense from capital lease obligations. Interest expense as at the end of 2017 was \$4,485 as compared to interest income of \$17,254 at the end of 2016.

Loss (gain) on foreign exchange - this total is caused by changes in the relative exchange values of the US\$ and CDN\$. For example, when the CDN\$ trades higher relative to the US\$, cash held in US\$ will decline in value, and this decline will be reflected as a foreign exchange loss in the period. NXT normally holds its cash and short-term investments in CDN\$ to reduce the effect of market volatility; however, we periodically are contractually obligated to hold certain restricted cash funds in US\$ instruments to support performance bond commitments in certain foreign countries.

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

The valuation is also affected by the relative strength of the US\$ at each period end, resulting in both realized and unrealized net exchange movements on the net holdings of US\$ cash and other working capital items. The foreign exchange loss for the year was primarily caused by the translation of assets and liabilities in the Canadian Company which were held in US\$.

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

Other Expenses	Q4-17	Q4-16	2017	2016
Intellectual property and R&D	\$ 13,661	\$ 20,694	\$ 86,604	\$ 60,143
TSX list project and other, net	(1,615)	2,364	4,765	158,710
	12,046	23,058	91,370	218,853

For 2017 other expenses consisted primarily of costs incurred to secure a patent for SFD® in the United States and to continue to develop SFD® technology. In 2016, other expenses included exchange listing fees and related professional fees incurred to allow NXT to apply to upgrade its stock exchange listing from the TSX-Venture Exchange, to the TSX. NXT’s new listing on the TSX, Canada’s premier exchange, was approved effective March 22, 2016.

Intellectual property and related amortization expense - NXT finalized its acquisition of specific rights to utilize the proprietary SFD® technology from its inventor, NXT’s President & CEO, on August 31, 2015. As a result of this acquisition, NXT obtained the exclusive rights to utilize the SFD® intellectual property in global hydrocarbon exploration applications.

The value attributed to the intellectual property (“IP”) assets acquired in 2015 was \$25.3 million. The IP assets are being amortized on a straight-line basis over a 15-year period (future amortization expense of \$1,685,000 per year), and will also be subject to ongoing tests of potential impairment of the recorded net book value. No impairments were recognized during the years ended December 31, 2017 and 2016.

Amortization Expense	Q4-17	Q4-16	2017	2016
Property and equipment	\$ 32,979	\$ 126,799	\$ 212,843	\$ 420,131
Intellectual property	421,184	421,369	1,684,733	1,684,733
	454,163	548,168	1,897,576	2,104,864

Income tax expense - NXT periodically earns revenues while operating outside of Canada as a non-resident within certain foreign jurisdictions, and services rendered to clients in such countries may be subject to foreign withholding taxes, which are only recoverable in certain limited circumstances. Income tax expense for 2017 and 2016 reflects such withholding taxes which were incurred on charges related to the Bolivia survey project. There was no income tax expense in Canada or Bolivia during Q4 2017.

Liquidity and Capital Resources

NXT's cash and cash equivalents plus short-term investments at the end of 2017 was \$ \$1,116,618.

NXT's longer-term success remains dependent upon our ability to continue to attract new client projects and expand the revenue base to a level sufficient to far exceed G&A expenses, and generate excess net cash flow from operations. Equity financings have been used to supplement working capital as required.

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

client billings is mitigated through the use of export insurance programs offered via Export Development Canada (“EDC”).

During 2017 NXT made significant progress in strengthening its liquidity and working capital position through a series of corporate actions described below.

The Company began by securing of a \$2,700,000 sale and leaseback arrangement of its airplane (see note 19 in the financial statements). Following this transaction, NXT took steps to reduce corporate costs; the most significant included the deferral of a portion of the employees’ cash compensation, deferral of all of the Board and Advisory Board members’ cash compensation and a reduction in non-essential staff. In addition, the Company completed a Rights Offering to its existing shareholders on November 3rd, 2017 for aggregate gross proceeds of \$2,093,645. Finally on February 16, 2018 the Company entered into an agreement to complete a three-tranche Private Placement under which the Subscriber has committed to purchase 10,905,212 Units at a price of \$0.924 per Unit for total gross proceeds of approximately \$10,076,416.

Sale Lease Back: In order to enhance the short-term cash flow of the business, NXT completed a sale and leaseback agreement with a Calgary based international aircraft services organization on April 28th, 2017. The terms of the agreement involve NXT selling its’ Cessna Citation aircraft that was purchased in 2015 for US\$2,000,000 for the sum of US\$2,300,000. NXT has leased the aircraft back for a minimum period of 60 months and retains all existing operating rights and obligations. Net proceeds to NXT from the sale were approximately CAD \$2,700,000, after payment of all commissions and fees. The net book value of the asset of \$2,400,000 was derecognized and the resulting gain on disposition of \$776,504 was deferred (\$621,203 included in long term liabilities and \$155,301 included in accounts payable and accrued liabilities). The gain will be recognized as a reduction to the Company’s lease expense over the 60 month term of the lease. The resulting leaseback transaction is an operating lease. NXT is required to make monthly payments to the lessor of approximately US\$40,000. NXT has the option to extend the term of the lease by an additional two years. Should NXT want to repurchase the aircraft at the end of the initial lease term, the purchase price is US\$1,450,000.

Reduction in Corporate Costs: Following the completion of the sale and leaseback, NXT took steps to reduce corporate costs; the most significant included the deferral of a portion of the employees’ cash compensation, deferral of all of the Board and Advisory Board members’ cash compensation and a reduction in non-essential staff.

Rights Offering: On September 26th, 2017 the Company announced a Rights Offering to its existing shareholders.

The Rights Offering closed on November 3rd 2017 with the following results:

	Non Insiders	Insiders	Total	Percentage
Basic Subscription	1,556,751	680,856	2,237,607	53%
Over Subscription	1,949,683	-	1,949,683	47%
Total Shares Purchased	3,506,434	680,856	\$ 4,187,290	100%
Total Proceeds			\$ 2,093,645	

Private Placement: On February 16, 2018 the Company entered into an agreement to complete a three-tranche Private Placement under which the Subscriber has committed to purchase 10,905,212 Units at a price of \$0.924 per Unit for total gross proceeds of approximately \$10,076,416. Each Unit consists of one

Common Share and one-third of one Warrant. Each Warrant entitles the holder to acquire one Warrant Share at an exercise price of \$1.20 for twelve (12) months from closing of the first tranche of the Private Placement.

Closing of First Tranche of Private Placement

The first tranche of the Private Placement was completed on February 16, 2018 and the Company received \$4,310,500 in connection with the issuance of 4,665,043 Units. The Subscriber now holds approximately 9.9% of the Company's outstanding Common Shares (including the Common Shares to be issued upon exercise of the Warrants).

Additional Tranches of Private Placement

Closing of the second tranche of 5,538,203 Units for gross proceeds of approximately \$5,117,300, is expected to occur early in the second quarter of 2018. The Company received the necessary TSX clearance of Personal Information Forms submitted by certain principals of the Subscriber in late March 2018 and has commenced the process of closing this tranche. No shareholder approval is required to close the second tranche of the financing. Following the completion of the second tranche of the Private Placement, closing of the third tranche of the Private Placement, consisting of issuance of 701,965 Units for gross proceeds of approximately \$648,616, will cause the Subscriber to be deemed a "Control Person" of the Company under applicable securities laws and is subject to approval by the shareholders of the Company (other than the Subscriber and its associates or affiliates) on or before May 17, 2018.

Other Material Agreements

In conjunction with closing the second tranche, the Company and the Subscriber have agreed to enter into an Investor Rights Agreement pursuant to which: (a) the Subscriber will have the right to nominate one director for election to the board of directors of the Company (subject to maintaining any equity ownership of at least 10% in the Company); (b) the Subscriber will be entitled to participate in future equity or convertible security offerings of the Company in order to maintain its pro rata equity interest in the Company (subject to maintaining any equity ownership of at least 10% in the Company); (c) the Subscriber will be entitled to a similar equity offering participation right in connection with certain new entities that may be created by the Company to expand the application of its proprietary technologies; and (d) the Subscriber has agreed to a 18 month standstill from the closing date of the second tranche of the Private Placement and a 12 month restriction on dispositions of 75% of the securities acquired in the Private Placement.

Following the proceeds received as a result of the Rights Offering and the Private Placement, NXT has estimated that it will have sufficient funds to meet its ongoing obligations for a period of approximately 24 months.

NXT has no secured debt, and had a "net working capital" deficiency of \$318,166 as at December 31, 2017 as follows:

	Dec 31, 2017	Dec 31, 2016	net change as at Q4-17
Current assets (current liabilities)			
Cash and cash equivalents	\$ 1,116,618	\$ 1,943,587	\$ (826,969)
Accounts receivable	60,027	205,952	(145,925)
Prepaid expenses and deposits	107,363	166,802	(59,439)
Accounts payable and accrued liabilities	(1,562,394)	(575,964)	(986,430)
Income taxes payable	(201)	(98)	(103)
Current portion of capital lease obligation	(39,579)	(36,769)	(2,810)
Net working capital	(318,166)	1,703,510	(2,021,676)

The reduction in accounts receivable of \$145,925 in the year is primarily due to the reversal in Q2 2017 of a Bolivian income tax credit of \$121,000 that was no longer considered recoverable (see "General and administrative expense").

The increase in accounts payable and accrued liabilities is comprised of the following movements:

	Dec 31, 2017	Dec 31, 2016	net change as at Q4-17
Trade Accounts Payable	\$ (430,100)	\$ (282,402)	\$ (147,699)
Deferred Gain on Sale of Aircraft	(155,301)	-	(155,301)
Deferred Employee salaries	(380,548)	-	(380,548)
Deferred Director /Advisory Board Remuneration	(213,181)	-	(213,181)
Accrued Liabilities	(212,700)	(107,387)	(105,313)
Vacation Pay Accrued	(170,563)	(148,248)	(22,315)
Miscellaneous movements	-	(37,927)	37,927
	(1,562,394)	(575,964)	(986,430)

Due to the Company experiencing cash flow constraints, measures were taken in early Q2 2017 to conserve cash wherever possible. These measures included deferring a portion of the employees pay and substantially all of the Directors and Advisory Board members' remuneration.

NXT applies the "completed contract" method of revenue recognition - revenues and related project costs are deferred until the period in which the survey contract is completed. At each period end, if applicable, deferred revenue (a current liability) represents progress billing amounts that are to be recognized in revenue in future periods. Similarly, work-in-progress ("WIP", a current asset) relates to deferred survey costs which will be expensed in future periods upon completion of the related contracts. As these amounts do not represent future cash inflows or outflows to the Company, they are excluded (in periods in which applicable) from NXT's analysis of net working capital. There were no amounts recorded in WIP and deferred revenue at December 31, 2017, or as at December 31, 2016.

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

Cash flows from (used in)	Q4-17	Q4-16	2017	2016
Operating activities	\$ (514,183)	\$ (1,442,067)	\$ (5,464,679)	\$ (7,587,614)
Financing activities	2,019,864	79,019	2,022,943	464,811
Investing activities	(1,408,765)	1,388,822	3,117,858	527,496
Net source (use) of cash	96,916	25,774	(323,878)	(6,595,307)
Cash and cash equivalents, start of period	69,702	464,722	490,496	7,085,803
Cash and cash equivalents, end of period	166,618	490,496	166,618	490,496
Cash and cash equivalents	166,618	490,496	166,618	490,496
Short-term investments	950,000	1,453,091	950,000	1,453,091
Total	1,116,618	1,943,587	1,116,618	1,943,587

Operating Activities

Operating Activities	Q4-17	Q4-16	2017	2016
Net income (loss) for the period	\$ (2,096,360)	\$ (2,356,848)	\$ (8,970,398)	\$ (9,099,562)
Total non-cash expense items	591,003	835,710	2,676,705	2,896,447
	(1,505,357)	(1,521,138)	(6,293,693)	(6,203,115)
Change in non-cash working capital balances	991,174	79,071	829,014	(1,384,499)
Cash used in operating activities	(514,183)	(1,442,067)	(5,464,679)	(7,587,614)

For all periods, changes in operating cash flow was driven by the lack of revenue and incurred operating costs for the period.

Financing Activities

Financing Activities	Q4-17	Q4-16	2017	2016
Proceeds from exercise of stock options	\$ 5,575	\$ 87,769	\$ 35,995	\$ 498,970
Net proceeds from Rights Offering	2,029,867	-	2,029,867	-
Cost of shares for debt	(6,149)	-	(6,149)	-
Repayment of Capital Lease Obligation	(9,428)	-	(36,769)	(34,159)
Cash from (used in) investing activities	2,019,865	87,769	2,022,944	464,811

NXT recorded a cash inflow of \$2,019,865 in 2017 related mostly from the Rights Offering. In 2016 \$34,159 use of cash reflected repayments of the capital lease obligation and \$498,970 proceeds from the exercise of NXT stock options.

Investing Activities

Investing Activities	Q4-17	Q4-16	2017	2016
Sale/(purchase) of property and equipment	\$ (1)	\$ (3,138)	\$ 3,133,532	\$ (89,702)
Decrease (increase) in short term investments	(889,999)	1,391,962	503,091	602,387
Decrease in restricted cash	-	-	-	75,000
(Increase) in deposits	(518,765)	-	(518,765)	-
Change in non-cash working capital balances	-	-	-	(60,187)
Cash from (used in) investing activities	(1,408,765)	1,388,824	3,117,858	527,498

On April 28th, 2017 NXT completed a sale and leaseback transaction on its' Cessna Citation aircraft for \$3,142,260 (US\$2,300,000). The aircraft was originally purchased for \$2,734,610 (US\$2,000,000) in December 2015 and at the date of sale accumulated amortization of \$368,854. The sale resulted in a gain of \$776,504, which was deferred and will be amortized over the term of the lease (5 years).

The \$89,702 purchase of property and equipment in 2016 relates to upgrades to IT equipment.

Restricted cash was removed in 2016 as deposits held for credit cards were released by the Company's bank.

Contractual Commitments

Aircraft and office premises lease

NXT has an operating lease commitment on its Calgary office space for a 10-year term at an initial estimated minimum monthly lease payment of \$44,624 (including operating costs).

The leaseback of NXT's aircraft is an operating lease with a minimum term of 60 months and monthly lease payments of approximately US\$40,000.

The estimated future minimum annual commitments for these leases are as follows as at December 31, 2017:

For the period ended December 31	Office Premises		Aircraft
2018	\$	551,553	\$ 594,633
2019		551,553	594,633
2020		554,526	594,633
2021		563,456	594,633
2022		563,456	148,658
		2,784,544	2,527,190
Thereafter, 2023 through 2025		1,549,787	-
		4,334,331	2,527,190

Additional Disclosures - Outstanding Securities

	As at		
	March 29, 2017	December 31, 2017	December 31, 2016
Shares issued and outstanding:			
Common shares	62,832,843	58,161,133	53,856,509
Common shares reserved for issue re:			
Stock options	2,292,000	1,648,667	3,321,001
	65,124,843	59,809,800	57,177,510

Other Transactions with Related Parties

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

	For the three months ended December 31		For the year ended ended December 31	
	2017	2016	2017	2016
Legal Fees	\$ 88,936	\$ 13,890	\$ 172,199	\$ 62,645

Accounts payable and accrued liabilities includes a total of \$120,479 (\$10,443 as at December 31, 2016) payable to this law firm.

Critical Accounting Estimates

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

Revenue Recognition

Revenue earned on SFD[®] survey contracts (net of any related foreign sales taxes) is recognized on a completed contract basis. This method of revenue recognition is currently deemed appropriate given the complex nature of the end product that is delivered to the client. While the quantity of data acquisition can be measured based on actual line kilometers flown, the acquired SFD[®] data does not realize its full value until it is processed, interpreted in detail, and a recommendations report is generated and reviewed with the client's geological and geophysical staff.

All funds received or invoiced in advance of completion of the contract are reflected as unearned revenue and classified as a current liability on our balance sheet. All survey expenditures and obligations related to uncompleted SFD[®] survey contracts (including directly related sales commissions) are reflected as work-in-progress and classified as a current asset on our balance sheet. Upon completion of the related contract, unearned revenue and the work-in-progress is moved as appropriate to the statement of earnings (loss) as either revenue or survey cost. Survey costs do not include any salaries and overhead related to SFD[®] data interpretation staff (which is included in G&A expense) or amortization of property and equipment expense.

Changes in Accounting Policies Including Initial Adoption

No new accounting policies were adopted in 2017.

Future Accounting Policy Changes – Revenue recognition + Leases

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

This new guidance will be effective from January 1, 2018, and early application is not permitted. There will be two methods in which the amendment can be applied: (1) retrospectively to each prior reporting period (which will include NXT’s fiscal years 2016 and 2017) presented, or (2) retrospectively with the cumulative effect recognized at the date of initial application. As the Company has generated limited revenue over the past two years, the new standard is not anticipated to have a significant impact on periods prior to the adoption of the new standard. As the Company enters into new contracts with customers in future periods, it will evaluate the impact of the new standard on these contracts and will disclose the related revenue recognition implications at that time.

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

Risk Factors

NXT is exposed to numerous business related risks, some of which are unique to the nature of its operations. Many of these risks cannot be readily controlled.

Future Operations

NXT is still in the early stages of realizing wide-spread commercialization of its SFD[®] technology. Its ability to generate cash flow from operations will depend on its ability to service its existing clients and develop new clients for its SFD[®] services. Management recognizes that the commercialization phase can last for several years, and that it can have significant economic dependence on a small number of clients, which can have a material effect on the Company's operating results and financial position.

NXT anticipates that it will be able to generate both net income and cash from operations in future years based on its current business model; however, this outcome cannot be predicted with certainty. The Company has a history of generating net losses and periodic shortages of working capital. The Company's consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities that might be necessary should NXT be unable to generate sufficient revenues, net income and cash flow from operations in future years in order to continue as a going concern.

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

International operations

NXT conducts the majority of its operations in foreign countries, some of which it has not operated in before. This exposes NXT to various risks related to stability of political regimes, knowledge of the local customs, duties and other taxes, foreign currency and funds repatriation, the ability to access the relevant local services, and potential delays in commencing the projects.

Management and staff

NXT's success is currently largely dependent on the performance of a limited group of senior management and staff. The loss of the services of any of these persons could have an adverse effect on our business and prospects. There is no assurance that NXT can maintain the services of our complement of management, Directors, staff and other qualified personnel that are required to operate and expand our business.

Reliance on specialized equipment, and the protection of intellectual property

NXT currently has a limited number of SFD[®] survey sensors which are used in survey data acquisition operations. In addition, there is potential risk that the equipment could become damaged or destroyed during operations, become obsolete, or that a third party might claim an interest in our proprietary intellectual property. The costs of legal defense of our rights to the SFD[®] technology could be very significant.

Related party transactions

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

All related party transactions have the potential to create conflicts of interest that may undermine the Board of Director's fiduciary responsibility to NXT shareholders. NXT manages this risk of conflict of interest through maintenance of a strong independent Board of Directors. Four of the five current Directors are independent. All significant transactions between Officers and or Directors of the Company are negotiated on behalf of NXT and voted upon by the disinterested Directors to protect the best interests of all shareholders.

Volatility in oil and natural gas commodity prices may affect demand for our services

NXT's customer base is in the oil and natural gas exploration industry, which is exposed to risks of volatility in oil and natural gas commodity prices. As such, demand for our services, and prospective revenues, may become adversely impacted by ongoing declines in oil and natural gas prices. The impact of price changes on our ability to enter into SFD[®] survey contracts cannot be readily determined. However, in general, if commodity prices decline significantly, our opportunity to obtain and execute SFD[®] survey contracts will also likely decline, at least in the short term.

Foreign currency fluctuations

NXT currently bills its revenues in US\$ and occasionally local currencies (such as in Bolivia). We frequently hold cash in CDN\$ as well as in US\$ and other foreign currencies (such as Bolivia) and are thus exposed to foreign exchange risk due to foreign currency fluctuations. Additionally, most of our operating expenses are incurred in CDN\$. We do not currently engage in currency hedging activities which can be used to mitigate this risk.

As NXT continues to expand into foreign markets, it may become exposed to additional foreign currency fluctuation risks, and currency hedging strategies will be utilized where appropriate.

Interest rate fluctuations

NXT periodically invests excess cash in short-term investments which generally yield fixed interest rates. Accordingly, NXT faces some risk related to volatility in interest rates, as interest income may be adversely affected by any material changes in interest rates.

Disclosure Controls and Procedures ("DCP") and Internal Controls over Financial Reporting ("ICFR")

NXT's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (together, the "Responsible Officers") are responsible for establishing and maintaining DCP, or causing them to be designed under their supervision, for NXT to provide reasonable assurance that material information relating to the Company is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end consolidated financial statements and MD&A are being prepared.

DCP and other procedures are designed to ensure that information required to be disclosed in reports that are filed is recorded, summarized and reported within the time periods specified by the relevant security authority in either Canada or the United States of America. DCP include controls and procedures designed to ensure that information required to be disclosed in our reports is communicated to management, including our Responsible Officers, to allow timely decisions regarding required disclosure.

The Company has established and maintains ICFR using the criteria that were set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). The control framework was designed or caused to be designed under the supervision of the Company's CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP.

During the 3 month period ended December 31, 2017, a majority of the Company's finance team, including its CFO and Accounting Analyst, left the Company. Prior to the departure of the Company's previous CFO at the end of November 2017, NXT contracted a part-time Controller starting on November 27, 2017, who is now engaged on a full-time basis, to assist in the transition of finance and disclosure responsibilities for the Company. During December 2017 and January 2018, one of the Company's board members took the role of interim CFO until the Company's current CFO took office on February 1, 2018. The transition to new financial management and limited overlap between personnel have resulted in a temporary weakening of ICFR. To address this issue and improve ICFR moving forward, management has established a practice of increased engagement of the Company's Disclosure and Audit Committees in reviewing the public disclosure and has increased engagement of external consultants and legal counsel as well. Notwithstanding, the Company recognizes its disclosure practices still have deficiencies and has therefore further taken on a process of continuous improvement in financial reporting and disclosure policies and responsibilities from which we expect to see benefits over the course of 2018.

Furthermore, in an evaluation of the effectiveness of the Company's DCP as defined under the rules adopted by the Canadian securities regulatory authorities and by the US SEC, the Company's Responsible Officers concluded that there are material weaknesses in the Company's ICFR that have a direct impact on the Company's DCP:

- due to the limited number of staff, it is not feasible to achieve adequate segregation of incompatible duties. NXT mitigates this deficiency by adding management and Audit Committee review procedures over the areas where inadequate segregation of duties are of the greatest concern, and
- NXT does not have a sufficient level of staff with specialized expertise to adequately conduct separate preparation and a subsequent independent review of certain complex or highly judgmental accounting issues. These complex areas have historically included accounting for income taxes and equity related transactions. NXT mitigates this deficiency by preparing financial statements with their best judgments and estimates of the complex accounting matters and relies on reviews by management, external consultants and the Audit Committee for quality assurance.

From time to time to reduce these risks and to supplement a small corporate finance function, the Company engages various outside experts and advisors to assist with various accounting, controls and tax issues in the normal course. In addition the Company has contracted a controller on a full time basis to assist in these matters.

Notwithstanding NXT's efforts to mitigate the risks associated with the above-mentioned deficiencies, the CEO and CFO concluded that the Company's ICFR are not effective and as a result its DCP are not effective as at December 31, 2017. NXT reached this conclusion based upon their assessment that there is more than a remote likelihood that its ICFR will not prevent or detect material misstatements if they should exist in our consolidated financial statements.

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

Additional Information

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



NXT ENERGY SOLUTIONS INC.

Consolidated Financial Statements

**For the year ended
December 31, 2017**



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NXT Energy Solutions Inc.

We have audited the accompanying consolidated financial statements of NXT Energy Solutions Inc., which comprise the consolidated balance sheets as at December 31, 2017 and 2016 and the consolidated statements of Income (loss) and comprehensive Income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with US generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NXT Energy Solutions Inc. as at December 31, 2017 and 2016, and its consolidated results of operations and its consolidated cash flows for each of the years in the three-year period ended December 31, 2017 in accordance with US generally accepted accounting principles.

KPMG LLP

Chartered Professional Accountants

March 29, 2018
Calgary, Canada

NXT ENERGY SOLUTIONS INC.

Consolidated Balance Sheets

(Expressed in Canadian dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 166,618	\$ 490,496
Short-term investments	950,000	1,453,091
Accounts receivable	60,027	205,952
Prepaid expenses	107,363	166,802
	1,284,008	2,316,341
Long term assets		
Deposits (Note 3)	518,765	-
Property and equipment (Note 4)	778,685	3,348,557
Intellectual property (Note 5)	21,339,533	23,024,268
	\$ 23,920,991	\$ 28,689,166
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	\$ 1,562,394	\$ 575,964
Income taxes payable	201	98
Current portion of capital lease obligation (Note 7)	39,579	36,769
	1,602,174	612,831
Long-term liabilities		
Capital lease obligation (Note 7)	85,118	124,697
Other liabilities (Note 19)	517,669	-
Asset retirement obligation (Note 8)	56,702	55,240
Deferred charges (Note 15)	81,919	84,838
	741,408	264,775
	2,343,582	877,606
Commitments and contingencies (Note 15)		
Subsequent events (Note 20)		
Shareholders' equity		
Common shares (Note 9): - authorized unlimited		
Issued: 58,161,133 (2016 - 53,856,509) common shares	88,121,286	85,966,393
Contributed capital	8,195,075	7,613,719
Deficit	(75,449,886)	(66,479,488)
Accumulated other comprehensive income	710,934	710,935
	21,577,409	27,811,560
	\$ 23,920,991	\$ 28,689,166

Signed "George Liszicasz"
Director

Signed "Bruce G. Wilcox"
Director

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

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian dollars)

	For the Year ended December 31		
	2017	2016	2015
Revenue			
Survey revenue (Note 16)	\$ -	\$ 1,447,269	\$ 17,422,151
Expenses			
Survey costs, net (Note 17)	1,289,429	1,157,185	5,095,691
General and administrative expenses	4,960,961	5,645,459	5,049,690
Stock based compensation expense (Note 11)	581,356	790,500	1,081,000
Amortization expense (Note 4)	1,897,576	2,104,864	704,943
	<u>8,729,322</u>	<u>9,698,008</u>	<u>11,931,324</u>
Other expenses (income)			
Interest expense, net	4,485	(17,254)	(13,910)
Foreign exchange (gain) loss	69,676	272,713	(712,480)
Intellectual property and other expenses	91,370	218,853	529,081
	<u>165,531</u>	<u>474,312</u>	<u>(197,309)</u>
Income (Loss) before income taxes	(8,894,853)	(8,725,051)	5,688,136
Income tax (recovery) expense (Note 13)			
Current	75,545	374,511	1,970,908
Deferred	-	-	(6,823,000)
	<u>75,545</u>	<u>374,511</u>	<u>(4,852,092)</u>
Net Income (Loss) and comprehensive Income (Loss)	<u>\$ (8,970,398)</u>	<u>\$ (9,099,562)</u>	<u>\$ 10,540,228</u>
Net Income (Loss) per share (Note 10)			
Basic	\$ (0.16)	\$ (0.17)	\$ 0.22
Diluted	\$ (0.16)	\$ (0.17)	\$ 0.21

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

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

For the Year ended December 31

	2017	2016	2015
Cash provided by (used in):			
Operating activities			
Comprehensive income (loss) for the year	\$ (8,970,398)	\$ (9,099,562)	\$ 10,540,228
Items not affecting cash:			
Deferred income tax recovery	-	-	(6,823,000)
Stock based compensation expense	581,356	790,500	1,081,000
Amortization expense	1,897,576	2,104,864	704,943
Settlement of payable with shares	95,181	-	-
Non-cash changes to asset retirement obligation	2,283	4,000	1,800
Asset retirement obligations paid	(821)	-	(560)
Valuation allowance of Bolivian Tax Credits	207,682	-	-
Amortization of deferred gain on sale of aircraft (Note 19)	(103,534)	-	-
Other	(3,018)	(2,917)	87,756
Change in non-cash working capital balances (Note 14)	829,014	(1,384,499)	1,392,755
	<u>3,505,719</u>	<u>1,511,948</u>	<u>(3,555,306)</u>
Net cash provided (used) in operating activities	<u>(5,464,679)</u>	<u>(7,587,614)</u>	<u>6,984,922</u>
Financing activities			
Proceeds from exercise of stock options	35,994	498,970	335,946
Net Proceeds from Rights Offering	2,029,867	-	-
Cost of equity-based transaction with non-employee	(6,149)	-	-
Repayment of capital lease obligation	(36,769)	(34,159)	(8,122)
Net cash from financing activities	<u>2,022,943</u>	<u>464,811</u>	<u>327,824</u>
Investing activities			
Proceeds from sale/(purchase) of property & equipment, net	3,133,532	(89,702)	(3,380,717)
Decrease in short-term investments	503,091	602,385	3,117,952
(Increase) in Deposits	(518,765)	-	-
Decrease (increase) in restricted cash	-	75,000	(75,000)
Change in non-cash working capital balances (Note 14)	-	(60,187)	60,187
Net cash from (used in) investing activities	<u>3,117,858</u>	<u>527,496</u>	<u>(277,578)</u>
Net (increase) decrease in cash and cash equivalents	(323,878)	(6,595,307)	7,035,168
Cash and cash equivalents, beginning of the year	490,496	7,085,803	50,635
Cash and cash equivalents, end of the year	<u>\$ 166,618</u>	<u>\$ 490,496</u>	<u>\$ 7,085,803</u>
Supplemental information			
Cash interest (received)	4,487	16,057	(15,134)
Cash taxes paid	<u>\$ 72,587</u>	<u>\$ 1,634,360</u>	<u>\$ 717,782</u>

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

NXT ENERGY SOLUTIONS INC.

Consolidated Statements of Shareholders' Equity

(Expressed in Canadian dollars)

For the Year ended December 31

	2017	2016	2015
Common Shares			
Balance at beginning of the year (Note 9)	\$ 85,966,393	\$ 85,051,553	\$ 65,792,307
Conversion of preferred shares and acquisition of intellectual property	-	-	18,680,600
Rights Offering	2,029,867	-	-
Issued upon exercise of stock options (Note 9)	35,995	498,970	335,946
Transfer from contributed capital upon exercise of stock options	-	415,870	242,700
Equity-based transaction with non-employee	89,031	-	-
Balance at end of the year	<u>88,121,286</u>	<u>85,966,393</u>	<u>85,051,553</u>
Preferred Shares			
Balance at the beginning of the year	-	-	232,600
Conversion to common shares	-	-	(232,600)
Balance at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>
Contributed Capital			
Balance at beginning of the year	7,613,719	7,239,089	6,400,789
Recognition of stock based compensation expense	581,356	790,500	1,081,000
Contributed capital transferred to common shares upon exercise of stock options	-	(415,869)	(242,700)
Balance at end of the year	<u>8,195,075</u>	<u>7,613,720</u>	<u>7,239,089</u>
Deficit			
Balance at beginning of the year	(66,479,488)	(57,379,926)	(67,920,154)
Net loss and comprehensive loss for the year	(8,970,398)	(9,099,562)	10,540,228
Balance at end of the year	<u>(75,449,886)</u>	<u>(66,479,488)</u>	<u>(57,379,926)</u>
Accumulated Other Comprehensive Income			
Balance at beginning and end of the year	<u>710,934</u>	<u>710,935</u>	<u>710,935</u>
Total Shareholders' Equity at end of the year	<u>\$ 21,577,409</u>	<u>\$ 27,811,560</u>	<u>\$ 35,621,651</u>

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

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2017
(Expressed in Canadian dollars unless otherwise stated)

1. The Company 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 exploration industry to identify subsurface trapped fluid accumulations.

NXT's financial statements at December 31, 2016 included disclosure related to the use of the "going concern" basis of presentation. Various steps were taken in 2017 and the first quarter of 2018 (see notes 9, 19 and 20), which resulted in a significant strengthening of the Company's liquidity and working capital position.

In the preparation of these financial statements management determined that there are no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern. However, NXT's future financial results and its longer term success remain dependent upon the closing of the private placement financing (note 20) and the ability to continue to attract and execute client projects to build its revenue base.

Subsequent to year end the Company has continued to implement cash flow reduction measures initiated in 2017; the most significant include the deferral of a portion of the employees' cash compensation, and deferral of substantially all of the Board and Advisory Board members' cash compensation.

The Company's longer term success remains dependent upon its ability to execute successful contracts providing a revenue base sufficient to fund operating costs and general and administrative costs, and generate positive cash flow from operations. The occurrence and timing of these events cannot be predicted with certainty. The Company will be closely monitoring its going concern assessment in future periods to determine whether its current conclusions remain appropriate.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements for the year ended December 31, 2017 have been prepared by management in accordance with generally accepted accounting principles of the United States of America ("US GAAP") and by applying the same accounting policies and methods as used in preparing the consolidated financial statements for the fiscal year ended December 31, 2016.

Consolidation

These consolidated financial statements reflect the accounts of the Company and its wholly owned subsidiaries (all of which are inactive). All significant inter-company balances and transactions among NXT and its subsidiaries have been eliminated and are therefore not reflected in these consolidated financial statements.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the year ended December 31, 2017

(Expressed in Canadian dollars unless otherwise stated)

Estimates and Assumptions

Estimates made relate primarily to the use of the going concern assumption, estimated useful lives and valuation of intellectual property and property and equipment, the measurement of stock-based compensation expense, valuation of deferred income tax assets, and estimates for asset retirement obligations. The estimates and assumptions used are based upon management's best estimate. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period when determined. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short term GICs with an original maturity less than 90 days from the date of acquisition.

Short Term Investments

Short term investments consist of short term GICs, with original maturity dates greater than 90 days but less than one year.

Revenue Recognition

Revenues from SFD[®] survey contracts performed by NXT (net of any related foreign sales tax) are recognized using the completed contract method of revenue recognition. Substantial completion of the contract culminates with NXT's delivery to its clients of a final interpretation and recommendations report for the survey project. This method is viewed as appropriate as prior to that point, the raw SFD[®] survey data obtained by NXT cannot be interpreted or utilized in an independent, meaningful way by the client.

Amounts received or invoiced in advance of completion of the contract are reflected as deferred revenue and classified as a current liability. At the end of each applicable quarterly fiscal period, all related survey expenditures and obligations (including sales commissions incurred) related to uncompleted contracts are reflected as work-in-progress and classified as current assets.

Upon completion of the contract deliverables, unearned revenue and the related work-in-progress are reflected in the statement of income (loss) as either revenue or survey cost. Survey costs do not include staff and related overhead costs (which are included in general and administrative expense) or any amortization of property and equipment.

Fair Value of Derivative Instruments

Derivative Instruments

Derivative instruments are recognized on the balance sheet at fair value with any changes in fair value between periods recognized in the determination of net income (loss) for the period. NXT does not apply hedge accounting to any of its derivatives. As at December 31, 2017 and 2016, NXT had no outstanding derivative instruments.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2017
(Expressed in Canadian dollars unless otherwise stated)

Fair Value Measures

For any balance sheet items recorded at fair value on a recurring basis or non-recurring basis, the Company is required to classify the fair value measure into one of three categories based on the fair value hierarchy noted below.

In Level I, the fair value of assets and liabilities is determined by reference to quoted prices in active markets for identical assets and liabilities that the Company has the ability to assess at the measurement date.

In Level II, determination of the fair value of assets and liabilities is based on the extrapolation of inputs, other than quoted prices included within Level I, for which all significant inputs are observable directly or indirectly. Such inputs include published exchange rates, interest rates, yield curves, and stock quotes from external data service providers. Transfers between Level I and Level II would occur when there is a change in market circumstances.

In Level III, the fair value of assets and liabilities measured on a recurring basis is determined using a market approach based on inputs that are unobservable and significant to the overall fair value measurement. Assets and liabilities measured at fair value can fluctuate between Level II and Level III depending on the proportion of the value of the contract that extends beyond the time frame for which inputs are considered to be observable. As contracts near maturity and observable market data becomes available, the contracts are transferred out of Level III and into Level II.

Deposits

Deposits consist of security payments made to lessors for the Company's office and aircraft lease. They are classified as long term if the lease end date is greater than one year.

Property and Equipment

Property and equipment is recorded at cost, less accumulated amortization, which is recorded over the estimated service lives of the assets using the following annual rates and methods:

Computer hardware (including survey equipment)	30% declining balance
Computer software	100% declining balance
Aircraft	10% declining balance
Furniture and other equipment	20% declining balance
Leasehold improvements	10% declining balance

Impairment of long-lived assets

The Company reviews long-lived assets, which includes property and equipment and intellectual property for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. When indicators of impairment exist, the Company first compares the total of the estimated undiscounted future cash flows or the estimated sale price to the carrying value of an asset. If the carrying value exceeds these amounts, an impairment loss is recognized for the excess of the carrying value over the estimated fair value of the asset.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the year ended December 31, 2017

(Expressed in Canadian dollars unless otherwise stated)

Intellectual Property

Intellectual property acquired is recorded at cost, less accumulated amortization, which is recorded over the estimated minimum useful life of the assets. Intellectual property is also subject to ongoing tests of potential impairment of the recorded net book value.

Research and Development Expenditure

Research and development ("R&D") expenditures incurred to develop, improve and test the SFD® survey system and related components are expensed as incurred. Any intellectual property that is acquired for the purpose of enhancing research and development projects, if there is no alternative use for the intellectual property, is expensed in the period acquired. No significant external R&D was incurred in the years ended 2015, 2016 and 2017.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the applicable period. Shareholders' equity accounts are translated into Canadian dollars using the exchange rates in effect at the time of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the end of the applicable period. Non-monetary assets and liabilities (including work-in-progress and deferred revenue balances) are recorded at the relevant exchange rates for the period in which the balances arose. Any related foreign exchange gains and losses resulting from these translations are included in the determination of net income (loss) for the period.

Prior to 2010, NXT had active US subsidiaries which had the US dollar as their functional currency. Historic foreign currency translation adjustments related to the consolidation of these now inactive subsidiaries is the only component of accumulated other comprehensive income, which is a component of shareholders' equity.

Income Taxes

NXT follows the asset and liability method of accounting for income taxes. This method recognizes deferred income tax assets and liabilities based on temporary differences in reported amounts for financial statement and income tax purposes, at the income tax rates expected to apply in the future periods when the temporary differences are expected to be reversed or realized. The effect of a change in income tax rates on deferred income tax assets and deferred income tax liabilities is recognized in income in the period when the tax rate change is enacted. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

Stock based compensation expense

NXT follows the fair value method of accounting for stock options that are granted to acquire common shares under NXT's stock option plan. Under this method, an estimate of the fair value of the cost of stock options that are granted to employees, directors and consultants is calculated using the Black-Scholes option pricing model and charged to income over the future vesting period of the stock options, with a

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements

As at and for the year ended December 31, 2017

(Expressed in Canadian dollars unless otherwise stated)

corresponding increase recorded in contributed capital. Upon exercise of the stock options, the consideration received by NXT, and the related amount which was previously recorded in contributed capital, is recognized as an increase in the recorded value of the common shares of the Company.

Stock based compensation expense related to stock options granted to non-employees is periodically re-measured until the earlier of the completion of their service period or when the vesting period is completed. Changes to the re-measured compensation are recognized in the period of change and amortized over the remaining life of the vesting period in the same manner as the original stock option.

Income (loss) per share

Basic income (loss) per share amounts are calculated by dividing net income (loss) by the weighted average number of common shares that are outstanding for the fiscal period. Shares issued during the period are weighted for the portion of the period that the shares were outstanding. Diluted income (loss) per share are computed using the treasury stock method, whereby the weighted average number of shares outstanding is increased to include any additional shares that would be issued from the assumed exercise of stock options and common share purchase warrants. The incremental number of shares added under the treasury stock method assumes that outstanding stock options and warrants that are exercisable at exercise prices below the Company's average market price (i.e. they were "in-the-money") for the applicable fiscal period are exercised and then that number of incremental shares is reduced by the number of shares that could have been repurchased by the Company from the issuance proceeds, using the average market price of the Company's shares for the applicable fiscal period.

No addition to the basic number of shares is made when calculating the diluted number of shares if the diluted per share amounts become anti-dilutive (such as occurs in the case where there is a net loss for the period).

Future Accounting Policy Changes

Revenue recognition:

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

This new guidance will be effective from January 1, 2018, and early application is not permitted. There will be two methods in which the amendment can be applied: (1) retrospectively to each prior reporting period (which will include NXT's fiscal years 2016 and 2017) presented, or (2) retrospectively with the cumulative effect recognized at the date of initial application. As the Company has generated limited revenue over the past two years, the new standard is not anticipated to have a significant impact on periods prior to the adoption of the new standard. As the Company enters into new contracts with customers in future periods, it will evaluate the impact of the new standard on these contracts and will disclose the related revenue recognition implications at that time.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2017
(Expressed in Canadian dollars unless otherwise stated)

Leases:

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

3. Deposits

Security deposits have been made to the lessors of the office building and the aircraft. They are due to be repaid at the end of the respective lease terms (Building- 2025, Aircraft-2022)

	2017	2016
Building	\$ 43,310	\$ -
Aircraft	475,455	-
	518,765	-

4. Property and equipment

Year ended December 31, 2017	Cost Base	Accumulated amortization	Net book value
Survey equipment	\$ 684,890	\$612,717	\$72,174
Aircraft (Note 19)	-	-	-
Computers and software	1,246,095	1,177,653	68,442
Furniture and other equipment	528,420	498,304	30,115
Leasehold improvements	1,165,108	557,154	607,953
	3,624,513	2,845,828	778,685

Year ended December 31, 2016	Cost Base	Accumulated amortization	Net book value
Survey equipment	\$ 680,518	\$593,228	\$87,290
Aircraft	2,734,611	287,277	2,447,334
Computers and software	1,241,740	1,140,956	100,784
Furniture and other equipment	528,420	490,775	37,645
Leasehold improvements	1,165,108	489,604	675,504
	6,350,397	3,001,840	3,348,557

5. Intellectual property

During 2015, NXT acquired the permanent rights to the SFD® technology for use in the exploration of hydrocarbons from Mr. George Liszicasz 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 affect, of approximately \$25.3 million.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2017
(Expressed in Canadian dollars unless otherwise stated)

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

	2017	2016
Intellectual property acquired	\$ 25,271,000	\$ 25,271,000
Accumulated amortization	(3,931,467)	(2,246,732)
	<u>21,339,533</u>	<u>23,024,268</u>

6. Accounts payable and accrued liabilities

	2017	2016
Accrued liabilities related to:		
Consultants and professional fees	\$ 353,333	\$ 107,387
Board of Directors' fees	175,000	-
Survey and other projects	-	-
Payroll (vacation pay and wages payable)	<u>551,110</u>	<u>156,498</u>
	1,079,443	263,885
Trade payables and other	<u>482,951</u>	<u>312,079</u>
	<u>1,562,394</u>	<u>575,964</u>

7. Capital lease obligation

	2017	2016
Capital lease obligation	\$ 124,697	\$ 161,466
Less current portion	<u>(39,579)</u>	<u>(36,769)</u>
	<u>85,118</u>	<u>124,697</u>

The capital lease obligation is secured by specific leasehold improvements included in property and equipment, bears interest at a rate of 7.4%, and is repayable as follows:

Year ended December 31:	
2018	\$39,579
2019	42,603
2020	<u>42,515</u>
	<u>\$124,697</u>

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
 As at and for the year ended December 31, 2017
 (Expressed in Canadian dollars unless otherwise stated)

8. Asset retirement obligation

Asset retirement obligations ("ARO") relate to minor non-operated interests in 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 6 gross (1.2 net) wells. The estimated future abandonment liability is approximately \$59,000 which is based on estimates of the future timing and costs to abandon, remediate and reclaim the well sites within the next five years. The net present value of the ARO is as noted below, and has been calculated using an inflation rate of 2.0% and discounted using a credit-adjusted risk-free interest rate of 1.6%.

	2017	2016	2015
ARO balance, beginning of the year	\$ 55,240	\$ 51,240	\$ 50,000
Accretion expense	2,283	4,000	1,800
Costs incurred	(821)	-	(560)
Change in ARO estimates	-	-	-
ARO balance, end of the year	56,702	55,240	51,240

9. Common shares

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

	As at the Year Ended			
	December 31, 2017		December 31, 2016	
	# of shares	\$ amount	# of shares	\$ amount
As at the beginning of the year	53,856,509	\$85,966,393	53,306,109	\$ 85,051,553
Shares issued during the year:				
Exercise of stock options	7,334	5,710	565,722	498,970
Rights Offering, net of issue costs (see i)	4,187,290	2,029,867	-	-
Stock options proceeds receivable	-	30,285	-	(30,285)
Shares for Debt	110,000	89,031	-	-
Transfer from contributed capital on the exercise of stock options (see ii)	-	-	-	415,870
Return to Treasury of exercised stock options	-	-	(15,322)	-
As at the end of the year	58,161,133	88,121,286	53,856,509	85,966,393

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
 As at and for the year ended December 31, 2017
 (Expressed in Canadian dollars unless otherwise stated)

	As at the Year Ended December 31, 2015	
	# of shares	\$ amount
As at the beginning of the year	44,958,843	\$ 65,792,307
Shares issued during the year:		
Exercise of stock options	347,266	335,946
Conversion of preferred shares (note 5)	8,000,000	232,600
Stock options proceeds receivable	-	-
Value assigned to acquisition of		
Intellectual property	-	18,448,000
Transfer from contributed capital on the exercise of stock options	-	242,700
Return to Treasury of exercised stock options	-	-
As at the end of the year	53,306,109	85,051,553

i) On November 3rd 2017, NXT closed the Rights Offering that had been announced to existing shareholders on September 26th 2017. The Company issued 4,187,290 common shares a price of \$0.50 per common share, for aggregate gross proceeds of \$2,093,645. Share issue costs of \$63,778 were recorded as a reduction to share capital.

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

ii) During 2017, the Company settled certain accounts payable to a consultant totaling \$78,980 by way of issuing 110,000 common shares at a price per share of \$.718. The cost of issuing these shares of \$6,149 were recorded as a reduction to share capital. Also at December 31, 2016 a reduction of \$16,200 in the common share capital balance was made in respect of shares that had been repurchased by the Company and held in trust. These shares were issued to the Consultant in lieu of fees that were incurred in 2017.

NXT ENERGY SOLUTIONS INC.

Notes to the Consolidated Financial Statements
As at and for the year ended December 31, 2017
(Expressed in Canadian dollars unless otherwise stated)

10. Net Income (loss) per share

	2017	2016	2015
Comprehensive Income/(loss) for the year	\$ (8,970,398)	\$ (9,099,562)	\$ 10,540,228
Weighted average number of shares outstanding for the year:			
Basic	54,523,113	53,526,155	47,782,647
Additional shares related to assumed Exercise of Stock options under the Treasury stock method (see (i))	-	-	1,258,736
Diluted	54,523,113	53,526,155	49,041,383
Net Income (loss) per share – Basic	\$ (0.16)	\$ (0.17)	\$ 0.22
Net Income (loss) per share – Diluted	\$ (0.16)	\$ (0.17)	\$ 0.21

(i) In periods in which a loss results, all outstanding stock options are excluded from the fully diluted loss per share calculations as their effect is anti-dilutive.

11. Stock options

The following is a summary of stock options which are outstanding as at December 31, 2017:

Exercise price per share	# of options outstanding	# of options exercisable	Average remaining contractual life (in years)
\$ 0.76	36,667	36,667	0.2
\$ 0.86	22,500	22,500	0.5
\$ 1.35	546,900	388,767	2.0
\$ 1.39	22,500	22,500	1.5
\$ 1.45	37,500	37,500	4.0
\$ 1.48	37,500	37,500	3.5
\$ 1.50	100,000	66,667	3.7
\$ 1.55	40,000	40,000	1.2
\$ 1.57	30,000	20,000	2.1
\$ 1.61	25,000	25,000	1.1
\$ 1.67	150,000	150,000	1.9
\$ 1.73	92,600	75,933	2.9
\$ 1.82	185,000	123,333	2.8
\$ 1.83	22,500	22,500	2.7
\$ 2.10	300,000	200,000	2.7
\$ 1.60	1,648,667	1,268,867	2.34

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, 2017 is as follows:

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	For the year ended December 31, 2017		For the year ended December 31, 2016	
	# of stock options	weighted average exercise price	# of stock options	weighted average exercise price
Options outstanding, start of the period	3,221,001	\$ 1.33	3,462,835	\$ 1.26
Granted	-	-	475,000	\$ 1.50
Exercised	(7,334)	\$0.76	(565,722)	-
Expired	(1,190,000)	\$0.91	-	-
Forfeited	(375,000)	\$ 1.48	(151,112)	\$1.50
Options outstanding, end of the period	1,648,667	\$ 1.60	3,221,001	\$ 1.33
Options exercisable, end of the period	1,268,867	\$ 1.59	2,036,401	\$ 1.17

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

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

Year ended December 31	2017	2016	2015
Expected dividends paid per common share	Nil	Nil	Nil
Expected life in years	5.0	5.0	4.9
Expected volatility in the price of common shares	85 %	85 %	105 %
Risk free interest rate	0.75 %	0.75 %	1.0 %
Weighted average fair market value per share at grant date	\$ 0.99	\$ 0.99	\$ 1.28
Intrinsic (or "in-the-money") value per share of options exercised	\$ 0.45	\$ 0.45	\$ 1.40

The unamortized portion of SBCE related to the non-vested portion of stock options, all of which will be recognized in 2018 is approximately \$176,000.

12. 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, and accounts payables and accrued liabilities. The carrying value of these financial instruments approximates their fair values due to their short terms to maturity. NXT is not exposed to significant interest or credit risks arising from these financial instruments. NXT is exposed to foreign exchange risk as a result of periodically holding foreign denominated financial instruments. Any

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unrealized foreign exchange gains and losses arising on such holdings are reflected in earnings at the end of each period.

2) Derivative financial instruments

As at December 31, 2017, 2016 and 2015 the Company held no derivative financial instruments

13. Income tax expense

NXT periodically earns revenues while operating outside of Canada in foreign jurisdictions. Payments made to NXT for services rendered to clients and branch offices in certain countries may be subject to foreign income and withholding taxes. Such taxes incurred are only recoverable in certain limited circumstances, including potential utilization in Canada as a foreign tax credit, or against future taxable earnings from the foreign jurisdictions.

For the year ended December 31, 2017 NXT recorded foreign income and withholding taxes of \$75,545 (2016 - \$159,990) on a portion of its revenues generated on the Bolivian project, including withholding taxes incurred on certain charges to the Bolivian branch office.

Income tax expense is different from the expected amount that would be computed by applying the statutory Canadian federal and provincial income tax rates to NXT's income (loss) before income taxes as follows:

	2017	2016	2015
Net income (loss) before income taxes	\$(8,894,853)	\$(8,725,051)	\$5,688,136
Canadian statutory income tax rate	27.0 %	27.0 %	26.0 %
Income tax (recovery) at statutory income tax rate	(2,401,610)	(2,355,764)	1,478,915
Effect of non- deductible expenses and other items:			
Stock-based compensation and other expenses	156,966	223,463	407,593
Change in statutory tax rates	962,486	-	(511,508)
Foreign exchange adjustments	110,121	112,581	(489,665)
Foreign tax credit benefit	-	(256,500)	(1,755,678)
Non-taxable portion of capital gain	(50,525)	-	-
Other	91,668	(271,676)	(318,664)
	(1,130,894)	(2,547,896)	(1,189,007)
Change in valuation allowance	1,130,894	2,547,896	(5,633,993)
	-	-	(6,823,000)
Income taxes in foreign jurisdictions	75,545	374,511	1,970,908
Income tax expense (recovery)	75,545	374,511	(4,852,092)

On December 22, 2017 The Tax Cuts and Jobs Act (the "Act") was enacted in the United States. This has resulted in a decrease in the US Federal tax rate from 35% to 21%.

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A valuation allowance has been provided for the potential financial statement value of the Company's deferred income tax assets, due to uncertainty regarding the amount and timing of their potential future utilization, as follows:

	2017	2016	2015
Net operating losses carried forward:			
Canada (expiration dates 2027 to 2038)	\$ 8,180,209	\$ 6,747,506	\$ 5,100,905
USA (expiration dates 2020 to 2026)	1,443,729	2,575,389	2,654,605
Timing differences on property & equipment and financing costs	2,012,709	1,789,311	1,850,228
SRED Expenditures	215,303	215,303	-
Foreign Tax Credit	371,133	371,133	-
	12,223,083	11,059,946	9,605,738
Intellectual property	(5,761,674)	(6,216,552)	(6,671,544)
	6,461,409	5,482,090	2,934,194
Less valuation allowance	(6,461,409)	(5,482,090)	(2,934,194)
	-	-	-

14. Change in non-cash working capital

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

	For the year ended December 31		
	2017	2016	2015
Accounts receivable	\$ (61,657)	\$ 604,448	\$ (561,470)
Work-in-progress	-	404,840	(404,840)
Prepaid expenses and deposits	59,439	93,595	78,247
Accounts payable and accrued liabilities	986,430	(587,819)	381,157
Income taxes payable	103	(1,253,028)	1,253,126
Deferred gain	(155,301)	-	-
Deferred revenue	-	(706,722)	706,722
	829,014	(1,444,686)	1,452,942
Portion attributable to:			
Operating activities	829,014	(1,384,499)	1,392,755
Financing activities	-	-	-
Investing activities	-	(60,187)	60,187
	829,014	(1,444,686)	1,452,942

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15. Commitments and contingencies

Aircraft and Office premises lease

NXT has an operating lease commitment on its Calgary office space for a 10 year term ending in 2025 at an initial estimated minimum monthly lease payment of \$44,624 (including operating costs).

The leaseback of NXT's aircraft is an operating lease with a minimum term of 60 months and monthly lease payments of approximately US\$40,000.

The estimated future minimum annual commitments for these leases are as follows as at December 31, 2017:

<u>Fiscal year ending December 31</u>	<u>Office Premises</u>	<u>Aircraft</u>
2018	\$551,553	\$594,633
2019	551,553	594,633
2020	554,526	594,633
2021	563,450	594,633
2022	563,450	148,658
	2,784,532	2,527,190
<u>Thereafter, 2023 through 2025</u>	<u>1,549,487</u>	<u>-</u>
	<u>4,334,019</u>	<u>2,527,190</u>

Deferred charges of \$81,919 as at December 31, 2017 relates to the valuation of an initial free-rent period received on this lease in 2015. This balance will be amortized as a reduction of general and administrative expense over the remaining 8 year term of the lease commitment.

16. Geographic information

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. NXT has no long term assets outside of Canada.

Revenues in 2015 and 2016 were derived almost entirely from a single client in each of the periods.

Revenues were derived by geographic area as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
South and Central America (Bolivia, Belize)	\$ -	\$1,447,269	\$17,422,151
North America	-	-	-
	-	17,422,151	3,913,367

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17. Survey Expenses

Survey Expenses include the following:

	2017	2016	2015
Aircraft Operations			
Charter Hire Revenue Earned	(470,982)	(564,505)	-
Lease payments	304,410	-	-
Operating Expenses	1,084,432	1,185,359	-
	917,860	620,854	-
Survey Projects	371,569	536,331	5,095,691
	1,289,429	1,157,185	5,095,691

18. Other related party transactions

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

	2017	2016	2015
	\$ 172,199	\$ 62,645	\$ 100,598

Accounts payable and accrued liabilities includes a total of \$120,479 (\$10,443 as at December 31, 2016) payable to this law firm.

In addition, accounts payable and accrued liabilities includes \$14,210 (\$46 as at December 31, 2016) related to re-imbursement of expenses owing a person who is an Officer of NXT.

19. Aircraft Financing

In April, 2017, NXT completed a sale and leaseback agreement of its aircraft with a Calgary based international aircraft services organization (the "Lessor"). The terms of the agreement resulted in NXT selling its' Cessna Citation aircraft that was purchased in 2015 for US\$2,000,000 for the sum of US\$2,300,000. NXT has leased the aircraft over an initial term of 60 months and retains all existing operating rights and obligations. Net proceeds to NXT from the sale were approximately CAD \$2,700,000, after payment of all commissions and fees. The net book value of the asset of \$2.4 million was derecognized and the resulting gain on disposition of \$776,504 was deferred (\$621,203 included in long term liabilities and \$155,301 included in accounts payable and accrued liabilities). The gain will be recognized as a reduction to the Company's lease expense over the 60 month term of the lease. The resulting leaseback transaction is an operating lease. NXT is required to make monthly payments to the Lessor of approximately US \$39,500. NXT has the option to extend the term of the lease by an additional two years. Should NXT want to repurchase the aircraft at the end of the initial lease term, the purchase price is US \$1.45 million.

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20. Subsequent Event – Private Placement

On February 16, 2018 the Company entered into an agreement to complete a three-tranche Private Placement under which the Subscriber has committed to purchase 10,905,212 Units at a price of \$0.924 per Unit for total gross proceeds of approximately \$10,076,416. Each Unit consists of one Common Share and one-third of one Warrant. Each Warrant entitles the holder to acquire one Warrant Share at an exercise price of \$1.20 for twelve (12) months from closing of the first tranche of the Private Placement.

Closing of First Tranche of Private Placement

The first tranche of the Private Placement was completed on February 16, 2018 and the Company received \$4,310,500 in connection with the issuance of 4,665,043 Units.

Additional Tranches of Private Placement

Closing of the second tranche of 5,538,203 Units for gross proceeds of approximately \$5,117,300, is expected to occur early in the second quarter of 2018. The Company received the necessary TSX clearance of Personal Information Forms submitted by certain principals of the Subscriber in late March 2018 and has commenced the process of closing this tranche. No shareholder approval is required to close the second tranche of the financing. Following the completion of the second tranche of the Private Placement, closing of the third tranche of the Private Placement, consisting of issuance of 701,965 Units for gross proceeds of approximately \$648,616, will cause the Subscriber to be deemed a “Control Person” of the Company under applicable securities laws and is subject to approval by the shareholders of the Company (other than the Subscriber and its associates or affiliates) on or before May 17, 2018.

Other Material Agreements

In conjunction with closing the second tranche, the Company and the Subscriber have agreed to enter into an Investor Rights Agreement pursuant to which: (a) the Subscriber will have the right to nominate one director for election to the board of directors of the Company (subject to maintaining any equity ownership of at least 10% in the Company); (b) the Subscriber will be entitled to participate in future equity or convertible security offerings of the Company in order to maintain its pro rata equity interest in the Company (subject to maintaining any equity ownership of at least 10% in the Company); (c) the Subscriber will be entitled to a similar equity offering participation right in connection with certain new entities that may be created by the Company to expand the application of its proprietary technologies; and (d) the Subscriber has agreed to a 18 month standstill from the closing date of the second tranche of the Private Placement and a 12 month restriction on dispositions of 75% of the securities acquired in the Private Placement.